

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D. C. 20549

**FORM 10-K**

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

For the fiscal year ended December 31, 2013

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**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Series A Liberty Interactive Common Stock, par value \$.01 per share	The Nasdaq Stock Market LLC
Series B Liberty Interactive Common Stock, par value \$.01 per share	The Nasdaq Stock Market LLC
Series A Liberty Ventures Common Stock, par value \$.01 per share	The Nasdaq Stock Market LLC
Series B Liberty Ventures Common Stock, par value \$.01 per share	The Nasdaq Stock Market LLC

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Smaller reporting company

(do not check if  
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 aggregate market value of the voting stock held by nonaffiliates of Liberty Interactive Corporation computed by reference to the last sales price of Liberty Interactive Corporation common stock, as of the closing of trading on the last trading day prior to June 30, 2013, was approximately \$14.1 billion.

The number of outstanding shares of Liberty Interactive Corporation's common stock as of January 31, 2014 was:

	<u>Series A</u>	<u>Series B</u>
Liberty Interactive common stock	469,105,835	28,884,103
Liberty Ventures common stock	35,381,940	1,442,689

Documents Incorporated by Reference

The Registrant's definitive proxy statement for its 2014 Annual Meeting of Stockholders is hereby incorporated by reference into Part III of this Annual Report on Form 10-K.

**LIBERTY INTERACTIVE CORPORATION**  
**2013 ANNUAL REPORT ON FORM 10-K**

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## PART I.

### Item 1. Business.

#### (a) *General Development of Business*

Liberty Interactive Corporation ("Liberty", formerly known as Liberty Media Corporation) owns interests in subsidiaries and other companies which are primarily engaged in the video and on-line commerce industries. Through our subsidiaries and affiliates, we operate in North America, Europe and Asia. Our principal businesses and assets include our consolidated subsidiaries QVC, Inc. ("QVC"), TripAdvisor, Inc. ("TripAdvisor"), Provide Commerce, Inc. ("Provide"), Backcountry.com, Inc. ("Backcountry"), Bodybuilding.com, Inc. ("Bodybuilding"), and Celebrate Interactive Holdings, LLC ("Celebrate") and our equity affiliates Expedia, Inc. ("Expedia") and HSN, Inc. ("HSN").

On September 23, 2011, we completed a split-off (the "LMC Split-Off") of our wholly owned subsidiary, Liberty Media Corporation ("LMC" and formerly known as Liberty CapStarz, Inc. and prior thereto Liberty Splitco, Inc.). The LMC Split-Off was effected by means of a redemption of all of the Liberty Capital common stock and Liberty Starz common stock for the common stock of LMC. At the time of the LMC Split-Off, LMC owned all the businesses, assets and liabilities previously attributed to our former Capital and Starz tracking stock groups. Following the LMC Split-Off, Liberty and LMC operate as separately publicly traded companies and neither has any stock ownership, beneficial or otherwise, in the other.

On August 9, 2012, Liberty completed the approved recapitalization of its common stock through the creation of the Liberty Interactive common stock and Liberty Ventures common stock as tracking stocks. In the recapitalization, each holder of Liberty Interactive Corporation common stock remained a holder of the same amount and series of Liberty Interactive common stock and received 0.05 of a share of the corresponding series of Liberty Ventures common stock, by means of a dividend, with cash issued in lieu of fractional shares of Liberty Ventures common stock.

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 has two tracking stocks, Liberty Interactive common stock and Liberty Ventures common stock, which are intended to track and reflect the economic performance of the Interactive Group and Ventures Group, respectively. While the Interactive Group and the Ventures Group have separate collections of businesses, assets and liabilities attributed to them, no group is a separate legal entity and therefore no group can own assets, issue securities or enter into legally binding agreements. Holders of tracking stocks have no direct claim to the group's stock or assets and are not represented by separate boards of directors. Instead, holders of tracking stock are stockholders of the parent corporation, with a single board of directors and subject to all of the risks and liabilities of the parent corporation.

#### *Recent Developments*

On October 10, 2013, Liberty announced that its board has authorized management to pursue a plan to recapitalize its Interactive Group tracking stock into two new tracking stocks, one (currently the Liberty Interactive common stock) to be renamed the QVC Group common stock and the other to be designated as the Liberty Digital Commerce common stock. The Digital Commerce Group would have attributed to it Liberty's subsidiaries Provide Commerce, Backcountry.com, Bodybuilding.com, CommerceHub, Right Start and Evite, which is currently a part of Liberty's subsidiary Celebrate (as described below), along with cash and certain liabilities. The QVC Group, which is currently known as the Interactive Group, would have attributed to it Liberty's subsidiary QVC, Inc. and its approximate 38% interest in HSN, Inc., along with cash and certain liabilities. Additionally, on October 10, 2013, Liberty announced that its board has also authorized management to pursue a plan to spin-off to holders of its Liberty Ventures common stock shares of a newly formed company to be called Liberty TripAdvisor Holdings ("Trip Holdings"). Trip Holdings would be comprised of, among other things, Liberty's 22% economic and 57% voting interest in TripAdvisor, as well as the Celebrate retail business, which is currently a part of Celebrate, and an anticipated initial corporate level net debt balance of \$350 million. Management continues to review the proposed restructurings and no assurance can be given as to when or if either such transaction will be completed.

\* \* \* \* \*

Certain statements in this Annual Report on Form 10-K 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 and subscriber trends at QVC, Inc.; the recoverability of our goodwill and other long-lived assets; our projected sources and uses of cash; and the anticipated impact of certain contingent liabilities related to legal and tax proceedings and other matters arising in the ordinary course of business. In particular, statements under Item 1. "Business," Item 1A. "Risk-Factors," Item 2. "Properties," Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" contain forward-looking statements. 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;
- increased digital TV penetration and the impact on channel positioning of our programs;
- the levels of online traffic to our businesses' websites and our ability to convert visitors into consumers or contributors;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- 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 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, distributors, suppliers and vendors;
- general economic and business conditions and industry trends;
- consumer spending levels, including the availability and amount of individual consumer debt;
- advertising spending levels;
- 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;
- rapid technological changes;
- failure to protect the security of personal information about our customers, subjecting us to potentially costly government enforcement actions or private litigation and reputational damage;
- the regulatory and competitive environment of the industries in which we 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.

These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Annual 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. When considering such forward-looking statements, you should keep in mind the factors described in Item 1A, "Risk Factors" and other cautionary statements contained in this Annual Report. Such risk factors and statements describe circumstances which could cause actual results to differ materially from those contained in any forward-looking statement.

This Annual Report includes information concerning public companies in which we have controlling and non-controlling interests that file reports and other information with the SEC in accordance with the Securities Exchange Act of 1934. Information in this Annual Report concerning those companies has been derived from the reports and other information filed by them with the SEC. If you would like further information about these companies, the reports and other information they file with the SEC can be accessed on the Internet website maintained by the SEC at [www.sec.gov](http://www.sec.gov). Those reports and other information are not incorporated by reference in this Annual Report.

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(b) *Financial Information About Operating Segments*

Through our ownership of interests in subsidiaries and other companies, we are primarily engaged in the video and on-line commerce industries. Each of these businesses is separately managed.

We identify our reportable segments as (A) those consolidated subsidiaries that represent 10% or more of our annual consolidated revenue, Adjusted OIBDA or total assets and (B) those equity method affiliates whose share of earnings represent 10% or more of our annual pre-tax earnings. Financial information related to our operating segments can be found in note 19 to our consolidated financial statements found in Part II of this report.

(c) *Narrative Description of Business*

The following table identifies our more significant subsidiaries and minority investments:

**Consolidated Subsidiaries**

QVC, Inc.  
TripAdvisor, Inc. (Nasdaq:TRIP)  
Provide Commerce, Inc.  
Backcountry.com, Inc.  
Bodybuilding.com, LLC  
Celebrate Interactive Holdings, LLC  
CommerceHub

**Equity Method Investments**

Expedia, Inc. (Nasdaq:EXPE)  
HSN, Inc. (Nasdaq:HSNI)  
Interval Leisure Group, Inc. (Nasdaq:IILG)  
Tree.com, Inc. (Nasdaq:TREE)

## **QVC, Inc.**

QVC, Inc. ("QVC"), a wholly-owned subsidiary, markets and sells a wide variety of consumer products primarily through live televised shopping programs distributed to approximately 296 million (including the joint venture in China as discussed below in further detail) worldwide households each day and via its websites and other interactive media, including QVC.com. The name, QVC, stands for "Quality, Value and Convenience," which is what QVC strives to deliver to its customers. QVC's operating strategy is to create a premier multimedia lifestyle brand and shopping destination for its customers, further penetrate its core customer base, generate new customers, enhance our programming distribution offerings and expand internationally to drive revenue and profitability. For the year ended December 31, 2013, approximately 92% of its worldwide shipped sales were from repeat and reactivated customers (i.e., customers who made a purchase from QVC during the prior twelve months and customers who previously made a purchase from QVC but not during the prior twelve months, respectively). In the same period, QVC attracted approximately 3.1 million new customers. QVC's global e-commerce operation comprised \$3.2 billion, or 38%, of its consolidated net revenue for the year ended December 31, 2013.

QVC markets its products in an engaging, entertaining format primarily through live television programs and interactive features on its websites. In the U.S., QVC distributes its programming live 24 hours per day, 7 days per week and presents on average almost 900 products every week. Internationally, QVC distributes live programming 17 to 24 hours per day, depending on the market. QVC's global merchandise mix is similar to that of a high-quality department store, featuring the best in: (i) electronics, (ii) home, (iii) beauty, (iv) jewelry, (v) apparel and (vi) accessories, which, in 2013, accounted for 12%, 31%, 17%, 12%, 16% and 12%, respectively, of its consolidated shipped sales. For the year ended December 31, 2012, such percentages were 13%, 30%, 16%, 13%, 16% and 12%, respectively. For the year ended December 31, 2011, such percentages were 13%, 31%, 15%, 14%, 16% and 11%, respectively. Many of QVC's brands are exclusive, while others are created by well-known designers. It is QVC's product sourcing team's mission to research and locate compelling and differentiated products from manufacturers who have sufficient scale to meet anticipated demand. QVC offers many QVC-exclusive products, as well as popular brand name and lesser known products available from other retailers. Many of its products are endorsed by celebrities, designers and other well-known personalities who often join its presenters to personally promote their products and provide lead-in publicity on their own television shows. QVC believes that its ability to demonstrate product features and present "faces and places" differentiates and defines the QVC shopping experience. QVC closely monitors customer demand and its product mix to remain well-positioned and relevant in popular and growing retail segments, which QVC believes is a significant competitive advantage relative to competitors who operate bricks-and-mortar stores.

QVC does not depend on any single supplier or designer for a significant portion of its inventory purchases.

Since its inception, QVC has shipped over 1.6 billion packages in the U.S. alone. QVC operates nine distribution centers and eight call centers worldwide and is able to ship approximately 94% of its orders within 48 hours of order placement. In 2013, QVC's work force of approximately 17,500 employees handled approximately 168 million customer calls, shipped approximately 169 million units globally and served approximately 11.8 million customers. QVC believes its long-term relationships with major U.S. television distributors, including cable operators (e.g., Comcast and Time Warner Cable), satellite television providers (e.g., DISH Network and DIRECTV) and telecommunications companies (e.g., Verizon and AT&T), provide it with broad distribution, favorable channel positioning and significant competitive advantages. QVC believes that its significant market share, brand awareness, outstanding customer service, repeat customer base, international reach and scalable infrastructure distinguishes QVC from its competitors.

QVC-U.S.'s live televised shopping programs are distributed nationally, 24 hours per day, 7 days per week, to approximately 106 million television households and approximately 98% of television households subscribing to services offered by television distributors. QVC-U.S. programming is also available on QVC.com, its domestic website, and mobile applications via streaming video. QVC-U.S., including QVC.com, contributed \$5.8 billion, or 67.8%, of consolidated net revenue for the year ended December 31, 2013.

In March 2013, QVC-U.S. launched over-the-air broadcasting in designated U.S. markets that can be accessed by any television household in such markets, regardless of whether it subscribes to a paid television service. This will allow QVC-U.S. to reach new customers who previously did not have access to the program through other television platforms.

In August 2013, QVC-U.S. launched an additional channel, QVC Plus, which is being distributed through cable and satellite systems. The channel generally offers the same programming as the live channel, but on a three hour pre-recorded delay, which will allow viewers to have access to a broader range of QVC programming options as well as more relevant programming for viewers in differing time zones.

QVC.com, launched in 1996, complements QVC-U.S.'s televised shopping programs by allowing consumers to purchase a wide assortment of goods offered on its televised programs, as well as other products that are available only on QVC.com. QVC views e-commerce as a natural extension of its business, allowing it to stream live video and offer on-demand video segments of items recently presented live on its televised programs. QVC.com allows shoppers to browse, research, compare and perform targeted searches for products, control the order-entry process and conveniently access their QVC account. For the year ended December 31, 2013, QVC.com generated net revenue of \$2.5 billion, or 42.8% of its total domestic net revenue. For the year ended December 31, 2013, approximately 69% of new U.S. customers made their first purchase through QVC.com.

In 2013, QVC's televised shopping programs reached approximately 120 million television households outside of the U.S., primarily in Japan, Germany, the United Kingdom and Italy. In addition, QVC's joint venture in China, as discussed in more detail in the subsequent paragraph, reached approximately 70 million homes. Beyond the main QVC channels, Germany and the U.K. also broadcast pre-recorded shows on additional channels that offer viewers access to a broader range of QVC programming options. These channels include QVC Beauty and QVC Plus in Germany and QVC Beauty, QVC Extra and QVC Style in the U.K. The programming created for most of these markets is also available via streaming video on its international websites and mobile applications. QVC's international businesses each employ product sourcing teams who select products tailored to the interests of each local market. For the year ended December 31, 2013, QVC's international operations generated \$2.8 billion of consolidated net revenue, and QVC's international websites generated \$741 million, or 26.7%, of its total international net revenue.

On July 4, 2012, QVC entered into a joint venture with Beijing-based China Broadcasting Corporation, a limited liability company owned by China National Radio ("CNR"), China's government-owned radio division. The joint venture, CNR Home Shopping Co., Ltd. ("CNRS"), is owned 49% by QVC and 51% by CNR through subsidiaries of each company. CNRS operates a retailing business in China through a shopping television channel with an associated website. This joint venture is expected to combine CNRS's existing knowledge of the digital shopping market and consumers in China with QVC's global experience and know-how in multimedia retailing.

QVC distributes its television programs, via satellite and optical fiber, to cable television and direct-to-home satellite system operators for retransmission to their subscribers in the U.S., Japan, Germany, the U.K. and neighboring countries. QVC also transmits its television programs over digital terrestrial broadcast television to viewers throughout Italy and the U.K. and to viewers in certain geographic regions in the U.S. and Germany. In the U.S., QVC uplinks its analog and digital programming transmissions using a third-party service. Both transmissions are uplinked to protected, non-preemptible transponders on U.S. satellites. "Protected" status means that, in the event of a transponder failure, the signal will be transferred to a spare transponder or, if none is available, to a preemptible transponder located on the same satellite or, in certain cases, to a transponder on another satellite owned by the same service provider if one is available at the time of the failure. "Non-preemptible" status means that, in the event of a transponder failure, QVC's transponders cannot be preempted in favor of a user of a failed transponder, even another user with "protected status." The international business units each obtain uplinking services from third parties and transmit their programming to non-preemptible transponders on international satellites. The transponder service agreements for the U.S. transponders expire at the earlier of the end of the lives of the satellites or the service agreements. The service agreements expire in 2019 through 2020. The transponder service agreements for the international transponders expire in 2014 through 2022.

QVC continually seeks to expand and enhance its television and e-commerce platforms, as well as to further its international operations and multimedia capabilities. QVC launched QVCHD in the U.S. in April 2008, and in May 2009, became the first U.S. multimedia retailer to offer a native HD service. QVCHD is a high-definition simulcast of QVC's U.S. telecast utilizing the full 16x9 screen ratio, while keeping the side panel for additional information. High-definition, or HD, programming allows QVC to utilize a typically wider television screen with crisper and more colorful images to present a larger "storefront," which QVC believes captures the attention of channel "surfers" and engages its customers. In the U.S., QVCHD reached approximately 70 million television households, as it continues to develop and launch features to further enrich the television viewing experience.

QVC enters into long-term affiliation agreements with certain of its television distributors who downlink its programming and distribute the programming to customers. QVC's affiliation agreements with both domestic and international distributors have

termination dates ranging from 2014 to 2022. QVC's ability to continue to sell products to its customers is dependent on its ability to maintain and renew these affiliation agreements in the future. Although QVC is typically successful in obtaining and renewing these agreements, it does not have distribution agreements with some of the distributors that carry its programming. In total, QVC is currently providing programming without affiliation agreements to distributors representing 6% of its U.S. distribution, and short-term, rolling 90 day letters of extension, to distributors who represent approximately 22% of its U.S. distribution. Some of its international programming may continue to be carried by distributors after the expiration dates on its affiliation agreements have passed.

In return for carrying QVC's signals, each programming distributor in the U.S. receives an allocated portion, based upon market share, of up to 5% of the net sales of merchandise sold via the television programs and from certain Internet sales to customers located in the programming distributor's service areas. In Japan, Germany, the United Kingdom and Italy, programming distributors predominately receive an agreed-upon annual fee, a monthly fee per subscriber regardless of the net sales, a variable percentage of net sales or some combination of the above scenarios.

In addition to sales-based commissions or per-subscriber fees, QVC also makes payments to distributors in the U.S. for carriage and to secure positioning within a broadcast area or within the general entertainment area on the distributor's channel line-up. QVC believes that a portion of its sales are attributable to purchases resulting from channel "surfing" and that a channel position near broadcast networks and more popular cable networks increases the likelihood of such purchases. As technology evolves, QVC will continue to monitor optimal channel placement and attempt to negotiate agreements with its distributors to maximize the viewership of its television programming.

QVC enjoys a loyal customer base, as demonstrated by the fact that for the year ended December 31, 2013, approximately 86% of its worldwide net revenue came from repeat customers (i.e., customers who made a purchase from QVC during the prior twelve months), who spent an average of \$1,335 each during this period. An additional 6% of net revenue in that period came from reactivated customers (i.e., customers who previously made a purchase from QVC, but not during the prior twelve months). QVC believes this customer loyalty diminishes pressure on it to pursue expensive marketing programs, especially during periods of slower economic activity, which helps control overall marketing expenses.

QVC believes its core customer base represents an attractive demographic target market. Based on internal customer data, approximately 51% of its 7.5 million domestic customers for year ended December 31, 2013 were women between the ages of 35 and 64.

QVC strives to be prompt and efficient in order taking and fulfillment. QVC has three domestic phone centers located in San Antonio, Texas; Port St. Lucie, Florida; and Chesapeake, Virginia that can direct calls from one call center to another as volume mandates. This ability to transfer calls reduces a caller's hold time, helping to ensure that orders will not be lost as a result of abandoned or unanswered calls. QVC also has one phone center in each of Japan, the United Kingdom and Italy and two call centers in Germany. Many markets also utilize home agents to handle calls, allowing staffing flexibility for peak hours. In addition, QVC utilizes computerized voice response units, which handle approximately 30% of all orders taken on a worldwide basis.

In addition to taking orders from its customers through phone centers and online, QVC continues to expand its ordering platforms. QVC is expanding mobile device ordering capabilities and over the past several years has launched iPhone and iPad applications, Android and Blackberry applications, a WAP (wireless application protocol) mobile website and a robust SMS (short message services) program. On a global basis, customers placed approximately 12% of all orders directly through their mobile devices in 2013.

Through QVC's nine worldwide distribution centers, QVC shipped approximately 94% of its orders within 48 hours of order placement in the year ended December 31, 2013. QVC's domestic distribution centers are located in Suffolk, Virginia; Lancaster, Pennsylvania; West Chester, Pennsylvania; Rocky Mount, North Carolina; and Florence, South Carolina. QVC also has distribution centers in Sakura-shi, Chiba, Japan; Hückelhoven, Germany; Knowsley, United Kingdom and Castel San Giovanni, Italy.

QVC has built a scalable operating infrastructure focused on sustaining efficient, flexible and cost-effective sale and distribution of its products. Since its physical store locations are minimal, QVC requires lower inventory levels and capital expenditures compared to traditional bricks-and-mortar retailers. In recent years, QVC has made significant investments in its distribution centers and information technology systems that it believes will accommodate its foreseeable growth needs. Further, since QVC has no set "floor plan" and can closely manage inventory levels at its centralized warehouses, QVC believes it has the flexibility

to analyze and react quickly to changing trends and demand by shifting programming time and product mix. QVC's cost structure is highly variable, which QVC believes allows it to consistently achieve attractive margins relative to bricks-and-mortar retailers.

QVC's web and mobile platforms are fully integrated with its televised programming and product distribution capabilities. QVC's web and mobile platform features include a live video stream of its television programming, full integration with its order fulfillment, its product branding, as well as the thematic offerings and events that have become fundamental to its televised programming.

Third party carriers transport QVC's packages from its distribution centers to its customers. In each market where QVC operates, it has entered into long-term contracts with shipping companies, which in certain circumstances provides for favorable shipping rates.

QVC operates in a rapidly evolving and highly competitive retail business environment. Based on domestic net revenue for the year ended December 31, 2013, QVC is the leading television retailer in the U.S. and generates substantially more net revenue than its closest two televised shopping competitors, HSN (an entity in which we have a 38% ownership interest as of December 31, 2013) and ShopHQ. QVC's international operations face similar competition in their respective markets, such as Shop Channel in Japan, HSE 24 in Germany and Ideal World in the United Kingdom. Additionally, QVC has numerous and varied competitors at the national and local levels, ranging from large department stores to specialty shops, electronic retailers, direct marketing retailers, wholesale clubs, discount retailers, infomercial retailers, Internet retailers, and mail-order and catalog companies.

QVC also competes for access to customers and audience share with other providers of televised, online and hard copy entertainment and content. The price and availability of other programming and the conversion to digital programming platforms may unfavorably affect the placement of its programming in the channel line-ups of its distributors, and may affect its ability to obtain distribution agreements with small cable distributors. Competition from other programming also affects the compensation that must be paid to distributors for carriage, which continues to increase. Principal competitive factors for QVC include (i) value, quality and selection of merchandise; (ii) customer experience, including customer service and reliability of fulfillment and delivery services and (iii) convenience and accessibility of sales channels.

QVC regards its trademarks, service marks, copyrights, domain names, trade dress, trade secrets, proprietary technologies and similar intellectual property as critical to its success. QVC relies on a combination of trademark and copyright law, trade-secret protection, and confidentiality and/or license agreements with its employees, customers, suppliers, affiliates and others to protect these proprietary rights. QVC has registered, or applied for the registration of, a number of domain names, trademarks, service marks and copyrights by U.S. and foreign governmental authorities and vigorously protects its proprietary rights against infringement.

Domestically, QVC has registered trademarks and service marks for a variety of items including, but not limited to its brand name, "QVC" and "Quality Value Convenience", the "Q QVC Ribbon Logo" and its proprietary products sold such as "Arte D'Oro", "Cook's Essentials", "Denim & Co.," "Diamonique", "Nature's Code," "Northern Nights" and "Ultrafine Silver." Similarly, foreign registrations have been obtained for many trademarks and service marks for its brand name and propriety products including, but not limited to, "QVC" the "Q QVC Ribbon Logo," "Breezies," "Denim & Co.," "Diamonique" and "Northern Nights." QVC considers the service mark for the "QVC" name the most significant trademark or service mark held by it because of its impact on market awareness across all of its geographic markets and on customers' identification with QVC. As with all domestic trademarks or service marks, QVC's trademark and service mark registrations in the United States are for a ten year period and are renewable every ten years, prior to their respective expirations, as long as the trademarks or service marks are used in the regular course of trade.

QVC's business is seasonal due to a higher volume of sales in the fourth calendar quarter related to year-end holiday shopping. In recent years, QVC has earned, on average, between 22% and 23% of its global revenue in each of the first three quarters of the year and 32% of its global revenue in the fourth quarter of the year.

*TripAdvisor, Inc.*

TripAdvisor is an online travel company, empowering users to plan and maximize their travel experience. Its travel research platform aggregates reviews and opinions from its community of travelers about destinations, accommodations (including hotels, resorts, motels, bed and breakfasts, or B&Bs, specialty lodging and vacation rentals), restaurants and activities throughout the world through its flagship TripAdvisor brand. TripAdvisor's branded websites include tripadvisor.com in the United States and localized versions of the website in 33 other countries, including in China under the brand daodao.com. Its branded websites globally reached more than 260 million monthly unique visitors during the year ended December 31, 2013, according to Google Analytics, and it features over 125 million reviews and opinions. Beyond travel-related content, TripAdvisor's websites also include links to the websites of its customers, including travel advertisers, allowing travelers to directly book their travel arrangements. In addition to the flagship TripAdvisor brand, TripAdvisor now manages and operates 20 other travel media brands, connected by the common goal of providing comprehensive travel planning resources across the travel sector.

TripAdvisor was founded with the goal of providing an online resource based on user-generated content to prospective travelers. By using the power of the Internet to create transparency in the travel planning process with a comprehensive online resource for travel information, TripAdvisor has democratized the travel research and planning process. In order to achieve its goals, TripAdvisor leverages its key assets; a robust community of users, rich user-generated content, technology and a commitment to continuous innovation and global reach.

TripAdvisor derives substantially all of its revenue from the sale of advertising, primarily through click-based advertising and, to a lesser extent, display-based advertising. The remainder of its revenue is generated through a combination of subscription-based offerings, making hotel room nights available on its transactional sites, including Jetsetter and Tingo, and other revenue including content licensing. In the year ended December 31, 2013, TripAdvisor earned \$696 million of revenue from click-based advertising, \$119 million in revenue from display-based advertising and \$130 million in revenue from subscription-based offerings, transaction revenue and other revenue.

TripAdvisor has click-based advertising relationships with the vast majority of the leading online travel agencies globally as well as a variety of other travel suppliers pursuant to which these companies purchase traveler leads from it, generally on a CPC basis. For the year ended December 31, 2013, approximately \$217 million, or 23%, of its total revenue was derived from Expedia businesses. At the time of TripAdvisor's spin-off from Expedia (Liberty has an approximate 18% ownership interest in Expedia and accounts for such investment as an equity method affiliate), new commercial arrangements with Expedia-owned brands, including Expedia.com and Hotels.com were implemented. For the year ended December 31, 2013, TripAdvisor's two most significant advertising customers accounted for a combined 47% of total revenue. These and its other click-based advertising relationships are strategically important to it and most can be terminated by the advertiser at will or on short notice.

TripAdvisor has a content licensing program utilized by over 850 partners across the world, including hotel chains, online travel agents, tourist boards, airlines and media sites. TripAdvisor also distributes its content through self-service HTML widgets, which are used on the websites of hotels, restaurants, attractions and destination marketing organizations. These products, which are available at no cost in the TripAdvisor Management Center, allow businesses and destinations to promote themselves by displaying their TripAdvisor ratings, reviews and awards. TripAdvisor widgets are presently found on more than 100,000 unique domains around the globe, reaching over 500 million people per month. Partners benefit from its user-generated content, such as reviews, ratings, photos and traveler forums. In addition, TripAdvisor powers review collection for a growing number of partners such as Accor Hotels, Wyndham Hotel Group, Best Western and Easytobook.com, enabling them to proactively collect reviews from their own customers post-stay in their own branded environment. TripAdvisor has also developed partnerships with mobile carriers and device manufacturers.

TripAdvisor also syndicates its click-based advertising to third-party websites. The largest such syndication relationship is with Yahoo! Travel Guides, pursuant to which it provides "show prices" advertising on the Yahoo! Travel Guides' hotel pages.

TripAdvisor's systems infrastructure, web and database servers for TripAdvisor branded websites are housed at two geographically separate facilities and have multiple communication links as well as continuous monitoring and engineering support. Each facility is fully self-sufficient and operational with its own hardware, networking, software, and content, and is structured in an active/passive, fully redundant configuration. Substantially all of its software components, data, and content are replicated in

multiple datacenters and development centers, as well as being backed up at offsite locations. TripAdvisor's systems are monitored and protected through multiple layers of security. Several of its individual subsidiaries and businesses, including its subsidiaries in China, have their own data infrastructure and technology teams.

On December 11, 2012, we acquired approximately 4.8 million additional shares of common stock of TripAdvisor (an additional 4% equity ownership interest), for \$300 million, along with the right to control the vote of the shares of TripAdvisor's common stock and class B common stock we own. Following the transaction we owned approximately 22% of the equity and 57% of the total votes of all classes of TripAdvisor common stock.

***Provide Commerce, Inc.***

Provide, a wholly-owned subsidiary that we acquired in February 2006, operates an e-commerce marketplace of websites that offers high-quality perishable products direct from suppliers to consumers and a wide range of unique non-perishable and personalized gifts through its RedEnvelope and Personal Creations brands, which it acquired in 2008 and 2010, respectively. Provide combines an online storefront, proprietary supply chain management technology, established supplier relationships and integrated logistical relationships with FedEx Corporation and United Parcel Service, Inc. to create a market platform that bypasses traditional supply chains of wholesalers, distributors and retailers. Provide derives a large portion of its revenue (approximately 60%) from the sale of flowers and plants on its proflowers.com and proplants.com websites and the remainder from the sale of gourmet foods and gifts from its branded websites: Cherry Moon Farms, for fresh premium fruits; Shari's Berries, for chocolate-dipped berries and related gifting products; RedEnvelope and Personal Creations, for personalized and unique gifts.

Provide Commerce's business is highly seasonal due largely to purchases of flowers and other gifts for Valentine's Day and Mother's Day. In 2013, Provide Commerce earned approximately 64% of its revenue in the first half of the year. Provide Commerce depends on three suppliers for approximately 70% of its cut floral products. The loss of any of these suppliers could adversely impact Provide Commerce.

Provide Commerce believes that one of the keys to its success is its ability to timely deliver products, and perishable products, on time and fresher, than its competitors thereby providing a better value for its customers. Provide Commerce maintains a customer service center located at its corporate headquarters to respond to customer phone calls and emails 24 hours a day, seven days a week.

***Backcountry.com, Inc.***

We acquired 81% of the equity of Backcountry in June 2007, increasing our ownership to 88% through share purchases in 2011 and 2012. Backcountry is an e-retailer for outdoor adventure, cycling, action sports and motorcycle gear and clothing. Its nine separate websites cater to a variety of outdoor enthusiasts. Five of the sites offer name-brand products at retail prices, one closeout site and three other sites offer substantial discounts to online shoppers on a flash-sales type basis.

Backcountry's primary site, Backcountry.com, offers over 900 brands and over 50,000 styles of high-end gear and clothing for backpacking, camping, trail running, skiing, rock climbing, kayaking and other outdoor sports. Backcountry's action sports site, DogFunk.com, sells technical and lifestyle apparel and gear from established brands and niche manufacturers. CompetitiveCyclist.com sells mountain bikes and road bikes, at retail prices. Backcountry's motorcycle site, Motosport.com sells parts, accessories and apparel for street and dirt bike riders. Backcountry's online outlet store, DepartmentOfGoods.com, sells discounted clothing and gear from past seasons. Backcountry's flash-sales type sites, SteepandCheap.com, WhiskeyMilitia.com, and Chainlove.com, feature a limited quantity of one highly discounted item at a time until such item sells out or times out, at which time it is immediately replaced with a new item. Additionally, the flash-sales sites feature curated collections of like items. SteepandCheap.com serves backcountry adventurers and outdoor enthusiasts. WhiskeyMilitia.com appeals to skateboarders, surfers, snowboarders and wakeboarders. Chainlove.com is a flash-sales type site for discounted road bike, mountain bike, and triathlon markets. Through an acquisition in 2013, Backcountry expanded into Europe. Based in Germany, Bergfreunde.de caters to the outdoor enthusiast in the European market.

Backcountry's business is seasonal, with approximately 35% of its revenue earned in the fourth quarter. Backcountry stores and ships all inventory from its two distribution centers located in Salt Lake City, Utah and Christiansburg, Virginia. Staffing for

the customer service center and warehouse is scalable, and Backcountry employs seasonal labor to react to higher volume during peak periods of the year.

***Bodybuilding.com, LLC***

On December 31, 2007, we acquired 82.9% of Bodybuilding. Subsequent to that time we have acquired an additional 7.1% of Bodybuilding.com, LLC, giving us overall ownership of 90.0%.

