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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D. C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **June 30, 2012**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number **001-33982**

**LIBERTY INTERACTIVE CORPORATION**

(Exact name of Registrant as specified in its charter)

**State of Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**84-1288730**  
(I.R.S. Employer  
Identification No.)

**12300 Liberty Boulevard**  
**Englewood, Colorado**  
(Address of principal executive offices)

**80112**  
(Zip Code)

Registrant's telephone number, including area code: **(720) 875-5300**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(do not check if  
smaller reporting company)

Smaller reporting company

Indicate by check mark whether the Registrant is a shell company as defined in Rule 12b-2 of the Exchange Act. Yes  No

The number of outstanding shares of Liberty Interactive Corporation's common stock as of July 31, 2012 was:

Series A common stock	515,172,948
Series B common stock	28,969,735

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LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(unaudited)

	June 30, 2012	December 31, 2011
	amounts in millions	
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 790	847
Trade and other receivables, net	664	1,054
Inventory, net	1,096	1,071
Other current assets	87	148
Total current assets	2,637	3,120
Investments in available-for-sale securities and other cost investments (note 6)	1,384	1,168
Investments in affiliates, accounted for using the equity method, including \$223 million pledged as collateral at June 30, 2012 (note 7)	1,213	1,135
Property and equipment, at cost	2,093	2,002
Accumulated depreciation	(925)	(869)
	1,168	1,133
Intangible assets not subject to amortization (note 8):		
Goodwill	5,985	5,978
Trademarks	2,525	2,518
	8,510	8,496
Intangible assets subject to amortization, net (note 8)	2,045	2,209
Other assets, at cost, net of accumulated amortization	74	78
Total assets	\$ 17,031	17,339

(continued)

See accompanying notes to condensed consolidated financial statements.

## LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets (Continued)

(unaudited)

	June 30, 2012	December 31, 2011
	amounts in millions	
<i>Liabilities and Equity</i>		
Current liabilities:		
Accounts payable	\$ 482	599
Accrued liabilities	682	801
Current portion of debt (note 9)	1,485	1,189
Deferred income tax liabilities	836	851
Other current liabilities	372	128
Total current liabilities	<u>3,857</u>	<u>3,568</u>
Long-term debt, including \$2,548 million and \$2,443 million measured at fair value (note 9)	4,564	4,850
Deferred income tax liabilities	2,083	2,046
Other liabilities	218	248
Total liabilities	<u>10,722</u>	<u>10,712</u>
<i>Equity</i>		
Stockholders' equity (note 10):		
Preferred stock, \$.01 par value. Authorized 50,000,000 shares; no shares issued	—	—
Series A Liberty Interactive common stock, \$.01 par value. Authorized 4,000,000,000 shares; issued and outstanding 515,546,332 shares at June 30, 2012 and 549,361,673 shares at December 31, 2011	5	6
Series B Liberty Interactive common stock, \$.01 par value. Authorized 150,000,000 shares; issued and outstanding 28,969,735 shares at June 30, 2012 and 28,989,160 at December 31, 2011	—	—
Additional paid-in capital	2,072	2,681
Accumulated other comprehensive earnings, net of taxes	121	152
Retained earnings	3,979	3,654
Total stockholders' equity	<u>6,177</u>	<u>6,493</u>
Noncontrolling interests in equity of subsidiaries	132	134
Total equity	<u>6,309</u>	<u>6,627</u>
Commitments and contingencies (note 11)		
Total liabilities and equity	<u>\$ 17,031</u>	<u>17,339</u>

See accompanying notes to condensed consolidated financial statements.

## LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Statements Of Operations

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	amounts in millions, except per share amounts			
Net retail sales	\$ 2,365	2,245	4,679	4,404
Cost of sales (exclusive of depreciation shown separately below)	1,488	1,398	2,954	2,775
Gross Profit	877	847	1,725	1,629
Operating costs and expenses:				
Operating	199	209	407	412
Selling, general and administrative, including stock-based compensation (note 3)	241	202	480	419
Depreciation and amortization	147	148	290	297
	587	559	1,177	1,128
Operating income	290	288	548	501
Other income (expense):				
Interest expense	(107)	(107)	(213)	(221)
Share of earnings (losses) of affiliates, net (note 7)	35	37	46	57
Realized and unrealized gains (losses) on financial instruments, net (note 5)	(160)	89	(178)	30
Gains (losses) on dispositions, net (note 7)	288	—	288	—
Other, net	30	3	33	21
	86	22	(24)	(113)
Earnings (loss) from continuing operations before income taxes	376	310	524	388
Income tax (expense) benefit	(127)	(115)	(170)	(130)
Earnings (loss) from continuing operations	249	195	354	258
Earnings (loss) from discontinued operations, net of taxes (note 2)	—	74	—	410
Net earnings (loss)	249	269	354	668
Less net earnings (loss) attributable to the noncontrolling interests	15	12	29	22
Net earnings (loss) attributable to Liberty Interactive Corporation shareholders	\$ 234	257	325	646
Net earnings (loss) attributable to Liberty Interactive Corporation shareholders:				
Liberty Capital common stock	NA	8	NA	301
Liberty Starz common stock	NA	67	NA	119
Liberty Interactive common stock	\$ 234	182	325	226
	\$ 234	257	325	646

(Continued)

See accompanying notes to condensed consolidated financial statements.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements Of Operations (Continued)

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
amounts in millions, except per share amounts				
Basic net earnings (losses) from continuing operations attributable to Liberty Interactive Corporation shareholders per common share (note 4):				
Series A and Series B Liberty Capital common stock	NA	NA	NA	0.12
Series A and Series B Liberty Starz common stock	NA	NA	NA	—
Series A and Series B Liberty Interactive common stock	\$ 0.42	0.30	0.58	0.38
Diluted net earnings (losses) from continuing operations attributable to Liberty Interactive Corporation shareholders per common share (note 4):				
Series A and Series B Liberty Capital common stock	NA	NA	NA	0.12
Series A and Series B Liberty Starz common stock	NA	NA	NA	—
Series A and Series B Liberty Interactive common stock	\$ 0.42	0.30	0.57	0.37
Basic net earnings (losses) attributable to Liberty Interactive Corporation shareholders per common share (note 4):				
Series A and Series B Liberty Capital common stock	NA	0.10	NA	3.72
Series A and Series B Liberty Starz common stock	NA	1.31	NA	2.33
Series A and Series B Liberty Interactive common stock	\$ 0.42	0.30	0.58	0.38
Diluted net earnings (losses) attributable to Liberty Interactive Corporation shareholders per common share (note 4):				
Series A and Series B Liberty Capital common stock	NA	0.10	NA	3.63
Series A and Series B Liberty Starz common stock	NA	1.26	NA	2.25
Series A and Series B Liberty Interactive common stock	\$ 0.42	0.30	0.57	0.37

See accompanying notes to condensed consolidated financial statements.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements Of Comprehensive Earnings (Loss)

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	amounts in millions			
Net earnings (loss)	\$ 249	269	354	668
Other comprehensive earnings (loss), net of taxes:				
Foreign currency translation adjustments	(49)	22	(36)	70
Share of other comprehensive earnings (losses) of equity affiliates	(3)	1	(1)	4
Other comprehensive earnings (loss) from discontinued operations	—	11	—	(18)
Other comprehensive earnings (loss)	(52)	34	(37)	56
Comprehensive earnings (loss)	197	303	317	724
Less comprehensive earnings (loss) attributable to the noncontrolling interests	19	15	23	22
Comprehensive earnings (loss) attributable to Liberty Interactive Corporation shareholders	\$ 178	288	294	702
Comprehensive earnings (loss) attributable to Liberty Interactive Corporation shareholders:				
Liberty Capital common stock	NA	20	NA	289
Liberty Starz common stock	NA	66	NA	113
Liberty Interactive common stock	\$ 178	202	294	300
	\$ 178	288	294	702

See accompanying notes to condensed consolidated financial statements.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements Of Cash Flows

(unaudited)

	Six months ended June 30,	
	2012	2011
amounts in millions		
Cash flows from operating activities:		
Net earnings (loss)	\$ 354	668
Adjustments to reconcile net earnings to net cash provided by operating activities:		
(Earnings) loss from discontinued operations	—	(410)
Depreciation and amortization	290	297
Stock-based compensation	35	30
Cash payments for stock-based compensation	(2)	(2)
Noncash interest expense	—	4
Share of (earnings) losses of affiliates, net	(46)	(57)
Cash receipts from returns on equity investments	13	10
Realized and unrealized (gains) losses on financial instruments, net	178	(30)
(Gains) losses on disposition of assets, net	(288)	—
Deferred income tax expense (benefit)	26	(44)
Other, net	(25)	(62)
Changes in operating assets and liabilities		
Current and other assets	357	230
Payables and other liabilities	(162)	(302)
Net cash provided (used) by operating activities	730	332
Cash flows from investing activities:		
Cash proceeds from dispositions	348	—
Investments in and loans to cost and equity investees	(108)	(7)
Capital expended for property and equipment	(151)	(103)
Net sales (purchases) of short term investments	46	(48)
Other investing activities, net	(40)	1
Net cash provided (used) by investing activities	95	(157)
Cash flows from financing activities:		
Borrowings of debt	666	192
Repayments of debt	(873)	(393)
Repurchases of Liberty Interactive common stock	(637)	—
Other financing activities, net	(26)	(42)
Net cash provided (used) by financing activities	(870)	(243)
Effect of foreign currency exchange rates on cash	(12)	11
Net cash provided (used) by discontinued operations:		
Cash provided (used) by operating activities	—	294
Cash provided (used) by investing activities	—	144
Cash provided (used) by financing activities	—	(146)
Change in available cash held by discontinued operations	—	(276)
Net cash provided (used) by discontinued operations	—	16
Net increase (decrease) in cash and cash equivalents	(57)	(41)
Cash and cash equivalents at beginning of period	847	1,353
Cash and cash equivalents at end of period	\$ 790	1,312

See accompanying notes to condensed consolidated financial statements.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statement Of Equity

(unaudited)

Six months ended June 30, 2012

Stockholders' Equity								
Common stock								
Preferred Stock	Liberty Interactive		Additional paid-in capital	Accumulated other comprehensive earnings	Retained Earnings	Noncontrolling interest in equity of subsidiaries	Total equity	
	Series A	Series B						
amounts in millions								
Balance at January 1, 2012	\$ —	6	—	2,681	152	3,654	134	6,627
Net earnings (loss)	—	—	—	—	—	325	29	354
Other comprehensive earnings (loss)	—	—	—	—	(31)	—	(6)	(37)
Stock compensation	—	—	—	25	—	—	—	25
Issuance of common stock upon exercise of stock options	—	—	—	2	—	—	—	2
Series A Liberty Interactive stock repurchases	—	(1)	—	(636)	—	—	—	(637)
Distribution to noncontrolling interest	—	—	—	—	—	—	(29)	(29)
Other	—	—	—	—	—	—	4	4
Balance at June 30, 2012	\$ —	5	—	2,072	121	3,979	132	6,309

See accompanying notes to condensed consolidated financial statements.



## LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

### Notes to Condensed Consolidated Financial Statements

(unaudited)

#### (1) Basis of Presentation

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

Liberty, through its ownership of interests in subsidiaries and other companies, is primarily engaged in the video and on-line commerce industries in North America, Europe and Asia.

The accompanying (a) condensed consolidated balance sheet as of December 31, 2011, which has been derived from audited financial statements, and (b) the interim unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for such periods have been included. The results of operations for any interim period are not necessarily indicative of results for the full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in Liberty's Annual Report on Form 10-K for the year ended December 31, 2011.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Liberty considers (i) fair value measurement, (ii) accounting for income taxes, (iii) assessments of other-than-temporary declines in fair value of its investments and (iv) estimates of retail-related adjustments and allowances to be its most significant estimates.

Liberty holds investments that are accounted for using the equity method. Liberty does not control the decision making process or business management practices of these affiliates. Accordingly, Liberty relies on management of these affiliates to provide it with accurate financial information prepared in accordance with GAAP that Liberty uses in the application of the equity method. In addition, Liberty relies on audit reports that are provided by the affiliates' independent auditors on the financial statements of such affiliates. The Company is not aware, however, of any errors in or possible misstatements of the financial information provided by its equity affiliates that would have a material effect on Liberty's condensed consolidated financial statements.

#### (2) Discontinued Operations

Prior to the Split-Off (as defined below), Liberty's equity was structured into three separate tracking stocks. 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. Liberty had three tracking stocks: Liberty Interactive common stock, Liberty Starz common stock and Liberty Capital common stock, which were intended to track and reflect the economic performance of the separate businesses, assets and liabilities attributed to each group. These attributed businesses, assets and liabilities were not separate legal entities and therefore could not own assets, issue securities or enter into legally binding agreements. Holders of the tracking stocks did not have a direct claim to the group's stock or assets and were not represented by separate boards of directors.

On September 23, 2011, Liberty completed the split-off of a wholly owned subsidiary, Liberty Media Corporation ("LMC") (formerly known as Liberty CapStarz, Inc. and prior thereto known as Liberty Splitco, Inc.) (the "Split-Off"). At the time of the Split-Off, LMC owned all the assets, businesses and liabilities attributed to our former Capital and Starz tracking stock groups immediately prior to the Split-Off. The Split-Off was effected by means of a redemption of all of the Liberty Capital common stock and Liberty Starz common stock of Liberty in exchange for the common stock of LMC. This transaction has been accounted for at historical cost due to the pro rata nature of the distribution.

Following the Split-Off, Liberty and LMC operate as separate, publicly traded companies, and neither has any stock ownership, beneficial or otherwise, in the other. In connection with the Split-Off, Liberty and LMC entered into certain agreements in order to govern certain of the ongoing relationships between the two companies after the Split-Off and to provide

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

for an orderly transition. These agreements include a Reorganization Agreement, a Services Agreement, a Facilities Sharing Agreement and a Tax Sharing Agreement.

The Tax Sharing Agreement provides for the allocation and indemnification of tax liabilities and benefits between Liberty and LMC and other agreements related to tax matters. Pursuant to the Services Agreement, LMC provides Liberty with certain general and administrative services including legal, tax, accounting, treasury and investor relations support. Liberty reimburses LMC for direct, out-of-pocket expenses incurred by LMC in providing these services and for Liberty's allocable portion of costs associated with any shared services or personnel based on an estimated percentage of time spent providing services to Liberty. Under the Facilities Sharing Agreement, Liberty shares office space with LMC and related amenities at LMC's corporate headquarters. Under these various agreements, approximately \$5 million of allocated expenses were reimbursed from Liberty to LMC for the six months ended June 30, 2012.

The condensed consolidated financial statements and accompanying notes of Liberty have been prepared to reflect LMC as discontinued operations. Accordingly, the relevant financial statement balances and activities of the businesses, assets and liabilities owned by LMC at the time of Split-Off (for periods prior to the Split-Off) have been excluded from the respective captions in the accompanying condensed consolidated balance sheets, statements of operations, comprehensive earnings and cash flows in such condensed consolidated financial statements.

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

	Three months ended June 30, 2011	Six months ended June 30, 2011
amounts in millions		
Revenue	\$ 538	1,511
Earnings (loss) before income taxes	\$ 126	702

The per share impact from discontinued operations is as follows:

	Three months ended June 30, 2011	Six months ended June 30, 2011
Basic earnings (losses) from discontinued operations attributable to Liberty shareholders per common share (note 4):		
Series A and Series B Liberty Capital common stock	\$ 0.09	3.59
Series A and Series B Liberty Starz common stock	\$ 1.31	2.33
Series A and Series B Liberty Interactive common stock	\$ —	—
Diluted earnings (losses) from discontinued operations attributable to Liberty shareholders per common share (note 4):		
Series A and Series B Liberty Capital common stock	\$ 0.08	3.51
Series A and Series B Liberty Starz common stock	\$ 1.26	2.25
Series A and Series B Liberty Interactive common stock	\$ —	—

The businesses, assets and liabilities that were attributed to our former Liberty Starz and Liberty Capital tracking stock groups immediately prior to the Split-Off were owned by LMC at the time of the Split-Off and have been included in discontinued operations. Certain assets and liabilities not owned by Liberty at the time of the Split-Off were attributed to the Liberty Interactive tracking stock group in prior periods and certain assets and liabilities not owned by LMC at the time of the Split-Off were attributed to the Liberty Capital tracking stock group in prior periods. This results in Liberty Interactive common stock participating in the discontinued operations for the amount attributable to Liberty Interactive common stock for those items in periods prior to the Split-Off. Additionally, certain prior period EPS calculations for Liberty Capital common stock include continuing operations due to the attribution of certain debt and equity instruments in those periods to the Liberty Capital group that remained with Liberty after the Split-Off as a result of the change in attribution of those assets and liabilities

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

prior to the Split-Off.