Bodybuilding.com is an Internet retailer of sports, fitness, and nutritional supplements. It also hosts an online health-and-fitness publication, offering free fitness content, workout programs, video trainers, recipes, health advice and motivational stories. The online e-retail model combines detailed product information and real-time user reviews on more than 15,000 health-and-fitness supplements and accessories to help the consumer achieve their health, fitness and appearance goals. Beyond the e-retail model, Bodybuilding.com is a site that provides the technology and the tools needed for personal training, nutrition, supplement expertise and support groups.

Bodybuilding.com's customers include gym-goers, athletes, weightlifters, bodybuilders and any individual wanting to improve their mental and physical well-being. Bodybuilding.com tries to offer a holistic experience for people looking to achieve their goals. BodySpace is an inclusive social networking site within Bodybuilding.com that allows people of varying health and fitness levels to discuss goal setting, techniques, supplementation and achievements as users track their progress.

Bodybuilding.com launched its primary website in 1999 and now has more than 42,000 pages of editorial content, more than 8,000 videos, 16,000 pages of store content, more than 5 million forum threads, more than 100 million forum posts and more than 1.5 million BodySpace members.

Bodybuilding.com is one of the largest e-retailers in the supplement industry, seeking to offer its customers competitive prices and quality customer service. Bodybuilding.com's business is slightly seasonal; the first quarter of the year is its busiest, as people start to implement their New Year's resolutions toward health and fitness.

***Celebrate Interactive Holdings, LLC***

Celebrate is a wholly-owned subsidiary that owns and operates BuyCostumes.com and the Celebrate Express family of websites (combined "Celebrate retail") and Evite.com. Celebrate, an internet celebrations leader, provides a unique party offering by giving individuals the resources necessary to plan, execute and attend a wide variety of celebrations and costuming events. These resources include event planning services, which are free to Evite customers as revenue is driven primarily through online advertising, party supplies primarily through Celebrate retail which offers proprietary products through exclusive license agreements and costumes for a wide variety of occasions (the primary occasion is Halloween). Celebrate retail purchases its products from various suppliers, both domestic and international. Celebrate retail depends on five suppliers for approximately one half of its costumes, accessories, and party supplies. The loss of any of these suppliers could adversely impact stand alone financial results of Celebrate.

The broader party and costume business segments have a large number of independent retailers, both bricks-and-mortar and online. Celebrate retail has three primary competitors. Party City is the most significant competitor selling in both the party and costume categories. Celebrate believes it has a competitive advantage due to the combination of a large assortment of on-line products, services related to party planning, product personalization, value pricing and a high level of customer service. Celebrate's business is highly seasonal with approximately half of its revenue earned from the sale of costumes in September and October leading up to Halloween. Since the acquisition of Celebrate Express and Evite, Celebrate has seen the seasonality decrease slightly due to higher sales of birthday party supplies and online advertising which are less seasonal businesses. Celebrate maintains a customer service center, at its corporate headquarters, and customer service representatives are available 16 hours a day, seven days a week during its busy season to respond to customer questions. The customer service center and warehouse staffing is scalable and Celebrate employs seasonal labor to react to higher volume during the peak Halloween season.

As discussed earlier in the Recent Developments, the proposed restructurings would have an impact on these businesses as the Celebrate retail business is anticipated to form a part of Trip Holdings in connection with the proposed spin-off, and the Evite business would be attributed to the Digital Commerce Group following the creation of the new tracking stock in the proposed restructurings.

### ***CommerceHub***

CommerceHub provides a Software-as-a-Service platform for online retailers and their suppliers (manufacturers, and distributors). Retailers use the company's software to sell products to consumers without physically owning inventory, or managing the fulfillment of those products. A web-based catalog is available to retailers, who browse through products from a network of manufacturers and distributors. The retailer selects the products they want to sell and the product images and descriptions necessary to post the products for sale online are available through the CommerceHub solution. When consumers purchase products from the retailer, a purchase order is electronically delivered to the relevant supplier, which ships the ordered items directly to the consumer. The retailer is able to monitor the status of orders sent through CommerceHub to ensure that consumers receive the purchased products within the expected time frame.

Retailers that use CommerceHub receive the benefit of an expanded assortment of products available to consumers for purchase, without any capital investment in inventory or fulfillment operations.

CommerceHub charges retailers a fixed, one-time, setup fee to integrate their systems to CommerceHub, and a fixed monthly subscription fee for access to CommerceHub's OrderStream (order fulfillment) and ProductStream (product content management) applications. Additionally, CommerceHub charges retailers a fixed fee for every purchase order delivered to suppliers and a fee to view inventory levels of their respective suppliers.

Suppliers are charged a fixed, one-time, setup fee and a fixed monthly subscription fee for every retailer that they do business with on CommerceHub. Additionally, CommerceHub charges suppliers a fixed fee for every purchase order the supplier receives from a retailer.

### ***Expedia, Inc.***

Expedia is an online travel company, empowering business and leisure travelers with the tools and information they need to efficiently research, plan, book and experience travel. Expedia seeks to grow its business through a dynamic portfolio of travel brands, including its majority owned subsidiaries that feature the world's broadest supply portfolio - including almost 260,000 hotels in 200 countries, 400 airlines, packages, rental cars, cruises, as well as destination services and activities. Travel suppliers distribute and market products via its sites, its private label business and its call centers in order to reach its extensive, global audience, including the approximately 60 million unique visitors that visit its sites on a monthly basis.

Expedia operates a strong brand portfolio with global reach, targeting a broad range of travelers, travel suppliers and advertisers. Expedia understands that consumers typically visit multiple travel sites prior to booking travel, and having a multi-brand strategy increases the likelihood that those consumers will visit one or more of its sites. Expedia also markets to consumers through a variety of channels, including internet search, and having multiple brands appear in search results also increases the likelihood of attracting visitors, particularly in international markets, where Expedia historically has not invested as heavily in offline brand marketing campaigns. Expedia's brands tailor their product offerings and websites to particular traveler demographics. For example, Hotwire finds deep discount deals for the budget-minded travel shopper while its Classic Vacations brand targets high-end, luxury travelers. The Expedia brand spans the widest swath of potential customers with travel options across a broad value spectrum, while the Hotels.com brand focuses specifically on a hotel only product offering.

Expedia makes travel products and services available both on a stand-alone and package basis, primarily through two business models: the merchant model and the agency model. Under both models, Expedia facilitates the booking of hotel rooms, airline seats, car rentals and destination services from its travel suppliers. Under the merchant model, Expedia is the merchant of record. Under the agency model, the travel supplier is the merchant of record. During 2012, Expedia introduced the Expedia Traveler Preference program that enables much closer integration of the agency hotel product with its core merchant offering. Specifically, for participating hotels, Expedia will be able to offer customers the choice of whether to pay Expedia in advance or pay at the hotel at the time of the stay.

Expedia makes travel products and services available from a variety of hotel companies, large and small commercial airlines, car rental companies, cruise lines and destination service providers. Expedia seeks to build and maintain long-term, strategic relationships with travel suppliers and global distribution system ("GDS") partners. An important component of the success of

Expedia's business depends on its ability to maintain its existing, as well as build new, relationships with travel suppliers and GDS partners.

Expedia provides 24-hour-a-day, seven-day-a-week traveler sales and support by telephone or via e-mail. For purposes of operational flexibility, Expedia uses a combination of outsourced and in-house call centers. Expedia's call centers are located throughout the world, including extensive outsourced operations in the Philippines, El Salvador and Egypt. Expedia invested significantly in its call center technologies, with the goal of improving customer experience and increasing the efficiency of its call center agents. Expedia's systems infrastructure and web and database servers are housed in various locations, mainly in the United States, which have communication links as well as 24-hour monitoring and engineering support. The web hosting facilities have their own generators and multiple back-up systems. Significant amounts of Expedia's owned computer hardware for operating the websites are located at these facilities. For some critical systems, Expedia has both production and disaster-recovery facilities

We own an approximate 18% equity interest and 58% voting interest in Expedia. We have entered into governance arrangements pursuant to which Mr. Barry Diller, Chairman of the Board and Senior Executive Officer of Expedia, may vote our shares of Expedia, subject to certain limitations. Also through our governance arrangements with Mr. Diller, we have the right to appoint and have appointed 20% of the members of Expedia's board of directors, which is currently comprised of 10 members.

***HSN, Inc.***

HSN became a separate public company in August 2008 in connection with the separation of IAC/InterActiveCorp into five separate companies. HSN is an interactive multi-channel retailer with strong direct-to-consumer expertise among its two operating segments, HSN and Cornerstone Brands. HSN offers innovative, differentiated retail experiences on TV, online, mobile, in catalogs, and in bricks-and-mortar stores. HSN ships 50 million items and handles 50 million inbound customer calls annually. HSN now reaches over 95 million homes (broadcast live 24 hours a day, seven days a week). Cornerstone Brands comprises leading home and apparel lifestyle brands including Ballard Design, Frontgate, Garnet Hill, Grandin Road, Improvements, Chasing Fireflies and Travelsmith. Cornerstone Brands distributes 324 million catalogs annually, operates eight separate e-commerce sites, and runs 25 retail stores.

We own approximately 38% of the outstanding common stock of HSN. We have entered into an agreement with HSN pursuant to which, among other things, we have the right to nominate 20% of the members of HSN's board of directors. We have nominated two of the current nine board members.

***Interval Leisure Group, Inc.***

Interval Leisure Group is another of the companies spun off by IAC in August 2008. Interval Leisure Group is a global provider of membership and leisure services to the vacation industry. Its principal business, Interval, has offered its resort developer clients and consumer members high-quality programs and services for more than 30 years. Its approximately two million member families have access to a comprehensive package of year-round benefits, including the opportunity to exchange the use of their shared ownership vacation time for alternate accommodations. Interval has a network of more than 2,800 resorts in over 75 countries. Interval Leisure Group's other business segment is Aston (formerly ResortQuest Hawaii), which provides vacation rental and property management services for more than 5,000 units throughout the Hawaiian islands. Interval Leisure Group is headquartered in Miami, Florida, and operates through 26 offices in 16 countries.

We own approximately 29% of the outstanding common stock of Interval Leisure Group. We have entered into an agreement with Interval Leisure Group pursuant to which, among other things, we have the right to nominate 20% of the members of Interval Leisure Group's board of directors. We have nominated two of the current nine board members.

***Tree.com, Inc.***

Tree.com is the owner of several brands and businesses that provide information, tools, advice, products and services for critical transactions in their customers' lives. Tree.com's family of brands includes: LendingTree.com, GetSmart.com, DegreeTree.com<sup>SM</sup>, HealthTree.com<sup>SM</sup>, DoneRight.com, and ServiceTree.com<sup>SM</sup>. Together, these brands serve as an ally for consumers who are looking to comparison shop for loans, home services, education, auto and other financial products from multiple business and professionals who compete for their business. Tree.com is headquartered in Charlotte, North Carolina.

We own approximately 25% of the outstanding common stock of Tree.com. We have entered into an agreement with Tree.com pursuant to which, among other things, we have the right to nominate 20% of the members of Tree.com's board of directors. We have nominated one of the current seven board members.

**Regulatory Matters**

***Programming and Interactive Television Services***

Although QVC, a wholly owned subsidiary, and HSN, a business affiliate, market and sell consumer products through a variety of outlets, each primarily does so through live video programming services distributed by cable television systems, satellite systems and over-the-air broadcasters. Consequently, regulation of programming services and the entities that distribute them can affect QVC and HSN. In the United States, the FCC regulates broadcasters, the providers of satellite communications services and facilities for the transmission of programming services, the cable television systems and other multichannel video programming distributors ("MVPDs") that distribute such services, and, to some extent, the availability of the programming services themselves through its regulation of program licensing. Cable television systems in the United States are also regulated by municipalities or other state and local government authorities. Regulatory carriage requirements also could adversely affect the number of channels available to QVC and HSN.

**Regulation of Program Licensing.** The Cable Television Consumer Protection and Competition Act of 1992 (the 1992 Cable Act) directed the FCC to promulgate regulations regarding the sale and acquisition of cable programming between MVPDs (including cable operators) and satellite-delivered programming services in which a cable operator has an attributable interest. The 1992 Cable Act and implementing regulations generally prohibit a cable operator that has an attributable interest in a satellite programmer from improperly influencing the terms and conditions of sale to unaffiliated MVPDs. Further, the 1992 Cable Act requires that such affiliated programmers make their programming services available to cable operators and competing MVPDs such as multi-channel multi-point distribution systems and direct broadcast satellite ("DBS") distributors on terms and conditions that do not unfairly discriminate among distributors, and the FCC has established complaint enforcement and damages remedy procedures. FCC rules attribute LMC's ownership interest in Charter Communications, Inc., and Liberty Global plc's ownership of Liberty Cablevision of Puerto Rico, LLC to us, thereby subjecting us and satellite-delivered programming services in which we have an interest to the program access rules. We are also subject to the program access rules as a condition of FCC approval of our transaction with News Corporation in 2008.

**Regulation of Carriage of Programming.** Under the 1992 Cable Act, the FCC has adopted regulations prohibiting cable operators from requiring a financial interest in a programming service as a condition to carriage of such service, coercing exclusive rights in a programming service or favoring affiliated programmers so as to restrain unreasonably the ability of unaffiliated programmers to compete. The FCC has established program carriage complaint rules.

**Regulation of Ownership.** The 1992 Cable Act required the FCC, among other things, (1) to prescribe rules and regulations establishing reasonable limits on the number of channels on a cable system that will be allowed to carry programming in which the owner of such cable system has an attributable interest and (2) to consider the necessity and appropriateness of imposing limitations on the degree to which MVPDs (including cable operators) may engage in the creation or production of video programming. Although the FCC adopted regulations limiting carriage by a cable operator of national programming services in which that operator holds an attributable interest in 1993, the United States Court of Appeals for the District of Columbia Circuit vacated the FCC's decision and remanded the rule to the FCC for further consideration in 2001. In response to the Court's decision, the FCC issued further notices of proposed rulemaking in 2001 and in 2005 to consider channel occupancy limitations, but has not issued any rules. Even if these rules were readopted by the FCC, they would have little impact on QVC and HSN.

Regulation of Carriage of Broadcast Stations. The 1992 Cable Act granted broadcasters a choice of must carry rights or retransmission consent rights. The rules adopted by the FCC generally provided for mandatory carriage by cable systems of all local full-power commercial television broadcast signals selecting must carry rights and, depending on a cable system's channel capacity, non-commercial television broadcast signals. Such statutorily mandated carriage of broadcast stations coupled with the provisions of the Cable Communications Policy Act of 1984, which require cable television systems with 36 or more "activated" channels to reserve a percentage of such channels for commercial use by unaffiliated third parties and permit franchise authorities to require the cable operator to provide channel capacity, equipment and facilities for public, educational and government access channels, could adversely affect QVC and HSN by limiting the carriage of such services in cable systems with limited channel capacity.

Closed Captioning Regulation. The Telecommunications Act of 1996 also required the FCC to establish rules and an implementation schedule to ensure that video programming is fully accessible to the hearing impaired through closed captioning. The rules adopted by the FCC require substantial closed captioning, with only limited exemptions. In 2012, the FCC adopted regulations pursuant to the Twenty-First Century Communications and Video Accessibility Act of 2010 ("CVAA") that require, among other things, video programming owners to send caption files for Internet protocol ("IP") delivered video programming to video programming distributors and providers along with program files. A four year implementation period for the IP-delivered programming captioning requirements began in March 2012. As a result, QVC and HSN may incur additional costs for closed captioning.

### ***Internet Services***

Our online commerce businesses are subject, both directly and indirectly, to various laws and governmental regulations. Certain of these businesses engaged in the provision of goods and services over the Internet must comply with federal and state laws and regulations applicable to online communications and commerce. For example, the Children's Online Privacy Protection Act ("COPPA") prohibits web sites from collecting personally identifiable information online from children under age 13 without parental consent and imposes a number of operational requirements. In 2012, the Federal Trade Commission ("FTC") adopted revised COPPA regulations amending certain definitions and modifying certain operational requirements regarding notice and parental consent, among other matters. Certain email activities are subject to the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, commonly known as the CAN-SPAM Act. The CAN-SPAM Act regulates the sending of unsolicited commercial email by requiring the email sender, among other things, to comply with specific disclosure requirements and to provide an "opt-out" mechanism for recipients. Both of these laws include statutory penalties for non-compliance. The Digital Millennium Copyright Act limits, but does not eliminate, liability for listing or linking to third party websites that may include content that infringes on copyrights or other rights so long as our Internet businesses comply with the statutory requirements. Various states also have adopted laws regulating certain aspects of Internet communications. In 2007, Congress enacted legislation extending the moratorium on state and local taxes on Internet access and commerce until 2014. Legislative proposals that would extend the moratorium on state and local taxes on Internet access and commerce are pending in Congress, while other proposed legislation would permit the imposition of such taxes on Internet access and commerce.

Goods sold over the Internet also must comply with traditional regulatory requirements, such as the FTC requirements regarding truthful and accurate claims. To the extent that Bodybuilding.com, for example, markets or sells nutritional or dietary supplements, its activities may be regulated by the United States Food and Drug Administration ("FDA") in certain respects. Dietary supplement distributors must comply with FDA regulations regarding supplement labeling and reporting.

Our online commerce businesses are subject to laws governing the collection, use, retention, security and transfer of personally-identifiable information about their users. In particular, the collection and use of personal information by companies has received increased regulatory scrutiny on a global basis. The enactment, interpretation and application of user data protection laws are in a state of flux, and the interpretation and application of such laws may vary from country to country. For example, new data laws that give customers additional rights and impose additional restrictions and penalties on companies for illegal collection and misuse of personal information are under consideration in the European Union, and a European Union directive restricting the Internet tracking tools known as "cookies" has taken effect. In the U.S., the FTC has proposed a privacy policy framework, and legislation that would require organizations that suffer a breach of security related to personal information to notify owners of such information is pending in Congress. Many states have adopted laws requiring notification to users when there is a security breach affecting personal data, such as California's Information Practices Act. Complying with these different national and state privacy requirements

may cause the Internet companies in which we have interests to incur substantial costs. In addition, such companies generally have and post on their websites privacy policies and practices regarding the collection, use and disclosure of user data. A failure to comply with such posted privacy policies or with the regulatory requirements of federal, state, or foreign privacy laws could result in proceedings or actions by governmental agencies or others (such as class action litigation) which could adversely affect our online commerce businesses. Technical violations of certain privacy laws can result in significant penalties, including statutory penalties. In 2012, the FCC amended its regulations under the Telephone Consumer Protection Act ("TCPA"), which could subject our Internet businesses to increased liability for certain telephonic communications with customers, including but not limited to text messages to mobile phones. Under the TCPA, plaintiffs may seek actual monetary loss or statutory damages of \$500 per violation, whichever is greater, and courts may treble such damage awards for willful or knowing violations. Data collection, privacy and security are growing public concerns. If consumers were to decrease their use of our Internet businesses' websites to purchase products and services, such businesses could be harmed. Congress and individual states may consider additional online privacy legislation.

Other Internet-related laws and regulations enacted in the future may cover issues such as defamatory speech, copyright infringement, pricing and characteristics and quality of products and services. The future adoption of such laws or regulations may slow the growth of commercial online services and the Internet, which could in turn cause a decline in the demand for the services and products of our online commerce businesses and increase their costs of doing business or otherwise have an adverse effect on their businesses, operating results and financial conditions. Moreover, the applicability to commercial online services and the Internet of existing laws governing issues such as property ownership, libel, personal privacy and taxation is uncertain and could expose these companies to substantial liability.

In 2010, the FCC adopted rules in its open Internet proceeding that require all broadband providers to disclose network management practices, restrict broadband providers from blocking Internet content and applications, and prohibit fixed broadband providers from engaging in unreasonable discrimination in transmitting lawful network traffic. The open Internet rules could restrict the ability of broadband providers to block or otherwise disadvantage our Internet businesses. On January 14, 2014, the United States Court of Appeals for the District of Columbia Circuit vacated the anti-discrimination and anti-blocking rules, but upheld the disclosure rule. On February 19, 2014, the FCC announced that it intends to propose revised open Internet rules.

#### ***Proposed Changes in Regulation***

The regulation of programming services, cable television systems, DBS providers, Internet services, online sales and other forms of product marketing is subject to the political process and has been in constant flux over the past decade. Further material changes in the law and regulatory requirements must be anticipated and there can be no assurance that our business will not be adversely affected by future legislation, new regulation or deregulation.

#### **Competition**

Our businesses that engage in video and online commerce compete with traditional bricks-and-mortar and online retailers ranging from large department stores to specialty shops, electronic retailers, direct marketing retailers, such as mail order and catalog companies, and discount retailers. Due to the nature of these businesses there is not a single or small group of competitors that own a significant portion of the overall market share. However, some of these competitors, such as Amazon, have a significantly greater Web-presence than our e-commerce subsidiaries. In addition, QVC and HSN compete for access to customers and audience share with each other and with other conventional forms of entertainment and content. Provide Commerce competes with online floral providers such as 1-800-FLOWERS and floral wire services such as FTD and Teleflora, as well as local bricks-and-mortar florists, supermarkets, mass merchants, gift retailers and floral and gift mass merchants. We believe that the principal competitive factors in the markets in which our electronic commerce businesses compete are high-quality products, freshness, brand recognition, selection, value, convenience, price, website performance, customer service and accuracy of order shipment. Our businesses that offer services through the Internet, including TripAdvisor, compete with businesses that offer their own services directly through the Internet as well as with traditional offline providers of similar services including travel agencies, (both bricks-and-mortar and online), operators of destination search sites and search-centric portals, search technology providers, online advertising networks, site aggregation companies, Internet search engines and niche competitors that focus on a specific category or geography. Expedia also competes with hoteliers and airlines as well as travel planning service providers, including aggregator sites that offer inventory from multiple suppliers, such as airline sites, Orbitz, Travelocity and Priceline, and with American Express and Navigant International, providers of corporate travel services. We believe that the principal competitive factors in the markets in which our

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businesses that offer services through the Internet engage are selection, price, availability of inventory, convenience, brand recognition, accessibility, customer service, reliability, website performance, and ease of use.

## **Employees**

As of December 31, 2013, our corporate function is supported by a services agreement with LMC which has 79 corporate employees who are also considered employees of Liberty. Additionally, our consolidated subsidiaries had an aggregate of approximately 23,000 full and part-time employees. We believe that our employee relations are good.

### *(d) Financial Information About Geographic Areas*

For financial information related to the geographic areas in which we do business, see note 19 to our consolidated financial statements found in Part II of this report.

### *(e) Available Information*

All of our filings with the Securities and Exchange Commission (the "SEC"), including our Form 10-Ks, Form 10-Qs and Form 8-Ks, as well as amendments to such filings are available on our Internet website free of charge generally within 24 hours after we file such material with the SEC. Our website address is [www.libertyinteractive.com](http://www.libertyinteractive.com).

Our corporate governance guidelines, code of business conduct and ethics, compensation committee charter, nominating and corporate governance committee charter, and audit committee charter are available on our website. In addition, we will provide a copy of any of these documents, free of charge, to any shareholder who calls or submits a request in writing to Investor Relations, Liberty Interactive Corporation, 12300 Liberty Boulevard, Englewood, Colorado 80112, Tel. No. (877) 772-1518.

The information contained on our website is not incorporated by reference herein.

## Item 1A. Risk Factors

*The risks described below and elsewhere in this annual report are not the only ones that relate to our businesses or our capitalization. The risks described below are considered to be the most material. However, there may be other unknown or unpredictable economic, business, competitive, regulatory or other factors that also could have material adverse effects on our businesses. Past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods. If any of the events described below were to occur, our businesses, prospects, financial condition, results of operations and/or cash flows could be materially adversely affected.*

### **Risk Factors Related to our Company, the Interactive Group and the Ventures Group**

The risks described below apply to our company and to the businesses and assets attributable to the Interactive Group and the Ventures Group.

*The historical financial information of the Interactive Group and the Ventures Group included in this Form 10-K, may not necessarily reflect their results had they been separate companies.* One of the reasons for the creation of a tracking stock is to permit equity investors to apply more specific criteria in valuing the shares of a particular group, such as comparisons of earnings multiples with those of other companies in the same business sector. In valuing shares of Liberty Interactive common stock and Liberty Ventures common stock, investors should recognize that the historical financial information of the Interactive Group and the Ventures Group has been extracted from our consolidated financial statements prior to and for a period of time following the LMC Split-Off, as well as prior to and for a period of time following the creation of the Ventures Group in August 2012, and may not necessarily reflect what the Interactive Group's and the Ventures Group's results of operations, financial condition and cash flows would have been had the Interactive Group and the Ventures Group been separate, stand-alone entities pursuing independent strategies during the periods presented.

*Our subsidiary QVC depends on the television distributors that carry its programming, and no assurance can be given that QVC will be able to maintain and renew its affiliation agreements on favorable terms or at all.* QVC currently distributes its programming through affiliation or transmission agreements with many television providers, including, but not limited to, Comcast, DIRECTV, DISH Network and Time Warner Cable in the U.S., JCN, Jupiter Telecommunications, Ltd., Sky Perfect and World Hi-Vision Channel, Inc. in Japan, Kabel Deutschland Vertrieb und Service GmbH, Media Broadcast GmbH, SES ASTRA, SES Platform Services GmbH, Telekom Deutschland GmbH and Unitymedia Kabel BW GmbH in Germany, A1 Telekom Austria AG and UPC Telekabel Wien GmbH and in Austria, Arqiva, British Sky Broadcasting, Freesat SDN and Virgin Media in the United Kingdom and Mediaset and Sky Italia in Italy. QVC's affiliation agreements with its distributors are scheduled to expire between 2014 and 2022. As part of normal course renewal discussions, occasionally QVC has disagreements with its distributors over the terms of its carriage, such as channel placement or other contract terms. If not resolved through business negotiation, such disagreements could result in litigation or termination of an existing agreement. Termination of an existing agreement resulting in the loss of distribution of QVC's programming to a material portion of its television households may adversely affect its growth, net revenue and earnings. The renewal negotiation process for affiliation agreements is typically lengthy. In some cases, renewals are not agreed upon prior to the expiration of a given agreement while the programming continues to be carried by the relevant distributor without an effective agreement in place. QVC does not have distribution agreements with some of the cable operators that carry its programming. In total, QVC is currently providing programming without affiliation agreements to distributors representing 6% of its U.S. distribution, and short-term, rolling 90 day letters of extension, to distributors who represent approximately 22% of its U.S. distribution. Some of QVC's international programming may continue to be carried by distributors after the expiration dates on its affiliation agreements with them have passed. QVC may be unable to obtain renewals with its current distributors on acceptable terms, if at all. QVC may also be unable to successfully negotiate affiliation agreements with new or existing distributors to carry its programming. Although QVC considers its current levels of distribution without written agreement to be ordinary course, the failure to successfully renew or negotiate new affiliation agreements covering a material portion of television households could result in a discontinuation of carriage that may adversely affect its viewership, growth, net revenue and earnings and, as a result, our financial condition and results of operation.

*Our programming and online commerce businesses depend on their relationships with third party suppliers and vendors and any adverse changes in these relationships could adversely affect our results of operation and those attributed to any of our groups.* An important component of the success of our programming and online commerce businesses is their ability to maintain their existing, as well as build new, relationships with a limited number of local and foreign suppliers and vendors, among other

parties. There can be no assurance that our subsidiaries and business affiliates will be able to maintain their existing supplier or vendor arrangements on commercially reasonable terms or at all or, with respect to goods sourced from foreign markets, if the supply costs will remain stable. In addition, our subsidiaries and business affiliates cannot guarantee that goods produced and delivered by third parties will meet applicable quality standards, which is impacted by a number of factors, some which are not within the control of these parties. Adverse changes in existing relationships or the inability to enter into new arrangements with these parties on favorable terms, if at all, could cause a failure to meet customer expectations and timely delivery of products, which could in turn have a significant adverse effect on our results of operations and those attributed to our groups.

***Our businesses attributed to each group are subject to risks of adverse government regulation.*** Our programming businesses, such as QVC and HSN, market and provide a broad range of merchandise through television shopping programs and proprietary websites. Similarly, our online commerce businesses, such as TripAdvisor and the e-commerce companies, market and provide a broad range of merchandise and/or services through their proprietary websites. As a result, these businesses are subject to a wide variety of statutes, rules, regulations, policies and procedures in various jurisdictions, including foreign jurisdictions, which are subject to change at any time, including laws regarding consumer protection, privacy, the regulation of retailers generally, the license requirements for television retailers in foreign jurisdictions, the importation, sale and promotion of merchandise and the operation of retail stores and warehouse facilities, as well as laws and regulations applicable to the internet and businesses engaged in online commerce, such as those regulating the sending of unsolicited, commercial electronic mail. The failure by our businesses to comply with these laws and regulations could result in a revocation of required licenses, fines and/or proceedings by governmental agencies and/or consumers, which could adversely affect our businesses, financial condition and results of operations. Moreover, unfavorable changes in the laws, rules and regulations applicable to our businesses could decrease demand for our products and services, increase costs and/or subject our businesses to additional liabilities. Similarly, new disclosure and reporting requirements, established under existing or new state or federal laws, such as regulatory rules regarding requirements to disclose efforts to identify the origin and existence of certain “conflict minerals” or abusive labor practices in portions of QVC’s supply chain, could increase the cost of doing business, adversely affecting our results of operations. In addition, certain of these regulations may impact the marketing efforts of our brands and businesses.

As mentioned above, the manner in which certain of our subsidiaries and business affiliates sell and promote merchandise and related claims and representations made in connection with these efforts is regulated by federal, state and local law, as well as the laws of the foreign countries in which they operate. Certain of our subsidiaries and business affiliates may be exposed to potential liability from claims by purchasers or from regulators and law enforcement agencies, including, but not limited to, claims for personal injury, wrongful death and damage to personal property relating to merchandise sold and misrepresentation of merchandise features and benefits. In certain instances, these subsidiaries and business affiliates have the right to seek indemnification for related liabilities from their respective vendors and may require such vendors to carry minimum levels of product liability and errors and omissions insurance. These vendors, however, may be unable to satisfy indemnification claims, obtain suitable coverage or maintain this coverage on acceptable terms, or insurance may provide inadequate coverage or be unavailable with respect to a particular claim.

In addition, programming services, cable television systems, the Internet, telephony services and satellite service providers are subject to varying degrees of regulation in the United States by the Federal Communications Commission and other entities and in foreign countries by similar regulators. Such regulation and legislation are subject to the political process and have been in constant flux over the past decade. The application of various sales and use tax provisions under state, local and foreign law to the products and services of our subsidiaries and certain of our business affiliates sold via the Internet, television and telephone is subject to interpretation by the applicable taxing authorities, and no assurance can be given that such authorities will not take a contrary position to that taken by our subsidiaries and certain of our business affiliates, which could have a material adverse effect on their businesses. In addition, there have been numerous attempts at the federal, state and local levels to impose additional taxes on online commerce transactions. Moreover, most foreign countries in which our subsidiaries or business affiliates have, or may in the future make, an investment regulate, in varying degrees, the distribution, content and ownership of programming services and foreign investment in programming companies and the Internet.

In addition, certain of our businesses are subject to consent decrees issued by the Federal Trade Commission (“FTC”) barring them from making deceptive claims for specified weight-loss products and dietary supplements and prohibiting them from making certain claims about specified weight-loss, dietary supplement and anti-cellulite products unless they have competent and reliable scientific evidence to substantiate such claims. Violation of these consent decrees may result in the imposition of significant civil penalties for non-compliance and related redress to consumers and/or the issuance of an injunction enjoining these businesses

from engaging in prohibited activities. Further material changes in the law and increased regulatory requirements must be anticipated, and there can be no assurance that the businesses and assets attributed to each group will not become subject to increased expenses or more stringent restrictions as a result of any future legislation, new regulation or deregulation.

***Weak economic conditions worldwide may reduce consumer demand for our products and services.*** The prolonged economic uncertainty in various regions of the world in which our subsidiaries and affiliates operate could adversely affect demand for our products and services since a substantial portion of our revenue is derived from discretionary spending by individuals, which typically falls during times of economic instability. Global financial markets continue to experience disruptions, including increased volatility and diminished liquidity and credit availability. The world has experienced a global macroeconomic downturn, and if economic and financial market conditions in the U.S. or other key markets, including Japan and Europe, remain uncertain, persist, or deteriorate further, customers of our subsidiaries and affiliates may respond by suspending, delaying, or reducing their discretionary spending. A suspension, delay or reduction in discretionary spending could adversely affect revenue across each of our tracking stock groups. Accordingly, our ability to increase or maintain revenue and earnings could be adversely affected to the extent that relevant economic environments remain weak or decline further. Such weak economic conditions may also inhibit the expansion of our subsidiaries and affiliates into new European and other markets. We currently are unable to predict the extent of any of these potential adverse effects.