**(3) Stock-Based Compensation**

The Company has granted to certain of its directors, employees and employees of its subsidiaries stock appreciation rights ("SARs"), restricted stock grants and options to purchase shares of Liberty common stock (collectively, "Awards"). The Company measures the cost of employee services received in exchange for an equity classified Award (such as stock options and restricted stock grants) based on the grant-date fair value of the Award, and recognizes that cost over the period during which the employee is required to provide service (usually the vesting period of the Award). The Company measures the cost of employee services received in exchange for a liability classified Award (such as stock appreciation rights that will be settled in cash) based on the current fair value of the Award, and remeasures the fair value of the Award at each reporting date.

Included in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations are the following amounts of stock-based compensation (amounts in millions):

Three months ended:	
June 30, 2012	\$ 18
June 30, 2011	\$ 14
Six months ended:	
June 30, 2012	\$ 35
June 30, 2011	\$ 30

During the six months ended June 30, 2012, Liberty granted, primarily to QVC employees, 2.7 million options to purchase shares of Series A Liberty Interactive common stock. Such options had a weighted average grant-date fair value of \$8.38 per share and vest semi-annually over the 4 year vesting period.

The Company has calculated the grant-date fair value for all of its equity classified Awards and any subsequent remeasurement of its liability classified Awards using the Black-Scholes Model. The Company estimates the expected term of the Awards based on historical exercise and forfeiture data. The volatility used in the calculation for Awards is based on the historical volatility of Liberty's stock and the implied volatility of publicly traded Liberty options. The Company uses a zero dividend rate and the risk-free rate for Treasury Bonds with a term similar to that of the subject options.

***Liberty—Outstanding Awards***

The following table presents the number and weighted average exercise price ("WAEP") of the Awards to purchase Liberty Interactive common stock granted to certain officers, employees and directors of the Company.

	Liberty Interactive			
	Series A (000's)	WAEP	Series B (000's)	WAEP
Outstanding at January 1, 2012	45,223	\$ 12.06	450	\$ 19.74
Granted	2,717	\$ 18.63	—	\$ —
Exercised	(2,412)	\$ 6.98	—	\$ —
Forfeited/Cancelled/Exchanged	(243)	\$ 16.39	—	\$ —
Outstanding at June 30, 2012	45,285	\$ 12.70	450	\$ 19.74
Exercisable at June 30, 2012	16,338	\$ 12.80	450	\$ 19.74

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

The following table provides additional information about outstanding Awards to purchase Liberty Interactive common stock at June 30, 2012.

	No. of outstanding Awards (000's)	WAEP of outstanding Awards	Weighted average remaining life	Aggregate intrinsic value (000's)	No. of exercisable Awards (000's)	WAEP of exercisable Awards	Weighted average remaining life	Aggregate intrinsic value (000's)
Series A Liberty Interactive	45,285	\$ 12.70	5.1 years	\$ 248,831	16,338	\$ 12.80	2.7 years	\$ 97,816
Series B Liberty Interactive	450	\$ 19.74	2.9 years	\$ —	450	\$ 19.74	2.9 years	\$ —

As of June 30, 2012, the total unrecognized compensation cost related to unvested Liberty Interactive equity Awards was approximately \$107 million. Such amount will be recognized in the Company's consolidated statements of operations over a weighted average period of approximately 2.4 years.

**(4) Earnings (Loss) Per Common Share**

Basic earnings (loss) per common share ("EPS") is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding for the period. Diluted EPS presents the dilutive effect on a per share basis of potential common shares as if they had been converted at the beginning of the periods presented.

*Series A and Series B Liberty Capital Common Stock*

For the three and six months ended June 30, 2011, the EPS calculation for basic EPS is based on 81 million weighted average outstanding shares and for diluted EPS 83 million weighted average shares outstanding. As discussed in more detail in note 2, Liberty Capital common stock was redeemed for shares in a subsidiary in the third quarter of 2011. Therefore, there is no Liberty Capital common stock outstanding at June 30, 2012.

*Series A and Series B Liberty Starz Common Stock*

For the three and six months ended June 30, 2011, the EPS calculation for basic EPS is based on 51 million weighted average outstanding shares and for diluted EPS 53 million weighted average shares outstanding. As discussed in more detail in note 2, Liberty Starz common stock was redeemed for shares in a subsidiary in the third quarter of 2011. Therefore, there is no Liberty Starz common stock outstanding at June 30, 2012.

*Series A and Series B Liberty Interactive Common Stock*

The basic and diluted EPS calculation is based on the following weighted average outstanding shares. Excluded from diluted EPS for the three months ended June 30, 2012 are 7 million potential common shares because their inclusion would be antidilutive.

	Liberty Interactive Common Stock			
	Three months ended June 30, 2012	Six months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2011
	numbers of shares in millions			
Basic EPS	553	563	599	599
Stock options	9	9	8	7
Diluted EPS	562	572	607	606

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(5) Assets and Liabilities Measured at Fair Value

For assets and liabilities required to be reported at fair value, GAAP provides a hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs, other than quoted market prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

The Company's assets and liabilities measured at fair value are as follows:

Description	Fair Value Measurements at June 30, 2012			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	amounts in millions			
Cash equivalents	\$ 581	581	—	—
Available-for-sale securities	\$ 1,380	1,380	—	—
Financial instruments, net	\$ 208	165	43	—
Debt	\$ 2,548	—	2,548	—

The majority of the Company's Level 2 financial assets and liabilities are debt instruments with quoted market prices that are not considered to be traded on "active markets," as defined in GAAP. Accordingly, the financial instruments are reported in the foregoing table as Level 2 fair value.

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:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	amounts in millions			
Non-strategic Securities	\$ 41	52	181	149
Exchangeable senior debentures	(35)	22	(217)	(165)
Other derivatives	(166)	15	(142)	46
	\$ (160)	89	(178)	30

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(6) Investments in Available-for-Sale Securities and Other Cost Investments

All marketable equity and debt securities held by the Company are classified as available-for-sale ("AFS") and are carried at fair value based on quoted market prices. GAAP permits entities to choose to measure many financial instruments, such as AFS 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 (the "fair value option"). In prior years, Liberty entered into economic hedges for certain of its non-strategic AFS securities (although such instruments were not accounted for as fair value hedges by the Company). Changes in the fair value of these economic hedges were reflected in Liberty's statement of operations as unrealized gains (losses). In order to better match the changes in fair value of the subject AFS securities and the changes in fair value of the corresponding economic hedges in the Company's financial statements, Liberty elected the fair value option for those of its AFS securities which it considers to be non-strategic ("Non-strategic Securities"). Accordingly, changes in the fair value of Non-strategic Securities, as determined by quoted market prices, are reported in realized and unrealized gains (losses) on financial instruments in the accompanying condensed consolidated statements of operations.

Investments in AFS securities, the entirety of which are considered Non-strategic Securities, and other cost investments are summarized as follows:

	June 30, 2012	December 31, 2011
amounts in millions		
Time Warner Inc.	\$ 839	787
Time Warner Cable Inc.	449	348
Other	96	33
	<u>\$ 1,384</u>	<u>1,168</u>

(7) Investments in Affiliates Accounted for Using the Equity Method

Liberty has various investments accounted for using the equity method. The following table includes Liberty's carrying amount and percentage ownership of the more significant investments in affiliates at June 30, 2012 and the carrying amount at December 31, 2011:

		June 30, 2012		December 31, 2011	
	Percentage ownership	Market value (level 1)	Carrying amount	Carrying amount	
dollars in millions					
Expedia, Inc. (a)	26%	\$ 1,664	\$ 643	621	
TripAdvisor, Inc. (b)	18%	1,169	189	184	
HSN, Inc.	34%	808	233	217	
Other	various	N/A	148	113	
			<u>\$ 1,213</u>	<u>1,135</u>	

- (a) Liberty entered into a forward sales contract on 12 million shares of Expedia common stock in March 2012 at a per share forward price of \$34.316. The forward contract may be settled, in October 2012, in stock or cash, at the election of Liberty. Liberty delivered 12 million shares of Expedia as collateral under the forward contract. The carrying value of the shares, held as collateral by the counterparty, was \$223 million and the fair value was \$577 million as of June 30, 2012.
- (b) In May 2012, Liberty sold approximately 8.5 million shares of TripAdvisor, Inc. for cash proceeds of \$338 million. The sale resulted in a \$288 million gain recorded in gain (losses) on dispositions, net in the statement of operations.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	amounts in millions			
Expedia (1)	\$ 26	35	24	48
TripAdvisor, Inc. (1)	12	—	23	—
HSN, Inc.	9	7	24	20
Other	(12)	(5)	(25)	(11)
	<u>\$ 35</u>	<u>37</u>	<u>46</u>	<u>57</u>

- (1) During the fourth quarter of 2011 Expedia, Inc. completed the pro-rata split-off of TripAdvisor, Inc. ("TripAdvisor"), its wholly owned subsidiary. As of the TripAdvisor split-off date, the Company had a 26% economic ownership interest in each of Expedia, Inc. and TripAdvisor and, through ownership of class B common stock with 10 votes per share, had an approximate 58% voting interest in each respective company. Through a stockholders agreement, Liberty has given Barry Diller, Chairman and Senior Executive Officer of both companies, the right to vote all of the common stock owned by Liberty. Through a governance agreement, Liberty has the right to nominate up to 20% of the board members for each entity and currently two members on each company's 10 member board were nominated by Liberty. Because of Liberty's board representation, it was determined that the Company has significant influence over each respective company and the Company continues to apply the equity method of accounting to its interests in TripAdvisor. As discussed above, in May 2012 Liberty sold shares of TripAdvisor which decreased Liberty's ownership percentage below 20%. As Liberty's board representation on the TripAdvisor board continues to be 20%, subsequent to the sale of securities discussed above, it was determined that significant influence still exists and the application of the equity method of accounting is appropriate.

*Expedia*

Summarized unaudited financial information for Expedia is as follows:

**Expedia Consolidated Balance Sheets**

	June 30, 2012	December 31, 2011
	amounts in millions	
Current assets	\$ 3,087	2,274
Property and equipment, net	377	320
Goodwill	3,001	2,877
Intangible assets	836	744
Other assets	204	290
Total assets	<u>\$ 7,505</u>	<u>6,505</u>
Current liabilities	\$ 3,450	2,553
Deferred income taxes	337	280
Long-term debt	1,249	1,249
Other liabilities	127	118
Noncontrolling interest	107	105
Equity	2,235	2,200
Total liabilities and equity	<u>\$ 7,505</u>	<u>6,505</u>

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

Expedia Consolidated Statements of Operations

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	amounts in millions			
Revenue	\$ 1,040	913	1,856	\$ 1,641
Cost of revenue	(230)	(195)	(430)	(371)
Gross profit	810	718	1,426	1,270
Selling, general and administrative expenses	(644)	(566)	(1,208)	(1,075)
Amortization	(9)	(6)	(12)	(12)
Restructuring charges and other	(3)	(2)	(3)	(4)
Operating income (loss)	154	144	203	179
Interest expense	(22)	(22)	(43)	(45)
Other income (expense), net	3	(1)	2	(4)
Income tax (expense) benefit	(29)	(33)	(34)	(36)
Income (loss) from continuing operations	106	88	128	94
Earnings (loss) from discontinued operations	—	53	(24)	99
Net earnings (loss)	106	141	104	193
Less net earnings (loss) attributable to noncontrolling interests	(1)	(1)	(2)	(1)
Net earnings (loss) attributable to Expedia, Inc. shareholders	\$ 105	140	102	\$ 192

(8) Intangible Assets

Goodwill

Changes in the carrying amount of goodwill are as follows:

	QVC	E-commerce	Total
	amounts in millions		
Balance at January 1, 2012	\$ 5,354	624	5,978
Foreign currency translation adjustments	(26)	—	(26)
Acquisitions	16	17	33
Balance at June 30, 2012	\$ 5,344	641	5,985

Intangible Assets Subject to Amortization

Amortization expense for intangible assets with finite useful lives was \$217 million and \$221 million for the six month periods ended June 30, 2012 and 2011, respectively. Based on its amortizable intangible assets as of June 30, 2012, Liberty expects that amortization expense will be as follows for the next five years (amounts in millions):

Remainder of 2012	\$ 233
2013	\$ 436
2014	\$ 408
2015	\$ 366
2016	\$ 333



LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(9) Long-Term Debt

Debt is summarized as follows:

	Outstanding principal June 30, 2012	Carrying value	
		June 30, 2012	December 31, 2011
amounts in millions			
Senior notes and debentures			
5.7% Senior Notes due 2013	309	308	308
8.5% Senior Debentures due 2029	287	285	285
8.25% Senior Debentures due 2030	504	501	501
Exchangeable Senior Debentures			
3.125% Exchangeable Senior Debentures due 2023	1,138	1,395	1,275
4% Exchangeable Senior Debentures due 2029	469	275	258
3.75% Exchangeable Senior Debentures due 2030	460	254	235
3.5% Exchangeable Senior Debentures due 2031	373	263	341
3.25% Exchangeable Senior Debentures due 2031	414	361	334
QVC 7.125% Senior Secured Notes due 2017	500	500	500
QVC 7.5% Senior Secured Notes due 2019	1,000	987	986
QVC 7.375% Senior Secured Notes due 2020	500	500	500
QVC Bank Credit Facilities	302	302	434
Other subsidiary debt	118	118	82
Total consolidated Liberty debt	\$ 6,374	6,049	6,039
Less current maturities		(1,485)	(1,189)
Total long-term debt		\$ 4,564	4,850

**QVC Bank Credit Facilities**

The QVC Bank Credit Facilities provide for a \$2 billion revolving credit facility, with a \$250 million sub-limit for standby letters of credit. Availability under the QVC Bank Credit Facilities at June 30, 2012 was \$1.7 billion. The \$302 million outstanding principal matures in September 2015. As discussed in note 10, Liberty shareholders will decide on a recapitalization of Liberty common stock into two tracking stocks that, if approved, would require additional funds to be drawn on the QVC Bank Credit Facility in the third quarter of 2012. Those funds would be attributed to the Liberty Ventures tracking stock group.

QVC was in compliance with all of its debt covenants at June 30, 2012.

In July 2012, QVC issued \$500 million principal amount of 5.125% Senior Secured Notes due 2022 at par. The net proceeds from the issuance of these instruments were used to reduce the outstanding principal under the QVC Bank Credit Facilities and for general corporate purposes.

**QVC Interest Rate Swap Arrangements**

During the third quarter of 2009, QVC entered into seven forward interest rate swap arrangements with an aggregate notional amount of \$1.8 billion. Such arrangements provide for payments that began in March 2011 through March 2013. QVC will make fixed payments at rates ranging from 2.98% to 3.67% and receive variable payments at 3 month LIBOR (0.47% at June 30, 2012). Additionally, during 2011, QVC entered into seven additional swap arrangements with an aggregate notional amount of \$1.4 billion requiring QVC to make variable payments, that began in June 2011 through March 2013, at 3 month LIBOR (0.47% at June 30, 2012) and receive fixed payments, that began in June 2011 through March 2013, ranging from 0.57% to 0.95%. These swap arrangements do not qualify as cash flow hedges under GAAP. Accordingly, changes in the fair value of the swaps are reflected in realized and unrealized gains or losses on financial instruments in the accompanying

**LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(unaudited)**

condensed consolidated statements of operations.