***Rapid technological advances could render the products and services offered by our subsidiaries and our business affiliates attributed to our Interactive Group and our Ventures Group obsolete or non-competitive.*** Our subsidiaries and business affiliates attributed to each group must stay abreast of rapidly evolving technological developments and offerings to remain competitive and increase the utility of their services. As their operations grow in size and scope, our subsidiaries and business affiliates must continuously improve and upgrade their systems and infrastructure while maintaining or improving the reliability and integrity of their systems and infrastructure. These subsidiaries and business affiliates must be able to incorporate new technologies into their products and services in order to address the needs of their customers. The emergence of alternative platforms such as mobile and tablet computing devices and the emergence of niche competitors who may be able to optimize products, services or strategies for such platforms will require new investment in technology. New developments in other areas, such as cloud computing, could also make it easier for competition to enter their markets due to lower up-front technology costs. There can be no assurance that our subsidiaries and business affiliates will be able to compete with advancing technology or be able to maintain existing systems or replace or introduce new technologies and systems as quickly as they would like or in a cost-effective manner, and any failure to do so could result in customers seeking alternative service providers and may adversely affect the group to which they are attributed, thereby adversely impacting our revenue and operating income.

***Our subsidiaries and business affiliates attributed to each of our Interactive and Ventures Groups conduct their businesses under highly competitive conditions.*** Although QVC and HSN are two of the nation's largest home shopping networks, they and the e-commerce businesses attributed to the Interactive Group have numerous and varied competitors at the national and local levels, ranging from large department stores to specialty shops, electronic retailers, direct marketing retailers, wholesale clubs, discount retailers, infomercial retailers, internet retailers, and mail-order and catalog companies. In addition, QVC competes with HSN as well as other televised shopping retailers, such as ShopHQ in the U.S., Shop Channel in Japan, HSE 24 in Germany and Ideal World in the United Kingdom. QVC also competes for access to customers and audience share with other providers of televised, online and hard copy entertainment and content.

Similarly, TripAdvisor and Expedia, our online travel-oriented businesses, face significant competition from travel agencies (both bricks-and-mortar and online) as well as from travel destination sites and Internet search portals. If any of the large search engines or online travel agencies chose to compete more directly with TripAdvisor in the travel review space, TripAdvisor may face loss of business or other adverse financial consequences since those entities generally possess significantly greater financial resources and brand recognition.

Competition is characterized by many factors, including assortment, advertising, price, quality, service, accessibility, site functionality, reputation and credit availability, as well as the financial, technical and marketing expertise of competitors. For example, many of our businesses' competitors have greater resources, longer histories, more customers and greater brand recognition than our businesses do, and competitors may secure better terms from vendors, adopt more aggressive pricing, offer free or subsidized shipping and devote more resources to technology, fulfillment and marketing. For example, Provide Commerce competes with well-known online floral providers such as 1-800-FLOWERS and floral wire services such as FTD and Teleflora, as well as local bricks-and-mortar florists, Bodybuilding.com competes with retailers such as GNC, and Backcountry.com competes

with retailers such as REI, which have both online and bricks-and-mortar operations. Other companies also may enter into business combinations or alliances that strengthen their competitive positions.

If our subsidiaries and business affiliates do not compete effectively with regard to these factors, our results of operations could be materially and adversely affected.

***The sales and operating results of the businesses attributed to our Interactive Group depend on their ability to attract new customers, retain existing customers and predict or respond to consumer preferences.*** In an effort to attract and retain customers, these businesses engage in various merchandising and marketing initiatives, which involve the expenditure of money and resources. These initiatives, however, may not resonate with existing customers or consumers generally or may not be cost-effective. In addition, costs associated with the production and distribution of television programming (in the case of QVC and HSN) and costs associated with online marketing, including search engine marketing (primarily the purchase of relevant keywords) have increased and are likely to continue to increase in the foreseeable future and, if significant, could have a material adverse effect to the extent that they do not result in corresponding increases in net revenue. These companies also continuously develop new retail concepts and adjust their product mix in an effort to satisfy customer demands. Any sustained failure to identify and respond to emerging trends in lifestyle and consumer preferences could have a material adverse effect on the businesses of these subsidiaries and business affiliates. Consumer spending may be affected by many factors outside of their control, including competition from store-based retailers, mail-order and third-party Internet companies, consumer confidence and preferences, and general economic conditions.

***The failure of our subsidiary QVC and our business affiliate HSN to maintain suitable placement for their respective programming could adversely affect their ability to attract and retain television viewers and could result in a decrease in revenue.*** QVC and HSN are dependent upon the continued ability of their programming to compete for viewers. Effectively competing for television viewers is dependent, in substantial part, on their ability to negotiate and maintain placement of their programming at a favorable channel position, such as in a basic tier or within a general entertainment or general broadcasting tier. The advent of digital compression technologies and the adoption of digital cable have resulted in increased channel capacity, which together with other changing laws, rules and regulations regarding cable television ownership, impacts the ability of both QVC and HSN to negotiate and maintain suitable channel placement with their respective distributors. Increased channel capacity could adversely affect the ability to attract television viewers to QVC's or HSN's programming to the extent it results in a less favorable channel position for their respective programming, such as placement adjacent to programming that does not compliment their respective programming, a position next to their respective televised home shopping competitors or isolation in a "shopping" tier, more competitors entering the marketplace, or more programming options being available to the viewing public in the form of new television networks and timeshifted viewing (e.g., personal video recorders, video-on-demand, interactive television and streaming video over Internet connections). In addition, if QVC's or HSN's programming is carried exclusively by a distributor on a digital programming tier, QVC or HSN may experience a reduction in revenue to the extent that the digital programming tier has less television viewer penetration than the basic or expanded basic programming tier. QVC and HSN may experience a further reduction in revenue due to increased television viewing audience fragmentation to the extent that not all television sets within a digital cable home are equipped to receive television programming in a digital format. The future success of each of QVC and HSN will depend, in part, on their ability to anticipate and adapt to technological changes and to offer elements of their respective programming via new technologies in a cost-effective manner that meets customer demands and evolving industry standards.

***Any continued or permanent inability of QVC or HSN to transmit their programming via satellite would result in lost revenue and could result in lost customers.***The success of our subsidiary QVC and our business affiliate HSN is dependent upon their continued ability to transmit their respective programming to television providers from their respective satellite uplink facilities, which transmissions are subject to the Federal Communications Commission (FCC) compliance in the U.S. and foreign regulatory requirements in QVC's and HSN's international operations. In most cases, each of QVC and HSN has entered into long-term satellite transponder leases to provide for continued carriage of its programming on replacement transponders and/or replacement satellites, as applicable, in the event of a failure of either the transponders and/or satellites currently carrying its programming. However, QVC does have a transponder service agreement in the United Kingdom that will expire in 2014. Although QVC believes that it takes reasonable and customary measures to ensure continued satellite transmission capability and believes that this international transponder service agreement can be renewed (or replaced, if necessary) in the ordinary course of business, termination or interruption of satellite transmissions may occur, particularly if QVC is not able to successfully negotiate renewals or replacements of any of this or any other expiring transponder service agreement in the future. Although QVC considers the transponder service agreement that is expiring in 2014 to be in the ordinary course, the failure to successfully renew or negotiate

a new transmission agreement that results in an inability to transmit its programming would result in lost revenue and could result in lost customers, which could adversely affect our financial condition and results of operation.

***System interruption and the lack of integration and redundancy in the systems and infrastructures of our subsidiaries QVC and TripAdvisor, our business affiliate HSN and our other online commerce businesses may adversely affect their ability to, as applicable, operate their businesses, transmit their television programs, operate websites, process and fulfill transactions, respond to customer inquiries and generally maintain cost-efficient operations.*** The success of our subsidiaries and business affiliates depends, in part, on their ability to maintain the integrity of their transmissions, systems and infrastructures, including the transmission of television programs (in the case of QVC and HSN), as well as the integrity of their websites, information and related systems developed for the delivery of content and services, call centers and fulfillment facilities. These subsidiaries and business affiliates may experience occasional system interruptions that make some or all transmissions, systems or data unavailable or prevent them from transmitting their signals or efficiently providing services or fulfilling orders, as the case may be. QVC is in the process of implementing new technology systems and upgrading others. The failure to properly implement new systems or delays in implementing new systems could impair the ability of our subsidiaries and business affiliates to provide services and content and/or process transactions. QVC and HSN also rely on affiliate and third-party computer systems, broadband, transmission and other communications systems and service providers in connection with the transmission of their respective signals, as well as to facilitate, process and fulfill transactions. Any interruptions, outages or delays in their signal transmissions, systems and infrastructures, or any deterioration in the performance of these transmissions, systems and infrastructures, could impair their ability to provide services, fulfill orders and/or process transactions. Fire, flood, power loss, telecommunications failure, hurricanes, tornadoes, earthquakes, acts of war or terrorism, acts of God and similar events or disruptions may damage or interrupt television transmissions, computer, broadband or other communications systems and infrastructures at any time. Any of these events could cause transmission or system interruption, delays and loss of critical data, and could prevent our subsidiaries and business affiliates from providing services, fulfilling orders and/or processing transactions. While our subsidiaries and business affiliates have backup systems for certain aspects of their operations, these systems are not fully redundant and disaster recovery planning is not sufficient for all possible risks. In addition, some of our subsidiaries and business affiliates may not have adequate insurance coverage to compensate for losses from a major interruption.

***The processing, storage, use and disclosure of personal data by our home television and online commerce businesses could give rise to liabilities as a result of governmental regulation, conflicting legal requirements or differing views of personal privacy rights.*** In the processing of consumer transactions, home television and online commerce businesses receive, transmit and store a large volume of personally identifiable information and other user data. The sharing, use, disclosure and protection of this information is governed by the privacy and data security policies maintained by these businesses. Moreover, there are federal, state and international laws regarding privacy and the storing, sharing, use, disclosure and protection of personally identifiable information and user data. Specifically, personally identifiable information is increasingly subject to legislation and regulations in numerous jurisdictions around the world, the intent of which is to protect the privacy of personal information that is collected, processed and transmitted in or from the governing jurisdiction. The failure of these businesses and/or the failure by any of the various third party vendors and service providers with which they do business, to comply with applicable privacy policies or federal, state or similar international laws and regulations, or any compromise of security that results in the unauthorized release of personally identifiable information or other user data, could damage their reputation and the reputation of their third party vendors and service providers, discourage potential users from trying their products and services and/or result in fines and/or proceedings brought by governmental agencies and/or consumers, any one or all of which could adversely affect the business, financial condition and results of operations of these businesses and, as a result, our company.

***Our home television and online commerce businesses are subject to security risks, including security breaches and identity theft.*** In order to succeed, our home television and online commerce businesses must be able to provide for secure transmission of confidential information over public networks. Any penetration of network security or other misappropriation or misuse of personal consumer information could cause interruptions in the operations of their business and subject them to increased costs, litigation and other liabilities. Security breaches could also significantly damage their reputation with their customers and third parties with whom they do business. These businesses may be required to expend significant capital and other resources to protect against and remedy any potential or existing security breaches and their consequences. They also face risks associated with security breaches affecting third parties with which they are affiliated or otherwise conduct business online. The loss of confidence in our online commerce businesses resulting from any such security breaches or identity theft could adversely affect the business, financial condition and results of operations of our online commerce businesses and, as a result, our company.

***Certain of our subsidiaries and business affiliates may fail to adequately protect their intellectual property rights or may be accused of infringing intellectual property rights of third parties.*** Our subsidiaries and business affiliates regard their respective intellectual property rights, including service marks, trademarks and domain names, copyrights (including their programming and their websites), trade secrets and similar intellectual property, as critical to their success. These businesses also rely heavily upon software codes, informational databases and other components that make up their products and services. From time to time, these businesses are subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of the trademarks, patents, copyrights and other intellectual property rights of third parties. In addition, litigation may be necessary to enforce the intellectual property rights of these businesses, protect trade secrets or to determine the validity and scope of proprietary rights claimed by others. Any litigation of this nature, regardless of outcome or merit, could result in substantial costs and diversion of management and technical resources, any of which could adversely affect the business, financial condition and results of operations of these businesses and in turn our financial condition and results of operations. The failure of these businesses to protect their intellectual property rights, particularly their proprietary brands, in a meaningful manner or third party challenges to related contractual rights could result in erosion of brand names and limit the ability of these businesses to control marketing on or through the internet using their various domain names, which could adversely affect the business, financial condition and results of operations of these businesses as well as the financial condition and results of operations of our company.

***Our home television and online commerce businesses rely on independent shipping companies to deliver the products they sell.*** Our home television and online commerce businesses rely on third party carriers to deliver merchandise from vendors and manufacturers to them and to ship merchandise to their customers. As a result, they are subject to carrier disruptions and delays due to factors that are beyond their control, including employee strikes, inclement weather and regulation and enforcement actions by customs agencies. Any failure to deliver products to their customers in a timely and accurate manner may damage their reputation and brand and could cause them to lose customers. Enforcement actions by customs agencies can also cause the costs of imported goods to increase, negatively affecting profits. These businesses are also impacted by increases in shipping rates charged by third party carriers, which over the past few years have increased significantly in comparison to historical levels and it is currently expected that shipping and postal rates will continue to increase. In the case of deliveries to customers, in each market where we operate, we have negotiated agreements with one or more independent, third party shipping companies, which in certain circumstances provide for favorable shipping rates. If any of these relationships were to terminate or if a shipping company was unable to fulfill its obligations under its contract for any reason, these businesses would have to work with other shipping companies to deliver merchandise to customers, which would most likely be at less favorable rates. Other potential adverse consequences of changing carriers include reduced visibility of order status and package tracking, delays in order processing and product delivery, and reduced shipment quality, which may result in damaged products and customer dissatisfaction. Any increase in shipping rates and related fuel and other surcharges passed on to these business by their current carriers or any other shipping company would adversely impact profits, given that these businesses may not be able to pass these increased costs directly to customers or offset them by increasing prices without a detrimental effect on customer demand.

***The seasonality of certain of our businesses places increased strain on their operations.*** The net revenue of our home television and online commerce businesses in recent years indicates that these businesses are seasonal due to a higher volume of sales in certain months or calendar quarters or related to particular holiday shopping. For example, in recent years, QVC has earned, on average, between 22% and 23% of its global revenue in each of the first three quarters of the year and 32% of its global revenue in the fourth quarter of the year. Similarly, our subsidiary Backcountry earns approximately 40% of its revenue in the fourth quarter, our subsidiary Provide experiences higher sales around Valentine's Day and Mother's Day due to the purchases of flowers and other gifts, our subsidiary Bodybuilding experiences a busier first quarter as people start to implement New Year's resolutions toward health and fitness, and our subsidiary Celebrate earns approximately half of its revenue from the sale of costumes in September and October leading up to Halloween. If the vendors for these businesses are not able to provide popular products in sufficient amounts such that these businesses fail to meet customer demand, it could significantly affect their revenue and future growth. If too many customers access the websites of these businesses within a short period of time due to increased demand, our businesses may experience system interruptions that make their websites unavailable or prevent them from efficiently fulfilling orders, which may reduce the volume of goods they sell and the attractiveness of their products and services. In addition, they may be unable to adequately staff their fulfillment and customer service centers during these peak periods and delivery and other third party shipping (or carrier) companies may be unable to meet the seasonal demand. To the extent these businesses pay for holiday merchandise in advance of certain holidays (e.g., in the case of QVC, in August through November of each year), their available cash may decrease, resulting in less liquidity.

***The failure of our subsidiary QVC to effectively manage its Easy-Pay and revolving credit card programs could result in less income***QVC offers Easy-Pay in the U.S. and U.K. (known as Q Pay in Germany), a payment plan that, when offered by QVC, allows customers to pay for certain merchandise in two or more monthly installments. We cannot predict whether customers will pay all of their Easy-Pay installments. In addition, QVC-U.S. has an agreement with a large consumer financial institution (the “Bank”) pursuant to which the Bank provides revolving credit directly to QVC’s customers for the sole purpose of purchasing merchandise from QVC with a QVC branded credit card (“Q Card”). QVC receives a portion of the net economics of the credit card program according to percentages that vary with the performance of the portfolio. We cannot predict the extent to which QVC’s customers will use the Q Card, nor the extent that they will make payments on their outstanding balances.

***The success of our home television and online commerce businesses depends in large part on their ability to recruit and retain key personnel capable of executing their unique business models.*** QVC and HSN, as well as our e-commerce subsidiaries have business models that require them to recruit and retain key employees, including management, with the skills necessary for a unique business that demands knowledge of the general retail industry, television production, direct to consumer marketing and fulfillment and the Internet. We cannot assure you that if QVC, HSN or our e-commerce subsidiaries experience turnover of these key employees they will be able to recruit and retain acceptable replacements because the market for such employees is very competitive and limited.

***Certain of our subsidiaries and business affiliates have operations outside of the United States that are subject to numerous operational and financial risks***Certain of our subsidiaries and business affiliates have operations in countries other than the United States that are subject to the following risks inherent in international operations:

- fluctuations in currency exchange rates;
- longer payment cycles for sales in foreign countries that may increase the uncertainty associated with recoverable accounts;
- recessionary conditions and economic instability, including fiscal policies that are implementing austerity measures in certain countries, which are affecting overseas markets;
- limited ability to repatriate funds to the U.S. at favorable tax rates;
- potentially adverse tax consequences;
- export and import restrictions, tariffs and other trade barriers;
- increases in taxes and governmental royalties and fees;
- changes in foreign and U.S. laws, regulations and policies that govern operations of foreign-based companies;
- changes to general consumer protection laws and regulations;
- involuntary renegotiation of contracts with foreign governments;
- foreign and domestic regulations, laws and policies that govern operations of foreign-based companies;
- difficulties in staffing and managing international operations; and
- political unrest that may result in disruption of services critical to international businesses.

Moreover, in many foreign countries, particularly in certain developing economies, it is not uncommon to encounter business practices that are prohibited by certain regulations, such as the Foreign Corrupt Practices Act and similar laws. Although certain of our subsidiaries and business affiliates have undertaken compliance efforts with respect to these laws, their respective employees, contractors and agents, as well as those companies to which they outsource certain of their business operations, may take actions in violation of their policies and procedures. Any such violation, even if prohibited by the policies and procedures of these subsidiaries and business affiliates or the law, could have certain adverse effects on the financial condition of these subsidiaries

and business affiliates. Any failure by these subsidiaries and business affiliates to effectively manage the challenges associated with the international operation of their businesses could materially adversely affect their, and hence our, financial condition.

***Our subsidiary TripAdvisor derives substantially all of its revenue, and to a lesser extent, certain of our other online commerce businesses derive a substantial portion of their revenues, from advertising and any significant reduction in spending by advertisers could harm these businesses.*** Most of the advertisers doing business with our online commerce businesses can generally terminate their contracts with these businesses at any time or on very short notice and will not continue to do business if their investment in such advertising does not generate sales leads, customers or revenue and profit on a cost-effective basis, or if our online commerce businesses do not deliver advertisements in an appropriate and effective manner. If our online commerce businesses are unable to remain competitive and provide value to their advertisers, these advertisers will likely stop placing ads on their websites, which would harm revenues and business. Our online commerce businesses cannot guarantee that their current advertisers will fulfill their obligations under existing contracts, continue to advertise beyond the terms of existing contracts or enter into any new contracts. Expenditures by advertisers also tend to be cyclical, subject to variation based on budgetary constraints, project cancellation or delay, and to reflect overall economic conditions and buying patterns. If our online commerce businesses are unable to generate advertising revenue due to factors outside of their control, their business and financial performance could be adversely affected. TripAdvisor, for example, derives a substantial portion of its revenue from a relatively small number of significant advertisers, and if any of these advertisers were to cease or significantly curtail advertising on TripAdvisor's websites, TripAdvisor would experience a rapid decline in revenues over a relatively short period of time. In addition, if new, more effective advertising models were to emerge, there can be no assurance that our online commerce businesses will have the ability to offer these models, or offer them in an effective manner. To the extent new technology platforms, such as smartphone and tablet computing, begin to take market share from established platforms, there can be no assurance that our online commerce businesses' existing advertising models will operate successfully on these new platforms, or work as effectively as on the desktop computer platform.

***If certain of our online commerce subsidiaries are unable to continue to increase visitors to their websites and to cost-effectively convert these visitors into repeat consumers or contributors, their advertising revenue could decline.*** The primary asset that certain of our online commerce businesses use to attract traffic to their websites and convert these visitors into repeat users is the content created by users of these websites, particularly such content's volume, unique nature and organization. Their success in attracting users depends, in part, upon their continued ability to collect, create, organize and distribute high-quality, commercially valuable content in a cost-effective manner at a scale that connects consumers with content that meets their specific interests and enables them to share and interact with the content and supporting communities. There can be no assurances that certain of our online commerce businesses will continue to receive content in a cost-effective manner or in a manner that timely meets rapidly changing consumer demand, if at all. Any failure to obtain such content could adversely affect consumer experiences and reduce traffic driven to their websites, which would make their websites less attractive to advertisers. Any change in the cost structure pursuant to which these online commerce businesses obtain their content currently or in users' relative appreciation of their content could negatively impact the business and financial performance of these online commerce businesses.

***Our online commerce businesses could be negatively affected by changes in search engine algorithms and dynamics, or search engine disintermediation as well as their inability to monetize the resulting website traffic.*** The success of our online commerce businesses depends on a high degree of website traffic, which is dependent on many factors, including the availability of appealing website content, user loyalty and new user generation from search portals that charge a fee (such as Google). In obtaining a significant amount of website traffic via search engines, they utilize techniques such as search engine optimization, or SEO (which is the practice of developing websites with relevant and current content that rank well in "organic," or unpaid, search engine results) and search engine marketing, or SEM (which is a form of Internet marketing that involves the promotion of websites by increasing their visibility in search engine results pages through the use of paid placement, contextual advertising, and paid inclusion) to improve their placement in relevant search queries. Search engines, including Google, frequently update and change the logic that determines the placement and display of results of a user's search, such that the purchased or algorithmic placement of links to the websites of our online commerce businesses can be negatively affected. Moreover, a search engine could, for competitive or other purposes, alter its search algorithms or results causing their websites to place lower in search query results. If a major search engine changes its algorithms in a manner that negatively affects their paid or unpaid search ranking, or if competitive dynamics impact the effectiveness of SEO or SEM in a negative manner, the business and financial performance of our online commerce businesses would be adversely affected, potentially to a material extent. Furthermore, the failure of our online commerce businesses to successfully manage their SEO and SEM strategies could result in a substantial decrease in traffic to their websites, as well as increased costs if they were to replace free traffic with paid traffic. Even if our online commerce businesses are successful in generating a high level of website traffic, no assurance can be given that our online commerce businesses will

be successful in achieving repeat user loyalty or that new visitors will explore the offerings on their sites. Monetizing this traffic by converting users to consumers is dependent on many factors, including availability of inventory, consumer preferences, price, ease of use and website quality. No assurance can be given that the fees paid to search portals may exceed the revenue generated by their visitors. Any failure to sustain user traffic or to monetize such traffic could materially adversely affect the financial performance of our online commerce businesses and, as a result, adversely affect our financial results.

***Our online commerce businesses, including TripAdvisor and Expedia, may experience difficulty in achieving the successful development, implementation and customer acceptance of, and a viable advertising market via, applications for smartphone and tablet computing devices, which could harm their business.*** Although our online commerce businesses have developed services and applications to address user and consumer interaction with website content on smartphone and other non-traditional desktop or laptop computer system (which typically have smaller screens and less convenient typing capabilities), the efficacy of the smartphone application and its advertising market is still developing. Moreover, if smartphone computing services prove to be less effective for the users of our online commerce businesses or less economically attractive for advertisers and the smartphone segment of Internet traffic grows at the expense of traditional computer and tablet Internet access, our online commerce businesses may experience difficulty attracting and retaining traffic and, in turn, advertisers, on these platforms. Additionally, as new devices and new platforms are continually being released, it is difficult to predict the challenges that may be encountered in developing versions of our online commerce businesses' offerings for use on these alternative devices, and our online commerce businesses may need to devote significant resources to the creation, support, and maintenance of their services on such devices. To the extent that revenue generated from advertising placed on smartphone computing devices becomes increasingly more important to their businesses and they fail to adequately evolve and address this market, their business and financial performance could be negatively impacted. In addition, growth in the use of smartphone products as a substitute for use on personal computers and tablets may adversely impact revenue derived from advertising, as many of the processes used for smartphone advertising and related monetization strategies are still in development.

***Two of our subsidiaries, QVC and TripAdvisor, have significant indebtedness, which could limit their flexibility to respond to current market conditions, restrict their business activities and adversely affect their financial condition.*** As of December 31, 2013, QVC had total debt of approximately \$3.8 billion outstanding and an additional \$1.1 billion available for borrowing under its senior secured credit facility as of that date, while TripAdvisor had total debt of approximately \$369 million outstanding and an additional \$200 million available for borrowing under its credit facility as of that date. Each of QVC and TripAdvisor may incur significant additional indebtedness in the future. The indebtedness of QVC and TripAdvisor, combined with other financial obligations and contractual commitments, could have important consequences to their respective businesses and financial conditions, including:

- increased vulnerability to general adverse economic and industry conditions
- dedicating a substantial portion of their cash flow from operations to principal and interest payments on indebtedness, thereby reducing the availability of cash flow to fund working capital, capital expenditures, strategic acquisitions and investments and other general corporate purposes;
- limited flexibility in planning for, or reacting to, changes in their businesses and the markets in which they operate;
- competitively disadvantaging these companies compared with competitors that have less debt;
- limiting the ability of these companies to borrow additional funds or to borrow funds at rates or on other terms that they find acceptable; and
- in the case of QVC, exposing QVC to the risk of increased interest rates because certain of QVC's borrowings, including borrowings under its credit facility, are at variable interest rates.

In addition, it is possible that QVC and TripAdvisor may need to incur additional indebtedness in the future in the ordinary course of business. If new debt is added to their respective current debt levels, the risks described above could intensify. If these subsidiaries experience adverse effects on their financial condition as a result of their indebtedness, our financial performance could be adversely affected as well.

***We do not have the right to manage our business affiliates attributed to either our Interactive Group or our Ventures Group, which means we are not able to cause those affiliates to act in a manner that we deem desirable.*** We do not have the right to manage the businesses or affairs of any of our business affiliates (generally those companies in which we have less than a majority voting stake or with respect to which we have provided a proxy over our voting power to a third party) attributed to our Ventures Group, including Expedia, or our business affiliate HSN, which is attributed to our Interactive Group. Rather, our rights may take the form of representation on the board of directors or a partners' or similar committee that supervises management or possession of veto rights over significant or extraordinary actions. The scope of our veto rights varies from agreement to agreement. Although our board representation and veto rights may enable us to exercise influence over the management or policies of a business affiliate, enable us to prevent the sale of material assets by a business affiliate in which we own less than a majority voting interest or prevent us from paying dividends or making distributions to our stockholders or partners, they will not enable us to cause these actions to be taken as these companies are business affiliates in which we own a partial interest.

***We have overlapping directors and management with LMC and our President is the Chairman of the Board of Starz, which may lead to conflicting interests*** As a result of the LMC Split-Off and Starz's spin-off of LMC in January 2013, most of the executive officers of Liberty also serve as executive officers of LMC, and there is significant board overlap between Liberty and LMC. John C. Malone is the Chairman of the Board of Liberty and LMC. Gregory B. Maffei is the Chief Executive Officer of our company and LMC and serves on the boards of directors of each of our company, LMC and Starz, where he serves as the Chairman of the Board of Starz. None of Liberty, LMC or Starz has any ownership interest in any of the others. Our executive officers and the members of our company's board of directors have fiduciary duties to our stockholders. Likewise, any such persons who serve in similar capacities at LMC or Starz have fiduciary duties to that company's stockholders. Therefore, such persons may have conflicts of interest or the appearance of conflicts of interest with respect to matters involving or affecting more than one of the companies to which they owe fiduciary duties. For example, there may be the potential for a conflict of interest when our company or LMC looks at acquisitions and other corporate opportunities that may be suitable for each of them. Moreover, most of our company's directors and officers continue to own Starz and LMC stock and options to purchase Starz stock and LMC stock. These ownership interests could create, or appear to create, potential conflicts of interest when the applicable individuals are faced with decisions that could have different implications for our company, Starz and/or LMC. Any potential conflict that qualifies as a "related party transaction" (as defined in Item 404 of Regulation S-K under the Securities Act of 1933, as amended) is subject to review by an independent committee of the applicable issuer's board of directors in accordance with its corporate governance guidelines. Any other potential conflicts that arise will be addressed on a case-by-case basis, keeping in mind the applicable fiduciary duties owed by the executive officers and directors of each issuer. From time to time, we may enter into transactions with LMC or Starz and/or their subsidiaries or other affiliates. There can be no assurance that the terms of any such transactions will be as favorable to our company, Starz, LMC or any of their respective subsidiaries or affiliates as would be the case where there is no overlapping officer or director.

***We may compete with Starz for business opportunities.*** Starz owns and operates programming services that may compete with the programming services offered by our subsidiary QVC and business affiliate HSN. Each of QVC, HSN and Starz produce programming that is distributed via cable and satellite networks. We have no rights in respect of programming or distribution opportunities developed by or presented to Starz and the pursuit of these opportunities by Starz may adversely affect our interests or those of our stockholders. Because Mr. Maffei is our President and Chief Executive Officer and Chairman of the Board of Starz, a business opportunity that is presented to him may result in a conflict of interest or the appearance of a conflict of interest. Each of our directors and officers has a fiduciary duty to offer to our company any business opportunity that he or she may be presented in which we have an interest or expectancy. The directors and officers of other issuers, including those who are also our directors and officers, owe the same fiduciary duty to such other issuers and their respective stockholders.

***The liquidity and value of our public investments may be affected by market conditions beyond our control that could cause us to record losses for declines in their market value.*** Included among our assets are equity interests in publicly-traded companies that are not consolidated subsidiaries. The value of these interests may be affected by economic and market conditions that are beyond our control. In addition, our ability to liquidate or otherwise monetize these interests without adversely affecting their value may be limited.

***A substantial portion of our consolidated debt attributed to each group is held above the operating subsidiary level, and we could be unable in the future to obtain cash in amounts sufficient to service that debt and our other financial obligations.*** As of December 31, 2013, our wholly-owned subsidiary Liberty Interactive LLC ("Liberty LLC") had \$3,282 million principal amount of publicly-traded debt outstanding. Liberty LLC is a holding company for all of our subsidiaries and investments. Our

ability to meet the financial obligations of Liberty LLC and our other financial obligations will depend on our ability to access cash. Our sources of cash include our available cash balances, net cash from operating activities, dividends and interest from our investments, availability under credit facilities at the operating subsidiary level, monetization of our public investment portfolio and proceeds from asset sales. There are no assurances that we will maintain the amounts of cash, cash equivalents or marketable securities that we maintained over the past few years. The ability of our operating subsidiaries, including QVC, to pay dividends or to make other payments or advances to us or Liberty LLC depends on their individual operating results, any statutory, regulatory or contractual restrictions to which they may be or may become subject and the terms of their own indebtedness, including QVC's credit facility and bond indentures. The agreements governing such indebtedness restrict sales of assets and prohibit or limit the payment of dividends or the making of distributions, loans or advances to stockholders and partners. Neither we nor Liberty LLC will generally receive cash, in the form of dividends, loans, advances or otherwise, from our business affiliates. See “-We do not have the right to manage our business affiliates attributed to either our Interactive Group or our Ventures Group, which means we are not able to cause those affiliates to act in a manner that we deem desirable” above.

***We have disposed of certain of the reference shares underlying the exchangeable debentures of Liberty LLC attributed to our Ventures Group, which exposes us to liquidity risk.*** Liberty LLC currently has outstanding multiple tranches of exchangeable debentures in the aggregate principal amount of \$2,491 million as of December 31, 2013. Under the terms of these exchangeable debentures, which are attributed to our Ventures Group (other than the 1% Exchangeable Senior Debentures due 2043, which are attributed to the Interactive Group), the holders may elect to require Liberty LLC to exchange the debentures for the value of a specified number of the underlying reference shares, which Liberty LLC may honor through delivery of reference shares, cash or a combination thereof. Also, Liberty LLC is required to distribute to the holders of its exchangeable debentures any cash, securities (other than publicly traded securities, which would themselves become reference shares) or other payments made by the issuer of the reference shares in respect of those shares. The principal amount of the debentures will be reduced by the amount of any such required distributions other than regular cash dividends. As Liberty LLC has disposed of some of the reference shares underlying certain of these exchangeable debentures, any exercise of the exchange right by, or required distribution of cash, securities or other payments to, holders of such debentures will require that Liberty LLC fund the required payments from its own resources, which will depend on the availability of cash or other sources of liquidity to Liberty LLC at that time. Additionally, in the event all reference shares underlying a series of exchangeable debentures are liquidated or otherwise cease to be outstanding without replacement, there is a possibility that the treatment of tax matters associated with that series could change. This may include acceleration of tax liabilities that are recorded as deferred tax liabilities in our financial statements, in amounts that would be significant.

#### **Risks Relating to the Ownership of Our Common Stock due to our Tracking Stock Capitalization**

***Holders of Liberty Interactive common stock and Liberty Ventures common stock are common stockholders of our company and are, therefore, subject to risks associated with an investment in our company as a whole, even if a holder does not own shares of common stock of both of our groups.*** Even though we have attributed, for financial reporting purposes, all of our consolidated assets, liabilities, revenue, expenses and cash flows to either the Interactive Group or the Ventures Group in order to prepare the separate financial statement schedules for each of those groups, we retain legal title to all of our assets and our capitalization does not limit our legal responsibility, or that of our subsidiaries, for the liabilities included in any set of financial statement schedules. Holders of Liberty Interactive common stock and Liberty Ventures common stock do not have any legal rights related to specific assets attributed to the Interactive Group or the Ventures Group and, in any liquidation, holders of Liberty Interactive common stock and holders of Liberty Ventures common stock will be entitled to receive a pro rata share of our available net assets based on their respective numbers of liquidation units.

***Our board of directors' ability to reattribute businesses, assets and expenses between tracking stock groups may make it difficult to assess the future prospects of either tracking stock group based on its past performance.*** Our board of directors is vested with discretion to reattribute businesses, assets and liabilities that are attributed to one tracking stock group to the other tracking stock group, without the approval of any of our stockholders. Any such reattribution made by our board, as well as the existence of the right in and of itself to effect a reattribution, may impact the ability of investors to assess the future prospects of either tracking stock group, including its liquidity and capital resource needs, based on its past performance. Stockholders may also have difficulty evaluating the liquidity and capital resources of each group based on past performance, as our board of directors may use one group's liquidity to fund the other group's liquidity and capital expenditure requirements through the use of inter-group loans and inter-group interests.

***We could be required to use assets attributed to one group to pay liabilities attributed to the other group.*** The assets attributed to one group are potentially subject to the liabilities attributed to the other group, even if those liabilities arise from lawsuits, contracts or indebtedness that are attributed to such other group. While our current management and allocation policies provide that reattributions of assets between groups will result in the creation of an inter-group loan or an inter-group interest or an offsetting reattribution of cash or other assets, no provision of our restated charter prevents us from satisfying liabilities of one group with assets of the other group, and our creditors are not in any way limited by our tracking stock capitalization from proceeding against any assets they could have proceeded against if we did not have a tracking stock capitalization.

***The market price of Liberty Interactive common stock and Liberty Ventures common stock may not reflect the performance of the Interactive Group and the Ventures Group, respectively, as we intend.*** We cannot assure you that the market price of the common stock of a group, in fact, will reflect the performance of the group of businesses, assets and liabilities attributed to that group. Holders of Liberty Interactive common stock and Liberty Ventures common stock are common stockholders of our company as a whole and, as such, will be subject to all risks associated with an investment in our company and all of our businesses, assets and liabilities. As a result, the market price of each series of stock of a group may simply reflect the performance of our company as a whole or may more independently reflect the performance of some or all of the group of assets attributed to such group. In addition, investors may discount the value of the stock of a group because it is part of a common enterprise rather than a stand-alone entity.

***The market price of Liberty Interactive common stock and Liberty Ventures common stock may be volatile, could fluctuate substantially and could be affected by factors that do not affect traditional common stock.*** The market prices of Liberty Interactive common stock and Liberty Ventures common stock may be materially affected by, among other things:

- actual or anticipated fluctuations in a group's operating results or in the operating results of particular companies attributable to such group;
- potential acquisition activity by our company, our subsidiaries or our business affiliates;
- issuances of debt or equity securities to raise capital by our company, our subsidiaries or our business affiliates and the manner in which that debt or the proceeds of an equity issuance are attributed to each of the groups;
- changes in financial estimates by securities analysts regarding Liberty Interactive common stock or Liberty Ventures common stock or the companies attributable to either of our tracking stock groups;
- the complex nature and the potential difficulties investors may have in understanding the terms of both of our tracking stocks, as well as concerns regarding the possible effect of certain of those terms on an investment in our stock; and
- general market conditions.

***The market value of Liberty Interactive common stock and Liberty Ventures common stock could be adversely affected by events involving the assets and businesses attributed to either of the groups.*** Because we are the issuer of Liberty Interactive common stock and Liberty Ventures common stock, an adverse market reaction to events relating to the assets and businesses attributed to either of our groups, such as earnings announcements or announcements of new products or services, acquisitions or dispositions that the market does not view favorably, may cause an adverse reaction to the common stock of our other group. This could occur even if the triggering event is not material to us as a whole. A certain triggering event may also have a greater impact on one group than the same triggering event would have on the other group due to the asset composition of the affected group. In addition, the incurrence of significant indebtedness by us or any of our subsidiaries on behalf of one group, including indebtedness incurred or assumed in connection with acquisitions of or investments in businesses, could affect our credit rating and that of our subsidiaries and, therefore, could increase the borrowing costs of businesses attributable to our other group or the borrowing costs of our company as a whole.

***We may not pay dividends equally or at all on Liberty Interactive common stock or Liberty Ventures common stock.*** We do not presently intend to pay cash dividends on Liberty Interactive common stock or Liberty Ventures common stock for the foreseeable future. However, we will have the right to pay dividends on the shares of common stock of each group in equal or unequal amounts, and we may pay dividends on the shares of common stock of one group and not pay dividends on shares of common stock of the other group. In addition, any dividends or distributions on, or repurchases of, shares relating to either group will reduce our assets legally available to be paid as dividends on the shares relating to the other group.

***Our tracking stock capital structure could create conflicts of interest, and our board of directors may make decisions that could adversely affect only some holders of our common stock.*** Our tracking stock capital structure could give rise to occasions when the interests of holders of stock of one group might diverge or appear to diverge from the interests of holders of stock of the other group. In addition, given the nature of their businesses, there may be inherent conflicts of interests between the Interactive Group and the Ventures Group. Our tracking stock groups are not separate entities and thus holders of Liberty Interactive common stock and Liberty Ventures common stock do not have the right to elect separate boards of directors. As a result, our company's officers and directors owe fiduciary duties to our company as a whole and all of our stockholders as opposed to only holders of a particular group. Decisions deemed to be in the best interest of our company and all of our stockholders may not be in the best interest of a particular group when considered independently. Examples include:

- decisions as to the terms of any business relationships that may be created between the Interactive Group and the Ventures Group or the terms of any reattributions of assets between the groups;
- decisions as to the allocation of consideration among the holders of Liberty Interactive common stock and Liberty Ventures common stock, or among the series of stocks relating to either of our groups, to be received in connection with a merger involving our company;
- decisions as to the allocation of corporate opportunities between the groups, especially where the opportunities might meet the strategic business objectives of both groups;
- decisions as to operational and financial matters that could be considered detrimental to one group but beneficial to the other;
- decisions as to the conversion of shares of common stock of one group into shares of common stock of the other;
- decisions regarding the creation of, and, if created, the subsequent increase or decrease of any inter-group interest that one group may own in the other group;
- decisions as to the internal or external financing attributable to businesses or assets attributed to either of our groups;
- decisions as to the dispositions of assets of either of our groups;
- and
- decisions as to the payment of dividends on the stock relating to either of our groups.

***Our directors' or officers' ownership of Liberty Interactive common stock and Liberty Ventures common stock may create or appear to create conflicts of interest.***If directors or officers own disproportionate interests (in percentage or value terms) in Liberty Interactive common stock or Liberty Ventures common stock, that disparity could create or appear to create conflicts of interest when they are faced with decisions that could have different implications for the holders of Liberty Interactive common stock or Liberty Ventures common stock.

***Other than pursuant to our management and allocation policies, we have not adopted any specific procedures for consideration of matters involving a divergence of interests among holders of shares of stock relating to our two groups, or among holders of different series of stock relating to a specific group.*** Rather than develop additional specific procedures in advance, our board of directors intends to exercise its judgment from time to time, depending on the circumstances, as to how best to:

- obtain information regarding the divergence (or potential divergence) of interests;
- determine under what circumstances to seek the assistance of outside advisers;
- determine whether a committee of our board of directors should be appointed to address a specific matter and the appropriate members of that committee;
- and
- assess what is in our best interests and the best interests of all of our stockholders.

Our board of directors believes the advantage of retaining flexibility in determining how to fulfill its responsibilities in any such circumstances as they may arise outweighs any perceived advantages of adopting additional specific procedures in advance.

***Our board of directors may change the management and allocation policies to the detriment of either group without stockholder approval.*** Our board of directors has adopted certain management and allocation policies to serve as guidelines in making decisions regarding the relationships between the Interactive Group and the Ventures Group with respect to matters such as tax liabilities and benefits, inter-group loans, inter-group interests, attribution of assets, financing alternatives, corporate opportunities and similar items. These policies also set forth the initial focuses and strategies of these groups and the initial attribution of our businesses, assets and liabilities between them. These policies are not included in the restated charter. Our board of directors may at any time change or make exceptions to these policies. Because these policies relate to matters concerning the

day-to-day management of our company as opposed to significant corporate actions, such as a merger involving our company or a sale of substantially all of our assets, no stockholder approval is required with respect to their adoption or amendment. A decision to change, or make exceptions to, these policies or adopt additional policies could disadvantage one group while advantaging the other.

**Holdings of shares of stock relating to a particular group may not have any remedies if any action by our directors or officers has an adverse effect on only that stock, or on a particular series of that stock.** Principles of Delaware law and the provisions of our restated charter may protect decisions of our board of directors that have a disparate impact upon holders of shares of stock relating to a particular group, or upon holders of any series of stock relating to a particular group. Under Delaware law, the board of directors has a duty to act with due care and in the best interests of all of our stockholders, regardless of the stock, or series, they hold. Principles of Delaware law established in cases involving differing treatment of multiple classes or series of stock provide that a board of directors owes an equal duty to all stockholders and does not have separate or additional duties to any subset of stockholders. Judicial opinions in Delaware involving tracking stocks have established that decisions by directors or officers involving differing treatment of holders of tracking stocks may be judged under the business judgment rule. In some circumstances, our directors or officers may be required to make a decision that is viewed as adverse to the holders of shares relating to a particular group or to the holders of a particular series of that stock. Under the principles of Delaware law and the business judgment rule referred to above, you may not be able to successfully challenge decisions that you believe have a disparate impact upon the stockholders of one of our groups if a majority of our board of directors is disinterested and independent with respect to the action taken, is adequately informed with respect to the action taken and acts in good faith and in the honest belief that the board is acting in the best interest of Liberty and all of our stockholders.

**Stockholders will not vote on how to attribute consideration received in connection with a merger involving our company among holders of Liberty Interactive common stock and Liberty Ventures common stock.** Our restated charter does not contain any provisions governing how consideration received in connection with a merger or consolidation involving our company is to be attributed to the holders of Liberty Interactive common stock and holders of Liberty Ventures common stock or to the holders of different series of stock, and none of the holders of Liberty Interactive common stock or Liberty Ventures common stock will have a separate class vote in the event of such a merger or consolidation. Consistent with applicable principles of Delaware law, our board of directors will seek to divide the type and amount of consideration received in a merger or consolidation involving our company among holders of Liberty Interactive common stock and Liberty Ventures common stock in a fair manner. As the different ways the board of directors may divide the consideration between holders of stock relating to the different groups, and among holders of different series of a particular stock, might have materially different results, the consideration to be received by holders of Liberty Interactive common stock and Liberty Ventures common stock in any such merger or consolidation may be materially less valuable than the consideration they would have received if they had a separate class vote on such merger or consolidation.

**We may dispose of assets of the Interactive Group or the Ventures Group without your approval.** Delaware law requires stockholder approval only for a sale or other disposition of all or substantially all of the assets of our company taken as a whole, and our restated charter does not require a separate class vote in the case of a sale of a significant amount of assets of any of our groups. As long as the assets attributed to the Interactive Group or the Ventures Group proposed to be disposed of represent less than substantially all of our assets, we may approve sales and other dispositions of any amount of the assets of such group without any stockholder approval.

If we dispose of all or substantially all of the assets attributed to any group (which means, for this purpose, assets representing 80% of the fair market value of the total assets of the disposing group, as determined by our board of directors), we would be required, if the disposition is not an exempt disposition under the terms of our restated charter, to choose one or more of the following three alternatives:

- declare and pay a dividend on the disposing group's common stock;
- redeem shares of the disposing group's common stock in exchange for cash, securities or other property; and/or
- convert all or a portion of the disposing group's outstanding common stock into common stock of the other group.

In this type of a transaction, holders of the disposing group's common stock may receive less value than the value that a third-party buyer might pay for all or substantially all of the assets of the disposing group.

Our board of directors will decide, in its sole discretion, how to proceed and is not required to select the option that would result in the highest value to holders of any group of our common stock.

**Holdings of Liberty Interactive common stock or Liberty Ventures common stock may receive less consideration upon a sale of the assets attributed to that group than if that group were a separate company.** If the Interactive Group or the Ventures Group were a separate, independent company and its shares were acquired by another person, certain costs of that sale, including corporate level taxes, might not be payable in connection with that acquisition. As a result, stockholders of a separate, independent company with the same assets might receive a greater amount of proceeds than the holders of Liberty Interactive common stock or Liberty Ventures common stock would receive upon a sale of all or substantially all of the assets of the group to which their shares relate. In addition, we cannot assure you that in the event of such a sale the per share consideration to be paid to holders of Liberty Interactive common stock or Liberty Ventures common stock, as the case may be, will be equal to or more than the per share value of that share of stock prior to or after the announcement of a sale of all or substantially all of the assets of the applicable group. Further, there is no requirement that the consideration paid be tax-free to the holders of the shares of common stock of that group. Accordingly, if we sell all or substantially all of the assets attributed to the Interactive Group or the Ventures Group, our stockholders could suffer a loss in the value of their investment in our company.

**In the event of a liquidation of Liberty, holders of Liberty Ventures common stock and Liberty Interactive common stock will not have a priority with respect to the assets attributed to the related tracking stock group remaining for distribution to stockholders.** Under the restated charter, upon Liberty's liquidation, dissolution or winding up, holders of the Liberty Ventures common stock and the Liberty Interactive common stock will be entitled to receive, in respect of their shares of such stock, their proportionate interest in all of Liberty's assets, if any, remaining for distribution to holders of common stock in proportion to their respective number of "liquidation units" per share. Relative liquidation units were determined based on the volume weighted average prices of the Liberty Ventures common stock and the Liberty Interactive common stock over the 20 trading day period which commenced shortly after the initial filing of the restated charter. Hence, the assets to be distributed to a holder of either tracking stock upon a liquidation, dissolution or winding up of Liberty will have nothing to do with the value of the assets attributed to the related tracking stock group or to changes in the relative value of the Liberty Interactive common stock and the Liberty Ventures common stock over time.

**Our board of directors may in its sole discretion elect to convert the common stock relating to one group into common stock relating to the other group, thereby changing the nature of your investment and possibly diluting your economic interest in our company, which could result in a loss in value to you.** Our restated charter permits our board of directors, in its sole discretion, to convert all of the outstanding shares of common stock relating to either of our groups into shares of common stock of the other group on specified terms. A conversion would preclude the holders of stock in each group involved in such conversion from retaining their investment in a security that is intended to reflect separately the performance of the relevant group. We cannot predict the impact on the market value of our stock of (1) our board of directors' ability to effect any such conversion or (2) the exercise of this conversion right by our company. In addition, our board of directors may effect such a conversion at a time when the market value of our stock could cause the stockholders of one group to be disadvantaged.

**Holdings of Liberty Interactive common stock and Liberty Ventures common stock will vote together and will have limited separate voting rights.** Holders of Liberty Interactive common stock and Liberty Ventures common stock will vote together as a single class, except in certain limited circumstances prescribed by our restated charter and under Delaware law. Each share of Series B common stock of each group has ten votes per share, and each share of Series A common stock of each group has one vote per share. Holders of Series C common stock of each group have no voting rights, other than those required under Delaware law. When holders of Liberty Interactive common stock and Liberty Ventures common stock vote together as a single class, holders having a majority of the votes will be in a position to control the outcome of the vote even if the matter involves a conflict of interest among our stockholders or has a greater impact on one group than the other.

**Transactions in our common stock by our insiders could depress the market price of our common stock.** Sales of or hedging transactions such as collars relating to our shares by our Chairman of the Board or any of our other directors or executive officers could cause a perception in the marketplace that our stock price has peaked or that adverse events or trends have occurred or may be occurring at our company. This perception can result notwithstanding any personal financial motivation for these insider transactions. As a result, insider transactions could depress the market price for shares of one or more series of our tracking stocks.

*Our capital structure, as well as the fact that the Interactive Group and the Ventures Group are not independent companies may inhibit or prevent acquisition bids for the Interactive Group or the Ventures Group and may make it difficult for a third party to acquire us, even if doing so may be beneficial to our stockholders.* If the Interactive Group and the Ventures Group were separate independent companies, any person interested in acquiring the Interactive Group or the Ventures Group without negotiating with management could seek control of that group by obtaining control of its outstanding voting stock, by means of a tender offer, or by means of a proxy contest. Although we intend Liberty Interactive common stock and Liberty Ventures common stock to reflect the separate economic performance of the Interactive Group and the Ventures Group, respectively, those groups are not separate entities and a person interested in acquiring only one group without negotiation with our management could obtain control of that group only by obtaining control of a majority in voting power of all of the outstanding shares of common stock of our company. The existence of shares of common stock, and different series of shares, relating to different groups could present complexities and in certain circumstances pose obstacles, financial and otherwise, to an acquiring person that are not present in companies that do not have capital structures similar to ours.

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

- authorizing a capital structure with multiple series of common stock, a Series B common stock of each group that entitles the holders to ten votes per share, a Series A common stock of each group that entitles the holder to one vote per share, and a Series C common stock of each group that except as otherwise required by applicable law, entitles the holder to no voting rights;
- classifying our board of directors with staggered three-year terms, which may lengthen the time required to gain control of our board of directors;
- limiting who may call special meetings of stockholders;
- prohibiting stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of the stockholders;
- establishing advance notice requirements for nominations of candidates for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings;
- requiring stockholder approval by holders of at least 66 2/3% of our aggregate voting power or the approval by at least 75% of our board of directors with respect to certain extraordinary matters, such as a merger or consolidation of our company, a sale of all or substantially all of our assets or an amendment to our restated charter; and
- the existence of authorized and unissued stock, including "blank check" preferred stock, which could be issued by our board of directors to persons friendly to our then current management, thereby protecting the continuity of our management, or which could be used to dilute the stock ownership of persons seeking to obtain control of our company.

Our chairman, John C. Malone, beneficially owns shares representing the power to direct approximately 37% of the aggregate voting power in our company, due to his beneficial ownership of approximately 94% of the outstanding shares of each of our Series B Liberty Interactive common stock and Series B Liberty Ventures common stock as of January 31, 2014.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties.**

We lease our corporate headquarters in Englewood, Colorado under a facilities agreement with LMC. All of our other real or personal property is owned or leased by our subsidiaries and business affiliates.

QVC owns its corporate headquarters and operations center in West Chester, Pennsylvania, which consists of office space and includes executive offices, television studios, showrooms, broadcast facilities and administrative offices. QVC also owns call centers in San Antonio, Texas; Port St. Lucie, Florida; Chesapeake, Virginia; Bochum and Kassel, Germany, as well as a call center and warehouse in Knowsley, U.K. QVC owns distribution centers in Lancaster, Pennsylvania and West Chester, Pennsylvania; Suffolk, Virginia; Rocky Mount, North Carolina; Florence, South Carolina; Sakura-shi, Chiba, Japan and Hücklehoven, Germany. To supplement the owned facilities, QVC also leases various facilities in the U.S., Japan, Germany, the U.K. and Italy for retail outlet stores, office space, warehouse space, call center locations and a distribution center. QVC-Japan owns its headquarters in Japan that includes television studios, broadcast facilities, administrative offices and a call center. QVC-Germany owns its headquarters in Germany that includes television studios, broadcast facilities and administrative offices. QVC-U.K. is in leased headquarters in the U.K. that includes television studios, broadcast facilities and administrative offices. In 2014, QVC-Italy will take ownership of its current leased headquarters in Italy that includes television studios, broadcast facilities, administrative offices and a call center.

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

**Item 3. Legal Proceedings**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

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

#### *Market Information*

Our Series A and Series B Liberty Interactive common stock (LINTA and LINTB) have been outstanding since May 2006. On August 9, 2012 Liberty completed the approved recapitalization of its common stock through the creation of the Liberty Interactive common stock (continued to trade as LINTA and LINTB) and Liberty Ventures common stock (LVNTA and LVNTB) as tracking stocks. Each series of our common stock trades on the Nasdaq Global Select Market. The following table sets forth the range of high and low sales prices of shares of our common stock for the years ended December 31, 2013 and 2012, for the periods they were outstanding.

	<u>Liberty Interactive</u>			
	<u>Series A (LINTA)</u>		<u>Series B (LINTB)</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
<u>2012</u>				
First quarter	\$ 19.80	16.36	19.32	16.07
Second quarter	\$ 19.27	15.93	19.10	16.15
Third quarter (through August 9, 2012)	\$ 19.66	17.42	19.31	17.64
Third quarter (after August 9, 2012)	\$ 19.46	17.04	18.45	17.24
Fourth quarter	\$ 20.95	18.26	20.51	18.42
<u>2013</u>				
First quarter	\$ 22.11	19.93	21.55	19.51
Second quarter	\$ 24.31	19.79	23.01	19.77
Third quarter	\$ 25.25	21.95	25.13	21.94
Fourth quarter	\$ 29.57	22.83	29.39	23.23

	<u>Liberty Ventures</u>			
	<u>Series A (LVNTA)</u>		<u>Series B (LVNTB)</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
<u>2012</u>				
Third quarter (after August 9, 2012)	\$ 52.39	40.00	50.87	42.51
Fourth quarter	\$ 68.84	48.29	68.21	49.33
<u>2013</u>				
First quarter	\$ 79.50	67.27	76.86	68.17
Second quarter	\$ 86.04	72.71	84.70	74.46
Third quarter	\$ 96.07	81.37	96.27	84.49
Fourth quarter	\$ 124.39	81.81	121.29	89.28

#### *Holdings*

As of January 31, 2014, there were approximately 2,400 and 100 record holders of our Series A and Series B Liberty Interactive common stock, respectively, and approximately 1,700 and 100 record holders of our Series A and Series B Liberty Ventures common stock, respectively. The foregoing numbers of record holders do not include the number of stockholders whose shares are held nominally by banks, brokerage houses or other institutions, but include each such institution as one shareholder.

## *Dividends*

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

## *Securities Authorized for Issuance Under Equity Compensation Plans*

Information required by this item is incorporated by reference to our definitive proxy statement for our 2014 Annual Meeting of stockholders.

## *Purchases of Equity Securities by the Issuer*

### *Share Repurchase Programs*

On several occasions our board of directors has 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 following the LMC Split-Off, notwithstanding the fact that the Liberty Interactive common stock ceased to be a tracking stock during the period following the LMC Split-Off and prior to the creation of our Liberty Ventures common stock in August 2012. On February 22, 2012 the board authorized the repurchase of an additional \$700 million of Series A and Series B Liberty Interactive common stock. Additionally, on October 30, 2012 the board authorized the repurchase of an additional \$1 billion of Series A and Series B Liberty Interactive common stock. Not included in the table below is an additional authorization of our board, on February 27, 2014, for an additional \$1 billion of Series A and Series B Liberty Interactive common stock repurchases.

A summary of the repurchase activity for the three months ended December 31, 2013 is as follows:

Period	Series A Liberty Interactive Common Stock			(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be purchased Under the Plans or Programs
	(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	
October 1 - 31, 2013	3,931,100	\$ 26.34	3,931,100	\$406 million
November 1 - 30, 2013	5,382,000	\$ 27.50	5,382,000	\$258 million
December 1 - 31, 2013	3,139,642	\$ 27.98	3,139,642	\$170 million
Total	<u>12,452,742</u>		<u>12,452,742</u>	

In addition to the shares listed in the table above, 3,772 shares of Series A Liberty Interactive common stock and 178 shares of Series A Liberty Ventures 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. Selected Financial Data.

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

	December 31,				
	2013	2012	2011	2010	2009
	amounts in millions				
<i>Summary Balance Sheet Data:</i>					
Cash and cash equivalents	\$ 1,256	2,660	847	1,353	1,955
Investments in available-for-sale securities and other cost investments	\$ 1,501	1,819	1,168	1,110	1,641
Investment in affiliates	\$ 1,237	851	1,135	949	831
Intangibles not subject to amortization (1)	\$ 13,675	13,880	8,496	8,496	8,383
Assets of discontinued operations (2)	\$ —	—	—	8,933	9,374
Total assets (1) (2)	\$ 24,676	26,255	17,339	26,600	28,631
Long-term debt	\$ 6,406	6,246	4,850	5,970	7,343
Deferred income tax liabilities, noncurrent (1)	\$ 2,844	3,209	2,046	2,709	2,946
Liabilities of discontinued operations (2)	\$ —	—	—	3,854	5,002
Equity (1) (2)	\$ 11,435	12,051	6,627	11,442	10,238
Noncontrolling interest (1)	\$ 4,499	4,489	134	129	129

	Years ended December 31,				
	2013	2012	2011	2010	2009
	amounts in millions, except per share amounts				
<i>Summary Statement of Operations Data:</i>					
Revenue	\$ 11,252	10,054	9,616	8,932	8,305
Operating income (loss)	\$ 1,120	1,108	1,133	1,108	1,041
Interest expense	\$ (373)	(432)	(427)	(626)	(594)
Share of earnings (losses) of affiliates	\$ 33	85	140	112	24
Realized and unrealized gains (losses) on financial instruments, net	\$ (22)	(351)	84	62	(589)
Gains (losses) on transactions, net (1)	\$ (2)	1,531	—	355	42
Earnings (loss) from continuing operations (3):					
Liberty Capital common stock		NA	NA	10	28
Liberty Interactive Corporation common stock		NA	328	577	808
Liberty Interactive common stock	\$ 483	241	NA	NA	NA
Liberty Ventures common stock	97	1,022	NA	NA	NA
	\$ 580	1,591	587	836	(37)
Basic earnings (loss) from continuing operations attributable to Liberty Interactive Corporation stockholders per common share (4):					
Series A and Series B Liberty Capital common stock		NA	NA	0.12	0.31
Series A and Series B Liberty Interactive Corporation common stock		NA	0.53	0.88	1.28
Series A and Series B Liberty Interactive common stock	\$ 0.84	0.39	NA	NA	NA
Series A and Series B Liberty Ventures common stock	\$ 1.70	31.03	NA	NA	NA
Diluted earnings (loss) from continuing operations attributable to Liberty Interactive Corporation stockholders per common share (4):					
Series A and Series B Liberty Capital common stock		NA	NA	0.12	0.30
Series A and Series B Liberty Interactive Corporation common stock		NA	0.52	0.87	1.26
Series A and Series B Liberty Interactive common stock	\$ 0.83	0.38	NA	NA	NA
Series A and Series B Liberty Ventures common stock	\$ 1.70	31.03	NA	NA	NA

- (1) On December 11, 2012, we acquired approximately 4.8 million additional shares of common stock of TripAdvisor, Inc. ("TripAdvisor") (an additional 4% equity ownership interest), for \$300 million, along with the right to control the vote of the shares of TripAdvisor's common stock and class B common stock we own. Following the transaction we own approximately 22% of the equity and 57% of the total votes of all classes of TripAdvisor common stock. As we now control TripAdvisor we applied the applicable purchase accounting guidance and recorded a gain on the transaction of \$800 million on our ownership interest held prior to the transaction, recognized in the gain (loss) on transactions, net line in the consolidated statements of operations. See note 5 of the accompanying consolidated financial statements for further details on the purchase price allocation.
- (2) 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 "LMC Split-Off"). At the time of the LMC Split-Off, LMC owned all the assets, businesses and liabilities previously attributed to the Capital and Starz tracking stock groups. The LMC 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. See note 6 of the accompanying consolidated financial statements for further details on the treatment of LMC as discontinued operations in prior periods.
- (3) Includes earnings from continuing operations attributable to the noncontrolling interests of \$79 million, \$61 million, \$53 million, \$45 million and \$39 million for the years ended December 31, 2013, 2012, 2011, 2010 and 2009, respectively.
- (4) Basic and diluted earnings per share have been calculated for Liberty Capital and Liberty Starz common stock for the period subsequent to March 3, 2008 through September 23, 2011. Basic and diluted EPS have been calculated for Liberty Interactive Corporation common stock for the periods from May 9, 2006 to August 9, 2012. Basic and diluted EPS have been calculated for Liberty Interactive common stock and Liberty Ventures common stock subsequent to August 9, 2012.

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

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

### ***Overview***

We 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. ("Backcountry"), Bodybuilding.com, LLC ("Bodybuilding"), Celebrate Interactive Holdings, LLC ("Celebrate") and Provide Commerce, Inc ("Provide"). 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. As of December 11, 2012 we began consolidating TripAdvisor, Inc. ("TripAdvisor") which is an online travel research company, empowering users to plan and maximize their travel experience.

Our "Corporate and Other" category includes our corporate ownership interests in 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. and Time Warner Cable Inc., which are accounted for at their respective fair market values and are included in "Corporate and Other."

On August 9, 2012, Liberty completed the approved recapitalization of its common stock through the creation of the Liberty Interactive common stock and Liberty Ventures common stock as tracking stocks. In the recapitalization, each holder of Liberty Interactive Corporation common stock remained a holder of the same amount and series of Liberty Interactive common stock and received 0.05 of a share of the corresponding series of Liberty Ventures common stock, by means of a dividend, with cash issued in lieu of fractional shares of Liberty Ventures common stock.

The term "Ventures Group" does not represent a separate legal entity, rather it represents those businesses, assets and liabilities that have been attributed to that group. The Ventures Group is comprised primarily of our consolidated subsidiary TripAdvisor and interests in Expedia, Inc., Interval Leisure Group, Inc., Tree.com, Inc., investments in Time Warner Inc., Time Warner Cable Inc. and AOL, Inc., as well as cash in the amount of approximately \$658 million (at December 31, 2013). The Ventures Group also has attributed to it certain liabilities related to our Exchangeable Debentures and certain deferred tax liabilities. The Ventures Group is primarily focused on the maximization of the value of these investments and investing in new business opportunities.

The term "Interactive Group" does not represent a separate legal entity, rather it represents those businesses, assets and liabilities that have been attributed to that group. The Interactive Group is primarily focused on our video and e-commerce operating businesses and has attributed to it the remainder of our businesses and assets, including our operating subsidiaries QVC, Provide Backcountry, Bodybuilding, Celebrate and CommerceHub as well as our interest in HSN, Inc., including cash of approximately \$598 million (at December 31, 2013), including subsidiary cash. The Interactive Group has 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.

### ***Discontinued Operations***

Prior to the LMC Split-Off (as defined below), Liberty's equity was structured into three separate tracking stocks. 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 no group could 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 a wholly owned subsidiary, Liberty Media Corporation ("LMC") (formerly known as Liberty CapStarz, Inc. and prior thereto Liberty Splitco, Inc.) (the "LMC Split-Off"). At the time of the LMC

Split-Off, LMC owned all the assets, businesses and liabilities previously attributed to the Capital and Starz tracking stock groups. The LMC 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 LMC 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 LMC Split-Off, Liberty and LMC entered into certain agreements in order to govern certain of the ongoing relationships between the two companies after the LMC Split-Off and to provide for an orderly transition.

The 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 respective split-offs, have been excluded from the respective captions in the accompanying consolidated balance sheets, statements of operations, comprehensive earnings and cash flows in such consolidated financial statements.