***Other Subsidiary Debt***

Other subsidiary debt at June 30, 2012 is comprised of capitalized satellite transponder lease obligations and bank debt of certain subsidiaries.

***Fair Value of Debt***

Liberty estimates the fair value of its debt based on the quoted market prices for the same or similar issues or on the current rate offered to Liberty for debt of the same remaining maturities (level 2). The fair value of Liberty's publicly traded debt securities that are not reported at fair value in the accompanying condensed consolidated balance sheet at June 30, 2012 is as follows (amounts in millions):

Senior notes	\$	317
Senior debentures	\$	816
QVC senior secured notes	\$	2,201

Due to the variable rate nature, Liberty believes that the carrying amount of its subsidiary debt not discussed above approximated fair value at June 30, 2012.

**(10) Stockholders' Equity**

As of June 30, 2012, Liberty reserved for issuance upon exercise of outstanding stock options approximately 45.3 million shares of Series A Liberty Interactive common stock and 450,000 shares of Series B Liberty Interactive common stock.

In addition to the Series A and Series B Liberty Interactive common stock there are 4 billion shares of Series C Liberty Interactive common stock authorized for issuance. As of June 30, 2012, no shares of any Series C Liberty Interactive common stock were issued or outstanding.

Liberty Interactive's board of directors has approved the recapitalization of its common stock through the creation of tracking stocks to be designated the Liberty Ventures common stock and Liberty Interactive common stock. In the recapitalization, each holder of current Liberty Interactive common stock will receive one share of the corresponding series of Liberty Interactive common stock and 0.05 of a share of the corresponding series of Liberty Ventures common stock, with cash issued in lieu of fractional shares of Liberty Ventures common stock. In addition, holders of current Liberty Interactive common stock will also receive 1/3 of a subscription right to purchase one share of Series A Liberty Ventures common stock for each share of Liberty Ventures common stock they receive in the recapitalization. The proposed recapitalization is intended to be tax-free to stockholders and its completion will be subject to various conditions, including the affirmative vote of at least a majority of the aggregate voting power of the shares of Liberty Interactive common stock outstanding and entitled to vote at the annual stockholder meeting in the third quarter of 2012, voting together as a single class, to approve a proposal to amend and restate Liberty's certificate of incorporation in order to effect the recapitalization. Subject to the satisfaction or, where applicable, waiver, of such conditions, the recapitalization is currently expected to occur in the third quarter of 2012.

**(11) Commitments and Contingencies**

***Litigation***

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

## LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

### Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

#### (12) Information About Liberty's Operating Segments

Liberty, through its ownership interests in subsidiaries and other companies, is primarily engaged in the video and on-line commerce industries. Liberty identifies its reportable segments as (A) those consolidated subsidiaries that represent 10% or more of its consolidated annual revenue, annual pre-tax earnings or total assets and (B) those equity method affiliates whose share of earnings represent 10% or more of Liberty's annual pre-tax earnings. The segment presentation for prior periods has been conformed to the current period segment presentation.

Liberty evaluates performance and makes decisions about allocating resources to its operating segments based on financial measures such as revenue, Adjusted OIBDA, gross margin, average sales price per unit, number of units shipped and revenue or sales per customer equivalent. In addition, Liberty reviews nonfinancial measures such as unique website visitors, conversion rates and active customers, as appropriate.

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

For the six months ended June 30, 2012, Liberty has identified the following consolidated subsidiaries and equity method affiliates as its reportable segments:

- QVC—consolidated subsidiary that markets and sells a wide variety of consumer products in the United States and several foreign countries, primarily by means of its televised shopping programs and via the Internet through its domestic and international websites and mobile applications.
- Expedia, Inc.—an equity method affiliate in which we hold a 26% ownership interest (see note 7) that operates an easily accessible global travel marketplace, allowing customers to research, plan and book travel products and services from travel suppliers and allowing these travel suppliers to efficiently reach and provide their products and services to Expedia customers.

Additionally, for presentation purposes, Liberty is providing financial information of the E-commerce businesses on an aggregated basis. The consolidated businesses do not contribute significantly to the overall operations of Liberty on an individual basis; however, Liberty believes that on an aggregated basis they provide relevant information for users of these financial statements. While these businesses may not meet the aggregation criteria under relevant accounting literature Liberty believes the information is relevant and helpful for a more complete understanding of the consolidated results.

- E-commerce—the aggregation of certain consolidated subsidiaries that market and sell a wide variety of consumer products via the Internet. Categories of consumer products include perishable and personal gift offerings (Provide Commerce, Inc.), active lifestyle gear and clothing (Backcountry.com, Inc.), fitness and health goods (Bodybuilding.com, LLC) and celebration offerings from invitations to costumes (Celebrate Interactive Holdings, Inc.).

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

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

Performance Measures

	Six months ended June 30,			
	2012		2011	
	Revenue	Adjusted OIBDA	Revenue	Adjusted OIBDA
	amounts in millions			
QVC	\$ 3,906	828	3,733	781
E-commerce	773	57	671	65
Expedia, Inc.	1,856	325	1,641	282
Corporate and other	—	(12)	—	(18)
Total	\$ 6,535	1,198	6,045	1,110
Eliminate equity method affiliates	(1,856)	(325)	(1,641)	(282)
Consolidated	\$ 4,679	873	4,404	828

	Three months ended June 30,			
	2012		2011	
	Revenue	Adjusted OIBDA	Revenue	Adjusted OIBDA
	amounts in millions			
QVC	\$ 1,974	438	1,898	418
E-commerce	391	23	347	36
Expedia, Inc.	1,040	222	913	194
Corporate and other	—	(6)	—	(4)
Total	\$ 3,405	677	3,158	644
Eliminate equity method affiliates	(1,040)	(222)	(913)	(194)
Consolidated	\$ 2,365	455	2,245	450

Other Information

	June 30, 2012		
	Total assets	Investments in affiliates	Capital expenditures
		amounts in millions	
QVC	\$ 12,924	11	101
E-commerce	1,536	10	50
Expedia, Inc.	7,505	—	117
Corporate and other	2,571	1,192	—
Total	\$ 24,536	1,213	268
Eliminate equity method affiliates	(7,505)	—	(117)
Consolidated	\$ 17,031	1,213	151

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

The following table provides a reconciliation of segment Adjusted OIBDA to earnings (loss) from continuing operations before income taxes:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	amounts in millions			
Consolidated segment Adjusted OIBDA	\$ 455	450	873	828
Stock-based compensation	(18)	(14)	(35)	(30)
Depreciation and amortization	(147)	(148)	(290)	(297)
Interest expense	(107)	(107)	(213)	(221)
Share of earnings (loss) of affiliates, net	35	37	46	57
Realized and unrealized gains (losses) on financial instruments, net	(160)	89	(178)	30
Gains (losses) on dispositions, net	288	—	288	—
Other, net	30	3	33	21
Earnings (loss) from continuing operations before income taxes	\$ 376	310	524	388

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business, product and marketing strategies; new service offerings; revenue growth at QVC, Inc.; the recoverability of our goodwill and other long-lived assets; our projected sources and uses of cash; and the anticipated non-material impact of certain contingent liabilities related to legal and tax proceedings and other matters arising in the ordinary course of business. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

- customer demand for our products and services and our ability to adapt to changes in demand;
- competitor responses to our products and services, and the products and services of the entities in which we have interests;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- uncertainties associated with product and service development and market acceptance, including the development and provision of additional connections to consumers as technologies progress and shift consumer shopping behaviors;
- our future financial performance, including availability, terms and deployment of capital;
- our ability to successfully integrate and recognize anticipated efficiencies and benefits from the businesses we acquire;
- the ability of suppliers and vendors to deliver products, equipment, software and services;
- the ability to renew affiliate agreements on terms that are acceptable to us;
- the outcome of any pending or threatened litigation;
- availability of qualified personnel;
- changes in, or failure or inability to comply with, government regulations, including, without limitation, regulations of the Federal Communications Commission, and adverse outcomes from regulatory proceedings;
- changes in the nature of key strategic relationships with partners, vendors and joint venturers;
- general economic and business conditions and industry trends including the current economic downturn;
- consumer spending levels, including the availability and amount of individual consumer debt;
- changes in distribution and viewing of television programming, including the expanded deployment of personal video recorders, video on demand and IP television and their impact on home shopping networks;
- increased digital TV penetration and the impact on channel positioning of our channels;
- rapid technological changes;
- the regulatory and competitive environment of the industries in which we, and the entities in which we have interests, operate;
- threatened terrorist attacks and ongoing military action in the Middle East and other parts of the world; and
- fluctuations in foreign currency exchange rates and political unrest in international markets.

For additional risk factors, please see Part I, Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2011. These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Quarterly Report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

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 condensed consolidated financial statements and the notes thereto and our Annual Report on Form 10-K for the year ended December 31, 2011.

## **Overview**

We own controlling and non-controlling interests in a broad range of video and on-line commerce companies. Our largest business, which is also our principal reportable segment, is QVC, Inc. QVC markets and sells a wide variety of consumer products in the United States and several foreign countries, primarily by means of its televised shopping programs and via the Internet through its domestic and international websites and mobile applications. Additionally, we own entire or majority interests in consolidated subsidiaries which operate on-line commerce businesses in a broad range of retail categories. The more significant of these include Backcountry.com, Inc., Bodybuilding.com, LLC, Celebrate Interactive Holdings, LLC and Provide Commerce, Inc. Backcountry operates websites offering sports gear and clothing for outdoor and active individuals in a variety of categories. Bodybuilding manages websites related to sports nutrition, body building and fitness. Celebrate operates websites that offer costumes, accessories, décor, party supplies and invitations. Provide operates an e-commerce marketplace of websites for perishable goods, including flowers, fruits and desserts, as well as upscale personalized gifts.

Our "Corporate and Other" category includes our corporate ownership interests in other unconsolidated businesses and corporate expenses. We hold ownership interests in Expedia, Inc., HSN, Inc., Interval Leisure Group, Inc. and Tree.com, Inc. which we account for as equity method investments; and we continue to maintain investments and related financial instruments in public companies such as Time Warner Inc., Time Warner Cable Inc. and AOL, Inc., which are accounted for at their respective fair market values and are included in "Corporate and Other."

Liberty Interactive's board of directors has approved the recapitalization of its common stock through the creation of a new tracking stock to be designated the Liberty Ventures common stock. In the recapitalization, each holder of Liberty Interactive common stock will receive 0.05 of a share of the corresponding series of Liberty Ventures common stock, with cash issued in lieu of fractional shares of Liberty Ventures common stock. In addition, holders of Liberty Interactive common stock will also receive 1/3 of a subscription right to purchase one share of Series A Liberty Ventures common stock for each share of Liberty Ventures common stock they receive in the recapitalization. The proposed recapitalization is intended to be tax-free to stockholders and its completion will be subject to various conditions, including the affirmative vote of at least a majority of the aggregate voting power of the shares of Liberty Interactive common stock outstanding and entitled to vote at the annual stockholder meeting in the third quarter of 2012, voting together as a single class, to approve a proposal to amend and restate Liberty's certificate of incorporation in order to effect the recapitalization. Subject to the satisfaction or, where applicable, waiver, of such conditions, the recapitalization is currently expected to occur in the third quarter of 2012.

The new Ventures Group will initially have attributed to it our interests in Expedia, Inc., TripAdvisor, Inc., Interval Leisure Group, Inc., Tree.com, Inc. and other smaller assets, investments in Time Warner Inc., Time Warner Cable Inc. and AOL, Inc., as well as cash in the amount of approximately \$1,325 million (which includes proceeds from the sale of TripAdvisor, Inc. shares in May 2012 and the impact of certain other post-March 31 business activities). The Ventures Group will have attributed to it certain liabilities related to our Exchangeable Debentures and certain deferred tax liabilities. The Ventures Group will be primarily focused on the maximization of the value of these investments and investing in new business opportunities.

The Interactive Group will initially have attributed to it the remainder of our businesses and assets, including our operating subsidiaries QVC, Provide Commerce, Inc., Backcountry.com, Inc., Bodybuilding.com, LLC, and Celebrate Interactive Holdings, LLC, CommerceHub and LMC Right Start, Inc., as well as our interest in HSN, Inc. and cash in the amount of approximately \$500 million. The Interactive Group will have attributed to it liabilities that reside with QVC and the other entities listed as well as our outstanding senior notes and certain deferred tax liabilities. The Interactive Group will be primarily focused on our video and e-commerce operating businesses.

## **Discontinued Operations**

Prior to the Split-Off (as defined below), Liberty's equity was structured into three separate tracking stock groups. 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. Liberty had three tracking stocks: Liberty Interactive common stock, Liberty Starz common stock and Liberty Capital common stock, which were intended to track and reflect the economic performance of the separate businesses, assets and liabilities attributed to each group. These attributed businesses, assets and liabilities were not separate legal entities and therefore could not own assets, issue securities or enter into legally binding agreements. Holders of the tracking stocks did not have direct claim to the group's stock or assets and were not represented by separate boards of directors.

On September 23, 2011, Liberty completed the split-off of its wholly owned subsidiary, Liberty Media Corporation ("LMC") (formerly known as Liberty CapStarz, Inc. and prior thereto known as Liberty Splitco, Inc.) (the "Split-Off"). At the

time of the Split-Off, LMC owned all the assets, businesses and liabilities attributed to our former Capital and Starz tracking stock groups immediately prior to the Split-Off. The Split-Off was effected by means of a redemption of all of the Liberty Capital common stock and Liberty Starz common stock of Liberty for all of the common stock of LMC. This transaction has been accounted for at historical cost due to the pro rata nature of the distribution.

Following the Split-Off, Liberty and LMC operate as separate, publicly traded companies and neither has any stock ownership, beneficial or otherwise, in the other. In connection with the Split-Off, Liberty and LMC entered into certain agreements in order to govern certain of the ongoing relationships between the two companies after the Split-Off and to provide for an orderly transition.

The condensed consolidated financial statements of Liberty have been prepared to reflect LMC as discontinued operations. Accordingly, the assets and liabilities, revenue, costs and expenses, and cash flows of LMC (for periods prior to the Split-Off) have been excluded from the respective captions in the accompanying condensed consolidated balance sheets, statements of operations, comprehensive earnings and cash flows in such condensed consolidated financial statements.



## Results of Operations—Consolidated

**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 from our reportable segment and our E-commerce businesses. The "corporate and other" category consists of those assets or businesses which we do not disclose separately. For a more detailed discussion and analysis of the financial results of the principal reporting segment, see "Results of Operations—Businesses" below.

### Operating Results

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
amounts in millions				
<i>Revenue</i>				
QVC	\$ 1,974	1,898	3,906	3,733
E-commerce	391	347	773	671
Corporate and other	—	—	—	—
Consolidated	\$ 2,365	2,245	4,679	4,404
<i>Adjusted OIBDA</i>				
QVC	\$ 438	418	828	781
E-commerce	23	36	57	65
Corporate and other	(6)	(4)	(12)	(18)
Consolidated	\$ 455	450	873	828
<i>Operating Income (Loss)</i>				
QVC	\$ 301	281	559	506
E-commerce	(1)	19	14	27
Corporate and other	(10)	(12)	(25)	(32)
Consolidated	\$ 290	288	548	501

**Revenue.** Our consolidated revenue increased 5.3% or \$120 million and 6.2% or \$275 million for the three and six months ended June 30, 2012, respectively, as compared to the corresponding prior year periods. The three month increase was due to increased revenue at QVC (\$76 million) and the E-commerce companies (\$44 million). The six month increase was due to increased revenue at QVC (\$173 million) and the E-commerce companies (\$102 million). See "Results of Operations—Businesses" below for a more complete discussion of the results of operations of certain of our subsidiaries.

**Adjusted OIBDA.** We define Adjusted OIBDA 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-based compensation, separately reported litigation settlements and restructuring and impairment charges that are included in the measurement of operating income pursuant to GAAP. Accordingly, Adjusted OIBDA 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 12 to the accompanying condensed consolidated financial statements for a reconciliation of Adjusted OIBDA to Earnings (loss) from continuing operations before income taxes.

Consolidated Adjusted OIBDA increased 1.1% or \$5 million and 5.4% or \$45 million for the three and six months ended June 30, 2012, respectively, as compared to the corresponding prior year periods. The overall Adjusted OIBDA growth was the result of increases at QVC of \$20 million and \$47 million for the three and six months ended June 30, 2012, respectively, which were offset slightly with diminished results at the E-commerce companies. See "Results of Operations—Businesses" below for a more complete discussion of the results of operations of certain of our subsidiaries.

**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.

We recorded \$35 million and \$30 million of stock compensation expense for the six month periods ended June 30, 2012 and 2011, respectively. The stock compensation expense was fairly consistent as compared to the prior period. As of June 30, 2012, the total unrecognized compensation cost related to unvested Liberty equity awards was approximately \$107 million. Such amount will be recognized in our consolidated statements of operations over a weighted average period of approximately 2.4 years.

**Operating income.** Our consolidated operating income increased 0.7% or \$2 million and 9.4% or \$47 million for the three and six months ended June 30, 2012, respectively, as compared to the corresponding prior year periods. The three and six month increase was primarily due to improved results at QVC and offset by diminished results at the E-commerce companies. See "Results of Operations—Businesses" below for a more complete discussion of the results of operations of certain of our subsidiaries.

#### Other Income and Expense

Components of Other Income (Expense) are presented in the table below.

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	amounts in millions			
Other income (expense):				
Interest expense	(107)	(107)	(213)	(221)
Share of earnings (losses) of affiliates	35	37	46	57
Realized and unrealized gains (losses) on financial instruments, net	(160)	89	(178)	30
Gains (losses) on dispositions, net	288	—	288	—
Other, net	30	3	33	21
	<u>\$ 86</u>	<u>22</u>	<u>(24)</u>	<u>(113)</u>

**Interest expense.** Interest expense was flat for the three months ended June 30, 2012, as compared to the corresponding prior year period. Interest expense decreased 3.6% or \$8 million for the six months ended June 30, 2012, as compared to the corresponding prior year period. The six month decrease in interest expense related to a lower average debt balance for the six months ended June 30, 2012, as compared to the corresponding prior year periods.

**Share of earnings (losses) of affiliates.** The following table presents our share of earnings (losses) of affiliates:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	amounts in millions			
Expedia, Inc.	\$ 26	35	24	48
TripAdvisor, Inc.	12	—	23	—
HSN, Inc.	9	7	24	20
Other	(12)	(5)	(25)	(11)
	<u>\$ 35</u>	<u>37</u>	<u>46</u>	<u>57</u>

During the fourth quarter of 2011, Expedia, Inc. completed the pro-rata split-off of TripAdvisor, Inc., its wholly owned subsidiary. Therefore, the Company held a 26% ownership interest in each of Expedia, Inc. and TripAdvisor, Inc. as of the TripAdvisor, Inc. split-off date. The most significant change in earnings for Expedia, Inc., other than the split-off of TripAdvisor, Inc., was the result of a one-time loss recognized in the three months ended March 31, 2012 associated with the retirement of certain debt in conjunction with the TripAdvisor, Inc. split-off.

The additional share of losses in the other category is primarily related to our investment in alternative energy solution entities. These entities typically operate at a loss and because we account for these investments as equity method affiliates we record our share of such losses. We note these entities typically have favorable tax attributes and credits which are recorded in our tax accounts.

**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:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	amounts in millions			
Non-strategic Securities	\$ 41	52	181	149
Exchangeable senior debentures	(35)	22	(217)	(165)
Other derivatives	(166)	15	(142)	46
	\$ (160)	89	(178)	30

The changes in realized and unrealized gains (losses) on financial instruments is due to market activity through the period on the various financial instruments that are marked to market on a periodic basis. In the first quarter of 2012, we entered into a forward contract to sell 12 million Expedia, Inc. shares at approximately \$34 per share. The derivative contract is currently in a liability position as the stock price of Expedia, Inc. shares has increased since the inception of the derivative contract and results in a recognition of unrealized losses on the contract.

**Gains (losses) on dispositions, net.** In May 2012, Liberty sold approximately 8.5 million shares of TripAdvisor, Inc. for cash proceeds of \$338 million. The sale resulted in a \$288 million gain recorded in gain (losses) on dispositions, net in the statement of operations.

**Income taxes.** Our effective tax rate for the six months ended June 30, 2012 is 32% which is less than the U.S. federal income tax rate of 35% primarily due to tax credits generated by our alternative energy investments.

**Net earnings.** We had net earnings of \$354 million and \$668 million for the six month periods ended June 30, 2012 and 2011, respectively. Net earnings in the prior year included \$410 million of earnings from discontinued operations. The remaining change in net earnings was the result of the above-described fluctuations in our revenue, expenses and other gains and losses.

#### **Material Changes in Financial Condition**

As of June 30, 2012 substantially all of our cash and cash equivalents are invested in U.S. Treasury securities, other government securities or government guaranteed funds, AAA rated money market funds and other highly rated financial and corporate debt instruments.

The following are potential sources of liquidity: 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, debt (including availability under the QVC Bank Credit Facility) and equity issuances, and dividend and interest receipts.

During the quarter there have been no significant changes to our corporate or subsidiary debt credit ratings.

As of June 30, 2012, Liberty had a cash balance of \$790 million with \$271 million held by foreign subsidiaries. We have borrowing capacity under the QVC credit facility at June 30, 2012 of \$1,698 million. Additionally, our operating businesses have provided, on average, more than \$1 billion in annual operating cash flow over the prior three years and we do not anticipate any significant reductions in that amount in future periods.

During the six months ended June 30, 2012, Liberty's primary uses of cash were \$637 million of Liberty Interactive Series A common stock repurchases, net debt repayments of \$207 million, capital expenditures of \$151 million and investments in available-for-sale and equity method affiliates. These activities were funded primarily with proceeds from dispositions of \$348 million (primarily the disposition of 8.5 million shares of TripAdvisor, Inc.) and cash provided by operating activities and cash on hand.

The projected uses of Liberty cash are continued capital improvement spending of approximately \$235 million for capital expenditures for the remainder of the year, approximately \$220 million for interest payments on outstanding debt, the potential buyback of common stock under the approved share buyback program (subsequent to quarter end we made additional repurchases of approximately 512,500 shares for \$9 million through July 31, 2012) and additional investments in existing or new businesses. We also may be required to make net payments of income tax liabilities to settle items under discussion with tax authorities.

QVC was in compliance with its debt covenants as of June 30, 2012.

## Results of Operations—Businesses

### Operating Results by Business

**QVC.** QVC is a retailer of a wide range of consumer products, which are marketed and sold primarily by merchandise-focused televised shopping programs, the Internet and mobile applications. In the United States, QVC's live programming is distributed via its nationally televised shopping program 24 hours a day, 364 days per year ("QVC-U.S."). Internationally, QVC's program services are based in Japan ("QVC-Japan"), Germany ("QVC-Germany"), the United Kingdom ("QVC-U.K.") and Italy ("QVC-Italy"). QVC-Japan and QVC-Germany each distribute live programming 24 hours a day and QVC-U.K. distributes its program 24 hours a day with 17 hours of live programming. QVC-Italy launched on October 1, 2010 and is distributing programming live for 17 hours a day on satellite and public television and an additional seven hours a day of recorded programming on satellite television.

QVC's operating results were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
amounts in millions				
Net revenue	\$ 1,974	1,898	3,906	3,733
Cost of sales	(1,234)	(1,183)	(2,464)	(2,363)
Gross profit	740	715	1,442	1,370
Operating expenses	(176)	(181)	(351)	(352)
SG&A expenses (excluding stock-based compensation)	(126)	(116)	(263)	(237)
Adjusted OIBDA	438	418	828	781
Stock-based compensation—SG&A	(8)	(6)	(13)	(10)
Depreciation and amortization	(129)	(131)	(256)	(265)
Operating income	\$ 301	281	559	506

Net revenue was generated in the following geographical areas:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
amounts in millions				
QVC-US	\$ 1,280	1,232	2,520	2,424
QVC-Japan	310	269	599	502
QVC-Germany	210	237	457	505
QVC-UK	156	154	296	292
QVC-Italy	18	6	34	10
	\$ 1,974	1,898	3,906	3,733

QVC's consolidated net revenue increased 4.0% and 4.6% during the three and six months ended June 30, 2012, respectively, as compared to the corresponding periods in the prior year. The three month increase in net revenue was comprised of \$85 million due to a 4.0% increase in the average sales price per unit ("ASP"), \$36 million due to a 1.7% increase in units sold and a \$16 million increase in shipping and handling and other miscellaneous revenue. These increases were offset by a \$34 million impact of estimated product returns and unfavorable foreign currency exchange rates in all markets, except Japan, of \$27 million. Returns as a percent of gross product revenue increased from 19.7% to 20.0% primarily due to an increase in the return rates in beauty, jewelry and apparel due to the mix of products sold within those categories. The six

month increase in net revenue was comprised of \$153 million due to a 3.6% increase in ASP, \$84 million due to a 2.0% increase in units sold and a \$31 million increase in shipping and handling and other miscellaneous revenue. These increases were offset by a \$65 million impact of estimated product returns and unfavorable foreign currency exchange rates in all markets except Japan of \$30 million. Returns as a percent of gross product revenue increased from 19.6% to 19.9% primarily due to an increase in apparel sales as a percentage of the total mix of products sold.

During the three and six months ended June 30, 2012 and 2011, the changes in revenue and expenses were impacted by changes in the exchange rates for the Japanese Yen, the Euro and the U.K. Pound Sterling. In the event the U.S. Dollar strengthens against these foreign currencies in the future, QVC's revenue and operating cash flow will be negatively impacted. The percentage increase (decrease) in revenue for QVC's geographic areas in U.S. Dollars and in local currency was as follows:

	Three months ended June 30, 2012		Six months ended June 30, 2012	
	U.S. Dollars	Local currency	U.S. Dollars	Local currency
QVC-US	3.9 %	3.9 %	4.0 %	4.0 %
QVC-Japan	15.2 %	13.1 %	19.3 %	16.1 %
QVC-Germany	(11.4)%	(0.9)%	(9.5)%	(2.5)%
QVC-UK	1.3 %	4.4 %	1.4 %	4.0 %

QVC-U.S. growth in net revenue for the three month period ended June 30, 2012 of 3.9% was due primarily to a 5.4% increase in ASP and an increase in shipping and handling revenue, partially offset by an increase in returns associated with the sales increase and change in product mix. For the three months ended June 30, 2012, QVC-U.S. shipped sales increased due to growth in sales of electronics, beauty and apparel. For the six months ended June 30, 2012, QVC-US shipped sales increased due to growth in sales of cooking and dining, beauty and apparel. For the three and six months ended June 30, 2012, QVC-Japan primarily experienced growth in home and apparel with the growth also reflective of the earthquake and related events experienced last March. For the three and six months ended June 30, 2012, QVC-Germany primarily experienced declines in health and fitness and apparel, that were somewhat offset by increases in beauty products. QVC-UK's growth for the three and six months ended June 30, 2012 was primarily the result of increased sales in the beauty and apparel product categories, offset by declines in electronics and jewelry in both periods. QVC-Italy's sales consisted primarily of home, beauty and apparel products.

QVC's televised shopping program is already received by substantially all the multichannel television households in the U.S., Germany and the U.K. QVC's future net revenue growth will primarily depend on international expansion, sales growth from e-commerce and mobile platforms, additions of new customers from households already receiving QVC's television programming, growth in sales to existing customers and new subscribers as a result of expansion of programming reach. QVC's future net revenue may also be affected by (i) the willingness of multichannel television distributors to continue carrying QVC's programming service; (ii) QVC's ability to maintain favorable channel positioning, which may become more difficult as distributors convert analog customers to digital; (iii) changes in television viewing habits because of personal video recorders, video-on-demand and Internet video services and (iv) general economic conditions.

QVC's gross profit percentage decreased from 37.7% to 37.5%, but increased from 36.7% to 36.9%, during the three and six month periods ended June 30, 2012, respectively. For the three month period ended June 30, 2012, the decrease was due primarily to lower initial product margins in electronics, jewelry and apparel categories, partially offset by higher initial product margins on beauty products. Both the three and six month periods ended June 30, 2012 were favorably impacted by improved leverage on the warehouse cost base.

QVC's operating expenses are principally comprised of commissions, order processing and customer service expenses, credit card processing fees, telecommunications expenses and production costs. Operating expenses decreased 2.8% or \$5 million and 0.3% or \$1 million for the three and six month periods ended June 30, 2012, respectively, as compared to the corresponding periods in the prior year. For the three month period ended June 30, 2012, the \$5 million decrease was primarily due to a \$3 million favorable foreign currency exchange rate impact and a \$2 million decrease in credit card processing fees. For the six month period ended June 30, 2012, the \$1 million decrease was primarily due to a \$7 million favorable foreign currency exchange rate impact and a \$3 million decrease in credit card processing fees offset by a \$4 million increase in commissions expense and a \$4 million increase in programming expenses. For the three and six months ended June 30, 2012, the decreases in credit card processing fees were due to a change in U.S. legislation associated with customer debit card purchases resulting in lower fees charged. For the six months ended June 30, 2012, the increase in commissions expense was primarily due to higher sales volume and the increase in programming expenses were due primarily to additional manpower costs.

QVC's SG&A expenses include personnel, information technology, the provision for doubtful accounts, credit card income and marketing and advertising expenses. Such expenses increased from 6.1% to 6.4% and increased from 6.3% to 6.7% as a percentage of net revenue for the three and six month periods ended June 30, 2012, respectively. SG&A expenses increased \$10 million and \$26 million for the three and six month periods ended June 30, 2012, respectively, as compared to the corresponding periods in the prior year, due to a variety of factors.

For the three month period ended June 30, 2012, the \$10 million increase in SG&A expenses was primarily due to a \$4 million increase in personnel expenses, a \$4 million increase in the provision for doubtful accounts, a \$4 million increase in rent expense and a \$1 million increase in marketing expenses. These increases were primarily offset by a \$3 million favorable foreign currency exchange rate impact and a \$2 million increase in credit card income. For the six month period ended June 30, 2012, the \$26 million increase in SG&A expenses was primarily due to a \$19 million increase in personnel expenses, an \$8 million increase in the provision for doubtful accounts, a \$5 million increase in rent expense and a \$5 million increase in marketing expenses. These increases were primarily offset by a \$5 million increase in credit card income and a \$4 million favorable foreign currency exchange rate impact. The increases in personnel expenses were primarily due to merit and benefits increases, higher bonus accruals as well as employee termination costs associated with reducing order entry personnel at the Chesapeake, VA, U.S. call center due to an increase in electronic ordering from customers. The increases in the provisions for doubtful accounts were primarily due to the Easy Pay installment program. The increases in rent expenses were primarily due to duplicate running costs at QVC-U.K. associated with the transition to their new headquarters including a \$2 million lease cancellation accrual in the second quarter. The increases in marketing expenses were primarily due to a renewal of marketing efforts at QVC-Japan as a result of the earthquake and related events experienced last year, an increase in marketing efforts at QVC-Italy as the business continues to develop and QVC-U.S. Internet and social media campaigns. The increases in credit card income were primarily due to higher average portfolio balances.