### ***Strategies and Challenges***

**QVC.** QVC's goal is to become the preeminent global multimedia shopping community for people who love to shop, and to offer a shopping experience that is as much about entertainment and enrichment as it is about buying. QVC's objective is to provide an integrated shopping experience that utilizes all forms of media including television, the internet and mobile devices. In 2014, QVC intends to employ several strategies to achieve these goals and objectives. Among these strategies are to (i) extend the breadth, relevance and exposure of the QVC brand; (ii) source products that represent unique quality and value; (iii) create engaging presentation content in televised programming, mobile and online; (iv) leverage customer loyalty and continue multi-platform expansion; and (v) create a compelling and differentiated customer experience. In addition, QVC expects to expand globally by leveraging its existing systems, infrastructure and skills in other countries around the world.

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 and increased spending from existing customers. QVC's future net revenue may also be affected by (i) the willingness of cable television and direct-to-home satellite system operators to continue carrying QVC's programming service; (ii) QVC's ability to maintain favorable channel positioning, which may become more difficult due to governmental action or from distributors converting 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.

In March 2013, QVC-U.S. launched over-the-air broadcasting in designated U.S. markets that can be accessed by any television household in such markets, regardless of whether it subscribes to a paid television service. This will allow QVC-U.S. to reach new customers who previously did not have access to the program through other television platforms.

In August 2013, QVC-U.S. launched an additional channel, "QVC Plus," which is being distributed through cable and satellite systems. The channel generally offers the same programming as the live channel, but on a three hour pre-recorded delay, which will allow viewers to have access to a broader range of QVC programming options, as well as more relevant programming for viewers in differing time zones.

The prolonged economic uncertainty in various regions of the world in which our subsidiaries and affiliates operate could adversely affect demand for our products and services since a substantial portion of our revenue is derived from discretionary spending by individuals, which typically falls during times of economic instability. Global financial markets continue to experience disruptions, including increased volatility and diminished liquidity and credit availability. In particular, the European debt crisis, particularly most recently in Greece, Italy, Ireland, Portugal and Spain, and related European financial restricting efforts, may cause volatility in the European currencies and reduce the purchasing power of European customers. In the event that one or more countries were to replace the Euro with their legacy currency, then our revenue and operating results in such countries, or Europe generally, would likely be adversely affected until stable exchange rates were established and economic confidence restored. In addition, the European crisis is contributing to instability in global credit markets. The world has experienced a global macroeconomic downturn, and if economic and financial market conditions in the U.S. or other key markets, including Europe, remain uncertain, persist, or deteriorate further, our customers may respond by suspending, delaying, or reducing their discretionary spending. A suspension, delay or reduction in discretionary spending could adversely affect revenue. Accordingly, our ability to increase or maintain revenue and earnings could be adversely affected to the extent that relevant economic environments remain weak or decline further. Such weak economic conditions may also inhibit our expansion into new European and other markets. We currently are unable to predict the extent of any of these potential adverse effects.

## 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 principal reportable segments 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

	Years ended December 31,		
	2013	2012	2011
	amounts in millions		
<i>Revenue</i>			
<b>Interactive Group</b>			
QVC	\$ 8,623	8,516	8,268
E-commerce	1,684	1,502	1,348
Corporate and other	—	—	—
<b>Total Interactive Group</b>	<b>10,307</b>	<b>10,018</b>	<b>9,616</b>
<b>Ventures Group</b>			
TripAdvisor	945	36	—
Corporate and other	—	—	—
<b>Total Ventures Group</b>	<b>945</b>	<b>36</b>	<b>—</b>
<b>Consolidated Liberty</b>	<b>\$ 11,252</b>	<b>10,054</b>	<b>9,616</b>
<i>Adjusted OIBDA</i>			
<b>Interactive Group</b>			
QVC	\$ 1,841	1,828	1,733
E-commerce	85	96	123
Corporate and other	(20)	(27)	(29)
<b>Total Interactive Group</b>	<b>1,906</b>	<b>1,897</b>	<b>1,827</b>
<b>Ventures Group</b>			
TripAdvisor	379	8	—
Corporate and other	(11)	(5)	(4)
<b>Total Ventures Group</b>	<b>368</b>	<b>3</b>	<b>(4)</b>
<b>Consolidated Liberty</b>	<b>\$ 2,274</b>	<b>1,900</b>	<b>1,823</b>
<i>Operating Income (Loss)</i>			
<b>Interactive Group</b>			
QVC	\$ 1,245	1,268	1,137
E-commerce	(50)	(81)	55
Corporate and other	(64)	(63)	(55)
<b>Total Interactive Group</b>	<b>1,131</b>	<b>1,124</b>	<b>1,137</b>
<b>Ventures Group</b>			
TripAdvisor	8	(5)	—
Corporate and other	(19)	(11)	(4)
<b>Total Ventures Group</b>	<b>(11)</b>	<b>(16)</b>	<b>(4)</b>
<b>Consolidated Liberty</b>	<b>\$ 1,120</b>	<b>1,108</b>	<b>1,133</b>

**Revenue.** Our consolidated revenue increased 11.9% and 4.6% for the years ended December 31, 2013 and 2012, respectively, as compared to the corresponding prior year periods. The current year and prior year increases were the result of the full year consolidated results of TripAdvisor, an incremental increase of \$909 million in 2013, and increased revenue at QVC (\$107 million

and \$248 million, respectively) and the E-commerce companies (\$182 million and \$154 million, respectively). 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 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 19 to the accompanying consolidated financial statements for a reconciliation of Adjusted OIBDA to earnings (loss) from continuing operations before income taxes.

Consolidated Adjusted OIBDA increased \$374 million and \$77 million for the years ended December 31, 2013 and 2012, respectively, as compared to the corresponding prior year periods. Primarily as a result of a full year of results for TripAdvisor. 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 \$178 million, \$91 million and \$49 million of stock compensation expense for the years ended December 31, 2013, 2012 and 2011, respectively. The increase of \$87 million in stock-based compensation during 2013 was primarily attributable to the consolidation of TripAdvisor for the entire year ended December 31, 2013 and the additional recognition of stock-based compensation related to the one-time exchange offer in 2012 ("2012 Option Exchange"), as more fully described in note 15, in the accompanying consolidated financial statements. The 2012 Option Exchange resulted in approximately \$21 million of incremental share based compensation in the fourth quarter of 2012. Additionally, our E-commerce companies recorded an increase in stock-based compensation for the year ended December 31, 2012. As of December 31, 2013, the total unrecognized compensation cost related to unvested Liberty equity awards was approximately \$109 million. Such amount will be recognized in our consolidated statements of operations over a weighted average period of approximately 1.5 years. Additionally, total unrecognized compensation cost related to unvested TripAdvisor equity awards was \$104 million which will be recognized over a weighted average period of approximately 3.0 years.

**Operating income.** Our consolidated operating income increased \$12 million and decreased \$25 million for the years ended December 31, 2013 and 2012, respectively, as compared to the corresponding prior year periods. The change in operating income for 2013 was primarily the result of the full year consolidation of TripAdvisor. The consolidation of TripAdvisor impacted Revenue and Adjusted OIBDA to a greater extent as operating income includes the amortization of intangibles recognized in purchase accounting and the incremental stock-based compensation recorded. The change in operating income for 2012 was due to the increase in stock compensation and the impairment of goodwill at certain E-commerce subsidiaries. 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.

	Years ended December 31,		
	2013	2012	2011
	amounts in millions		
<b>Interest expense</b>			
Interactive Group	\$ (292)	(322)	(317)
Ventures Group	(81)	(110)	(110)
Consolidated Liberty	\$ (373)	(432)	(427)
<b>Share of earnings (losses) of affiliates</b>			
Interactive Group	\$ 48	28	23
Ventures Group	(15)	57	117
Consolidated Liberty	\$ 33	85	140
<b>Realized and unrealized gains (losses) on financial instruments, net</b>			
Interactive Group	\$ (12)	51	75
Ventures Group	(10)	(402)	9
Consolidated Liberty	\$ (22)	(351)	84
<b>Gains (losses) on transactions, net</b>			
Interactive Group	\$ (1)	—	—
Ventures Group	(1)	1,531	—
Consolidated Liberty	\$ (2)	1,531	—
<b>Other, net</b>			
Interactive Group	\$ (53)	—	15
Ventures Group	7	44	(6)
Consolidated Liberty	\$ (46)	44	9

**Interest expense.** Interest expense decreased \$59 million and increased \$5 million for the years ended December 31, 2013 and 2012, respectively, as compared to the corresponding prior year periods. The decrease in interest expense for the year ended December 31, 2013 was the result of a slight decrease in the average debt balance outstanding during the period and the refinancing of prior outstanding obligations for debt with more favorable interest rates. The refinancing of debt required a premium payment on the outstanding debentures which was recognized as a \$57 million dollar extinguishment loss and was reflected in the other, net line item in the consolidated statement of operations for the year ended December 31, 2013. The overall increase in interest expense for the year ended December 31, 2012 was primarily the result of a slight increase in the average debt balance outstanding during the period.

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

	Years ended December 31,		
	2013	2012	2011
	amounts in millions		
<b>Interactive Group</b>			
HSN, Inc.	\$ 61	40	38
Other	(13)	(12)	(15)
<b>Total Interactive Group</b>	<b>48</b>	<b>28</b>	<b>23</b>
<b>Ventures Group</b>			
Expedia, Inc.	31	67	119
TripAdvisor	NA	38	NA
Other	(46)	(48)	(2)
<b>Total Ventures Group</b>	<b>(15)</b>	<b>57</b>	<b>117</b>
<b>Consolidated Liberty</b>	<b>\$ 33</b>	<b>85</b>	<b>140</b>

The overall decrease in share of earnings (losses) of affiliates for the year ended December 31, 2013 was primarily the result of the acquisition of a controlling interest in TripAdvisor in December 2012. Therefore, it is no longer accounted for as an equity method affiliate. The decrease in share of earnings (losses) of affiliates for the year ended December 31, 2012 was primarily the result of the investments made in alternative energy solutions that operate at a loss but provide favorable tax attributes recorded through our income tax (expense) benefit line in the consolidated statement of operations.

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

	Years ended December 31,		
	2013	2012	2011
	amounts in millions		
Fair value option securities	\$ 514	470	55
Exchangeable senior debentures	(553)	(602)	(46)
Other derivatives	17	(219)	75
	<b>\$ (22)</b>	<b>(351)</b>	<b>84</b>

The changes in these accounts are due primarily to market factors and changes in the fair value of the underlying stocks or financial instruments to which these relate. The significant change in other derivatives was the forward contract entered into on 12 million Expedia, Inc. common shares that was entered into and settled during the year ended December 31, 2012.

**Gains (losses) on transactions, net.** The year ended December 31, 2012 gains on transactions relate to our acquisition of a controlling interest in TripAdvisor, a gain on the sale of Expedia, Inc. shares (\$443 million) and a gain on the sale of TripAdvisor shares (\$288 million) during the year. In December 2012, as discussed above, we acquired an additional ownership interest in TripAdvisor and the right to vote our shares of their class B common stock. The application of business combination accounting, as a result of the acquisition, for TripAdvisor required the recognition of an \$800 million gain which was the difference between the fair value of our previously held interest in TripAdvisor and the carrying value of the same ownership interest.

**Income taxes.** Our effective tax rate for the years ended December, 2013, 2012 and 2011 was 18%, 20% and 37%, respectively. The 2013 effective tax rate is less than the U.S. federal income tax rate of 35% due primarily to a change in the corporate effective state rate for outstanding deferred tax liabilities and assets at Liberty due to a change in the apportionment of income to various states. The 2012 effective tax rate was less than the U.S. federal income tax rate of 35% due primarily to the consolidation of a previously held equity method affiliate in the current period that triggered a gain for accounting purposes but not for tax purposes. The 2011 effective tax rate was greater than the U.S. federal income tax rate of 35% primarily due to the impact of state taxes.

**Net earnings.** We had net earnings of \$580 million, \$1,591 million and \$965 million for the years ended December 31, 2013, 2012 and 2011, respectively. The change in net earnings was the result of the above-described fluctuations in our revenue, expenses and other gains and losses.

### **Liquidity and Capital Resources**

As of December 31, 2013 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 wholly-owned subsidiaries (to the extent such cash exceeds the working capital needs of the subsidiaries and is not otherwise restricted), net proceeds from asset sales, monetization of our public investment portfolio, outstanding debt facilities, debt and equity issuances, and dividend and interest receipts.

During the year, there were no changes to our corporate debt credit ratings or our consolidated subsidiaries' debt credit ratings.

As of December 31, 2013, Liberty's liquidity position consisted of the following:

	Cash and cash equivalents	Marketable securities	Available-for-Sale Securities
amounts in millions			
QVC	\$ 457	—	—
E-commerce	72	—	—
Corporate and other	69	—	4
Total Interactive Group	598	—	4
TripAdvisor	351	131	188
Corporate and other	307	412	1,309
Total Ventures Group	658	543	1,497
Consolidated Liberty	\$ 1,256	543	1,501

To the extent that the Company recognizes any taxable gains from the sale of assets we may incur tax expense and be required to make tax payments, thereby reducing any cash proceeds. Additionally, we have borrowing capacity of \$1,078 million under the QVC credit facility at December 31, 2013. The Company has a controlling interest in TripAdvisor which has significant operating cash flows, although due to TripAdvisor being a separate public company and the significant noncontrolling interest, we do not have ready access to such cash flows. As of December 31, 2013, TripAdvisor and QVC had approximately \$297 million and \$240 million, respectively, of cash and cash equivalents held in foreign subsidiaries.

Additionally, our operating businesses have generated, on average, more than \$1 billion in annual cash provided by operating activities over the prior three years and we do not anticipate any significant reductions in that amount in future periods.

	Years ended December 31,		
	2013	2012	2011
amounts in millions			
<b>Cash Flow Information</b>			
Interactive Group cash provided (used) by operating activities	\$ 972	1,470	988
Ventures Group cash provided (used) by operating activities	388	(38)	(88)
Net cash provided (used) by operating activities	\$ 1,360	1,432	900
Interactive Group cash provided (used) by investing activities	\$ (362)	(462)	(428)
Ventures Group cash provided (used) by investing activities	2	615	(9)
Net cash provided (used) by investing activities	\$ (360)	153	(437)
Interactive Group cash provided (used) by financing activities	\$ (687)	(1,136)	(1,013)
Ventures Group cash provided (used) by financing activities	(1,693)	1,384	97
Net cash provided (used) by financing activities	\$ (2,380)	248	(916)

### *Interactive Group*

During the year ended December 31, 2013, the Interactive Group uses of cash were primarily the refinancing of certain debt obligations of approximately \$3 billion and the repurchase of Series A Liberty Interactive common stock of approximately \$1 billion. Additionally, the Interactive Group had approximately \$295 million of capital expenditures in the period. These uses of cash were funded by cash provided by operating activities and additional borrowings of debt as part of the refinancing activities.

The projected uses of Interactive Group cash are the cost to service outstanding debt, approximately \$265 million in interest payments on QVC and corporate level debt, anticipated capital improvement spending of approximately \$275 million and the continued buyback of Liberty Interactive common stock under the approved share buyback program.

### *Ventures Group*

During the year ended December 31, 2013, the Ventures Group uses of cash were primarily the payment of certain debt obligations and the refinancing of other outstanding debt obligations of approximately \$2.4 billion and net purchases of short term and long term marketable securities. Additionally, TripAdvisor acquired approximately \$145 million of their own shares under their approved share buyback program. These uses of cash for the Ventures Group were funded by cash provided by operating activities, additional borrowings of debt as part of the refinancing activities, discussed above, and the sale of certain investments which was done on a tax neutral basis in conjunction with the retirement of certain debt obligations.

The projected uses of Ventures Group cash are the cost to service outstanding debt, approximately \$60 million in interest payments on TripAdvisor and corporate level debt, continued buyback of TripAdvisor common stock under the approved TripAdvisor share buyback program and further investments in existing or new businesses through continued acquisition activity.

### *Consolidated*

During the year ended December 31, 2013, Liberty's primary uses of cash were \$5,474 million of debt repayments, \$1,089 million of share repurchases and \$352 million of capital expenditures. These uses of cash were funded primarily with \$1,360 million of cash provided by operating activities, \$4,373 million in borrowings, \$1,137 million in cash from the disposition of certain investments and cash on hand.

The projected uses of Liberty cash, outside of normal operating expenses (inclusive of tax payments), are the costs to service outstanding debt, approximately \$325 million for interest payments on QVC and corporate level debt, anticipated capital improvement spending of approximately \$440 million, the repayment of certain debt obligations and the continued buyback of Liberty Interactive common stock under the approved share buyback program (subsequent to year end we made additional repurchases of approximately 2.6 million shares for \$73 million through January 31, 2014 and additional investments in existing or new businesses.

QVC and TripAdvisor were in compliance with their debt covenants as of December 31, 2013.

### **Off-Balance Sheet Arrangements and Aggregate Contractual Obligations**

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

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

Information concerning the amount and timing of required payments, both accrued and off-balance sheet, under our contractual obligations, excluding uncertain tax positions as it is undeterminable when payments will be made, is summarized below.

	Payments due by period				
	Total	Less than 1 year	2 - 3 years	4 - 5 years	After 5 years
<i>Consolidated contractual obligations</i>					
	amounts in millions				
Long-term debt (1)	\$ 7,533	118	344	989	6,082
Interest payments (2)	3,864	325	644	616	2,279
Operating lease obligations	496	48	88	78	282
Purchase orders and other obligations	1,515	1,488	15	12	—
Total	\$ 13,408	1,979	1,091	1,695	8,643

- (1) Amounts are reflected in the table at the outstanding principal amount, assuming the debt instruments will remain outstanding until the stated maturity date, and may differ from the amounts stated in our consolidated balance sheet to the extent debt instruments (i) were issued at a discount or premium or (ii) have elements which are reported at fair value in our consolidated balance sheet. Amounts also include capital lease obligations. Amounts do not assume additional borrowings or refinancings of existing debt.
- (2) Amounts (i) are based on our outstanding debt at December 31, 2013, (ii) assume the interest rates on our variable rate debt remain constant at the December 31, 2013 rates and (iii) assume that our existing debt is repaid at maturity.

### **Critical Accounting Estimates**

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

#### **Fair Value Measurements**

*Financial Instruments.* We record a number of assets and liabilities in our consolidated balance sheet at fair value on a recurring basis, including available-for-sale ("AFS") securities, financial instruments and our exchangeable senior debentures. 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. We use quoted market prices, or Level 1 inputs, to value all our Fair Value Option Securities. As of December 31, 2013 and 2012, the carrying value of our Fair Value Option securities was \$1,309 million and \$1,716 million, respectively.

Level 2 inputs, other than quoted market prices included within Level 1, are observable for the asset or liability, either directly or indirectly. We use quoted market prices to determine the fair value of our exchangeable senior debentures. However, these debentures are not traded on active markets as defined in GAAP, so these liabilities fall in Level 2. As of December 31, 2013, the principal amount and carrying value of our exchangeable debentures were \$2,491 million and \$2,355 million, respectively.

Level 3 inputs are unobservable inputs for an asset or liability. We currently have no Level 3 financial instrument assets or liabilities.

*Non-Financial Instruments.* Our non-financial instrument valuations are primarily comprised of our annual assessment of the recoverability of our goodwill and other nonamortizable intangibles, such as trademarks and our evaluation of the recoverability of our other long-lived assets upon certain triggering events. If the carrying value of our long-lived assets exceeds their undiscounted cash flows, we are required to write the carrying value down to fair value. Any such writedown is included in impairment of long-lived assets in our consolidated statement of operations. A high degree of judgment is required to estimate the fair value of our

long-lived assets. We may use quoted market prices, prices for similar assets, present value techniques and other valuation techniques to prepare these estimates. We may need to make estimates of future cash flows and discount rates as well as other assumptions in order to implement these valuation techniques. Due to the high degree of judgment involved in our estimation techniques, any value ultimately derived from our long-lived assets may differ from our estimate of fair value. As each of our operating segments has long-lived assets, this critical accounting policy affects the financial position and results of operations of each segment.

As of December 31, 2013, the intangible assets not subject to amortization for each of our significant reportable segments was as follows:

	Goodwill	Trademarks	Total
	amounts in millions		
QVC	\$ 5,312	2,428	7,740
TripAdvisor	3,460	1,828	5,288
E-commerce	560	87	647
	<u>\$ 9,332</u>	<u>4,343</u>	<u>13,675</u>

We perform our annual assessment of the recoverability of our goodwill and other nonamortizable intangible assets as of December 31. We adopted accounting guidance relating to annual assessments of recoverability of goodwill and other non-amortizable intangibles during the current and prior years and at year-end we utilized a qualitative assessment for determining whether step one of the goodwill impairment analysis was necessary. During the years ended December 31, 2013 and 2012 we recorded \$33 million and \$92 million, respectively, in goodwill and other intangibles impairments for certain of our E-commerce companies. Continued declining operating results as compared to budgeted results and certain trends required a Step 2 impairment test and a determination of fair value for these subsidiaries. Fair value for these subsidiaries, including intangible assets and goodwill, was determined using Company projections of future operating performance and applying a combination of market multiples and a discounted cash flow calculation (Level 3).

**Carrying Value of Investments.** We periodically evaluate our investments to determine if decreases in fair value below our cost bases are other than temporary. If a decline in fair value is determined to be other than temporary, we are required to reflect such decline in our consolidated statement of operations. Other than temporary declines in fair value of our cost investments are recognized on a separate line in our consolidated statement of operations, and other than temporary declines in fair value of our equity method investments are included in share of losses of affiliates in our consolidated statement of operations.

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

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

**Retail Related Adjustments and Allowances.** QVC records adjustments and allowances for sales returns, inventory obsolescence and uncollectible receivables. Each of these adjustments is estimated based on historical experience. Sales returns are calculated as a percent of sales and are netted against revenue in our consolidated statement of operations. For the years ended December 31, 2013, 2012 and 2011, sales returns represented 19.8%, 19.4% and 19.4% of QVC's gross product revenue, respectively. The inventory obsolescence reserve is calculated as a percent of QVC's inventory at the end of a reporting period based on, among other factors, the average inventory balance for the preceding 12 months and historical experience with liquidated inventory. The change in the reserve is included in cost of goods sold in our consolidated statements of operations. At December 31, 2013, QVC's inventory is \$931 million, which is net of the obsolescence adjustment of \$79 million. QVC's allowance for doubtful accounts is calculated as a percent of accounts receivable at the end of a reporting period, and the change in such allowance is recorded as bad debt expense in our consolidated statements of operations. At December 31, 2013, QVC's trade accounts receivable are \$1,111 million, net of the allowance for doubtful accounts of \$83 million. Each of these estimates requires management judgment and may not reflect actual results.

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

### **Results of Operations—Businesses**

**QVC.** QVC, Inc. 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 per 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 distributes live programming 24 hours per day, QVC-Germany distributes its program 24 hours per day with 23 hours of live programming and QVC-U.K. distributes its program 24 hours per day with 17 hours of live programming. QVC-Italy distributes programming live for 17 hours per day on satellite and digital terrestrial television and an additional seven hours per day of recorded programming on satellite and seven hours a day of general interest programming on digital terrestrial television.

On July 4, 2012, QVC entered into a joint venture with China Broadcasting Corporation, a limited liability company, owned by China National Radio ("CNR") for a 49% interest in a CNR subsidiary, CNR Home Shopping Co., Ltd. ("CNRS"). CNRS distributes live programming for 15 hours per day and recorded programming for 9 hours per day. The CNRS joint venture is accounted for as an equity method investment.

QVC's operating results were as follows:

	Years ended December 31,		
	2013	2012	2011
	amounts in millions		
Net revenue	\$ 8,623	8,516	8,268
Cost of sales	(5,465)	(5,419)	(5,278)
Gross profit	3,158	3,097	2,990
Operating expenses	(740)	(715)	(744)
SG&A expenses (excluding stock-based compensation)	(577)	(554)	(513)
Adjusted OIBDA	1,841	1,828	1,733
Stock-based compensation	(38)	(34)	(22)
Depreciation and amortization	(558)	(526)	(574)
Operating income	\$ 1,245	1,268	1,137

Net revenue was generated from the following geographical areas:

	Years ended December 31,		
	2013	2012	2011
	amounts in millions		
QVC-U.S.	\$ 5,844	5,585	5,412
QVC-Japan	1,024	1,247	1,127
QVC-Germany	971	956	1,068
QVC-U.K.	657	641	626
QVC-Italy	127	87	35
	\$ 8,623	8,516	8,268

QVC's consolidated net revenue increased 1.3% and 3.0% for the years ended December 31, 2013 and 2012, respectively, as compared to the corresponding prior years. The 2013 increase of \$107 million in net revenue was primarily comprised of \$257 million due to a 2.7% increase in the average selling price per unit ("ASP") and \$155 million due to a 1.6% increase in units sold. These amounts were partially offset by a net \$200 million of unfavorable foreign currency rate adjustments primarily in Japan. Additionally, net revenue was negatively impacted by \$102 million due to an increase in estimated product returns, primarily in the U.S., Japan and Germany. The increase in returns in the U.S. was primarily due to sales volume and the increases in Japan and Germany were primarily due to higher returns in the apparel and jewelry categories and a greater mix of apparel products that return at higher rates than other categories. Overall returns as a percent of gross product revenue increased to 19.8% from 19.4% in 2012.

The 2012 increase in net revenue was primarily comprised of \$205 million due to a 2.2% increase in ASP, \$154 million due to a 1.7% increase in units sold and a \$59 million increase in shipping and handling and other miscellaneous revenue. These amounts were partially offset by \$92 million of unfavorable foreign currency rate adjustments in all markets and \$78 million due to an increase in estimated product returns as a result of the sales increase. Overall returns as a percent of gross product revenue remained flat at 19.4% compared to 2011.

During the years ended December 31, 2013 and 2012, the changes in revenue and expenses were affected 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 affected.

The percentage increase (decrease) in net revenue for each of QVC's geographic areas in U.S. Dollars and in local currency was as follows:

	Year ended December 31, 2013		Year ended December 31, 2012	
	U.S. dollars	Local currency	U.S. dollars	Local currency
QVC-US	4.6 %	4.6 %	3.2 %	3.2 %
QVC-Japan	(17.9)%	0.3 %	10.6 %	11.2 %
QVC-Germany	1.6 %	(1.7)%	(10.5)%	(3.5)%
QVC-UK	2.5 %	3.7 %	2.4 %	3.3 %
QVC-Italy	46.0 %	41.5 %	148.6 %	168.3 %

In 2013, QVC-U.S. net revenue growth was primarily due to a 4.6% increase in ASP, as a result of higher rates in the beauty and accessories categories as well as a greater mix of accessories. QVC-U.S. experienced shipped sales growth in all categories except jewelry. QVC-Japan's shipped sales in local currency improved primarily in the apparel, home and electronics categories, offset by declines in accessories and jewelry and an increase in estimated product returns as discussed in the above paragraph. QVC-Germany's shipped sales in local currency increased primarily in the apparel and accessories categories, but this growth was more than offset by declines in jewelry and electronics and an increase in estimated product returns as discussed in the above paragraph. QVC-U.K.'s shipped sales growth in local currency was primarily the result of increased sales in the home and beauty categories, partially offset by declines in jewelry. QVC-Italy's sales consisted primarily of home, beauty and apparel products.

In 2012, QVC-U.S. net revenue growth was primarily due to a 3.2% 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. QVC-U.S.' shipped sales increased mainly due to growth in the home, beauty and apparel categories that were partially offset by a decline in electronics and jewelry. Additionally, QVC-U.S. revenue growth in the fourth quarter of 2012 was adversely impacted by the effects of Hurricane Sandy. The hurricane did not impact QVC's operations in West Chester, Pennsylvania. QVC-Japan primarily experienced shipped sales growth in local currency in the home, apparel and accessories categories, with the growth for the year also reflective of the earthquake and related events experienced in March 2011. QVC-Germany primarily experienced shipped sales declines in local currency in the health and fitness, apparel and accessories categories, partially offset by an increase in sales of beauty products. QVC-U.K.'s shipped sales growth in local currency was primarily due to the beauty category. QVC-Italy's sales consisted primarily of home, beauty and apparel products.

QVC's gross profit percentage was 36.6%, 36.4% and 36.2% for the years ended December 31, 2013, 2012 and 2011, respectively. The increase in gross profit percentage in 2013 was primarily due to improved product margins in the U.S. and the U.K. The increase in gross profit percentage in 2012 was primarily due to a favorable net shipping and handling position including warehouse productivity in the U.S.; improved leverage of warehouse costs in Japan and warehouse productivity, including the positive impact of lower return processing in Germany.

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 increased \$25 million or 3.5% and decreased \$29 million or 3.9% for the years ended December 31, 2013 and 2012, respectively.

The increase in 2013 was primarily due to a \$29 million increase in credit card processing fees and a \$17 million increase in commissions expense, offset by a \$22 million effect of exchange rates. In regards to the increase in credit card processing fees, as discussed in more detail in the subsequent paragraph, QVC-U.S. reached a favorable legal settlement in the prior year, which offset the related expenses. Credit card processing fees also increased in 2013 due to the U.S. sales increase and lower usage of the QVC branded credit card ("Q Card") combined with a higher mix of purchases from customers using credit cards with higher rates charged to merchants. The increase in commissions expense was primarily due to the sales increase in the U.S. and additional programming distribution expenses in Japan.

The decrease in 2012 was primarily due to a \$23 million decrease in credit card processing fees and a \$10 million effect of exchange rates. In regards to the decrease in credit card processing fees, on October 22, 2012, QVC-U.S. reached a favorable \$20 million net legal settlement regarding credit card fees, which was recorded as a reduction of operating expenses in the fourth

quarter of 2012. The decrease in credit card processing fees was also due to a change in U.S. legislation associated with customer debit card purchases resulting in lower fees charged to merchants. These decreases were partially offset by a \$5 million increase in programming and production expenses primarily in the U.S., and to a lesser extent, Japan and Italy.

QVC's SG&A expenses include personnel, information technology, provision for doubtful accounts, credit card income and marketing and advertising expenses. Such expenses increased \$23 million, and as a percent of net revenue, from 6.5% to 6.7% for the year ended December 31, 2013 and increased \$41 million, and as a percent of net revenue, from 6.2% to 6.5% for the year ended December 31, 2012 as a result of a variety of factors.

The increase in 2013 was primarily related to a \$35 million increase in personnel expense, a \$7 million increase in information technology expense, a \$5 million increase in the provision for doubtful accounts and a \$2 million decrease in credit card income, offset by a \$13 million effect of exchange rates, a \$12 million decrease in sales and franchise taxes and a \$3 million decrease in rent expense. The increase in personnel expense was primarily due to merit, benefits and bonus increases in the U.S. and the U.K. as well as severance costs in Germany and the U.K. The increase in information technology expense was primarily due to additional cloud-based software solutions in the U.S. and solutions to enhance customer service and productivity in Germany. The increase in the provision for doubtful accounts was primarily due to the increased use of the Easy-Pay installment program in the U.S. The QVC Easy-Pay Plan (known as Q Pay in Germany) permits customers to pay for items in two or more installments. When the QVC Easy-Pay Plan is offered by QVC and elected by the customer, the first installment is typically billed to the customer's credit card upon shipment. Generally, the customer's credit card is subsequently billed up to five additional monthly installments until the total purchase price of the products has been billed by QVC. The decrease in credit card income was primarily due to the overall economics, including usage, of the Q Card portfolio in the U.S. The decrease in sales and franchise taxes was primarily due to a revision in settlement estimates and credits in the U.S. The decrease in rent expense was primarily due to duplicate running costs including a lease cancellation accrual in the U.K. in the prior year associated with the move to its new headquarters, partially offset by higher rent expense on its new facility in the current year.

The increase in 2012 was primarily related to a \$31 million increase in personnel expenses, a \$9 million increase in marketing expense, an \$8 million increase in the provision for doubtful accounts and a \$6 million increase in rent expense. These increases were partially offset by a \$9 million effect of exchange rates and a \$7 million increase in credit card income. The increase in personnel expense was primarily due to merit, benefits and bonus increases in the U.S. and Japan. The increase in marketing expense was primarily due to QVC-U.S. Internet and social media campaigns and a renewal of marketing efforts at QVC-Japan as a result of the earthquake and related events experienced in 2011. The increase in the provision for doubtful accounts was primarily due to the increased use of the Easy-Pay Plan in the U.S. The increase in rent expense was primarily due to duplicate running costs at QVC-U.K. associated with the transition to its new headquarters including a lease cancellation accrual. The increase in credit card income was primarily due to a higher average portfolio balance in the U.S.