QVC's depreciation and amortization consisted of the following:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Affiliate agreements	\$ 38	38	\$ 76	76
Customer relationships	43	43	86	86
Purchase accounting related amortization	81	81	162	162
Property, plant and equipment	33	33	64	68
Software amortization	12	12	24	24
Channel placement amortization	3	5	6	11
Total depreciation and amortization	\$ 129	131	256	265

**E-commerce businesses.** Our E-commerce businesses are comprised primarily of Provide, Backcountry, Bodybuilding and Celebrate. Revenue for the E-commerce businesses is seasonal due to certain holidays, which drive a significant portion of the e-commerce businesses' revenue. The third quarter is generally lower, as compared to the other three quarters, due to fewer holidays. Revenue increased \$44 million and \$102 million for the three and six months ended June 30, 2012 as compared to the corresponding prior year periods. Each of our respective E-commerce businesses reported an increase in revenue, with the exception of one of our subsidiaries, for the three and six months ended June 30, 2012 as compared to the corresponding prior year periods. Such increases were the result of increased marketing efforts driving additional traffic, greater conversion resulting from investments in site optimization and broader inventory offerings. Adjusted OIBDA for the E-commerce businesses decreased \$13 million and \$8 million for the three and six months ended June 30, 2012 representing 5.9% and 7.4% of revenue in 2012, as compared to 10.4% and 9.7% in 2011. The decrease in Adjusted OIBDA for the respective periods was the result of legal settlements (\$5 million), increased spending in paid search as a percentage of revenue, increased promotional activity to move seasonal inventory and lower advertising revenue due to pricing and a shift to mobile applications. Additionally, as a result of changes in senior management at one of our E-commerce subsidiaries we put in place a management compensation arrangement to retain key personnel for transition purposes at that particular subsidiary, which was largely recorded in the first six months of 2012 (\$5 million). Operating income was lower by \$20 million and \$13 million as a result of the discussion above as well as increased stock compensation for the three and six months ended June 30, 2012 as compared to the corresponding prior year periods.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

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

We are exposed to changes in interest rates primarily as a result of our borrowing and investment activities, which include investments in fixed and floating rate debt instruments and borrowings used to maintain liquidity and to fund business operations. The nature and amount of our long-term and short-term debt are expected to vary as a result of future requirements, market conditions and other factors. We manage our exposure to interest rates by maintaining what we believe is an appropriate mix of fixed and variable rate debt. We believe this best protects us from interest rate risk. We have achieved this mix by (i) issuing fixed rate debt that we believe has a low stated interest rate and significant term to maturity, (ii) issuing variable rate debt with appropriate maturities and interest rates and (iii) entering into interest rate swap arrangements when we deem appropriate. As of June 30, 2012, our debt is comprised of the following amounts:

	Variable rate debt		Fixed rate debt	
	Principal amount	Weighted avg interest rate	Principal amount	Weighted avg interest rate
	dollar amounts in millions			
QVC	\$ 302	3.3%	\$ 2,063	7.3%
Corporate and other	\$ 55	2.7%	\$ 3,954	4.6%

In addition, QVC has entered into several interest rate swap arrangements that provide for payments beginning in March 2011 and extending to March 2013. On a notional amount of \$1.8 billion, QVC will make fixed payments at rates ranging from 2.98% to 3.67% and receive variable payments at 3 month LIBOR (0.47% at June 30, 2012). On an additional notional amount of \$1.4 billion, QVC will make variable payments at 3 month LIBOR (0.47% at June 30, 2012) and receive fixed payments ranging from 0.57% to 0.95%.

We are exposed to changes in stock prices primarily as a result of our significant holdings in publicly traded securities. We continually monitor changes in stock markets, in general, and changes in the stock prices of our holdings, specifically. We believe that changes in stock prices can be expected to vary as a result of general market conditions, technological changes, specific industry changes and other factors. We periodically use equity collars and other financial instruments to manage market risk associated with certain investment positions. These instruments are recorded at fair value based on option pricing models.

At June 30, 2012, the fair value of our non-strategic AFS equity securities was \$1,384 million. Had the market price of such securities been 10% lower at June 30, 2012, the aggregate value of such securities would have been \$138 million lower. Our investments in Expedia, TripAdvisor, Inc. and HSN, Inc., are publicly traded securities and are accounted for as equity method affiliates, which are not reflected at fair value in our balance sheet. The aggregate fair value of such securities was \$3,641 million at June 30, 2012 and had the market price of such securities been 10% lower at June 30, 2012, the aggregate value of such securities would have been \$364 million lower. Such changes in value are not directly reflected in our statement of operations. Additionally, our exchangeable senior debentures are also subject to market risk. Because we mark these instruments to fair value each reporting date, increases in the stock price of the respective underlying security and increases in interest rates generally result in higher liabilities and unrealized losses in our statement of operations.

Liberty is exposed to foreign exchange rate fluctuations related primarily to the monetary assets and liabilities and the financial results of QVC's foreign subsidiaries. Assets and liabilities of foreign subsidiaries for which the functional currency is the local currency are translated into U.S. dollars at period-end exchange rates, and the statements of operations are generally translated at the average exchange rate for the period. Exchange rate fluctuations on translating foreign currency financial statements into U.S. dollars that result in unrealized gains or losses are referred to as translation adjustments. Cumulative translation adjustments are recorded in accumulated other comprehensive earnings (loss) as a separate component of stockholders' equity. Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses, which are reflected in income as unrealized (based on period-end translations) or realized upon settlement of the transactions. Cash flows from our operations in foreign countries are translated at the average rate for the period. Accordingly, Liberty may experience economic loss and a negative impact on earnings and equity with respect to our holdings solely as a result of foreign currency

exchange rate fluctuations.

We periodically assess the effectiveness of our derivative financial instruments. With regard to interest rate swaps, we monitor the fair value of interest rate swaps as well as the effective interest rate the interest rate swap yields, in comparison to historical interest rate trends. We believe that any losses incurred with regard to interest rate swaps would be largely offset by the effects of interest rate movements on the underlying debt facilities. These measures allow our management to evaluate the success of our use of derivative instruments and to determine when to enter into or exit from derivative instruments.

**Item 4. Controls and  
Procedures.**

In accordance with Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company carried out an evaluation, under the supervision and with the participation of management, including its chief executive officer and its principal accounting and financial officer (the "Executives"), of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Executives concluded that the Company's disclosure controls and procedures were effective as of June 30, 2012 to provide reasonable assurance that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in the Company's internal control over financial reporting that occurred during the three months ended June 30, 2012 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.



## PART II—OTHER INFORMATION

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

#### Share Repurchase Programs

On several occasions our board of directors authorized a share repurchase program for our Series A and Series B Liberty Interactive common stock. On each of May 5, 2006, November 3, 2006 and October 30, 2007 our board authorized the repurchase of \$1 billion of Series A and Series B Liberty Interactive common stock for a total of \$3 billion. These previous authorizations remained effective, notwithstanding the fact that our stock is no longer a tracking stock, following the Split-Off. Additionally, on February 22, 2012 the board authorized the repurchase of an additional \$700 million of Series A and Series B Liberty Interactive common stock.

A summary of the repurchase activity for the three months ended June 30, 2012 is as follows:

Period	Series A Liberty Interactive Common Stock			
	(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
April 1 - 30, 2012	8,584,370	\$ 18.78	8,584,370	\$686 million
May 1 - 31, 2012	7,805,771	\$ 18.22	7,805,771	\$544 million
June 1 - 30, 2012	6,370,780	\$ 16.68	6,370,780	\$438 million
Total	<u>22,760,921</u>		<u>22,760,921</u>	

In addition to the shares listed in the table above, 3,912 shares of Series A Liberty Interactive common stock were surrendered by certain of our officers and employees to pay withholding taxes and other deductions in connection with the vesting of their restricted stock.

**Item 6. Exhibits**

(a) Exhibits

Listed below are the exhibits which are filed as a part of this Report (according to the number assigned to them in Item 601 of Regulation S-K):

- 10.1 Amended and Restated Non-Qualified Stock Option Agreement under the Liberty Interactive Corporation 2000 Incentive Plan (As Amended and Restated Effective November 7, 2011) between Liberty Interactive Corporation and Gregory B. Maffei
- 10.2 Amended and Restated Non-Qualified Stock Option Agreement under the Liberty Interactive Corporation 2007 Incentive Plan (As Amended and Restated Effective November 7, 2011) between Liberty Interactive Corporation and Gregory B. Maffei
- 31.1 Rule 13a-14(a)/15d-14(a) Certification\*
- 31.2 Rule 13a-14(a)/15d-14(a) Certification\*
- 32 Section 1350 Certification\*\*
- 99.1 Reconciliation of Liberty Interactive Corporation Net Assets and Net Earnings to Liberty Interactive LLC Net Assets and Net Earnings\*\*
- 101.INS XBRL Instance Document\*\*
- 101.SCH XBRL Taxonomy Extension Schema Document\*\*
- 101.CAL XBRL Taxonomy Calculation Linkbase Document\*\*
- 101.LAB XBRL Taxonomy Label Linkbase Document\*\*
- 101.PRE XBRL Taxonomy Presentation Linkbase Document\*\*
- 101.DEF XBRL Taxonomy Definition Document\*\*

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\* Filed herewith

\*\* Furnished herewith



## EXHIBIT INDEX

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- 31.2 Rule 13a-14(a)/15d-14(a) Certification\*
- 32 Section 1350 Certification\*\*
- 99.1 Reconciliation of Liberty Interactive Corporation Net Assets and Net Earnings to Liberty Interactive LLC Net Assets and Net Earnings\*\*
- 101.INS XBRL Instance Document\*\*
- 101.SCH XBRL Taxonomy Extension Schema Document\*\*
- 101.CAL XBRL Taxonomy Calculation Linkbase Document\*\*
- 101.LAB XBRL Taxonomy Label Linkbase Document\*\*
- 101.PRE XBRL Taxonomy Presentation Linkbase Document\*\*
- 101.DEF XBRL Taxonomy Definition Document\*\*

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\* Filed herewith

\*\* Furnished herewith

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## QuickLinks

[LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES Condensed Consolidated Balance Sheets \(unaudited\)](#)

[LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES Condensed Consolidated Statements Of Operations \(unaudited\)](#)

[LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES Condensed Consolidated Statements Of Comprehensive Earnings \(Loss\) \(unaudited\)](#)

[LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES Condensed Consolidated Statements Of Cash Flows \(unaudited\)](#)

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**MAFFEI - LIBERTY INTERACTIVE CORPORATION  
2000 PLAN**

**LIBERTY INTERACTIVE CORPORATION  
(f/k/a LIBERTY MEDIA CORPORATION)  
2000 INCENTIVE PLAN  
(As Amended and Restated Effective February 22, 2007)**

**AMENDED AND RESTATED  
NON-QUALIFIED STOCK OPTION AGREEMENT**

THIS AMENDED AND RESTATED NON-QUALIFIED STOCK OPTION AGREEMENT (“Agreement”) is entered into by and between LIBERTY INTERACTIVE CORPORATION, a Delaware corporation formerly known as Liberty Media Corporation (the “Company”), and Gregory B. Maffei (the “Grantee”).

As of the Amendment Effective Date (as defined below), the Grantee is the President and Chief Executive Officer of the Company. The Company has adopted the Liberty Interactive Corporation 2000 Incentive Plan (as amended prior to or after the Amendment Effective Date, the “Plan”), a copy of which as in effect on the Amendment Effective Date is attached to this Agreement as Exhibit A and by this reference made a part hereof, for the benefit of eligible employees and independent contractors of the Company and its Subsidiaries. Capitalized terms used and not otherwise defined herein or in the Agreement Regarding LINTA Awards (as defined below) will have the meaning given thereto in the Plan.

This Agreement amends and restates in its entirety the Non-Qualified Stock Option Agreement (2000 Incentive Plan) dated effective as of December 17, 2009 between the Company and the Grantee with respect to 5,587,000 options to acquire shares of LINTA Stock (as defined below), 1,353,000 options to acquire shares of Liberty Media Corporation Series A Liberty Capital Common Stock (the “LCAPA Options”) and 760,000 options to acquire shares of Liberty Media Corporation Series A Liberty Starz Common Stock (the “LSTZA Options”). Effective as of the Amendment Effective Date, the LCAPA Options and the LSTZA Options are subject to a separate Non-Qualified Stock Option Agreement between Liberty Media Corporation, a Delaware corporation formerly known as Liberty CapStarz, Inc., and the Grantee, and are no longer part of this Agreement.

The Company and the Grantee therefore agree as follows:

1. **Definitions.** All capitalized terms not defined in this Agreement that are defined in the Agreement Regarding LINTA Awards will have the meanings ascribed to them in the Agreement Regarding LINTA Awards. The following terms, when used in this Agreement, have the following meanings:

“Agreement Regarding LINTA Awards” means the Agreement Regarding LINTA Equity Awards dated effective as of September 23, 2011 between the Company and Grantee. All

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references in this Agreement to the Agreement Regarding LINTA Awards shall be deemed to refer to the Agreement Regarding LINTA Awards as in effect as of the Amendment Effective Date and shall not be affected by any future amendment to, or termination of, the Agreement Regarding LINTA Awards (unless any such amendment to the Agreement Regarding LINTA Awards specifically states otherwise).

“Amendment Effective Date” means September 23, 2011.

“Base Price” means, with respect to each LINTA Option, \$10.27, the Fair Market Value of a share of LINTA Stock on the Effective Date.

“Business Day” means any day other than Saturday, Sunday or a day on which banking institutions in Denver, Colorado, are required or authorized to be closed.

“Cause” has the meaning specified in the Agreement Regarding LINTA Awards except that for purposes of Section 7.B of this Agreement “Cause” has the meaning specified in the Employment Agreement.

“Change in Control” has the meaning specified in the Agreement Regarding LINTA Awards.

“Close of Business” means, on any day, 5:00 p.m., Denver, Colorado time.

“Committee” means the Compensation Committee of the Board of Directors of the Company.

“Company” has the meaning specified in the preamble to this Agreement.

“Disability” has the meaning specified in the Agreement Regarding LINTA Awards except that for purposes of Section 7.B of this Agreement “Disability” has the meaning specified in the Employment Agreement.

“Effective Date” means December 17, 2009.

“Employment Agreement” means the Amended and Restated Employment Agreement dated effective as of September 23, 2011 between Splitco and the Grantee. All references in this Agreement to the Employment Agreement shall be deemed to refer to the Employment Agreement as in effect as of the Amendment Effective Date and shall not be affected by any future amendment to, or termination of, the Employment Agreement (unless any such amendment to the Employment Agreement specifically states otherwise).

“Good Reason” has the meaning specified in the Agreement Regarding LINTA Awards except that for purposes of Section 7.B of this Agreement “Good Reason” has the meaning specified in the Employment Agreement.

“Grantee” has the meaning specified in the preamble to this Agreement.

“LINTA Option” means an Option to purchase one share of LINTA Stock.

“LINTA Stock” has the meaning specified in Section 2 of this Agreement.

“Option” has the meaning specified in Section 2 of this Agreement.

“Option Shares” has the meaning specified in Section 4(a) of this Agreement.

“Plan” has the meaning specified in the recitals to this Agreement.

“Qualifying Subsidiary” has the meaning set forth in the Reorganization Agreement.

“Reorganization Agreement” means the Reorganization Agreement dated as of August 30, 2011 between the Company and Splitco.

“Required Withholding Amount” has the meaning specified in Section 5 of this Agreement.

“Separation” means the Grantee's “separation from service” from the Company, as defined in Treasury Regulation Section 1.409A-1(h).

“Separation from Splitco” means the Grantee's “separation from service” from Splitco, as defined in Treasury Regulation Section 1.409A-1(h).

“Splitco” means Liberty Media Corporation, a Delaware corporation formerly known as Liberty CapStarz, Inc.

“Subsidiary” has the meaning set forth in the Reorganization Agreement.

“Term” has the meaning specified in Section 2 of this Agreement.

**2. Grant of Options.** Subject to the terms and conditions herein, pursuant to the Plan, the Company granted to the Grantee as of the Effective Date options to purchase from the Company, exercisable during the period commencing on the Effective Date and expiring at Close of Business on the tenth anniversary of the Effective Date (such period, the “Term”), subject to earlier termination as provided in Section 7 below, at the Base Price, the number of shares of Liberty Interactive Corporation Series A Liberty Interactive Common Stock (“LINTA Stock”) set forth on the signature page to this Agreement. Each option granted hereunder is a “Nonqualified Stock Option” and is hereinafter referred to as an “Option.” The Base Price of each Option and the number of Options granted hereunder are subject to adjustment pursuant to Section 11 below. No fractional shares of LINTA Stock will be issuable upon exercise of an Option, and the Grantee will receive, in lieu of any fractional share of LINTA Stock that the Grantee otherwise would receive upon such exercise, cash equal to the fraction representing such fractional share multiplied by the Fair Market Value of one share of LINTA Stock as of the date on which such exercise is considered to occur pursuant to Section 4 below.

**3. Conditions of Exercise.** Unless otherwise determined by the Committee in its sole discretion (provided that such determination is not adverse to the Grantee), the Options will be exercisable only in accordance with the conditions stated in this Section 3.



(a) Except as otherwise provided in Section 11.1(b) of the Plan, the Options may be exercised only to the extent they have become exercisable in accordance with the provisions of this Section 3(a). Except as otherwise provided in this Agreement or the Agreement Regarding LINTA Awards, subject to the Grantee's continued employment with any of Splitco, any other Qualifying Subsidiary or any of their respective Subsidiaries, or the Company or its Affiliates (as defined in the Agreement Regarding LINTA Awards), one-half of the number of LINTA Options subject to this Agreement will become exercisable on each of December 17, 2013 and December 17, 2014. Notwithstanding the foregoing, (i) in the event that any date on which Options would otherwise become exercisable is not a Business Day, such Options will become exercisable on the Business Day next following such date, and (ii) Options that have not theretofore become exercisable will become exercisable (A) to the extent provided in the Agreement Regarding LINTA Awards, upon the occurrence of a Change in Control, or (B) to the extent provided in Section 4 of the Agreement Regarding LINTA Awards, on the date of the Grantee's Separation. In addition, and notwithstanding anything contained herein to the contrary, in the event that Grantee makes a valid Vesting Continuation Election pursuant to Section 5 of the Agreement Regarding LINTA Awards and such Section becomes applicable, any portion of the Option that is outstanding and unvested as of the date of the Grantee's Separation shall continue to vest in accordance with Section 5 of the Agreement Regarding LINTA Awards.

(b) To the extent the Options become exercisable, any or all of such Options may be exercised (at any time or from time to time, except as otherwise provided herein) until expiration of the Term or earlier termination thereof as provided herein.

(c) The Grantee acknowledges and agrees that the Committee, in its discretion and as contemplated by Section 3.3 of the Plan, may adopt rules and regulations from time to time after the date hereof with respect to the exercise of the Options and that the exercise by the Grantee of Options will be subject to the further condition that such exercise is made in accordance with all such rules and regulations as the Committee may determine are applicable thereto.

**4. Manner of Exercise.** Options will be considered exercised (as to the number of Options specified in the notice referred to in Section 4(a) below) on the latest of (i) the date of exercise designated in the written notice referred to in Section 4(a) below, (ii) if the date so designated is not a Business Day, the first Business Day following such date or (iii) the earliest Business Day by which the Company has received all of the following:

(a) Written notice, in such form as the Committee may require, containing such representations and warranties as the Committee may reasonably require and designating, among other things, the date of exercise and the number of shares of LINTA Stock ("Option Shares") to be purchased;

(b) Payment of the Base Price for each Option Share to be purchased in any (or a combination) of the following forms: (A) cash, (B) check, (C) whole shares of any class or series of the Company's common stock, or (D) the delivery, together with a properly executed exercise notice, of irrevocable instructions to a broker to deliver promptly to

the Company the amount of sale or loan proceeds required to pay the Base Price (and, if applicable the Required Withholding Amount, as described in Section 5 below); and

(c) Any other documentation that the Committee may reasonably require.

**5. Mandatory Withholding for Taxes.** The Grantee acknowledges and agrees that the Company will deduct from the shares of LINTA Stock otherwise payable or deliverable upon exercise of any Options that number of shares of LINTA Stock (valued at the Fair Market Value of such LINTA Stock on the date of exercise) that is equal to the amount of all federal, state and local taxes required to be withheld by the Company or any Subsidiary of the Company upon such exercise, as determined by the Company (the "Required Withholding Amount"), unless provisions to pay such Required Withholding Amount have been made to the satisfaction of the Company. If the Grantee elects to make payment of the Base Price by delivery of irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds required to pay the Base Price, such instructions may also include instructions to deliver the Required Withholding Amount to the Company. In such case, the Company will notify the broker promptly of the Company's determination of the Required Withholding Amount.

**6. Payment or Delivery by the Company.** As soon as practicable after receipt of all items referred to in Section 4, and subject to the withholding referred to in Section 5, the Company will (i) deliver or cause to be delivered to the Grantee certificates issued in the Grantee's name for, or cause to be transferred to a brokerage account through Depository Trust Company for the benefit of the Grantee, the number of shares of LINTA Stock purchased by exercise of Options, and (ii) deliver any cash payment to which the Grantee is entitled in lieu of a fractional share of LINTA Stock as provided in Section 2 above. Any delivery of shares of LINTA Stock will be deemed effected for all purposes when certificates representing such shares have been delivered personally to the Grantee or, if delivery is by mail, when the stock transfer agent of the Company has deposited the certificates in the United States mail, addressed to the Grantee, or at the time the stock transfer agent initiates transfer of shares to a brokerage account through Depository Trust Company for the benefit of the Grantee, if applicable, and any cash payment will be deemed effected when a check from the Company, payable to the Grantee and in the amount equal to the amount of the cash payment, has been delivered personally to the Grantee or deposited in the United States mail, addressed to the Grantee.

**7. Termination of Options.**

A. This Section 7.A will apply unless and until the Grantee makes a valid Vesting Continuation Election pursuant to the Agreement Regarding LINTA Awards and Section 5 of such agreement becomes applicable. If this Section 7.A is then applicable, the Options will terminate at the time specified below:

(a) If a Change in Control has not then occurred and the Grantee's Separation occurs prior to the Close of Business on December 31, 2014 (i) on account of a termination of the Grantee's employment for Cause or (ii) on account of a termination of the Grantee's employment by the Grantee without Good Reason, all Options that are not exercisable as of the Close of Business on the date of Separation will terminate at that time and all

Options that are exercisable as of the Close of Business on the date of Separation will terminate at the Close of Business on the first Business Day following the expiration of the 90-day period that began on the date of the Grantee's Separation.

(b) If (i) the Grantee's Separation does not occur prior to the Close of Business on December 31, 2014, (ii) a Change in Control occurs prior to the Grantee's Separation, or (iii) a Change in Control has not then occurred and the Grantee's Separation occurs (A) on account of a termination of the Grantee's employment without Cause, (B) on account of a termination of the Grantee's employment by the Grantee for Good Reason, or (C) by reason of the death or Disability of the Grantee, the Options will terminate at the expiration of the Term.

In any event in which Options remain exercisable for a period of time following the date of the Grantee's Separation as provided above, the Options may be exercised during such period of time only to the extent the same were exercisable as provided in Section 3 above on such date of Separation. Notwithstanding any period of time referenced in this Section 7.A or any other provision of this Agreement or any other agreement that may be construed to the contrary, the Options will in any event terminate not later than upon the expiration of the Term.

B. This Section 7.B. will apply if the Grantee makes a valid Vesting Continuation Election pursuant to the Agreement Regarding LINTA Awards and Section 5 of such agreement becomes applicable. If this Section 7.B is then applicable, the Options will terminate at the time specified below:

(a) If a Change in Control has not then occurred and the Grantee's Separation from Splitco occurs prior to the Close of Business on December 31, 2014 (i) on account of a termination of the Grantee's employment with Splitco for Cause or (ii) on account of a termination of the Grantee's employment with Splitco by the Grantee without Good Reason, all Options that are not exercisable as of the Close of Business on the date of Grantee's Separation from Splitco will terminate at that time and all Options that are exercisable as of the Close of Business on the date of the Grantee's Separation from Splitco will terminate at the Close of Business on the first Business Day following the expiration of the 90-day period that began on the date of the Grantee's Separation from Splitco.

(b) If (i) the Grantee's Separation from Splitco does not occur prior to the Close of Business on December 31, 2014, (ii) a Change in Control occurs prior to the Grantee's Separation from Splitco, or (iii) a Change in Control has not then occurred and the Grantee's Separation from Splitco occurs (A) on account of a termination of the Grantee's employment with Splitco without Cause, (B) on account of a termination of the Grantee's employment with Splitco by the Grantee for Good Reason, or (C) by reason of the death or Disability of the Grantee, the Options will terminate at the expiration of the Term.

In any event in which Options remain exercisable for a period of time following the date of the Grantee's Separation from Splitco as provided above, the Options may be exercised during such period of time only to the extent the same were exercisable as provided in Section

3 above (or as provided in Section 5 of the Agreement Regarding LINTA Awards) on such date of Separation from Splitco. Notwithstanding any period of time referenced in this Section 7.B or any other provision of this Agreement or any other agreement that may be construed to the contrary, the Options will in any event terminate not later than upon the expiration of the Term.

**8. Nontransferability.** During the Grantee's lifetime, the Options are not transferable (voluntarily or involuntarily) other than pursuant to a Domestic Relations Order and, except as otherwise required pursuant to a Domestic Relations Order, are exercisable only by the Grantee or the Grantee's court appointed legal representative. The Grantee may designate a beneficiary or beneficiaries to whom the Options will pass upon the Grantee's death and may change such designation from time to time by filing a written designation of beneficiary or beneficiaries with the Committee on the form annexed hereto as Exhibit B or such other form as may be prescribed by the Committee, provided that no such designation will be effective unless so filed prior to the death of the Grantee. If no such designation is made or if the designated beneficiary does not survive the Grantee's death, the Options will pass by will or the laws of descent and distribution. Following the Grantee's death, the Options, if otherwise exercisable, may be exercised by the person to whom such Option or right passes according to the foregoing and such person will be deemed the Grantee for purposes of any applicable provisions of this Agreement.

**9. Forfeiture for Misconduct and Repayment of Certain Amounts.** If (i) a material restatement of any financial statement of the Company (including any consolidated financial statement of the Company and its consolidated subsidiaries) is required and (ii) in the reasonable judgment of the Committee, (A) such restatement is due to material noncompliance with any financial reporting requirement under applicable securities laws and (B) such noncompliance is a result of misconduct on the part of the Grantee, the Grantee will repay to the Company Forfeitable Benefits received by the Grantee during the Misstatement Period in such amount as the Committee may reasonably determine, taking into account, in addition to any other factors deemed relevant by the Committee, the extent to which the market value of LINTA Stock during the Misstatement Period was affected by the error(s) giving rise to the need for such restatement. "Forfeitable Benefits" means (i) any and all cash and/or shares of LINTA Stock received by the Grantee (A) upon the exercise during the Misstatement Period of any SARs held by the Grantee or (B) upon the payment during the Misstatement Period of any Cash Award or Performance Award held by the Grantee, the value of which is determined in whole or in part with reference to the value of LINTA Stock, and (ii) any proceeds received by the Grantee from the sale, exchange, transfer or other disposition during the Misstatement Period of any shares of LINTA Stock received by the Grantee upon the exercise, vesting or payment during the Misstatement Period of any Award held by the Grantee. By way of clarification, "Forfeitable Benefits" will not include any shares of LINTA Stock received upon exercise of any Options during the Misstatement Period that are not sold, exchanged, transferred or otherwise disposed of during the Misstatement Period. "Misstatement Period" means the 12-month period beginning on the date of the first public issuance or the filing with the Securities and Exchange Commission, whichever occurs earlier, of the financial statement requiring restatement.

**10. No Stockholder Rights.** Prior to the exercise of Options in accordance with the terms and conditions set forth in this Agreement, the Grantee will not be deemed for any purpose to be, or to have any of the rights of, a stockholder of the Company with respect to

any shares of LINTA Stock underlying the Options, nor will the existence of this Agreement affect in any way the right or power of the Company or any stockholder of the Company to accomplish any corporate act, including, without limitation, the acts referred to in Section 11.16 of the Plan.

**11. Adjustments.** If the outstanding shares of LINTA Stock are subdivided into a greater number of shares (by stock dividend, stock split, reclassification or otherwise) or are combined into a smaller number of shares (by reverse stock split, reclassification or otherwise), or if the Committee determines that any stock dividend, extraordinary cash dividend, reclassification, recapitalization, reorganization, split-up, spin-off, combination, exchange of shares, warrants or rights offering to purchase any shares of LINTA Stock or other similar corporate event (including mergers or consolidations other than those which constitute Approved Transactions, which shall be governed by Section 11.1(b) of the Plan) affects shares of LINTA Stock such that an adjustment is required to preserve the benefits or potential benefits intended to be made available under this Agreement, then the Options will be subject to adjustment (including, without limitation, as to the number of Options and the Base Price per share of such Options) in such manner as the Committee, in its sole discretion, deems equitable and appropriate in connection with the occurrence of any of the events described in this Section 11 following the Amendment Effective Date.

**12. Restrictions Imposed by Law.** Without limiting the generality of Section 11.8 of the Plan, the Grantee will not exercise the Options, and the Company will not be obligated to make any cash payment or issue or cause to be issued any shares of LINTA Stock if counsel to the Company determines that such exercise, payment or issuance would violate any applicable law or any rule or regulation of any governmental authority or any rule or regulation of, or agreement of the Company with, any securities exchange or association upon which shares of LINTA Stock are listed or quoted. The Company will in no event be obligated to take any affirmative action in order to cause the exercise of the Options or the resulting payment of cash or issuance of shares of LINTA Stock to comply with any such law, rule, regulation or agreement.

**13. Notice.** Unless the Company notifies the Grantee in writing of a different procedure, any notice or other communication to the Company with respect to this Agreement will be in writing and will be delivered personally or sent by United States first class mail, postage prepaid and addressed as follows:

Liberty Interactive Corporation  
12300 Liberty Boulevard  
Englewood, Colorado 80112  
Attn: General Counsel

Any notice or other communication to the Grantee with respect to this Agreement will be in writing and will be delivered personally, or will be sent by United States first class mail, postage prepaid, to the Grantee's address as listed in the records of the Company on the date of this Agreement, unless the Company has received written notification from the Grantee of a change of address.

**14. Amendment.** Notwithstanding any other provision hereof, this Agreement may be amended from time to time as approved by the Committee as contemplated in Section 11.7(b) of the Plan. Without limiting the generality of the foregoing, without the consent of the Grantee,

(a) this Agreement may be amended from time to time as approved by the Committee (i) to cure any ambiguity or to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein, or (ii) to add to the covenants and agreements of the Company for the benefit of the Grantee or surrender any right or power reserved to or conferred upon the Company in this Agreement, subject to any required approval of the Company's stockholders and, provided, in each case, that such changes or corrections will not adversely affect the rights of the Grantee with respect to the Award evidenced hereby, or (iii) to make such other changes as the Company, upon advice of counsel, determines are necessary because of the adoption or promulgation of, or change in or of the interpretation of, any law or governmental rule or regulation, including any applicable federal or state securities laws; and

(b) subject to any required action by the Board or the stockholders of the Company, the Options granted under this Agreement may be canceled by the Company and a new Award made in substitution therefor, provided, that the Award so substituted will satisfy all of the requirements of the Plan as of the date such new Award is made and no such action will adversely affect any Options.

**15. Grantee Employment.** Nothing contained in this Agreement, and no action of the Company or the Committee with respect hereto, will confer or be construed to confer on the Grantee any right to continue in the employ of the Company or interfere in any way with the right of the Company to terminate the Grantee's employment at any time, with or without cause, subject to the provisions of the Agreement Regarding LINTA Awards.

**16. Nonalienation of Benefits.** Except as provided in Section 8 of this Agreement, (i) no right or benefit under this Agreement will be subject to anticipation, alienation, sale, assignment, hypothecation, pledge, exchange, transfer, encumbrance or charge, and any attempt to anticipate, alienate, sell, assign, hypothecate, pledge, exchange, transfer, encumber or charge the same will be void, and (ii) no right or benefit hereunder will in any manner be liable for or subject to the debts, contracts, liabilities or torts of the Grantee or other person entitled to such benefits.

**17. Governing Law.** This Agreement will be governed by, and construed in accordance with, the internal laws of the State of Colorado. Each party irrevocably submits to the general jurisdiction of the state and federal courts located in the State of Colorado in any action to interpret or enforce this Agreement and irrevocably waives any objection to jurisdiction that such party may have based on inconvenience of forum.