Depreciation and amortization consist of the following:

	Years ended December 31,		
	2013	2012	2011
	amounts in millions		
Affiliate agreements	\$ 150	151	152
Customer relationships	172	172	173
Purchase accounting related amortization	322	323	325
Property, plant and equipment	127	126	135
Software amortization	78	62	95
Channel placement amortization and related expenses	31	15	19
Total depreciation and amortization	<u>\$ 558</u>	<u>526</u>	<u>574</u>

The increase in software amortization in 2013 was primarily due to solutions to enhance customer service and productivity in the U.S and Germany. The increase in channel placement amortization and related expenses in 2013 was primarily due to new and amended long-term cable and satellite television distribution agreements in the U.S.

During the fourth quarter of 2011, QVC determined that certain capitalized customer relationship management ("CRM") software did not meet service-level expectations and desired functionality. As a result, QVC recorded an impairment of certain CRM assets in the amount of \$47 million included in depreciation and amortization in the consolidated statement of operations.

**TripAdvisor, Inc.** The consolidated results of TripAdvisor were not significant for the year ended December 31, 2012 (Revenue of \$36 million, Adjusted OIBDA of \$8 million and Operating loss of \$5 million), due to the timing of gaining control in 2012. As discussed in the "Results of Operations - Consolidated" section the TripAdvisor results were more significant in 2013. Our economic ownership interest in TripAdvisor is only 22% but Liberty's results include the consolidation of TripAdvisor's entire operations with 78% of TripAdvisor's net income (loss), including purchase accounting adjustments, being eliminated through the noncontrolling interest line item. TripAdvisor is a separate publicly traded company and additional information about TripAdvisor can be obtained through its website and its public filings. We believe a discussion of TripAdvisor's stand alone results promotes a better understanding of overall results of their business. TripAdvisor's revenue, Adjusted OIBDA and operating income on a standalone basis for the last three years were as follows (operating income has been reconciled, in the periods subsequent to consolidation, to the amounts reported by Liberty):

	Years ended December 31,		
	2013	2012	2011
	amounts in millions		
Revenue	\$ 945	763	637
Adjusted OIBDA	\$ 379	352	323
Operating income (loss)	\$ 295	296	273
Adjustments for purchase accounting and to eliminate results prior to consolidation (1)	\$ (287)	(301)	NA
Operating income (loss) as reported by Liberty	8	(5)	NA

(1) Purchase accounting adjustments primarily relate to the amortization of certain customer relationships and other intangibles and recognition of incremental stock-based compensation.

A portion (\$217 million, \$204 million and \$211 million for the years ended December 31, 2013, 2012 and 2011, respectively) of TripAdvisor's revenue was related-party revenue with Expedia, Inc. (TripAdvisor's former parent), which we account for as an equity method affiliate.

#### **Revenue**

TripAdvisor derives substantially all of its revenue through the sale of advertising, primarily through click-based advertising and, to a lesser extent, display-based advertising. In addition, revenue is earned through a combination of subscription-based offerings related to its Business Listings and Vacation Rentals products, transaction revenue from selling room nights on transactional sites, and other revenue including content licensing.

Revenue increased \$182 million during the year ended December 31, 2013 when compared to the same period in 2012, primarily due to an increase in click-based advertising revenue of \$108 million. The primary driver of the increase in click-based advertising revenue was an increase in hotel shoppers, which refers to users who view a listing of hotels in a city or visitors who view a specific hotel page as tracked by TripAdvisor, of 36% for the year ended December 31, 2013, partially offset by lower revenue per hotel shopper of 13% for the year ended December 31, 2013, primarily due to a combination of lower user conversion related to the transition to hotel metasearch, growth in hotel shoppers on smartphones, which have a lower monetization rate than desktops and tablets, and growth in emerging international markets that are currently monetizing at lower levels than mature markets. Display-based advertising increased by \$25 million during the year ended December 31, 2013, primarily as a result of a 34% increase in the number of impressions due to increased site traffic and worldwide growth particularly in emerging markets, respectively, when compared to the same period in 2012, partially offset by a decrease in pricing by 5% for the year ended December 31, 2013. Subscription, transaction and other revenue increased by \$49 million during the year ended December 31, 2013, respectively, primarily due to growth in our Business Listings and Vacation Rentals products.

### ***Adjusted OIBDA***

Adjusted OIBDA as a percentage of revenue has declined period over period as TripAdvisor continues to make investments in the business and the brand. The primary expenses that drive Adjusted OIBDA and operating income on a standalone basis are sales and marketing, technology and content and general and administrative expenses.

#### ***Sales and marketing***

Sales and marketing expenses primarily consist of direct costs, including search engine marketing, or SEM, other traffic acquisition costs, syndication costs and affiliate program commissions, brand advertising and public relations. In addition, indirect sales and marketing expense consists of personnel and overhead expenses, including salaries, commissions, benefits, stock-based compensation expense (excluded from Adjusted OIBDA but included in operating income) and bonuses for sales, sales support, customer support and marketing employees.

Direct sales and marketing costs increased \$66 million or 38% during the year ended December 31, 2013 when compared to the same period in 2012, primarily due to increased search engine marketing costs, other traffic acquisition costs and brand advertising costs, including offline advertising, partially offset by a decrease in spending in social media costs. Personnel and overhead costs increased \$36 million or 40% during the year ended December 31, 2013 when compared to the same period in 2012, primarily due to an increase in headcount to support business growth, including international expansion, and employees acquired in recent business acquisitions and also increased stock-based compensation costs (excluded from Adjusted OIBDA but included in operating income).

#### ***Technology and content***

Technology and content expenses consist of personnel and overhead expenses, including salaries and benefits, stock-based compensation expense and bonuses for salaried employees and contractors engaged in the design, development, testing, content support, and maintenance of the website. Other costs include licensing and maintenance expense.

Technology and content costs increased \$44 million or 51% during the year ended December 31, 2013 when compared to the same period in 2012, primarily due to increased personnel costs from increased headcount to support business growth, including international expansion, enhanced site features, extending products onto smartphone and tablet platforms, and development of the hotel metasearch product, as well as an increase in stock based compensation (excluded from Adjusted OIBDA but included in operating income) and additional personnel costs related to employees acquired in recent business acquisitions.

#### ***General and administrative***

General and administrative expense consists primarily of personnel and related overhead costs, including executive leadership, finance, legal and human resource functions and stock-based compensation as well as professional service fees and other fees including audit, legal, tax and accounting, and other costs including bad debt expense and the charitable foundation costs.

General and administrative costs increased \$22 million or 30% during the year ended December 31, 2013, when compared to the same period in 2012, primarily due to increased personnel costs related to an increase in stock-based compensation (excluded from Adjusted OIBDA but included in operating income), as well as increased headcount to support business growth and additional professional service fees in order to support the operations and an increase to the bad debt provision.

#### ***Operating Income (Loss)***

Operating income was impacted by the above explanations on a standalone basis in addition to the amortization of intangibles and the increase in stock-based compensation, both additional stock-based compensation at the TripAdvisor level (as included in the discussion above) and incremental stock-based compensation resulting from the application of purchase accounting. The year ended December 31, 2012 standalone results included only one month of activity therefore the largest portion of the adjustment for that period related to the elimination of results prior to consolidation.

**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 \$182 million and \$154 million for the years ended December 31, 2013 and 2012 as compared to the corresponding prior year periods, respectively. Such increases were the result of increased marketing efforts driving additional traffic, greater conversion resulting from continual investments and upgrades in site optimization, broader inventory offerings and additional sales from discounted pricing of seasonal inventory.

Adjusted OIBDA for the E-commerce businesses decreased \$11 million and increased \$27 million for the years ended December 31, 2013 and 2012, respectively, representing 5% of revenue in 2013, as compared to 6% of revenue in 2012 and 9% in 2011. The decrease in Adjusted OIBDA as a percentage of sales for the year ended December 31, 2013 and 2012 was the result of increased spending in paid search as a percentage of revenue, increased promotional activity and product discounting to move seasonal inventory, which impacted gross margins, and lower advertising revenue due to unfavorable pricing and a shift to mobile applications. The most significant declines in operating results for the E-commerce businesses, as compared to prior periods, were the Celebrate retail business and the non-perishable businesses within Provide (Red Envelope and Personal Creations). These businesses had declining revenues as well as decreasing contribution margin (product margin less direct expenses of the business) which hurt the overall Celebrate and Provide businesses. These declining operating results were partially offset by the growth of other E-commerce businesses primarily CommerceHub and Bodybuilding.com. Additionally, for the year ended December 31, 2012 the E-commerce companies recorded legal settlements (\$6 million), additional inventory reserves (\$4 million) and retention compensation of certain key personnel at one E-commerce subsidiary (\$5 million).

Operating loss for the year ended December 31, 2013 was slightly improved over the same periods of December 31, 2012 due primarily to a smaller impairment of goodwill and other intangibles recorded during the current year. In 2013, further impairments of \$33 million were recorded for intangibles at Evite and certain Provide intangibles. In 2012, Celebrate and Evite required the recognition of \$92 million of impairments as a result of continued declining operating results and disappointing business environment and operational trends.

## Item 7A. 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 December 31, 2013, 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				
<b>Interactive Group</b>				
QVC	\$ 922	1.9%	\$ 2,899	6.0%
Corporate and other	\$ 49	2.4%	\$ 1,203	5.9%
<b>Ventures Group</b>				
TripAdvisor	\$ 369	2.0%	\$ —	NA
Corporate and other	\$ —	NA	\$ 2,091	2.5%

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, when utilized, are recorded at fair value based on option pricing models.

At December 31, 2013, the fair value of our AFS equity securities was \$1,497 million. Had the market price of such securities been 10% lower at December 31, 2013, the aggregate value of such securities would have been \$150 million lower. Our stock in Expedia and other equity method affiliates which are publicly traded securities are not reflected at fair value in our balance sheet. These securities are also subject to market risk that is 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 price of the respective underlying security 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 and TripAdvisor'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 8. Financial Statements and Supplementary Data.**

The consolidated financial statements of Liberty Interactive Corporation are filed under this Item, beginning on Page II-26. The financial statement schedules required by Regulation S-X are filed under Item 15 of this Annual Report on Form 10-K.

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

None.

**Item 9A. Controls and Procedures.**

In accordance with Exchange Act Rules 13a-15 and 15d-15, 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 December 31, 2013 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.

See page II-24 for *Management's Report on Internal Control Over Financial Reporting*.

See page II-25 for *Report of Independent Registered Public Accounting Firm* for their attestation regarding our internal control over financial reporting.

There has been no change in the Company's internal control over financial reporting that occurred during the three months ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

**Item 9B. Other Information.**

None.

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Liberty Interactive Corporation's (the "Company") management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting, as such term is defined in Rule 13a - 15(f) of the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The Company's management assessed the effectiveness of internal control over financial reporting as of December 31, 2013, using the criteria in *Internal Control-Integrated Framework (1992)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation the Company's management believes that, as of December 31, 2013, its internal control over financial reporting is effective.

The Company's independent registered public accounting firm audited the consolidated financial statements and related disclosures in the Annual Report on Form 10-K and have issued an audit report on the effectiveness of the Company's internal control over financial reporting. This report appears on page II-25 of this Annual Report on Form 10-K.

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
Liberty Interactive Corporation:

We have audited Liberty Interactive Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Liberty Interactive Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Liberty Interactive Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Liberty Interactive Corporation and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive earnings (loss), cash flows, and equity for each of the years in the three-year period ended December 31, 2013, and our report dated February 28, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Denver, Colorado  
February 28, 2014

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
Liberty Interactive Corporation:

We have audited the accompanying consolidated balance sheets of Liberty Interactive Corporation and subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive earnings (loss), cash flows, and equity for each of the years in the three-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Liberty Interactive Corporation and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Liberty Interactive Corporation and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Denver, Colorado  
February 28, 2014

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2013 and 2012

	2013	2012
	amounts in millions	
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 1,256	2,660
Trade and other receivables, net	1,274	1,201
Inventory, net	1,135	1,106
Short-term marketable securities	543	186
Other current assets	218	105
Total current assets	4,426	5,258
Investments in available-for-sale securities and other cost investments (note 8)	1,501	1,819
Investments in affiliates, accounted for using the equity method (note 9)	1,237	851
Property and equipment, at cost	2,256	2,170
Accumulated depreciation	(1,009)	(935)
	1,247	1,235
Intangible assets not subject to amortization (note 10):		
Goodwill	9,332	9,556
Trademarks	4,343	4,324
	13,675	13,880
Intangible assets subject to amortization, net (note 10)	2,492	3,117
Other assets, at cost, net of accumulated amortization	98	95
Total assets	\$ 24,676	26,255

(continued)

See accompanying notes to consolidated financial statements.

**LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES**

**Consolidated Balance Sheets (Continued)**

**December 31, 2012 and 2011**

	2013	2012
	amounts in millions	
<i>Liabilities and Equity</i>		
<b>Current liabilities:</b>		
Accounts payable	\$ 591	719
Accrued liabilities	1,067	918
Current portion of debt (note 11)	978	1,638
Deferred income tax liabilities (note 12)	925	912
Other current liabilities	195	302
Total current liabilities	3,756	4,489
Long-term debt, including \$2,355 million and \$2,930 million measured at fair value (note 11)	6,406	6,246
Deferred income tax liabilities (note 12)	2,844	3,209
Other liabilities	235	260
Total liabilities	13,241	14,204
<i>Equity</i>		
<b>Stockholders' equity (note 13):</b>		
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 471,625,030 shares at December 31, 2013 and 516,009,627 shares at December 31, 2012	5	5
Series B Liberty Interactive common stock, \$.01 par value. Authorized 150,000,000 shares; issued and outstanding 28,884,103 shares at December 31, 2013 and 28,942,403 shares at December 31, 2012	—	—
Series A Liberty Ventures common stock, \$.01 par value. Authorized 200,000,000 shares; issued and outstanding 35,380,604 shares at December 31, 2013 and 35,355,434 shares at December 31, 2012	—	—
Series B Liberty Ventures common stock, \$.01 par value. Authorized 7,500,000 shares; issued and outstanding 1,442,689 shares at December 31, 2013 and 1,446,916 shares at December 31, 2012	—	—
Additional paid-in capital	1,147	2,225
Accumulated other comprehensive earnings, net of taxes	99	148
Retained earnings	5,685	5,184
Total stockholders' equity	6,936	7,562
Noncontrolling interests in equity of subsidiaries	4,499	4,489
Total equity	11,435	12,051
<b>Commitments and contingencies (note 18)</b>		
Total liabilities and equity	\$ 24,676	26,255

See accompanying notes to consolidated financial statements.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Consolidated Statements Of Operations

Years ended December 31, 2013, 2012 and 2011

	2013	2012	2011
	amounts in millions, except per share amounts		
Net retail sales	\$ 10,307	10,018	9,616
Service and other revenue, net	945	36	—
Total revenue, net	11,252	10,054	9,616
Operating costs and expenses:			
Cost of retail sales (exclusive of depreciation shown separately below)	6,602	6,396	6,114
Operating expense, including stock-based compensation (note 3)	1,029	840	866
Selling, general and administrative, including stock-based compensation (note 3)	1,525	1,009	862
Depreciation and amortization	943	609	641
Impairment of intangible assets	33	92	—
	10,132	8,946	8,483
Operating income	1,120	1,108	1,133
Other income (expense):			
Interest expense	(373)	(432)	(427)
Share of earnings (losses) of affiliates, net (note 9)	33	85	140
Realized and unrealized gains (losses) on financial instruments, net (note 7)	(22)	(351)	84
Gains (losses) on transactions, net (note 5)	(2)	1,531	—
Other, net	(46)	44	9
	(410)	877	(194)
Earnings (loss) from continuing operations before income taxes	710	1,985	939
Income tax (expense) benefit (note 12)	(130)	(394)	(352)
Earnings (loss) from continuing operations	580	1,591	587
Earnings (loss) from discontinued operations, net of taxes (note 6)	—	—	378
Net earnings (loss)	580	1,591	965
Less net earnings (loss) attributable to the noncontrolling interests	79	61	53
Net earnings (loss) attributable to Liberty Interactive Corporation shareholders	\$ 501	1,530	912
Net earnings (loss) attributable to Liberty Interactive Corporation shareholders:			
Liberty Capital common stock	NA	NA	211
Liberty Starz common stock	NA	NA	177
Liberty Interactive Corporation common stock	NA	294	524
Liberty Interactive common stock	438	212	NA
Liberty Ventures common stock	63	1,024	NA
	\$ 501	1,530	912

See accompanying notes to consolidated financial statements.

**LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES**

**Consolidated Statements Of Operations (Continued)**

**Years ended December 31, 2013, 2012 and 2011**

	2013	2012	2011
Basic net earnings (loss) from continuing operations attributable to Liberty Interactive Corporation shareholders per common share (note 3):			
Series A and Series B Liberty Capital common stock	NA	NA	0.12
Series A and Series B Liberty Interactive Corporation common stock	NA	0.53	0.88
Series A and Series B Liberty Interactive common stock	\$ 0.84	0.39	NA
Series A and Series B Liberty Ventures common stock	\$ 1.70	31.03	NA
Diluted net earnings (loss) from continuing operations attributable to Liberty Interactive Corporation shareholders per common share (note 3):			
Series A and Series B Liberty Capital common stock	NA	NA	0.12
Series A and Series B Liberty Interactive Corporation common stock	NA	0.52	0.87
Series A and Series B Liberty Interactive common stock	\$ 0.83	0.38	NA
Series A and Series B Liberty Ventures common stock	\$ 1.70	31.03	NA
Basic net earnings (loss) attributable to Liberty Interactive Corporation shareholders per common share (note 3):			
Series A and Series B Liberty Capital common stock	NA	NA	2.60
Series A and Series B Liberty Starz common stock	NA	NA	3.47
Series A and Series B Liberty Interactive Corporation common stock	NA	0.53	0.88
Series A and Series B Liberty Interactive common stock	\$ 0.84	0.39	NA
Series A and Series B Liberty Ventures common stock	\$ 1.70	31.03	NA
Diluted net earnings (loss) attributable to Liberty Interactive Corporation shareholders per common share (note 3):			
Series A and Series B Liberty Capital common stock	NA	NA	2.54
Series A and Series B Liberty Starz common stock	NA	NA	3.34
Series A and Series B Liberty Interactive Corporation common stock	NA	0.52	0.87
Series A and Series B Liberty Interactive common stock	\$ 0.83	0.38	NA
Series A and Series B Liberty Ventures common stock	\$ 1.70	31.03	NA

See accompanying notes to consolidated financial statements.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Consolidated Statements Of Comprehensive Earnings (Loss)

Years ended December 31, 2013, 2012 and 2011

	2013	2012	2011
	amounts in millions		
Net earnings (loss)	\$ 580	1,591	965
Other comprehensive earnings (loss), net of taxes:			
Foreign currency translation adjustments	(76)	(25)	(11)
Share of other comprehensive earnings (loss) of equity affiliates	2	3	(2)
Other comprehensive earnings (loss) from discontinued operations	—	—	(26)
Other comprehensive earnings (loss)	(74)	(22)	(39)
Comprehensive earnings (loss)	506	1,569	926
Less comprehensive earnings (loss) attributable to the noncontrolling interests	54	43	57
Comprehensive earnings (loss) attributable to Liberty Interactive Corporation shareholders	\$ 452	1,526	869
Comprehensive earnings (loss) attributable to Liberty Interactive Corporation shareholders:			
Liberty Capital common stock	NA	NA	189
Liberty Starz common stock	NA	NA	173
Liberty Interactive Corporation common stock	NA	277	507
Liberty Interactive common stock	\$ 387	222	NA
Liberty Ventures common stock	65	1,027	NA
	\$ 452	1,526	869

See accompanying notes to consolidated financial statements.

**LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES**

**Consolidated Statements Of Cash Flows**

**Years ended December 31, 2013, 2012 and 2011**

	2013	2012	2011
	amounts in millions (See note 4)		
<b>Cash flows from operating activities:</b>			
Net earnings (loss)	\$ 580	1,591	965
<b>Adjustments to reconcile net earnings to net cash provided by operating activities:</b>			
(Earnings) loss from discontinued operations	—	—	(378)
Depreciation and amortization	943	609	641
Stock-based compensation	178	91	49
Cash payments for stock-based compensation	(10)	(12)	(3)
Excess tax benefit from stock-based compensation	(23)	(64)	(19)
Noncash interest expense	13	9	9
Share of (earnings) losses of affiliates, net	(33)	(85)	(140)
Cash receipts from returns on equity investments	35	45	22
Realized and unrealized (gains) losses on financial instruments, net	22	351	(84)
(Gains) losses on transactions, net	2	(1,531)	—
(Gains) losses on extinguishment of debt	57	—	—
Impairment of intangible assets	33	92	—
Deferred income tax expense (benefit)	(136)	13	44
Other noncash charges (credits), net	(2)	(30)	(5)
Changes in operating assets and liabilities			
Current and other assets	(81)	(70)	(174)
Payables and other liabilities	(218)	423	(27)
Net cash provided (used) by operating activities	<u>1,360</u>	<u>1,432</u>	<u>900</u>
<b>Cash flows from investing activities:</b>			
Cash proceeds from dispositions	1,137	1,030	—
Proceeds (payments) from settlement of financial instruments, net	—	(258)	—
Investment in and loans to cost and equity investees	(384)	(236)	(65)
Capital expended for property and equipment	(352)	(339)	(312)
Cash (paid) for acquisitions, net of cash acquired	(58)	28	(14)
Purchases of short term investments and other marketable securities	(1,391)	(76)	(251)
Sales of short term investments and other marketable securities	726	46	205
Other investing activities, net	(38)	(42)	—
Net cash provided (used) by investing activities	<u>(360)</u>	<u>153</u>	<u>(437)</u>
<b>Cash flows from financing activities:</b>			
Borrowings of debt	4,373	2,316	383
Repayments of debt	(5,474)	(1,512)	(899)
Repurchases of Liberty Interactive common stock	(1,089)	(815)	(366)
Shares repurchased by subsidiary	(145)	—	—
Shares issued by subsidiary	27	—	—
Proceeds from rights offering	—	328	—
Taxes paid in lieu of shares issued for stock-based compensation	(38)	(128)	(5)
Excess tax benefit from stock-based compensation	23	64	19
Other financing activities, net	(57)	(5)	(48)
Net cash provided (used) by financing activities	<u>(2,380)</u>	<u>248</u>	<u>(916)</u>
Effect of foreign currency exchange rates on cash	(24)	(20)	(4)
<b>Net cash provided (used) by discontinued operations:</b>			
Cash provided (used) by operating activities	—	—	304
Cash provided (used) by investing activities	—	—	(104)
Cash provided (used) by financing activities	—	—	(264)
Change in available cash held by discontinued operations	—	—	15
Net cash provided (used) by discontinued operations	<u>—</u>	<u>—</u>	<u>(49)</u>
Net increase (decrease) in cash and cash equivalents	(1,404)	1,813	(506)
Cash and cash equivalents at beginning of period	2,660	847	1,353
Cash and cash equivalents at end of period	<u>\$ 1,256</u>	<u>2,660</u>	<u>847</u>

See accompanying notes to consolidated financial statements.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Consolidated Statement Of Equity  
Years ended December 31, 2013, 2012 and 2011

Stockholders' Equity														
Common stock														
Preferred Stock	Liberty Capital		Liberty Starz		Liberty Interactive		Liberty Ventures		Additional paid-in capital	Accumulated other comprehensive earnings	Retained Earnings	Noncontrolling interest in equity of subsidiaries	Total equity	
	Series A	Series B	Series A	Series B	Series A	Series B	Series A	Series B						
amounts in millions														
Balance at January 1, 2011	\$ —	1	—	—	—	6	—	—	8,338	226	2,742	129	11,442	
Net earnings	—	—	—	—	—	—	—	—	—	—	912	53	965	
Other comprehensive earnings (loss)	—	—	—	—	—	—	—	—	—	(43)	—	4	(39)	
Stock compensation	—	—	—	—	—	—	—	—	58	—	—	—	58	
Minimum withholding taxes on net share settlements of stock-based compensation	—	—	—	—	—	—	—	—	(5)	—	—	—	(5)	
Excess tax benefits on stock-based compensation	—	—	—	—	—	—	—	—	19	—	—	—	19	
Stock issued upon exercise of stock options	—	—	—	—	—	—	—	—	17	—	—	—	17	
Series A Liberty Starz stock repurchases	—	—	—	—	—	—	—	—	(366)	—	—	—	(366)	
Series A Liberty Capital stock repurchases	—	—	—	—	—	—	—	—	(213)	—	—	—	(213)	
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(16)	—	—	(51)	(67)	
Sale of noncontrolling interest, net of tax impacts	—	—	—	—	—	—	—	—	(100)	—	—	(6)	(106)	
Split-off of Liberty Media Corporation (note 6)	—	(1)	—	—	—	—	—	—	(5,110)	(31)	—	5	(5,137)	
Transfer of tax attributes from Liberty Media	—	—	—	—	—	—	—	—	59	—	—	—	59	
Balance at December 31, 2011	—	—	—	—	—	6	—	—	2,681	152	3,654	134	6,627	
Net earnings	—	—	—	—	—	—	—	—	—	—	1,530	61	1,591	
Other comprehensive earnings (loss)	—	—	—	—	—	—	—	—	—	(4)	—	(18)	(22)	
Stock compensation	—	—	—	—	—	—	—	—	76	—	—	—	76	
Minimum withholding taxes on net share settlements of stock-based compensation	—	—	—	—	—	—	—	—	(128)	—	—	—	(128)	
Excess tax benefits on stock-based compensation	—	—	—	—	—	—	—	—	64	—	—	—	64	
Stock issued upon exercise of stock options	—	—	—	—	—	—	—	—	28	—	—	—	28	

See accompanying notes to consolidated financial statements.

**LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES**  
**Consolidated Statement Of Equity (continued)**  
**Years ended December 31, 2013, 2012 and 2011**

	Stockholders' Equity													Total equity
	Common stock									Additional paid-in capital	Accumulated other comprehensive earnings	Retained Earnings	Noncontrolling interest in equity of subsidiaries	
	Preferred Stock	Liberty Capital		Liberty Starz		Liberty Interactive		Liberty Ventures						
Series A		Series B	Series A	Series B	Series A	Series B	Series A	Series B						
amounts in millions														
Series A Liberty Interactive stock repurchases	—	—	—	—	—	(1)	—	—	—	(814)	—	—	—	(815)
Series A Liberty Ventures stock issued for rights offering	—	—	—	—	—	—	—	—	—	328	—	—	—	328
Noncontrolling interest recognized with acquisition of a controlling interest in a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	4,341	4,341
Distribution to noncontrolling interest	—	—	—	—	—	—	—	—	—	—	—	—	(29)	(29)
Other	—	—	—	—	—	—	—	—	—	(10)	—	—	—	(10)
Balance at December 31, 2012	\$ —	—	—	—	—	5	—	—	—	2,225	148	5,184	4,489	12,051
Net earnings	—	—	—	—	—	—	—	—	—	—	—	501	79	580
Other comprehensive earnings (loss)	—	—	—	—	—	—	—	—	—	—	(49)	—	(25)	(74)
Stock compensation	—	—	—	—	—	—	—	—	—	93	—	—	49	142
Minimum withholding taxes on net share settlements of stock-based compensation	—	—	—	—	—	—	—	—	—	(38)	—	—	—	(38)
Excess tax benefits on stock-based compensation	—	—	—	—	—	—	—	—	—	23	—	—	—	23
Stock issued upon exercise of stock options	—	—	—	—	—	—	—	—	—	5	—	—	—	5
Series A Liberty Interactive stock repurchases	—	—	—	—	—	—	—	—	—	(1,089)	—	—	—	(1,089)
Distribution to noncontrolling interest	—	—	—	—	—	—	—	—	—	—	—	—	(45)	(45)
Shares repurchased by subsidiary	—	—	—	—	—	—	—	—	—	(63)	—	—	(82)	(145)
Shares issued by subsidiary	—	—	—	—	—	—	—	—	—	(7)	—	—	34	27
Other	—	—	—	—	—	—	—	—	—	(2)	—	—	—	(2)
Balance at December 31, 2013	\$ —	—	—	—	—	5	—	—	—	1,147	99	5,685	4,499	11,435

See accompanying notes to consolidated financial statements.

## LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

#### (1) Basis of Presentation

The accompanying 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.

On October 10, 2013, Liberty announced that its board has authorized management to pursue a plan to recapitalize its Interactive Group tracking stock into two new tracking stocks, one (currently the Liberty Interactive common stock) to be renamed the QVC Group common stock and the other to be designated as the Liberty Digital Commerce common stock. The Digital Commerce Group would have attributed to it Liberty's subsidiaries Provide Commerce, Backcountry.com, Bodybuilding.com, CommerceHub, Right Start, and Evite, which is currently a part of Liberty's subsidiary Celebrate, along with cash and certain liabilities. The QVC Group, which is currently known as the Interactive Group, would have attributed to it Liberty's subsidiary QVC, Inc. and its approximate 38% interest in HSN, Inc., along with cash and certain liabilities. Additionally, on October 10, 2013, Liberty announced that its board has also authorized management to pursue a plan to spin-off to holders of its Liberty Ventures common stock shares of a newly formed company to be called Liberty TripAdvisor Holdings ("Trip Holdings"). Trip Holdings would be comprised of, among other things, Liberty's 22% economic and 57% voting interest in TripAdvisor, as well as Liberty's Celebrate retail business, which is currently a part of Liberty's subsidiary Celebrate, and an anticipated initial corporate level net debt balance of \$350 million. Management continues to review the proposed restructurings and no assurance can be given as to when or if either such transaction will be completed.

#### (2) Tracking Stocks

On August 9, 2012 Liberty completed the approved recapitalization of its common stock through the creation of the Liberty Interactive common stock and Liberty Ventures common stock as tracking stocks. In the recapitalization, each holder of Liberty Interactive Corporation common stock remained a holder of the same amount and series of Liberty Interactive common stock and received 0.05 of a share of the corresponding series of Liberty Ventures common stock, by means of a dividend, with cash issued in lieu of fractional shares of Liberty Ventures common stock.

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 has two tracking stocks—Liberty Interactive common stock and Liberty Ventures common stock, which are intended to track and reflect the economic performance of the Interactive Group and Ventures Group, respectively. While the Interactive Group and the Ventures Group have separate collections of businesses, assets and liabilities attributed to them, no group is a separate legal entity and therefore cannot own assets, issue securities or enter into legally binding agreements. Holders of tracking stocks have no direct claim to the group's stock or assets and are not represented by separate boards of directors. Instead, holders of tracking stock are stockholders of the parent corporation, with a single board of directors and subject to all of the risks and liabilities of the parent corporation.

The term "Ventures Group" does not represent a separate legal entity, rather it represents those businesses, assets and liabilities that have been attributed to that group. The Ventures Group is comprised primarily of our consolidated subsidiary TripAdvisor and interests in Expedia, Inc., Interval Leisure Group, Inc., Tree.com, Inc., investments in Time Warner Inc. and Time Warner Cable Inc., as well as cash in the amount of approximately \$658 million (at December 31, 2013), including subsidiary cash. The Ventures Group also has attributed to it certain liabilities related to our Exchangeable Debentures and certain deferred tax liabilities. The Ventures Group is primarily focused on the maximization of the value of these investments and investing in new business opportunities.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2013, 2012 and 2011

The term "Interactive Group" does not represent a separate legal entity, rather it represents those businesses, assets and liabilities that have been attributed to that group. The Interactive Group is primarily focused on our video and E-commerce operating businesses and has attributed to it the remainder of our businesses and assets, including our operating subsidiaries QVC, Provide Commerce, Inc., Backcountry.com, Inc., Bodybuilding.com, LLC, Celebrate Interactive Holdings, LLC and CommerceHub as well as our interest in HSN, Inc. including cash of approximately \$598 million (at December 31, 2013), including subsidiary cash. The Interactive Group has attributed to it liabilities that reside with QVC and the other consolidated subsidiaries, described above, as well as our outstanding senior notes and certain deferred tax liabilities.

At the time of issuance of the Liberty Ventures common stock, cash of \$1,346 million was reattributed to the Ventures Group from the Interactive Group. The Interactive Group borrowed funds under QVC's credit facility just prior to the completion of the recapitalization in order for Liberty to have an appropriate amount of cash available to be attributed to each tracking stock group. The reattribution of cash between the tracking stock groups had no consolidated impact on Liberty.