**18. Construction.** References in this Agreement to "this Agreement" and the words "herein," "hereof," "hereunder" and similar terms include all Exhibits and Schedules appended hereto. The word "include" and all variations thereof are used in an illustrative sense and not in a limiting sense. All decisions of the Committee upon questions regarding this

Agreement will be conclusive. Unless otherwise expressly stated herein, in the event of any inconsistency between the terms of the Plan and this Agreement, the terms of the Plan will control. The headings of the sections of this Agreement have been included for convenience of reference only, are not to be considered a part hereof and will in no way modify or restrict any of the terms or provisions hereof.

**19. Duplicate Originals.** The Company and the Grantee may sign any number of copies of this Agreement. Each signed copy will be an original, but all of them together represent the same agreement.

**20. Rules by Committee.** The rights of the Grantee and the obligations of the Company hereunder will be subject to such reasonable rules and regulations as the Committee may adopt from time to time.

**21. Entire Agreement.** This Agreement, together with the applicable provisions of the Agreement Regarding LINTA Awards, is in satisfaction of and in lieu of all prior discussions and agreements, oral or written, between the Company and the Grantee regarding the subject matter hereof. The Grantee and the Company hereby declare and represent that no promise or agreement not expressed herein or in the Agreement Regarding LINTA Awards has been made and that this Agreement, together with the Agreement Regarding LINTA Awards, contains the entire agreement between the parties hereto with respect to the Award and replaces and makes null and void any prior agreements between the Grantee and the Company regarding the Award. This Agreement will be binding upon and inure to the benefit of the parties and their respective heirs, successors and assigns.

**22. Grantee Acceptance.** The Grantee will signify acceptance of the terms and conditions of this Agreement by signing in the space provided at the end hereof and returning a signed copy to the Company.

**23. Code Section 409A Compliance.** To the extent that the provisions of Section 409A of the Code or any Treasury regulations promulgated thereunder are applicable to any Option, the parties intend that this Agreement will meet the requirements of such Code section and regulations and that the provisions hereof will be interpreted in a manner that is consistent with such intent. The Grantee will cooperate with the Company in taking such actions as the Company may reasonably request to assure that this Agreement will meet the requirements of Section 409A of the Code and any Treasury regulations promulgated thereunder and to limit the amount of any additional payments required by Section 10(g) of the Agreement Regarding LINTA Awards to be made to the Grantee.

[Signature page follows.]

**Signature Page to Amended and Restated Non-Qualified Stock Option Agreement (2000 Incentive Plan) dated effective as of September 23, 2011, between Liberty Interactive Corporation and Gregory B. Maffei.**

LIBERTY INTERACTIVE CORPORATION

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Date: April \_\_, 2012

GRANTEE:

Gregory B. Maffei \_\_\_\_\_  
Address: \_\_\_\_\_

SSN: \_\_\_\_\_

Date: April \_\_, 2012

Number of Options Granted:

LINTA Options	5,587,000
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**Exhibit A**  
**to**  
**Amended and Restated Non-Qualified Stock Option Agreement (2000 Incentive Plan)**  
**dated effective as of September 23, 2011 between Liberty Interactive Corporation and Grantee**

**[Copy of Liberty Interactive Corporation (f/k/a Liberty Media Corporation) 2000 Incentive Plan (As Amended and Restated Effective February 22, 2007)]**

**Exhibit B**  
**to**  
**Amended and Restated Non-Qualified Stock Option Agreement**  
**(2000 Incentive Plan) dated effective as of September 23, 2011 between Liberty Interactive Corporation and Grantee**

**Designation of Beneficiary**

I, \_\_\_\_\_ (the "Grantee"), hereby declare

that upon my death \_\_\_\_\_ (the "Beneficiary") of  
Name

Street Address      City      State      Zip Code

who is my \_\_\_\_\_, will be entitled to the  
Relationship to Grantee

Options and all other rights accorded the Grantee by the above-referenced grant agreement (the "Agreement").

It is understood that this Designation of Beneficiary is made pursuant to the Agreement and is subject to the conditions stated herein, including the Beneficiary's survival of the Grantee's death. If any such condition is not satisfied, such rights will devolve according to the Grantee's will or the laws of descent and distribution.

It is further understood that all prior designations of beneficiary under the Agreement are hereby revoked and that this Designation of Beneficiary may only be revoked in writing, signed by the Grantee, and filed with the Company prior to the Grantee's death.

Date                      Grantee

\_\_\_\_\_

Please return this form to:

Liberty Interactive Corporation  
12300 Liberty Boulevard  
Englewood, Colorado 80112  
Attn: Carla Williams

**MAFFEI - LIBERTY INTERACTIVE CORPORATION  
2007 PLAN**

**LIBERTY INTERACTIVE CORPORATION  
(f/k/a LIBERTY MEDIA CORPORATION)  
2007 INCENTIVE PLAN**

**AMENDED AND RESTATED  
NON-QUALIFIED STOCK OPTION AGREEMENT**

THIS AMENDED AND RESTATED NON-QUALIFIED STOCK OPTION AGREEMENT (“Agreement”) is entered into by and between LIBERTY INTERACTIVE CORPORATION, a Delaware corporation, formerly known as Liberty Media Corporation (the “Company”), and Gregory B. Maffei (the “Grantee”).

As of the Amendment Effective Date (as defined below), the Grantee is the President and Chief Executive Officer of the Company. The Company has adopted the Liberty Interactive Corporation 2007 Incentive Plan (as amended prior to or after the Amendment Effective Date, the “Plan”), a copy of which as in effect on the Amendment Effective Date is attached to this Agreement as Exhibit A and by this reference made a part hereof, for the benefit of eligible employees and independent contractors of the Company and its Subsidiaries. Capitalized terms used and not otherwise defined herein or in the Agreement Regarding LINTA Awards (as defined below) will have the meaning given thereto in the Plan.

This Agreement amends and restates in its entirety the Non-Qualified Stock Option Agreement (2007 Incentive Plan) dated effective as of December 17, 2009 between the Company and the Grantee with respect to options to acquire 3,156,000 shares of LINTA Stock (as defined below).

The Company and the Grantee therefore agree as follows:

**1. Definitions.** All capitalized terms not defined in this Agreement that are defined in the Agreement Regarding LINTA Awards will have the meanings ascribed to them in the Agreement Regarding LINTA Awards. The following terms, when used in this Agreement, have the following meanings:

“Agreement Regarding LINTA Awards” means the Agreement Regarding LINTA Equity Awards dated effective as of September 23, 2011 between the Company and Grantee. All references in this Agreement to the Agreement Regarding LINTA Awards shall be deemed to refer to the Agreement Regarding LINTA Awards as in effect as of the Amendment Effective Date and shall not be affected by any future amendment to, or termination of, the Agreement Regarding LINTA Awards (unless any such amendment to the Agreement Regarding LINTA

Awards specifically states otherwise).

“Amendment Effective Date” means September 23, 2011.

“Base Price” means, with respect to each LINTA Option, \$10.27, the Fair Market Value of a share of LINTA Stock on the Effective Date.

“Business Day” means any day other than Saturday, Sunday or a day on which banking institutions in Denver, Colorado, are required or authorized to be closed.

“Cause” has the meaning specified in the Agreement Regarding LINTA Awards except that for purposes of Section 7.B of this Agreement “Cause” has the meaning specified in the Employment Agreement.

“Change in Control” has the meaning specified in the Agreement Regarding LINTA Awards.

“Close of Business” means, on any day, 5:00 p.m., Denver, Colorado time.

“Committee” means the Compensation Committee of the Board of Directors of the Company.

“Company” has the meaning specified in the preamble to this Agreement.

“Disability” has the meaning specified in the Agreement Regarding LINTA Awards except that for purposes of Section 7.B of this Agreement “Disability” has the meaning specified in the Employment Agreement.

“Effective Date” means December 17, 2009.

“Employment Agreement” means the Amended and Restated Employment Agreement dated effective as of September 23, 2011 between Splitco and the Grantee. All references in this Agreement to the Employment Agreement shall be deemed to refer to the Employment Agreement as in effect as of the Amendment Effective Date and shall not be affected by any future amendment to, or termination of, the Employment Agreement (unless any such amendment to the Employment Agreement specifically states otherwise).

“Good Reason” has the meaning specified in the Agreement Regarding LINTA Awards except that for purposes of Section 7.B of this Agreement “Good Reason” has the meaning specified in the Employment Agreement.

“Grantee” has the meaning specified in the preamble to this Agreement.

“LINTA Option” means an Option to purchase one share of LINTA Stock.

“LINTA Stock” has the meaning specified in Section 2 of this Agreement.

“Option” has the meaning specified in Section 2 of this Agreement.

“Option Shares” has the meaning specified in Section 4(a) of this Agreement.

“Plan” has the meaning specified in the recitals to this Agreement.

“Qualifying Subsidiary” has the meaning set forth in the Reorganization Agreement.

“Reorganization Agreement” means the Reorganization Agreement dated as of August 30, 2011 between the Company and Splitco.

“Required Withholding Amount” has the meaning specified in Section 5 of this Agreement.

“Separation” means the Grantee's “separation from service” from the Company, as defined in Treasury Regulation Section 1.409A-1(h).

“Separation from Splitco” means the Grantee's “separation from service” from Splitco, as defined in Treasury Regulation Section 1.409A-1(h).

“Splitco” means Liberty Media Corporation, a Delaware corporation formerly known as Liberty CapStarz, Inc.

“Subsidiary” has the meaning set forth in the Reorganization Agreement.

“Term” has the meaning specified in Section 2 of this Agreement.

**2. Grant of Options.** Subject to the terms and conditions herein, pursuant to the Plan, the Company granted to the Grantee as of the Effective Date options to purchase from the Company, exercisable during the period commencing on the Effective Date and expiring at Close of Business on the tenth anniversary of the Effective Date (such period, the “Term”), subject to earlier termination as provided in Section 7 below, at the Base Price, the number of shares of Liberty Interactive Corporation Series A Liberty Interactive Common Stock (“LINTA Stock”) set forth on the signature page to this Agreement. Each option granted hereunder is a “Nonqualified Stock Option” and is hereinafter referred to as an “Option.” The Base Price of each Option and the number of Options granted hereunder are subject to adjustment pursuant to Section 11 below. No fractional shares of LINTA Stock will be issuable upon exercise of an Option, and the Grantee will receive, in lieu of any fractional share of LINTA Stock that the Grantee otherwise would receive upon such exercise, cash equal to the fraction representing such fractional share multiplied by the Fair Market Value of one share of LINTA Stock as of the date on which such exercise is considered to occur pursuant to Section 4 below.

**3. Conditions of Exercise.** Unless otherwise determined by the Committee in its sole discretion (provided that such determination is not adverse to the Grantee), the Options will be exercisable only in accordance with the conditions stated in this Section 3.

(a) Except as otherwise provided in Section 11.1(b) of the Plan, the Options may be exercised only to the extent they have become exercisable in accordance with the

provisions of this Section 3(a). Except as otherwise provided in this Agreement or the Agreement Regarding LINTA Awards, subject to the Grantee's continued employment with any of Splitco, any other Qualifying Subsidiary or any of their respective Subsidiaries, or the Company or its Affiliates (as defined in the Agreement Regarding LINTA Awards), one-half of the number of LINTA Options subject to this Agreement will become exercisable on each of December 17, 2013 and December 17, 2014. Notwithstanding the foregoing, (i) in the event that any date on which Options would otherwise become exercisable is not a Business Day, such Options will become exercisable on the Business Day next following such date, and (ii) Options that have not theretofore become exercisable will become exercisable (A) to the extent provided in the Agreement Regarding LINTA Awards, upon the occurrence of a Change in Control, or (B) to the extent provided in Section 4 of the Agreement Regarding LINTA Awards, on the date of the Grantee's Separation. In addition, and notwithstanding anything contained herein to the contrary, in the event that Grantee makes a valid Vesting Continuation Election pursuant to Section 5 of the Agreement Regarding LINTA Awards and such Section becomes applicable, any portion of the Option that is outstanding and unvested as of the date of the Grantee's Separation shall continue to vest in accordance with Section 5 of the Agreement Regarding LINTA Awards.

(b) To the extent the Options become exercisable, any or all of such Options may be exercised (at any time or from time to time, except as otherwise provided herein) until expiration of the Term or earlier termination thereof as provided herein.

(c) The Grantee acknowledges and agrees that the Committee, in its discretion and as contemplated by Section 3.3 of the Plan, may adopt rules and regulations from time to time after the date hereof with respect to the exercise of the Options and that the exercise by the Grantee of Options will be subject to the further condition that such exercise is made in accordance with all such rules and regulations as the Committee may determine are applicable thereto.

**4. Manner of Exercise.** Options will be considered exercised (as to the number of Options specified in the notice referred to in Section 4(a) below) on the latest of (i) the date of exercise designated in the written notice referred to in Section 4(a) below, (ii) if the date so designated is not a Business Day, the first Business Day following such date or (iii) the earliest Business Day by which the Company has received all of the following:

(a) Written notice, in such form as the Committee may require, containing such representations and warranties as the Committee may reasonably require and designating, among other things, the date of exercise and the number of shares of LINTA Stock ("Option Shares") to be purchased;

(b) Payment of the Base Price for each Option Share to be purchased in any (or a combination) of the following forms: (A) cash, (B) check, (C) whole shares of any class or series of the Company's common stock, or (D) the delivery, together with a properly executed exercise notice, of irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds required to pay the Base Price (and, if applicable the Required Withholding Amount, as described in Section 5 below); and

(c) Any other documentation that the Committee may reasonably require.

**5. Mandatory Withholding for Taxes.** The Grantee acknowledges and agrees that the Company will deduct from the shares of LINTA Stock otherwise payable or deliverable upon exercise of any Options that number of shares of LINTA Stock (valued at the Fair Market Value of such LINTA Stock on the date of exercise) that is equal to the amount of all federal, state and local taxes required to be withheld by the Company or any Subsidiary of the Company upon such exercise, as determined by the Company (the "Required Withholding Amount"), unless provisions to pay such Required Withholding Amount have been made to the satisfaction of the Company. If the Grantee elects to make payment of the Base Price by delivery of irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds required to pay the Base Price, such instructions may also include instructions to deliver the Required Withholding Amount to the Company. In such case, the Company will notify the broker promptly of the Company's determination of the Required Withholding Amount.

**6. Payment or Delivery by the Company.** As soon as practicable after receipt of all items referred to in Section 4, and subject to the withholding referred to in Section 5, the Company will (i) deliver or cause to be delivered to the Grantee certificates issued in the Grantee's name for, or cause to be transferred to a brokerage account through Depository Trust Company for the benefit of the Grantee, the number of shares of LINTA Stock purchased by exercise of Options, and (ii) deliver any cash payment to which the Grantee is entitled in lieu of a fractional share of LINTA Stock as provided in Section 2 above. Any delivery of shares of LINTA Stock will be deemed effected for all purposes when certificates representing such shares have been delivered personally to the Grantee or, if delivery is by mail, when the stock transfer agent of the Company has deposited the certificates in the United States mail, addressed to the Grantee, or at the time the stock transfer agent initiates transfer of shares to a brokerage account through Depository Trust Company for the benefit of the Grantee, if applicable, and any cash payment will be deemed effected when a check from the Company, payable to the Grantee and in the amount equal to the amount of the cash payment, has been delivered personally to the Grantee or deposited in the United States mail, addressed to the Grantee.

**7. Termination of Options.**

A. This Section 7.A will apply unless and until the Grantee makes a valid Vesting Continuation Election pursuant to the Agreement Regarding LINTA Awards and Section 5 of such agreement becomes applicable. If this Section 7.A is then applicable, the Options will terminate at the time specified below:

(a) If a Change in Control has not then occurred and the Grantee's Separation occurs prior to the Close of Business on December 31, 2014 (i) on account of a termination of the Grantee's employment for Cause or (ii) on account of a termination of the Grantee's employment by the Grantee without Good Reason, all Options that are not exercisable as of the Close of Business on the date of Separation will terminate at that time and all Options that are exercisable as of the Close of Business on the date of Separation will terminate at the Close of Business on the first Business Day following the expiration of the 90-day period that began on the date of the Grantee's Separation.