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

(3) Summary of Significant Accounting Policies

*Cash and Cash Equivalents*

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

*Receivables*

Receivables are reflected net of an allowance for doubtful accounts and sales returns. A provision for bad debts is provided as a percentage of accounts receivable based on historical experience and included in selling, general and administrative expense. A provision for vendor receivables are determined based on an estimate of probable expected losses and included in cost of goods sold. A summary of activity in the allowance for doubtful accounts is as follows:

	Balance beginning of year	Additions			Balance end of year
		Charged to expense	Other	Deductions- write-offs	
	amounts in millions				
2013	\$ 79	83	—	(73)	89
2012	\$ 80	75	5	(81)	79
2011	\$ 67	68	—	(55)	80

*Inventory*

Inventory, consisting primarily of products held for sale, is stated at the lower of cost or market. Cost is determined by the average cost method, which approximates the first-in, first-out method. Assessments about the realizability of inventory require the Company to make judgments based on currently available information about the likely method of disposition including sales to individual customers, returns to product vendors, liquidations and the estimated recoverable values of each disposition category. Inventory is stated net of inventory obsolescence reserves of \$88 million and \$97 million for the years ended December 31, 2013 and 2012, respectively.

*Investments*

All marketable equity and debt securities held by the Company are classified as available-for-sale ("AFS") and are carried at fair value generally based on quoted market prices. U.S. generally accepted accounting principles ("GAAP") permit 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"). Liberty has entered into economic hedges for certain of its non-strategic AFS securities (although such instruments are 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 has elected the fair value option for those of its AFS securities which it considers to be non-strategic ("Fair Value Option Securities"). Accordingly, changes in the

## LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

December 31, 2013, 2012 and 2011

fair value of Fair Value Option Securities, as determined by quoted market prices, are reported in realized and unrealized gains (losses) on financial instruments in the accompanying consolidated statement of operations. The total value of AFS securities for which the Company has elected the fair value option aggregated \$1,309 million and \$1,716 million as of December 31, 2013 and 2012, respectively.

Other investments in which the Company's ownership interest is less than 20%, unless the company has the ability to exercise significant influence, and that are not considered marketable securities are carried at cost.

For those investments in affiliates in which the Company has the ability to exercise significant influence, the equity method of accounting is used. Under this method, the investment, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the affiliate as they occur rather than as dividends or other distributions are received. Losses are limited to the extent of the Company's investment in, advances to and commitments for the investee. In the event the Company is unable to obtain accurate financial information from an equity affiliate in a timely manner, the Company records its share of earnings or losses of such affiliate on a lag. The Company's share of net earnings or loss of affiliates also includes any other than temporary declines in fair value recognized during the period.

Changes in the Company's proportionate share of the underlying equity of an equity method investee, which result from the issuance of additional equity securities by such equity investee, are recognized in the statement of operations through the other, net line item.

The Company continually reviews its equity investments and its AFS securities which are not Fair Value Option Securities to determine whether a decline in fair value below the carrying value is other than temporary. The primary factors the Company considers in its determination are the length of time that the fair value of the investment is below the Company's carrying value; the severity of the decline; and the financial condition, operating performance and near term prospects of the investee. In addition, the Company considers the reason for the decline in fair value, be it general market conditions, industry specific or investee specific; analysts' ratings and estimates of 12 month share price targets for the investee; changes in stock price or valuation subsequent to the balance sheet date; and the Company's intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. If the decline in fair value is deemed to be other than temporary, the carrying value of the security is written down to fair value. In situations where the fair value of an investment is not evident due to a lack of a public market price or other factors, the Company uses its best estimates and assumptions to arrive at the estimated fair value of such investment. The Company's assessment of the foregoing factors involves considerable management judgment and accordingly, actual results may differ materially from the Company's estimates and judgments. Writedowns for AFS securities which are not Fair Value Option Securities would be included in the consolidated statements of operations as other than temporary declines in fair values of investments. Writedowns for equity method investments would be included in share of earnings (losses) of affiliates.

#### *Derivative Instruments and Hedging Activities*

All of the Company's derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive earnings and are recognized in the statement of operations when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. If the derivative is not designated as a hedge, changes in the fair value of the derivative are recognized in earnings. The Company has entered into several interest rate swap agreements to mitigate the cash flow risk associated with interest payments related to certain of its variable rate debt. None of the Company's derivatives are currently designated as hedges.

The fair value of the Company's equity collars and other similar derivative instruments were estimated using the Black-Scholes model. The Black-Scholes model incorporates a number of variables in determining such fair values, including expected volatility of the underlying security and an appropriate discount rate. The Company obtains volatility rates from pricing services based on the expected volatility of the underlying security over the remaining term of the derivative instrument. A discount rate is obtained at the inception of the derivative instrument and updated each reporting period in which equity collars are outstanding, based on the Company's estimate of the discount rate at which it could currently settle the derivative instrument. The Company considered its own credit risk as well as the credit risk of its counterparties in estimating the discount rate. Management judgment was required in estimating the Black-Scholes variables.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2013, 2012 and 2011

**Property and Equipment**

Property and equipment consisted of the following:

	December 31, 2013	December 31, 2012
	amounts in millions	
Land	\$ 91	100
Buildings and improvements	1,022	909
Support equipment	1,058	948
Projects in progress	85	213
Total property and equipment	<u>\$ 2,256</u>	<u>2,170</u>

Property and equipment, including significant improvements, is stated at cost. Depreciation is computed using the straight-line method using estimated useful lives of 3 to 20 years for support equipment and 8 to 40 years for buildings and improvements. Depreciation expense for the years ended December 31, 2013, 2012 and 2011 was \$159 million, \$147 million and \$151 million, respectively.

**Intangible Assets**

Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment upon certain triggering events. Goodwill and other intangible assets with indefinite useful lives (collectively, "indefinite lived intangible assets") are not amortized, but instead are tested for impairment at least annually. Equity method goodwill is also not amortized, but is evaluated for impairment upon certain triggering events.

The Company performs at least annually an impairment analysis of goodwill and other intangibles. The Company adopted the accounting guidance, in the prior year, relating to the annual assessments of recoverability of goodwill and other intangibles and utilized a qualitative assessment for determining whether step one of the goodwill impairment analysis was necessary. The accounting guidance adopted was issued to simplify how entities test goodwill for impairment by permitting entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. In evaluating goodwill on a qualitative basis the Company reviewed the business performance of each reporting unit and evaluated other relevant factors as identified in the relevant accounting guidance to determine whether it was more likely than not that an indicated impairment existed for any of our reporting units. The Company considered whether there were any negative macroeconomic conditions, industry specific conditions, market changes, increased competition, increased costs in doing business, management challenges, the legal environments and how these factors might impact company specific performance in future periods. As part of the analysis the Company also considered fair value determinations for certain reporting units that had been made at various points throughout the current year and prior year for other purposes.

If a step one test is considered necessary based on the qualitative factors, the Company compares the estimated fair value of a reporting unit to its carrying value. Developing estimates of fair value requires significant judgments, including making assumptions about appropriate discount rates, perpetual growth rates, relevant comparable market multiples, public trading prices and the amount and timing of expected future cash flows. The cash flows employed in Liberty's valuation analysis are based on management's best estimates considering current marketplace factors and risks as well as assumptions of growth rates in future years. There is no assurance that actual results in the future will approximate these forecasts. For those reporting units whose carrying value exceeds the fair value, a second test is required to measure the impairment loss (the "Step 2 Test"). In the Step 2 Test, the fair value (Level 3) of the reporting unit is allocated to all of the assets and liabilities of the reporting unit with any residual value being allocated to goodwill. Any excess of the carrying value of the goodwill over this allocated amount is recorded as an impairment charge.

**Impairment of Long-lived Assets**

The Company periodically reviews the carrying amounts of its property and equipment and its intangible assets (other than goodwill and indefinite-lived intangibles) to determine whether current events or circumstances indicate that such carrying amounts may not be recoverable. If the carrying amount of the asset is greater than the expected undiscounted cash flows to be generated by such asset, including its ultimate disposition, an impairment adjustment is to be recognized. Such adjustment is measured by the amount that the carrying value of such assets exceeds their fair value. The Company generally measures fair value by considering sale prices for similar assets or by discounting estimated future cash flows using an appropriate discount rate. Considerable

## LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

December 31, 2013, 2012 and 2011

management judgment is necessary to estimate the fair value of assets. Accordingly, actual results could vary significantly from such estimates. Assets to be disposed of are carried at the lower of their financial statement carrying amount or fair value less costs to sell.

#### ***Noncontrolling Interests***

The Company reports noncontrolling interests of subsidiaries within equity in the balance sheet and the amount of consolidated net income attributable to the parent and to the noncontrolling interest is presented in the statement of operations. Also, changes in ownership interests in subsidiaries in which the Company maintains a controlling interest are recorded in equity.

#### ***Foreign Currency Translation***

The functional currency of the Company is the United States ("U.S.") dollar. The functional currency of the Company's foreign operations generally is the applicable local currency for each foreign subsidiary. Assets and liabilities of foreign subsidiaries are translated at the spot rate in effect at the applicable reporting date, and the consolidated statements of operations are translated at the average exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustment, net of applicable income taxes, is recorded as a component of accumulated other comprehensive earnings in 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 the accompanying consolidated statements of operations and comprehensive earnings (loss) as unrealized (based on the applicable period-end exchange rate) or realized upon settlement of the transactions.

#### ***Revenue Recognition***

Retail revenue is recognized at the time of delivery to customers. The revenue for shipments in-transit is recorded as deferred revenue and included in other current liabilities. Service revenue is recognized when the applicable criteria are met: persuasive evidence of an arrangement exists, services have been rendered, the price is fixed and determinable and collectability is reasonably assured.

An allowance for returned merchandise is provided as a percentage of sales based on historical experience. The total reduction in sales due to returns for the years ended December 31, 2013, 2012 and 2011 aggregated \$2,137 million, \$2,041 million and \$1,966 million, respectively. Sales tax collected from customers on retail sales is recorded on a net basis and is not included in revenue.

#### ***Cost of Sales***

Cost of sales primarily includes actual product cost, provision for obsolete inventory, buying allowances received from suppliers, shipping and handling costs and warehouse costs.

#### ***Advertising Costs***

Advertising costs generally are expensed as incurred. Advertising expense aggregated \$509 million, \$271 million and \$242 million for the years ended December 31, 2013, 2012 and 2011, respectively.

#### ***Stock-Based Compensation***

As more fully described in note 15, the Company has granted to its directors, employees and employees of its subsidiaries options, restricted stock and stock appreciation rights ("SARs") to purchase shares of Liberty Interactive and/or Liberty Ventures common stock ("Liberty common stock") (collectively, "Awards"). The Company measures the cost of employee services received in exchange for an Award of equity instruments (such as stock options and restricted stock) 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 an Award of liability instruments (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.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2013, 2012 and 2011

Included in the accompanying consolidated statements of operations are the following amounts of stock-based compensation :

	Year ended December 31,		
	2013	2012	2011
	amounts in millions		
Operating expense	\$ 26	—	—
Selling, general and administrative	152	91	49
	<u>\$ 178</u>	<u>91</u>	<u>49</u>

**Income Taxes**

The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying value amounts and income tax bases of assets and liabilities and the expected benefits of utilizing net operating loss and tax credit carryforwards. The deferred tax assets and liabilities are calculated using enacted tax rates in effect for each taxing jurisdiction in which the company operates for the year in which those temporary differences are expected to be recovered or settled. Net deferred tax assets are then reduced by a valuation allowance if the Company believes it more likely than not such net deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of an enacted change in tax rates is recognized in income in the period that includes the enactment date.

When the tax law requires interest to be paid on an underpayment of income taxes, the Company recognizes interest expense from the first period the interest would begin accruing according to the relevant tax law. Such interest expense is included in interest expense in the accompanying consolidated statements of operations. Any accrual of penalties related to underpayment of income taxes on uncertain tax positions is included in other income (expense) in the accompanying consolidated statements of operations.

**Earnings (Loss) Attributable to Liberty Interactive Corporation Stockholders and Earnings (Loss) Per Common Share**

Basic earnings (loss) per common share ("EPS") is computed by dividing net earnings (loss) attributable to such common stock 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*

The basic and diluted EPS calculation is based on the following weighted average shares outstanding ("WASO"). As discussed in more detail in note 6, Liberty Capital common stock was redeemed for shares in a subsidiary in the third quarter of 2011. Therefore, the amounts presented below are through the LMC Split-Off date.

	Year ended December 31, 2011
Basic WASO	81
Stock options	2
Diluted WASO	<u>83</u>

*Series A and Series B Liberty Starz Common Stock*

The basic and diluted EPS calculation is based on the following weighted average shares outstanding. As discussed in more detail in note 6, Liberty Starz common stock was redeemed for shares in a subsidiary in the third quarter of 2011. Therefore, the amounts presented below are through the LMC Split-Off date.

	Year ended December 31, 2011
Basic WASO	51
Stock options	2
Diluted WASO	<u>53</u>

**LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES**

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

**December 31, 2013, 2012 and 2011**

*Series A and Series B Liberty Interactive Corporation Common Stock*

The basic and diluted EPS calculation for Liberty Interactive Corporation prior to the recapitalization is based on the following weighted average outstanding shares. Excluded from diluted EPS, for the period prior to the recapitalization, are less than a million potential common shares because their inclusion would be antidilutive.

	<u>January 1, 2012</u>	<u>Year ended</u>
	<u>August 9, 2012</u>	<u>December 31,</u>
		<u>2011</u>
	<u>number of shares in millions</u>	
Basic WASO	559	595
Stock options	9	7
Diluted WASO	<u>568</u>	<u>602</u>

*Series A and Series B Liberty Interactive Common Stock*

Liberty completed a recapitalization on August 9, 2012, whereby each holder of current Liberty Interactive Corporation common stock became a holder of the same number of Liberty Interactive common stock. EPS for the period from the recapitalization through December 31, 2013, are based on the following weighted average outstanding shares. Excluded from diluted EPS for the year ended December 31, 2013 are less than a million potential common shares because their inclusion would be antidilutive.

	<u>Year ended</u>	<u>Year ended</u>
	<u>December 31,</u>	<u>December 31,</u>
	<u>2013</u>	<u>2012</u>
	<u>number of shares in millions</u>	
Basic WASO	519	541
Stock options	8	10
Diluted WASO	<u>527</u>	<u>551</u>

*Series A and Series B Liberty Ventures Common Stock*

Liberty completed a recapitalization on August 9, 2012, whereby each holder of then-existing Liberty Interactive common stock received 0.05 of a share of the corresponding series of Liberty Ventures common stock, by means of a dividend, with cash paid in lieu of fractional shares of Liberty Ventures common stock. Additionally, as part of the recapitalization Liberty distributed subscription rights, which were priced at a discount to the market value, to all holders of Liberty Ventures common stock, see further discussion in note 11. The rights offering, because of the discount, is considered a stock dividend which requires retroactive treatment for prior periods for the weighted average shares outstanding. EPS for the period from the recapitalization through December 31, 2013, are based on the following weighted average outstanding shares. Excluded from diluted EPS for the year ended December 31, 2013 are less than a million potential common shares because their inclusion would be antidilutive.

	<u>Year ended</u>	<u>Year ended</u>
	<u>December 31,</u>	<u>December 31,</u>
	<u>2013</u>	<u>2012</u>
	<u>number of shares in millions</u>	
Basic WASO	37	33
Stock options	—	—
Diluted WASO	<u>37</u>	<u>33</u>

**Reclasses and adjustments**

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

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2013, 2012 and 2011

*Estimates*

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) recurring and non-recurring fair value measurements, (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 consolidated financial statements.

**(4) Supplemental Disclosures to Consolidated Statements of Cash Flows**

	Years ended December 31,		
	2013	2012	2011
	amounts in millions		
Cash paid for acquisitions:			
Fair value of assets acquired	\$ 9	362	3
Intangibles not subject to amortization	41	5,494	10
Intangibles subject to amortization	21	1,235	3
Net liabilities assumed	(25)	(587)	(3)
Deferred tax assets (liabilities)	12	(1,199)	1
Other	—	12	—
Fair value of previously held ownership interest	—	(1,004)	—
Noncontrolling interest	—	(4,341)	—
Cash paid for acquisitions, net of cash (acquired)	<u>\$ 58</u>	<u>(28)</u>	<u>14</u>
Cash paid for interest	<u>\$ 371</u>	<u>411</u>	<u>426</u>
Cash paid for income taxes	<u>\$ 460</u>	<u>151</u>	<u>370</u>

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2013, 2012 and 2011

(5) TripAdvisor, Inc. Transactions

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

On December 11, 2012, we acquired approximately 4.8 million additional shares of common stock of TripAdvisor, Inc. ("TripAdvisor") (an additional 4% equity ownership interest), for \$300 million, along with the right to control the vote of the shares of TripAdvisor's common stock and class B common stock we own. Following the transaction we owned approximately 22% of the equity and 57% of the total votes of all classes of TripAdvisor common stock. As we now control TripAdvisor we applied the applicable purchase accounting guidance and recorded a gain on the acquisition of \$800 million on our ownership interest held prior to the transaction, recognized in the gain (loss) on transactions, net line in the consolidated statements of operations. The fair value of our ownership interest previously held and the fair value of the noncontrolling interest was determined based on the trading price of TripAdvisor common shares on the last trading day prior to our transaction. Additionally, the noncontrolling interest includes the fair value of TripAdvisor's fully vested options outstanding at the date of acquisition. Following the transaction date TripAdvisor is a consolidated subsidiary with a 78% noncontrolling interest accounted for in equity and the consolidated statements of operations.

Final purchase price allocation for TripAdvisor is as follows (amounts in millions):

	Initial	Adjustments	Final
Fair value of ownership interest held prior to transaction	\$ 1,004	—	1,004
Controlling interest acquired	300	—	300
Noncontrolling interest	4,341	—	4,341
	<u>\$ 5,645</u>	<u>—</u>	<u>5,645</u>
Cash and cash equivalents	\$ 411	—	411
Receivables	116	—	116
Other assets	233	—	233
Goodwill	3,649	(220)	3,429
Tradenames	1,800	30	1,830
Intangible assets subject to amortization	1,195	(30)	1,165
Debt	(417)	—	(417)
Other liabilities assumed	(151)	(7)	(158)
Deferred tax liabilities	(1,191)	227	(964)
	<u>\$ 5,645</u>	<u>—</u>	<u>5,645</u>

Liberty finalized its purchase price allocation during the year ended December 31, 2013. The Adjustments were primarily related to tax impacts of our initial allocation. The differences would not have had a significant effect on any prior period amounts and accumulated differences have been included in the year ended December 31, 2013 results.

**LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES**

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

**December 31, 2013, 2012 and 2011**

The Pro Forma summarized unaudited statements of operations of Liberty were prepared utilizing the historical financial statements of TripAdvisor, giving effect to purchase accounting related adjustments made at the time of acquisition and excluding the impact of gains recorded in 2012, as if the transaction discussed above had occurred on January 1, 2011, are as follows:

Summary Operations Data:

	Years ended December 31,	
	2012	2011
	in millions, except per share amounts (unaudited)	
Revenue	\$ 10,781	10,253
Operating income (loss)	1,219	1,166
Income tax (expense) benefit	(383)	(382)
Net earnings (loss) from continuing operations	530	589
Less earnings (loss) attributable to the noncontrolling interests	175	190
Net Earnings (loss) from continuing operations attributable to Liberty shareholders:		
Liberty Capital common stock	NA	10
Liberty Interactive Corporation common stock	44	389
Liberty Interactive common stock	212	NA
Liberty Ventures common stock	99	NA
	<u>\$ 355</u>	<u>399</u>
Pro Forma basic net earnings (loss) from continuing operations attributable to Liberty shareholders per common share (note 3):		
Liberty Capital common stock	NA	0.12
Liberty Interactive Corporation common stock	\$ 0.08	0.65
Liberty Interactive common stock	\$ 0.39	NA
Liberty Ventures common stock	\$ 3.00	NA
Pro Forma diluted net earnings (loss) from continuing operations attributable to Liberty shareholders per common share (note 3):		
Liberty Capital common stock	NA	0.12
Liberty Interactive Corporation common stock	\$ 0.08	0.65
Liberty Interactive common stock	\$ 0.38	NA
Liberty Ventures common stock	\$ 3.00	NA

This Pro Forma information is not representative of Liberty's future financial position, future results of operations or future cash flows nor does it reflect what Liberty's financial position, results of operations or cash flows would have been as if the transaction had happened previously and Liberty controlled TripAdvisor during the periods presented.

**(6) Discontinued Operations**

*Split-Off of Liberty Media Corporation*

Prior to the LMC 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 no group could 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 a wholly owned subsidiary, Liberty Media Corporation ("LMC") (formerly known as Liberty CapStarz, Inc. and prior thereto known as Liberty Splitco, Inc.) (the "LMC Split-Off"). At the time of the LMC Split-Off, LMC owned all the assets, businesses and liabilities previously attributed to the Capital and Starz tracking stock groups. The LMC Split-Off was effected by means of a redemption of all of the Liberty Capital common stock and Liberty

**LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES**

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

**December 31, 2013, 2012 and 2011**

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 LMC 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 LMC Split-Off, Liberty and LMC entered into certain agreements in order to govern certain of the ongoing relationships between the two companies after the LMC Split-Off and to provide 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. Liberty is party to on-going discussions with the IRS under the Compliance Assurance Process audit program. The IRS may propose adjustments that relate to tax attributes allocated to and income allocable to LMC in the LMC Split-Off. Any potential outcome associated with any proposed adjustments would be covered by the Tax Sharing Agreement and are not expected to have any impact on Liberty's financial position. Pursuant to the Services Agreement, LMC will provide Liberty with general and administrative services including legal, tax, accounting, treasury and investor relations support. Liberty will reimburse 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 will share office space with LMC and related amenities at LMC's corporate headquarters. Under these various agreements approximately \$15 million, \$12 million and \$2 million of these allocated expenses were reimbursable from Liberty to LMC for the years ended December 31, 2013, 2012 and 2011 (since the LMC Split-Off date), respectively.

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

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

	<b>Year ended December 31, 2011</b>	
Revenue	\$	2,008
Earnings (loss) before income taxes	\$	628

***Earnings per share impact of discontinued operations***

The combined impact from discontinued operations, discussed above, is as follows:

	<b>Year ended December 31, 2011</b>	
Basic earnings (loss) from discontinued operations attributable to Liberty shareholders per common share (note 3):		
Series A and Series B Liberty Capital common stock		2.48
Series A and Series B Liberty Starz common stock		3.47
Diluted earnings (loss) from discontinued operations attributable to Liberty shareholders per common share (note 3):		
Series A and Series B Liberty Capital common stock		2.42
Series A and Series B Liberty Starz common stock		3.34

Certain assets and liabilities not owned by Liberty Interactive at the time of the LMC Split-Off were attributed to the Liberty Interactive tracking stock in prior periods and certain assets and liabilities not owned by LMC at the time of the LMC Split-Off were attributed to the Liberty Capital tracking stock in prior periods. These assets and liabilities, and their resulting impacts on the attributed statement of operations, were either included or excluded from discontinued operations based on which entity owned

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2013, 2012 and 2011

the assets at time of the LMC Split-Off. This results in Liberty Interactive common stock participating in the discontinued operations for the amount attributable to Liberty Interactive common stock for those assets and liabilities it did not own at the time of the LMC Split-Off, in periods prior to the LMC 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 LMC Split-Off as a result of the change in attribution of those assets and liabilities prior to the LMC Split-Off.

(7) 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, other than quoted market prices included within Level 1, are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. The Company does not have any recurring assets or liabilities measured at fair value that would be considered Level 3.

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

Description	December 31, 2013			December 31, 2012		
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
amounts in millions						
Cash equivalents	\$ 918	918	—	2,316	2,305	11
Short term marketable securities	\$ 543	62	481	186	—	186
Available-for-sale securities	\$ 1,497	1,047	450	1,815	1,668	147
Debt	\$ 2,355	—	2,355	2,930	—	2,930

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 debt 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:

	Years ended December 31,		
	2013	2012	2011
amounts in millions			
Fair Value Option Securities	\$ 514	470	55
Exchangeable senior debentures	(553)	(602)	(46)
Other financial instruments	17	(219)	75
	\$ (22)	(351)	84

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Notes to Consolidated Financial Statements (Continued)

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**(8) 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 generally 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 ("Fair Value Option Securities"). Accordingly, changes in the fair value of Fair Value Option Securities, as determined by quoted market prices, are reported in realized and unrealized gains (losses) on financial instruments in the accompanying consolidated statements of operations.

Investments in AFS securities, the majority of which are considered Fair Value Option Securities, excluding the TripAdvisor AFS securities and other cost investments, are summarized as follows:

	December 31, 2013	December 31, 2012
	amounts in millions	
<b>Interactive Group</b>		
Other cost investments	\$ 4	4
Total attributed Interactive Group	\$ 4	4
<b>Ventures Group</b>		
Time Warner Inc. (1)	\$ 306	1,042
Time Warner Cable Inc.	741	531
Other AFS investments (1)	262	143
TripAdvisor AFS Securities	188	99
Total attributed Ventures Group	1,497	1,815
Consolidated Liberty	\$ 1,501	1,819

(1) Liberty sold 17.4 million shares of Time Warner Inc. and 2.0 million shares of AOL Inc. for proceeds of \$1,099 million during 2013 in connection with the redemption of the 3.125% Exchangeable Senior Debentures, as discussed in note 11.

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Notes to Consolidated Financial Statements (Continued)

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(9) 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 December 31, 2013 and the carrying amount at December 31, 2012:

	Percentage ownership	December 31, 2013		December 31, 2012	
		Market value	Carrying amount	Carrying amount	Carrying amount
dollars in millions					
<b>Interactive Group</b>					
HSN, Inc.(3)	38%	\$ 1,247	\$ 293		242
Other	various	N/A	50		62
Total Interactive Group			343		304
<b>Ventures Group</b>					
Expedia (2)(3)	18%	\$ 1,608	477		431
Other (4)	various	N/A	417		116
Total Ventures Group			894		547
Consolidated Liberty			\$ 1,237		851

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

	Years ended December 31,		
	2013	2012	2011
amounts in millions			
<b>Interactive Group</b>			
HSN, Inc.	\$ 61	40	38
Other	(13)	(12)	(15)
Total Interactive Group	48	28	23
<b>Ventures Group</b>			
Expedia, Inc. (1)(2)	31	67	119
TripAdvisor (1)(4)	NA	38	NA
Other (5)	(46)	(48)	(2)
Total Ventures Group	(15)	57	117
Consolidated Liberty	\$ 33	85	140

- (1) During the fourth quarter of 2011 Expedia, Inc. completed the pro-rata split-off of TripAdvisor, a wholly owned subsidiary. Therefore, the Company had a 26% ownership interest in each of Expedia, Inc. and TripAdvisor as of December 31, 2011.
- (2) 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 was settled in October 2012 for total cash proceeds of \$412 million and the 12 million shares of Expedia common stock, previously held as collateral, were released to the counterparty. In the fourth quarter of 2012, when the forward contract settled, the difference between the fair value of the Expedia shares and the carrying value of the shares (\$443 million) was recognized in the gain (loss) on transactions, net line item in the statement of operations. Liberty owns an approximate 18% equity interest and 58% voting interest in Expedia. Liberty has entered into governance arrangements pursuant to which Mr. Barry Diller, Chairman of the Board and Senior Executive Officer of Expedia, may vote its interests of Expedia, subject to certain limitations. Additionally, through our governance arrangements with Mr. Diller, we have the right to appoint and have appointed 20% of the members of Expedia's board of directors, which is currently comprised of 10 members. Therefore, we determined based on these arrangements that we have significant influence and have accounted for the investment as an equity method affiliate.

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

**December 31, 2013, 2012 and 2011**

- (3) During the years ended December 31, 2013 and 2012, Expedia, Inc. paid dividends aggregating \$13 million and \$23 million, respectively, and HSN, Inc. paid dividends of \$16 million during the year ended December 31, 2013 which were recorded as reductions to the investment balances.
- (4) In May 2012, Liberty sold approximately 8.5 million shares of TripAdvisor for cash proceeds of \$338 million. The sale resulted in a \$288 million gain recorded in gain (losses) on transactions, net, based on the average cost, in the statement of operations. On December 11, 2012, we acquired approximately 4.8 million additional shares of common stock of TripAdvisor (an additional 4% equity ownership interest) for \$300 million and obtained voting control of TripAdvisor, see note 5 for additional details of the fourth quarter transaction with TripAdvisor.
- (5) Liberty invested \$300 million in a solar energy plant during 2013. Liberty expects to receive a portion of the initial investment back within a year as the entity expects to receive grant proceeds and other favorable tax attributes. The Company expects to record its share of losses of the solar plant but expects to record the impacts of favorable tax attributes (primarily accelerated depreciation) as a current tax benefit with an offsetting deferred tax expense in the tax expense (benefit) line item in the Statement of Operations.

**HSN, Inc.**

Liberty records the share of earnings (loss) for HSN, Inc. on a quarter lag due to timeliness considerations and access to financial information. Summarized unaudited financial information for HSN, Inc., on a quarter lag, is as follows:

**HSN, Inc. Consolidated Balance Sheets**

	<b>September 30, 2013</b>	<b>September 30, 2012</b>
	<b>amounts in millions</b>	
Current assets	\$ 773	776
Property and equipment, net	171	159
Goodwill	10	10
Intangible assets	266	267
Other assets	6	7
Total assets	\$ 1,226	1,219
Current liabilities	\$ 412	411
Deferred income taxes	90	76
Long-term debt	231	244
Other liabilities	11	15
Equity	482	473
Total liabilities and equity	\$ 1,226	1,219

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Notes to Consolidated Financial Statements (Continued)

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HSN, Inc. Consolidated Statements of Operations

	Trailing twelve months ended September 30,		
	2013	2012	2011
	amounts in millions		
Revenue	\$ 3,367	3,206	2,949
Cost of revenue	(2,152)	(2,039)	(1,865)
Gross profit	1,215	1,167	1,084
Selling, general and administrative expenses	(898)	(877)	(816)
Amortization	(40)	(38)	(35)
Operating income	277	252	233
Interest expense	(7)	(27)	(32)
Other income (expense), net	1	(18)	—
Income tax (expense) benefit	(98)	(78)	(79)
Income (loss) from continuing operations	173	129	122
Discontinued operations, net of tax	1	(8)	(5)
Net earnings (loss) attributable to HSN shareholders	\$ 174	121	117

(10) Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying amount of goodwill are as follows:

	QVC	E-commerce	TripAdvisor	Total
	amounts in millions			
Balance at January 1, 2012	\$ 5,354	624	—	5,978
Acquisitions	21	19	3,649	3,689
Impairments	—	(82)	—	(82)
Foreign currency translation adjustments	(26)	—	—	(26)
Other	—	(3)	—	(3)
Balance at December 31, 2012	\$ 5,349	558	3,649	9,556
Foreign currency translation adjustments	(37)	—	3	(34)
Acquisitions	—	7	28	35
Impairments	—	(5)	—	(5)
Purchase price allocation adjustments (note 5)	—	—	(220)	(220)
Balance at December 31, 2013	\$ 5,312	560	3,460	9,332

Goodwill recognized from acquisitions primarily relate to assembled workforces, website community and other intangible assets that do not qualify for separate recognition.

As presented in the accompanying consolidated balance sheets, trademarks is the other significant indefinite lived intangible asset.

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*Intangible Assets Subject to Amortization*

Intangible assets subject to amortization are comprised of the following:

	December 31, 2013			December 31, 2012		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
	amounts in millions					
Television distribution rights	\$ 2,324	(1,700)	624	2,304	(1,540)	764
Customer relationships	3,612	(2,198)	1,414	3,630	(1,761)	1,869
Other	1,032	(578)	454	943	(459)	484
<b>Total</b>	<b>\$ 6,968</b>	<b>(4,476)</b>	<b>2,492</b>	<b>6,877</b>	<b>(3,760)</b>	<b>3,117</b>

The weighted average life of these amortizable intangible assets was approximately 9 years, at the time of acquisition. However, amortization is expected to match the usage of the related asset and will be on an accelerated basis as demonstrated in table below.