(b) If (i) the Grantee's Separation does not occur prior to the Close of Business on December 31, 2014, (ii) a Change in Control occurs prior to the Grantee's Separation, or (iii) a Change in Control has not then occurred and the Grantee's Separation occurs (A) on account of a termination of the Grantee's employment without Cause, (B) on account of a termination of the Grantee's employment by the Grantee for Good Reason, or (C) by reason of the death or Disability of the Grantee, the Options will terminate at the expiration of the Term.

In any event in which Options remain exercisable for a period of time following the date of the Grantee's Separation as provided above, the Options may be exercised during such period of time only to the extent the same were exercisable as provided in Section 3 above on such date of Separation. Notwithstanding any period of time referenced in this Section 7.A or any other provision of this Agreement or any other agreement that may be construed to the contrary, the Options will in any event terminate not later than upon the expiration of the Term.

B. This Section 7.B. will apply if the Grantee makes a valid Vesting Continuation Election pursuant to the Agreement Regarding LINTA Awards and Section 5 of such agreement becomes applicable. If this Section 7.B is then applicable, the Options will terminate at the time specified below:

(a) If a Change in Control has not then occurred and the Grantee's Separation from Splitco occurs prior to the Close of Business on December 31, 2014 (i) on account of a termination of the Grantee's employment with Splitco for Cause or (ii) on account of a termination of the Grantee's employment with Splitco by the Grantee without Good Reason, all Options that are not exercisable as of the Close of Business on the date of Grantee's Separation from Splitco will terminate at that time and all Options that are exercisable as of the Close of Business on the date of the Grantee's Separation from Splitco will terminate at the Close of Business on the first Business Day following the expiration of the 90-day period that began on the date of the Grantee's Separation from Splitco.

(b) If (i) the Grantee's Separation from Splitco does not occur prior to the Close of Business on December 31, 2014, (ii) a Change in Control occurs prior to the Grantee's Separation from Splitco, or (iii) a Change in Control has not then occurred and the Grantee's Separation from Splitco occurs (A) on account of a termination of the Grantee's employment with Splitco without Cause, (B) on account of a termination of the Grantee's employment with Splitco by the Grantee for Good Reason, or (C) by reason of the death or Disability of the Grantee, the Options will terminate at the expiration of the Term.

In any event in which Options remain exercisable for a period of time following the date of the Grantee's Separation from Splitco as provided above, the Options may be exercised during such period of time only to the extent the same were exercisable as provided in Section 3 above (or as provided in Section 5 of the Agreement Regarding LINTA Awards) on such date of Separation from Splitco. Notwithstanding any period of time referenced in this Section 7.B or any other provision of this Agreement or any other agreement that may be construed to the contrary, the Options will in any event terminate not later than upon the expiration of the Term.



**8. Nontransferability.** During the Grantee's lifetime, the Options are not transferable (voluntarily or involuntarily) other than pursuant to a Domestic Relations Order and, except as otherwise required pursuant to a Domestic Relations Order, are exercisable only by the Grantee or the Grantee's court appointed legal representative. The Grantee may designate a beneficiary or beneficiaries to whom the Options will pass upon the Grantee's death and may change such designation from time to time by filing a written designation of beneficiary or beneficiaries with the Committee on the form annexed hereto as Exhibit B or such other form as may be prescribed by the Committee, provided that no such designation will be effective unless so filed prior to the death of the Grantee. If no such designation is made or if the designated beneficiary does not survive the Grantee's death, the Options will pass by will or the laws of descent and distribution. Following the Grantee's death, the Options, if otherwise exercisable, may be exercised by the person to whom such Option or right passes according to the foregoing and such person will be deemed the Grantee for purposes of any applicable provisions of this Agreement.

**9. Forfeiture for Misconduct and Repayment of Certain Amounts.** If (i) a material restatement of any financial statement of the Company (including any consolidated financial statement of the Company and its consolidated subsidiaries) is required and (ii) in the reasonable judgment of the Committee, (A) such restatement is due to material noncompliance with any financial reporting requirement under applicable securities laws and (B) such noncompliance is a result of misconduct on the part of the Grantee, the Grantee will repay to the Company Forfeitable Benefits received by the Grantee during the Misstatement Period in such amount as the Committee may reasonably determine, taking into account, in addition to any other factors deemed relevant by the Committee, the extent to which the market value of LINTA Stock during the Misstatement Period was affected by the error(s) giving rise to the need for such restatement. "Forfeitable Benefits" means (i) any and all cash and/or shares of LINTA Stock received by the Grantee (A) upon the exercise during the Misstatement Period of any SARs held by the Grantee or (B) upon the payment during the Misstatement Period of any Cash Award or Performance Award held by the Grantee, the value of which is determined in whole or in part with reference to the value of LINTA Stock, and (ii) any proceeds received by the Grantee from the sale, exchange, transfer or other disposition during the Misstatement Period of any shares of LINTA Stock received by the Grantee upon the exercise, vesting or payment during the Misstatement Period of any Award held by the Grantee. By way of clarification, "Forfeitable Benefits" will not include any shares of LINTA Stock received upon exercise of any Options during the Misstatement Period that are not sold, exchanged, transferred or otherwise disposed of during the Misstatement Period. "Misstatement Period" means the 12-month period beginning on the date of the first public issuance or the filing with the Securities and Exchange Commission, whichever occurs earlier, of the financial statement requiring restatement.

**10. No Stockholder Rights.** Prior to the exercise of Options in accordance with the terms and conditions set forth in this Agreement, the Grantee will not be deemed for any purpose to be, or to have any of the rights of, a stockholder of the Company with respect to any shares of LINTA Stock underlying the Options, nor will the existence of this Agreement affect in any way the right or power of the Company or any stockholder of the Company to accomplish any corporate act, including, without limitation, the acts referred to in Section 11.16 of the Plan.

**11. Adjustments.** If the outstanding shares of LINTA Stock are subdivided into a greater number of shares (by stock dividend, stock split, reclassification or otherwise) or are combined into a smaller number of shares (by reverse stock split, reclassification or otherwise), or if the Committee determines that any stock dividend, extraordinary cash dividend, reclassification, recapitalization, reorganization, split-up, spin-off, combination, exchange of shares, warrants or rights offering to purchase any shares of LINTA Stock or other similar corporate event (including mergers or consolidations other than those which constitute Approved Transactions, which shall be governed by Section 11.1(b) of the Plan) affects shares of LINTA Stock such that an adjustment is required to preserve the benefits or potential benefits intended to be made available under this Agreement, then the Options will be subject to adjustment (including, without limitation, as to the number of Options and the Base Price per share of such Options) in such manner as the Committee, in its sole discretion, deems equitable and appropriate in connection with the occurrence of any of the events described in this Section 11 following the Amendment Effective Date.

**12. Restrictions Imposed by Law.** Without limiting the generality of Section 11.8 of the Plan, the Grantee will not exercise the Options, and the Company will not be obligated to make any cash payment or issue or cause to be issued any shares of LINTA Stock if counsel to the Company determines that such exercise, payment or issuance would violate any applicable law or any rule or regulation of any governmental authority or any rule or regulation of, or agreement of the Company with, any securities exchange or association upon which shares of LINTA Stock are listed or quoted. The Company will in no event be obligated to take any affirmative action in order to cause the exercise of the Options or the resulting payment of cash or issuance of shares of LINTA Stock to comply with any such law, rule, regulation or agreement.

**13. Notice.** Unless the Company notifies the Grantee in writing of a different procedure, any notice or other communication to the Company with respect to this Agreement will be in writing and will be delivered personally or sent by United States first class mail, postage prepaid and addressed as follows:

Liberty Interactive Corporation  
12300 Liberty Boulevard  
Englewood, Colorado 80112  
Attn: General Counsel

Any notice or other communication to the Grantee with respect to this Agreement will be in writing and will be delivered personally, or will be sent by United States first class mail, postage prepaid, to the Grantee's address as listed in the records of the Company on the date of this Agreement, unless the Company has received written notification from the Grantee of a change of address.

**14. Amendment.** Notwithstanding any other provision hereof, this Agreement may be amended from time to time as approved by the Committee as contemplated in Section 11.7(b) of the Plan. Without limiting the generality of the foregoing, without the consent of the Grantee,

(a) this Agreement may be amended from time to time as approved by the Committee

(i) to cure any ambiguity or to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein, or (ii) to add to the covenants and agreements of the Company for the benefit of the Grantee or surrender any right or power reserved to or conferred upon the Company in this Agreement, subject to any required approval of the Company's stockholders and, provided, in each case, that such changes or corrections will not adversely affect the rights of the Grantee with respect to the Award evidenced hereby, or (iii) to make such other changes as the Company, upon advice of counsel, determines are necessary because of the adoption or promulgation of, or change in or of the interpretation of, any law or governmental rule or regulation, including any applicable federal or state securities laws; and

(b) subject to any required action by the Board or the stockholders of the Company, the Options granted under this Agreement may be canceled by the Company and a new Award made in substitution therefor, provided, that the Award so substituted will satisfy all of the requirements of the Plan as of the date such new Award is made and no such action will adversely affect any Options.

**15. Grantee Employment.** Nothing contained in this Agreement, and no action of the Company or the Committee with respect hereto, will confer or be construed to confer on the Grantee any right to continue in the employ of the Company or interfere in any way with the right of the Company to terminate the Grantee's employment at any time, with or without cause, subject to the provisions of the Agreement Regarding LINTA Awards.

**16. Nonalienation of Benefits.** Except as provided in Section 8 of this Agreement, (i) no right or benefit under this Agreement will be subject to anticipation, alienation, sale, assignment, hypothecation, pledge, exchange, transfer, encumbrance or charge, and any attempt to anticipate, alienate, sell, assign, hypothecate, pledge, exchange, transfer, encumber or charge the same will be void, and (ii) no right or benefit hereunder will in any manner be liable for or subject to the debts, contracts, liabilities or torts of the Grantee or other person entitled to such benefits.

**17. Governing Law.** This Agreement will be governed by, and construed in accordance with, the internal laws of the State of Colorado. Each party irrevocably submits to the general jurisdiction of the state and federal courts located in the State of Colorado in any action to interpret or enforce this Agreement and irrevocably waives any objection to jurisdiction that such party may have based on inconvenience of forum.

**18. Construction.** References in this Agreement to "this Agreement" and the words "herein," "hereof," "hereunder" and similar terms include all Exhibits and Schedules appended hereto. The word "include" and all variations thereof are used in an illustrative sense and not in a limiting sense. All decisions of the Committee upon questions regarding this Agreement will be conclusive. Unless otherwise expressly stated herein, in the event of any inconsistency between the terms of the Plan and this Agreement, the terms of the Plan will control. The headings of the sections of this Agreement have been included for convenience of reference only, are not to be considered a part hereof and will in no way modify or restrict any of the terms or provisions hereof.

**19. Duplicate Originals.** The Company and the Grantee may sign any number of copies of this Agreement. Each signed copy will be an original, but all of them together represent the same agreement.

**20. Rules by Committee.** The rights of the Grantee and the obligations of the Company hereunder will be subject to such reasonable rules and regulations as the Committee may adopt from time to time.

**21. Entire Agreement.** This Agreement, together with the applicable provisions of the Agreement Regarding LINTA Awards, is in satisfaction of and in lieu of all prior discussions and agreements, oral or written, between the Company and the Grantee regarding the subject matter hereof. The Grantee and the Company hereby declare and represent that no promise or agreement not expressed herein or in the Agreement Regarding LINTA Awards has been made and that this Agreement, together with the Agreement Regarding LINTA Awards, contains the entire agreement between the parties hereto with respect to the Award and replaces and makes null and void any prior agreements between the Grantee and the Company regarding the Award. This Agreement will be binding upon and inure to the benefit of the parties and their respective heirs, successors and assigns.

**22. Grantee Acceptance.** The Grantee will signify acceptance of the terms and conditions of this Agreement by signing in the space provided at the end hereof and returning a signed copy to the Company.

**23. Code Section 409A Compliance.** To the extent that the provisions of Section 409A of the Code or any Treasury regulations promulgated thereunder are applicable to any Option, the parties intend that this Agreement will meet the requirements of such Code section and regulations and that the provisions hereof will be interpreted in a manner that is consistent with such intent. The Grantee will cooperate with the Company in taking such actions as the Company may reasonably request to assure that this Agreement will meet the requirements of Section 409A of the Code and any Treasury regulations promulgated thereunder and to limit the amount of any additional payments required by Section 10(g) of the Agreement Regarding LINTA Awards to be made to the Grantee.

[Signature page follows.]

**Signature Page to Amended and Restated Non-Qualified Stock Option Agreement (2007 Incentive Plan) dated effective as of September 23, 2011, between Liberty Interactive Corporation and Gregory B. Maffei.**

LIBERTY INTERACTIVE CORPORATION

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Date: April \_\_, 2012

GRANTEE:

Gregory B. Maffei  
Address: \_\_\_\_\_

SSN: \_\_\_\_\_

Date: April \_\_, 2012

Number of Options Granted:

LINTA Options	3,156,000
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**Exhibit A**  
**to**  
**Amended and Restated Non-Qualified Stock Option Agreement (2007 Incentive Plan)**  
**dated effective as of September 23, 2011 between Liberty Interactive Corporation and Grantee**

**[Copy of Liberty Interactive Corporation (f/k/a Liberty Media Corporation)**  
**2007 Incentive Plan]**

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**Exhibit B**  
**to**  
**Amended and Restated Non-Qualified Stock Option Agreement**  
**(2007 Incentive Plan) dated effective as of September 23, 2011 between Liberty Interactive Corporation and Grantee**  
**Designation of Beneficiary**

I, \_\_\_\_\_ (the "Grantee"), hereby declare  
that upon my death \_\_\_\_\_ (the "Beneficiary") of  
Name

Street Address      City      State      Zip Code

who is my \_\_\_\_\_, will be entitled to the  
Relationship to Grantee

Options and all other rights accorded the Grantee by the above-referenced grant agreement (the "Agreement").

It is understood that this Designation of Beneficiary is made pursuant to the Agreement and is subject to the conditions stated herein, including the Beneficiary's survival of the Grantee's death. If any such condition is not satisfied, such rights will devolve according to the Grantee's will or the laws of descent and distribution.

It is further understood that all prior designations of beneficiary under the Agreement are hereby revoked and that this Designation of Beneficiary may only be revoked in writing, signed by the Grantee, and filed with the Company prior to the Grantee's death.

Date                      Grantee                      \_\_\_\_\_

Please return this form to:

Liberty Interactive Corporation  
12300 Liberty Boulevard  
Englewood, Colorado 80112  
Attn: Carla Williams

## CERTIFICATION

I, Gregory B. Maffei, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Liberty Interactive Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements and other financial information included in this quarterly report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this quarterly report based on such evaluation; and
  - d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2012

/s/ GREGORY B. MAFFEI

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Gregory B. Maffei  
*President and Chief Executive Officer*



CERTIFICATION

I, Christopher W. Shean, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Liberty Interactive Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements and other financial information included in this quarterly report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this quarterly report based on such evaluation; and
  - d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2012

/s/ CHRISTOPHER W. SHEAN

Christopher W. Shean  
Senior Vice President and Chief Financial Officer

**Certification**

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Liberty Interactive Corporation, a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the period ended June 30, 2012 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2012

/s/ GREGORY B. MAFFEI

\_\_\_\_\_  
Gregory B. Maffei  
*President and Chief Executive Officer*

Date: August 8, 2012

/s/ CHRISTOPHER W. SHEAN

\_\_\_\_\_  
Christopher W. Shean  
*Senior Vice President and Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)*

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.

**Liberty Interactive Corporation**  
**Reconciliation of Liberty Interactive Corporation ("LINT") Net Assets and**  
**Net Earnings to Liberty Interactive LLC ("LINT LLC") Net Assets and Net Earnings**

**June 30, 2012**

**(unaudited)**

**amounts in millions**

Liberty Interactive Corporation Net Assets	\$ 6,177
Reconciling items:	
LINT put option obligations	<u>2</u>
LINT LLC Net Assets	<u>\$ 6,179</u>
Liberty Interactive Corporation Net Earnings	\$ 354
Reconciling items:	
Unrealized gain on LINT put options	<u>(1)</u>
Liberty Interactive LLC Net Earnings	<u>\$ 353</u>