Amortization expense for intangible assets with finite useful lives was \$784 million, \$462 million and \$490 million for the years ended December 31, 2013, 2012 and 2011, respectively. Based on its amortizable intangible assets as of December 31, 2013, Liberty expects that amortization expense will be as follows for the next five years (amounts in millions):

2014	\$ 747
2015	\$ 650
2016	\$ 539
2017	\$ 366
2018	\$ 81

*Impairments*

During the year ended December 31, 2013 and 2012 we recorded \$33 million and \$92 million, respectively, in goodwill and other intangibles impairments for two of our E-commerce companies (Celebrate and Evite). Continued declining operating results as compared to budgeted results and certain trends required a Step 2 impairment test and a determination of fair value for these subsidiaries. Fair value for these subsidiaries, including the related intangibles and goodwill, were determined using the respective Company's projections of future operating performance and applying a combination of market multiples (market approach) and discounted cash flow (income approach) calculations (Level 3). As of December 31, 2013 accumulated impairment losses for the E-commerce companies was \$143 million.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2013, 2012 and 2011

(11) Debt

Debt is summarized as follows:

	Outstanding principal December 31, 2013	Carrying value	
		December 31, 2013	December 31, 2012
amounts in millions			
<b>Interactive Group</b>			
Corporate level notes and debentures			
5.7% Senior Notes due 2013	\$ —	—	240
8.5% Senior Debentures due 2029	287	285	285
8.25% Senior Debentures due 2030	504	501	501
1% Exchangeable Senior Debentures due 2043	400	423	—
Subsidiary level notes and facilities			
QVC 7.125% Senior Secured Notes due 2017	—	—	500
QVC 7.5% Senior Secured Notes due 2019	769	761	988
QVC 7.375% Senior Secured Notes due 2020	500	500	500
QVC 5.125% Senior Secured Notes due 2022	500	500	500
QVC 4.375% Senior Secured Notes due 2023	750	750	—
QVC 5.95% Senior Secured Notes due 2043	300	300	—
QVC Bank Credit Facilities	922	922	903
Other subsidiary debt	141	141	125
Total Interactive Group	\$ 5,073	5,083	4,542
<b>Ventures Group</b>			
Corporate level debentures			
3.125% Exchangeable Senior Debentures due 2023	\$ —	—	1,639
4% Exchangeable Senior Debentures due 2029	439	284	311
3.75% Exchangeable Senior Debentures due 2030	439	270	297
3.5% Exchangeable Senior Debentures due 2031	363	316	292
3.25% Exchangeable Senior Debentures due 2031	—	—	391
0.75% Exchangeable Senior Debentures due 2043	850	1,062	—
Subsidiary level facilities			
TripAdvisor Debt Facilities	369	369	412
Total Ventures Group	\$ 2,460	2,301	3,342
Total consolidated Liberty debt	\$ 7,533	7,384	7,884
Less debt classified as current		(978)	(1,638)
Total long-term debt		\$ 6,406	6,246

**Exchangeable Senior Debentures**

Each \$1,000 debenture of Liberty's 3.125% Exchangeable Senior Debentures was exchangeable at the holder's option for the value of 19.1360 shares of Time Warner Inc. common stock, 4.8033 shares of Time Warner Cable Inc. common stock and 1.7396 shares of AOL Inc. common stock. On April 9, 2013, Liberty's wholly owned subsidiary, Liberty Interactive LLC, called for the redemption of all the outstanding 3.125% Exchangeable Senior Debentures due 2023 ("3.125% Exchangeable Senior Debentures") on May 9, 2013 (the "redemption date"). In accordance with the redemption provisions of the 3.125% Exchangeable Senior Debentures and the related indenture, the 3.125% Exchangeable Senior Debentures were redeemed at a redemption price of approximately \$1,667 for each \$1,000 principal amount outstanding. All of the outstanding 3.125% Exchangeable Senior Debentures were redeemed, using cash provided by the 0.75% Debenture (defined below) and cash provided by the sale of shares of Time Warner Inc. and AOL, Inc. common stock.

Also on April 9, 2013, Liberty Interactive LLC, a wholly owned subsidiary Liberty, completed the offer and sale of \$850 million aggregate original principal amount of Liberty Interactive LLC's 0.75% Exchangeable Senior Debentures due 2043 (the "0.75% Debenture") in a private placement transaction. The Debentures mature on March 30, 2043. Interest on the Debentures will accrue from April 9, 2013 at an annual rate of 0.75% of the original principal amount of \$1,000 per Debenture, payable quarterly in arrears on March 30, June 30, September 30 and December 30 of each year, commencing June 30, 2013. Each \$1,000

## LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

December 31, 2013, 2012 and 2011

original principal amount of Debentures is initially exchangeable for a basket of 6,304 shares of common stock of Time Warner Cable Inc. and 5,163 shares of common stock of Time Warner Inc., which may change over time to include other publicly traded common equity securities that may be distributed on or in respect of those shares of Time Warner Cable Inc. and Time Warner Inc. (or into which any of those securities may be converted or exchanged). This basket of shares for which each Debenture in the original principal amount of \$1,000 may be exchanged is referred to as the Reference Shares attributable to such Debenture, and to each issuer of Reference Shares as a Reference Company. Each Debenture is exchangeable at the option of the holder at any time, upon which they will be entitled to receive the Reference Shares attributable to such Debenture or, at the election of Liberty Interactive LLC, cash or a combination of Reference Shares and cash having a value equal to such Reference Shares. Upon exchange, holders will not be entitled to any cash payment representing accrued interest or outstanding additional distributions. Liberty has elected to account for this instrument using the fair value option. Accordingly, changes in the fair value of this instrument are recognized as unrealized gains (losses) in the statements of operations.

Each \$1,000 debenture of Liberty's 4% Exchangeable Senior Debentures is exchangeable at the holder's option for the value of 1,474 shares of Sprint common stock and 0.786 shares of CenturyLink, Inc. ("CenturyLink") common stock. Liberty may, at its election, pay the exchange value in cash, Sprint and CenturyLink common stock or a combination thereof. Liberty, at its option, may redeem the debentures, in whole or in part, for cash generally equal to the face amount of the debentures plus accrued interest.

Each \$1,000 debenture of Liberty's 3.75% Exchangeable Senior Debentures is exchangeable at the holder's option for the value of 8,382 shares of Sprint common stock and 0.574 shares of CenturyLink common stock. Liberty may, at its election, pay the exchange value in cash, Sprint and CenturyLink common stock or a combination thereof. Liberty, at its option, may redeem the debentures, in whole or in part, for cash equal to the face amount of the debentures plus accrued interest.

Each \$1,000 debenture of Liberty's 3.5% Exchangeable Senior Debentures (the "Motorola Exchangeables") was exchangeable at the holder's option for the value of 5,258 shares of Motorola Solutions, Inc. and 4,602 shares of Motorola Mobility Holdings, Inc., as a result of Motorola Inc.'s separation of Motorola Mobility Holdings, Inc. ("MMI") in a 1 for 8 stock distribution, and the subsequent 1 for 7 reverse stock split of Motorola, Inc. (which has been renamed Motorola Solutions, Inc. ("MSI")), effective January 4, 2011. MMI was acquired on May 22, 2012 for \$40 per share in cash. Pursuant to the indenture, the cash paid to shareholders in the MMI acquisition was to be paid to the holders of the Motorola Exchangeables as an extraordinary distribution. Liberty made a cash payment of \$184.096 per debenture in the second quarter of 2012 for a total payment of \$111 million. The remaining exchange value is payable, at Liberty's option, in cash or MSI stock or a combination thereof. Liberty, at its option, may redeem the debentures, in whole or in part, for cash generally equal to the adjusted principal amount of the debentures plus accrued interest. As a result of a cash distribution made by Liberty in 2007, the cash disbursement discussed above and various principal payments made to holders of the Motorola Exchangeables, the adjusted principal amount of each \$1,000 debenture is \$619, as of December 31, 2013.

Liberty's 3.25% Exchangeable Senior Debentures (the "Viacom Exchangeables") were exchangeable at the holder's option for the value of 9,283 shares of Viacom Class B common stock and 9,283 shares of CBS Corporation ("CBS") Class B common stock. During the year ended December 31, 2013, Liberty retired all outstanding 3.25% Exchangeable Senior Debentures due 2031. Liberty paid approximately \$414 million to retire the outstanding principal balance.

On September 9, 2013, Liberty LLC, a wholly owned subsidiary of Liberty, issued \$400 million aggregate original principal amount of the 1% Exchangeable Senior Debentures due 2043 (the "HSNi Exchangeables"). The HSNi Exchangeables mature on September 30, 2043 and interest on the HSNi Exchangeables accrues at an annual rate of 1% of the original principal amount of \$1,000 per debenture, payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year, commencing December 31, 2013. Each \$1,000 original principal amount of HSNi Exchangeables is initially exchangeable for 13,458 shares of common stock of HSNi (the "HSNi Reference Shares").

Each of the HSNi Exchangeables is exchangeable at the option of the holder, for certain triggering events (primarily the increase in an average trading period at the end of the quarter for HSNi reference shares above 130% or below 98% of the adjusted principal amount at the end of a quarter) after the calendar quarter ending March 31, 2014, upon achieving certain trading prices of the underlying HSNi Reference Shares. Upon exchange, holders of HSNi Exchangeables will be entitled to receive the HSNi Reference Shares attributable to such HSNi Exchangeables or, at the election of Liberty LLC, cash or a combination of HSNi Reference Shares and cash having a value equal to such HSNi Reference Shares. For purposes of the HSNi Exchangeables, Liberty LLC is treated as an affiliate of HSNi under the Securities Act. Therefore, for as long as Liberty LLC is treated as an affiliate of HSNi for purposes of the HSNi Exchangeables, any reference shares consisting of HSNi common stock (or common stock of any

## LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

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other reference company of which Liberty LLC is treated as an affiliate for purposes of the HSNi Exchangeables) delivered by Liberty LLC upon exchange or purchase of a HSNi Exchangeables will be "restricted securities" under the Securities Act and subject to restrictions on transfer. Liberty LLC may deliver HSNi Reference Shares upon exchange or purchase of the HSNi Exchangeables only if (1) permitted under certain contractual arrangements between the Company and HSNi and (2) such Reference Shares would be freely transferable by the holders of the HSNi Reference Shares (other than by affiliates of HSNi) under the Securities Act, or if not freely transferable, there is at that time an effective registration statement under a registration rights agreement that Liberty LLC has with HSNi (or such other Reference Company) pursuant to which the recipients of such HSNi Reference Shares may sell those shares in a registered transaction under the Securities Act.

Liberty LLC will make an additional distribution on the HSNi Exchangeables if HSNi makes a distribution of cash (an "Excess Regular Cash Dividend") in excess of the regular quarterly cash dividend of \$0.18, currently paid by the HSNi, securities (other than publicly traded common equity securities) or other property with respect to the HSNi Reference Shares. The principal amount of the HSNi Exchangeables will not be reduced by any amount we pay that corresponds to any Excess Regular Cash Dividends on the HSNi Reference Shares.

On October 5, 2016, Liberty LLC may, at its option, redeem the HSNi Exchangeables, in whole or in part, in each case at a redemption price, in cash, equal to the adjusted principal amount of the HSNi Exchangeables plus accrued and unpaid interest to the date of redemption plus any final period distribution. Additionally, as of such date, holders may tender HSNi Exchangeables for purchase by Liberty LLC, at a purchase price equal to the adjusted principal amount plus accrued and unpaid interest to the purchase date plus any final period distribution. Liberty LLC may pay the purchase price, at its election, in cash or through delivery of HSNi Reference Shares (subject to the restrictions discussed previously ) having a value equal to the purchase price or a combination of HSNi Reference Shares and cash. If Liberty LLC makes a partial redemption, HSNi Exchangeables in an aggregate original principal amount of at least \$100 million must remain outstanding.

Liberty has elected to account for the HSNi Exchangeables using the fair value option. Accordingly, changes in the fair value of this instrument are recognized as unrealized gains (losses) in the statements of operations. Liberty will review the triggering event on a quarterly basis to determine whether a triggering event has occurred to require current classification of the HSNi Exchangeables upon a call event. As of December 31, 2013 the balance of the HSNi Exchangeables have been classified as long term.

Liberty has sold, split-off or otherwise disposed of all of its shares of Motorola, Sprint and CenturyLink common stock which underlie the respective Exchangeable Senior Debentures. Because such exchangeable debentures are exchangeable at the option of the holder at any time and Liberty can no longer use owned shares to redeem the debentures, Liberty has classified for financial reporting purposes the portion of the debentures that could be redeemed for cash as a current liability. Such amount aggregated \$870 million at December 31, 2013. Although such amount has been classified as a current liability for financial reporting purposes, the Company believes the probability that the holders of such instruments will exchange a significant principal amount of the debentures prior to maturity is remote.

Interest on the Company's exchangeable debentures is payable semi-annually based on the date of issuance. At maturity, all of the Company's exchangeable debentures are payable in cash.

#### *Senior Notes and Debentures*

Interest on the Senior Notes and Senior Debentures is payable semi-annually based on the date of issuance.

The Senior Notes and Senior Debentures are stated net of an aggregate unamortized discount of \$5 million and \$6 million at December 31, 2013 and 2012, respectively. Such discount is being amortized to interest expense in the accompanying consolidated statements of operations.

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### Notes to Consolidated Financial Statements (Continued)

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#### *QVC Senior Secured Notes*

During the year ended December 31, 2013 QVC tendered and called for all the outstanding 7.125% senior secured notes due 2017 (the "7.125% Senior Notes") and tendered for \$231 million of its 7.5% senior secured notes due 2019 (the "7.5% Senior Notes"). The 7.125% Senior Notes were tendered and called for cash consideration of \$518 million. The 7.5% Senior Notes were tendered for cash consideration of \$259 million. These debt retirements were funded by proceeds from new senior secured notes as discussed below.

On March 18, 2013, QVC completed the offering of \$750 million principal amount of new 4.375% senior secured notes due 2023 and \$300 million principal amount of new 5.95% senior secured notes due 2043 (collectively, the "Notes"). Interest on the Notes will be paid semi-annually in March and September. The Notes are secured by a first-priority lien on QVC's capital stock, pari passu with the Amended and Restated Credit Agreement and QVC's existing notes. The net proceeds from the offering of the Notes were used to fund the debt retirements discussed above, repay outstanding amounts on QVC's existing bank credit facility and, via dividend from QVC, retire Liberty's 5.7% Senior Notes due May 2013, and for general corporate purposes.

As a result of these refinancing transactions, QVC recorded extinguishment losses of \$57 million for the year ended December 31, 2013, which is recorded in other, net in the Company's statements of operations.

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.

During prior years, QVC issued \$500 million principal amount of 7.375% Senior Secured Notes due 2020 at par and QVC issued \$1,000 million principal amount of QVC 7.50% Senior Secured Notes due 2019 at an issue price of 98.28% of par.

QVC was in compliance with all of its debt covenants related to its outstanding senior notes at December 31, 2013.

#### *QVC Bank Credit Facilities*

On March 1, 2013, QVC entered into an amended and restated syndicated senior secured credit agreement which served to refinance QVC's existing bank credit facility (the "Amended and Restated Credit Agreement"). The Amended and Restated Credit Agreement is a multi-currency facility providing for a \$2 billion revolving credit facility, with a \$250 million sub-limit for standby letters of credit and \$1 billion of uncommitted incremental revolving loan commitments or incremental term loans. The loans are scheduled to mature on March 1, 2018. The covenants contained in the Amended and Restated Credit Agreement are substantially similar to those contained in QVC's previously existing bank credit facility. Borrowings under the Amended and Restated Credit Agreement bear interest at either the alternate base rate or LIBOR (based on an interest period selected by QVC of one week, one month, two months, three months or six months, or to the extent available from all lenders, nine months or twelve months) at QVC's election in each case plus a margin. Borrowings that are alternate base rate loans will bear interest at a per annum rate equal to the base rate plus a margin that varies between 0.25% and 1.00% depending on QVC's ratio of consolidated total debt to consolidated Adjusted OIBDA (the "consolidated leverage ratio"). Borrowings that are LIBOR loans will bear interest at a per annum rate equal to the applicable LIBOR plus a margin that varies between 1.25% and 2.00% depending on QVC's consolidated leverage ratio. Each loan may be prepaid at any time and from time to time without penalty other than customary breakage costs. Any amounts prepaid on the revolving facility may be reborrowed. The Amended and Restated Credit Agreement is secured by the stock of QVC. Availability under the QVC Amended and Restated Credit Agreement at December 31, 2013 was \$1.1 billion. QVC was in compliance with all debt covenants related to the Amended and Restated Credit Agreement at December 31, 2013.

#### *QVC Interest Rate Swap Arrangements*

In prior years QVC entered into forward interest rate swap arrangements with an aggregate notional amount of \$3.1 billion. Such arrangements matured in March 2013 and no further interest swap arrangements were entered into. These swap arrangements did not qualify as cash flow hedges under GAAP. Accordingly, changes in the fair value of the swaps were reflected in realized and unrealized gains or losses on financial instruments in the accompanying consolidated statements of operations.

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*TripAdvisor Debt Facilities*

TripAdvisor has in place a Credit Agreement, which provides \$600 million of borrowing including the Term Loan Facility, or Term Loan, in an aggregate principal amount of \$400 million with a term of five years due December 2016; and the Revolving Credit Facility in an aggregate principal amount of \$200 million available in U.S. dollars, Euros and British pound sterling with a term of five years expiring December 2016. The Credit Agreement requires certain affirmative covenants for maintaining a maximum leverage ratio, a minimum cash interest coverage ratio and other customary covenants. As of December 31, 2013 TripAdvisor was in compliance with all of its covenants.

The Term Loan and any loans under the Revolving Credit Facility bear interest by reference to a base rate or a Eurocurrency rate, in either case plus an applicable margin based on TripAdvisor's leverage ratio. TripAdvisor is required to pay a quarterly commitment fee, on the average daily unused portion of the Revolving Credit Facility for each fiscal quarter and fees in connection with the issuance of letters of credit. The Term Loan and loans under the Revolving Credit Facility currently bear interest at LIBOR plus 150 basis points, or the Eurocurrency Spread, or the alternate base rate ("ABR") plus 50 basis points, and undrawn amounts are currently subject to a commitment fee of 22.5 basis points. As of December 31, 2013 TripAdvisor is using a one-month interest period Eurocurrency Spread which is approximately 1.7% per annum.

In addition to the borrowings under the Credit Agreement, TripAdvisor maintains Chinese credit facilities. As of December 31, 2013 and 2012 TripAdvisor had approximately \$29 million and \$32 million, respectively, of short term borrowings outstanding.

*Other Subsidiary Debt*

Other subsidiary debt at December 31, 2013 is comprised of capitalized satellite transponder lease obligations and bank debt of certain subsidiaries.

*Five Year Maturities*

The annual principal maturities of Liberty's debt, based on stated maturity dates, for each of the next five years is as follows (amounts in millions):

2014	\$	118
2015	\$	62
2016	\$	282
2017	\$	43
2018	\$	946

*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. The fair value, based on quoted prices of instruments but not considered to be active markets (level 2), of Liberty's publicly traded debt securities that are not reported at fair value in the accompanying consolidated balance sheets is as follows (amounts in millions):

	December 31,	
	2013	2012
Senior notes	\$ —	244
Senior debentures	\$ 845	849
QVC senior secured notes	\$ 2,861	2,723

Due to the variable rate nature, Liberty believes that the carrying amount of its subsidiary debt not discussed above approximated fair value at December 31, 2013.

## LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

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**(12) Income Taxes**

Income tax benefit (expense) consists of:

	Years ended December 31,		
	2013	2012	2011
	amounts in millions		
Current:			
Federal	\$ (128)	(214)	(156)
State and local	(36)	(27)	(32)
Foreign	(102)	(140)	(120)
	<u>\$ (266)</u>	<u>(381)</u>	<u>(308)</u>
Deferred:			
Federal	\$ (11)	(31)	(42)
State and local	122	11	(6)
Foreign	25	7	4
	<u>136</u>	<u>(13)</u>	<u>(44)</u>
Income tax benefit (expense)	<u>\$ (130)</u>	<u>(394)</u>	<u>(352)</u>

The following table presents a summary of our domestic and foreign earnings from continuing operations before income taxes:

	Years ended December 31,		
	2013	2012	2011
	amounts in millions		
Domestic	\$ 553	1,769	770
Foreign	157	216	169
Total	<u>\$ 710</u>	<u>1,985</u>	<u>939</u>

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

	Years ended December 31,		
	2013	2012	2011
	amounts in millions		
Computed expected tax benefit (expense)	\$ (249)	(695)	(329)
Consolidation of previously held equity method affiliate	—	294	—
State and local income taxes, net of federal income taxes	(17)	(11)	(22)
Foreign taxes, net of foreign tax credits	8	5	(3)
Impairment of intangibles not deductible for tax purposes	(2)	(29)	—
Dividends received deductions	9	13	5
Alternative energy tax credits	58	48	3
Change in valuation allowance affecting tax expense	(32)	(8)	(15)
Impact of change in state rate on deferred taxes	112	—	—
Other, net	(17)	(11)	9
Income tax benefit (expense)	<u>\$ (130)</u>	<u>(394)</u>	<u>(352)</u>

During 2013, Liberty changed its estimate of the effective state tax rate used to measure its net deferred tax liabilities, based on expected changes to the Company's state apportionment factors. The rate change required an adjustment to the recognized deferred taxes at the corporate level. The change in state apportionment factors also changed the potential utilization of the Company's state net operating loss carryforwards, which resulted in a valuation allowance being recorded for certain state net operating loss carryforwards that may expire unused.

**LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES**

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

**December 31, 2013, 2012 and 2011**

The tax benefit from the consolidation of a previously held equity method affiliate for the year ended December 31, 2012 is the result of the acquisition of a controlling interest in TripAdvisor in the fourth quarter of 2012. The Company recorded an \$800 million dollar gain on the transaction, due to the application of purchase accounting, which was excluded from taxable income. In addition, the difference between the book basis and tax basis of TripAdvisor, as previously accounted for under the equity method, was relieved as a result of the transaction.

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are presented below:

	December 31,	
	2013	2012
amounts in millions		
<b>Deferred tax assets:</b>		
Net operating and capital loss carryforwards	\$ 102	110
Foreign tax credit carryforwards	129	87
Accrued stock compensation	54	32
Other accrued liabilities	85	80
Other future deductible amounts	128	120
Deferred tax assets	498	429
Valuation allowance	(68)	(52)
Net deferred tax assets	430	377
<b>Deferred tax liabilities:</b>		
Investments	569	492
Intangible assets	2,281	2,751
Discount on exchangeable debentures	958	890
Deferred gain on debt retirements	313	321
Other	73	44
Deferred tax liabilities	4,194	4,498
Net deferred tax liabilities	\$ 3,764	4,121

The Company's deferred tax assets and liabilities are reported in the accompanying consolidated balance sheets as follows:

	December 31,	
	2013	2012
amounts in millions		
Current deferred tax asset of TripAdvisor (1)	(5)	—
Current deferred tax liabilities	925	912
Long-term deferred tax liabilities	2,844	3,209
Net deferred tax liabilities	\$ 3,764	4,121

(1) TripAdvisor's deferred tax asset is not offset with Liberty's deferred tax liabilities as TripAdvisor is not included in the group tax return of Liberty. TripAdvisor's deferred tax asset has been included in other current assets in the accompanying consolidated balance sheet.

The Company's valuation allowance increased \$16 million in 2013. Of the change in valuation allowance, \$32 million affected tax expense, and the remainder of the change was due to purchase accounting for certain acquisitions.

The Company has not provided for deferred U.S. income taxes on undistributed earnings of certain foreign subsidiaries of TripAdvisor that are intended to be permanently reinvested outside the United States; the total amount of such earnings as of December 31, 2013 was \$481 million. Should these amounts be distributed or treated under certain U.S. tax rules as having been distributed earnings of foreign subsidiaries in the form of dividends or otherwise, the Company may be subject to U.S. income

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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taxes. Due to complexities in tax laws and various assumptions that would have to be made, it is not practicable at this time to estimate the amount of unrecognized deferred U.S. taxes on these earnings.

At December 31, 2013, Liberty had net operating losses (on a tax effected basis) and foreign tax credit carryforwards for income tax purposes aggregating approximately \$102 million and \$129 million, respectively, which, if not utilized to reduce domestic, state or foreign income tax liabilities in future periods, will expire as follows: \$30 million in 2015; \$2 million in 2016; \$7 million in 2017; and \$192 million beyond 2020. These net operating losses and foreign tax credit carryforwards are expected to be utilized prior to expiration, except for \$68 million of net operating losses which based on current projections of domestic, state and foreign income may expire unused.

A reconciliation of unrecognized tax benefits is as follows:

	Years ended December 31,	
	2013	2012
	amounts in millions	
Balance at beginning of year	\$ 146	123
Additions based on tax positions related to the current year	31	12
Additions for tax positions of prior years	5	2
Reductions for tax positions of prior years	(7)	(4)
Acquisition of TripAdvisor	—	24
Lapse of statute and settlements	(15)	(11)
Balance at end of year	<u>\$ 160</u>	<u>146</u>

As of December 31, 2013, the Company had recorded tax reserves of \$160 million related to unrecognized tax benefits for uncertain tax positions. If such tax benefits were to be recognized for financial statement purposes, \$103 million would be reflected in the Company's tax expense and affect its effective tax rate. Liberty's estimate of its unrecognized tax benefits related to uncertain tax positions requires a high degree of judgment. The Company has tax positions for which the amount of related unrecognized tax benefits could change during 2014, including federal transfer pricing and nonfederal tax issues. The amount of unrecognized tax benefits related to these issues could change as a result of potential settlements, lapsing of statute of limitations and revisions of estimates. It is reasonably possible that the amount of the Company's gross unrecognized tax benefits may decrease within the next twelve months by up to \$41 million.

As of December 31, 2013, the Company's 2001 through 2009 tax years are closed for federal income tax purposes, and the IRS has completed its examination of the Company's 2010 through 2012 tax years. The Company's tax loss carryforwards from its 2010 through 2012 tax years are still subject to adjustment. The Company's 2013 tax year is being examined currently as part of the IRS's Compliance Assurance Process ("CAP") program. Various states are currently examining the Company's prior years state income tax returns. QVC is currently under audit in the UK and Germany. TripAdvisor, which does not consolidate with Liberty for income tax purposes, has ongoing federal, state and foreign income tax audits by virtue of filing consolidated tax returns with Expedia in prior years. As of December 31, 2013, no material assessments have resulted from these audits. TripAdvisor is no longer subject to tax examinations by tax authorities for years prior to 2007.

As of December 31, 2013, the Company had recorded \$28 million of accrued interest and penalties related to uncertain tax positions.

**(13) Stockholders' Equity**

*Preferred Stock*

Liberty's preferred stock is issuable, from time to time, with such designations, preferences and relative participating, optional or other rights, qualifications, limitations or restrictions thereof, as shall be stated and expressed in a resolution or resolutions providing for the issue of such preferred stock adopted by Liberty's Board of Directors. As of December 31, 2013, no shares of preferred stock were issued.

## LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

December 31, 2013, 2012 and 2011

#### **Common Stock**

Series A Liberty Interactive and Liberty Ventures common stock has one vote per share, and Series B Liberty Interactive and Liberty Ventures common stock has ten votes per share. Each share of the Series B common stock is exchangeable at the option of the holder for one share of Series A common stock of the same group. The Series A and Series B common stock participate on an equal basis with respect to dividends and distributions.

As of December 31, 2013, Liberty reserved for issuance upon exercise of outstanding stock options approximately 30.6 million shares of Series A Liberty Interactive common stock and 432 thousand shares of Series B Liberty Interactive common stock. As of December 31, 2013, Liberty reserved for issuance upon exercise of outstanding stock options approximately 1.0 million shares of Series A Liberty Ventures common stock and 22 thousand shares of Series B Liberty Ventures common stock.

In addition to the Series A and Series B Liberty Interactive and Ventures common stock there are 4 billion and 200 million shares of Series C Liberty Interactive and Ventures common stock authorized for issuance, respectively. As of December 31, 2013, no shares of any Series C Liberty Interactive and Ventures common stock were issued or outstanding.

On February 27, 2014, Liberty's board approved a two for one stock split of Series A and Series B Liberty Ventures common stock, to be effected by means of a dividend. The stock split is being done in order to bring Liberty into compliance with a Nasdaq listing requirement regarding the minimum number of publicly held shares of the Series B Liberty Ventures common stock. In the stock split, holders of Series A and Series B Liberty Ventures common stock on April 4, 2014 will receive a dividend of one share of Series A or Series B Liberty Ventures common stock for each share of Series A or Series B Liberty Ventures common stock, respectively, held by them as of such time. The payment date for the dividend will be April 11, 2014.

#### **Purchases of Common Stock**

During the year ended December 31, 2011 the Company repurchased 3,146,913 shares of Series A Liberty Capital common stock for aggregate cash consideration of \$213 million and 23,864,733 shares of Series A Liberty Starz common stock for aggregate cash consideration of \$366 million.

During the year ended December 31, 2012 the Company repurchased 44,668,431 shares of Series A Liberty Interactive common stock for aggregate cash consideration of \$815 million.

During the year ended December 31, 2013 the Company repurchased 46,305,637 shares of Series A Liberty Interactive common stock for aggregate cash consideration of \$1,089 million.

All of the foregoing shares were repurchased pursuant to a previously announced share repurchase program and have been retired and returned to the status of authorized and available for issuance.

During 2012, in connection with the creation of the Liberty Ventures tracking stock, the Company distributed subscription rights to purchase shares of Series A Liberty Ventures common stock (each, a "Series A Right"). Each whole Series A Right entitled its holder to subscribe, at a per share subscription price of \$35.99, for one share of Series A Liberty Ventures common stock. In the fourth quarter of 2012, the Company issued approximately 9 million shares in connection with the rights offering and raised approximately \$328 million of cash.

#### **(14) Transactions with Officers and Directors**

##### **Chief Executive Officer Compensation Arrangement**

On December 17, 2009, the Compensation Committee (the "Committee") of Liberty approved a compensation arrangement for its President and Chief Executive Officer (the "CEO"). The arrangement provides for a five year employment term beginning January 1, 2010 and ending December 31, 2014, with an annual base salary of \$1.5 million, increasing annually by 5% of the prior year's base salary, and an annual target cash bonus equal to 200% of the applicable year's annual base salary. The arrangement also provides that, in the event the CEO is terminated for "cause" or terminates his employment without "good reason," he will be entitled only to his accrued base salary and any amounts due under applicable law, and he will forfeit all rights to his unvested

## LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

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restricted shares and unvested options. If, however, the CEO is terminated by Liberty without cause or if he terminates his employment for good reason, the arrangement provides for him to receive \$7.8 million and for his unvested restricted shares and unvested options to vest pro rata based on the portion of the term elapsed through the termination date plus 18 months and for all vested and accelerated options to remain exercisable until their respective expiration dates. Lastly, in the case of the CEO's death or his disability, the arrangement provides for a payment of \$7.8 million, for his unvested restricted shares and unvested options to fully vest and for his vested and accelerated options to remain exercisable until their respective expiration dates.

Also, on December 17, 2009, in connection with the approval of his compensation arrangement, the CEO received a one-time grant of options to purchase the following shares of Liberty with exercise prices equal to the closing sale prices of the applicable series of stock on the grant date: 8,743,000 shares of Series A Liberty Interactive common stock, 760,000 shares of Series A Liberty Starz common stock and 1,353,000 shares of Series A Liberty Capital common stock. One-half of the options vested on the fourth anniversary of the grant date with the remaining options will vest on the fifth anniversary of the grant date, in each case, subject to the CEO being employed by Liberty on each vesting date. The options have a term of 10 years.

Salary compensation related to services provided are allocated from LMC to Liberty pursuant to the Services Agreement. Any cash bonus attributable to the performance of Liberty is paid directly by Liberty. The stock options relating to Liberty Capital common stock and Liberty Starz common stock were assumed by LMC at the time of the LMC Split-Off.

#### (15) Stock-Based Compensation

##### *Liberty - Incentive Plans*

Pursuant to the Liberty Interactive Corporation 2000 Incentive Plan, as amended from time to time (the "2000 Plan"), and the Liberty Interactive Corporation 2007 Incentive Plan, as amended from time to time (the "2007 Plan") the Company has granted to certain of its employees stock options and SARs (collectively, "Awards") to purchase shares of Liberty common stock. The 2000 Plan and 2007 Plan provide for Awards to be issued in respect of a maximum of 2.9 million shares and 4.2 million shares, respectively, of Liberty common stock. No additional grants may be made pursuant to these plans. On June 24, 2010, stockholders of the Company approved the Liberty Interactive Corporation 2010 Incentive Plan, as amended from time to time (the "2010 Plan"). The 2010 Plan provides for Awards to be made in respect of a maximum of 42.9 million shares of Liberty common stock. Additionally, pursuant to the Liberty Interactive Corporation 2012 Incentive Plan, as amended (the "2012 Plan"), the Company may grant Awards to be made in respect of a maximum of 40 million shares of Liberty common stock. Awards generally vest over 4-5 years and have a term of 5-10 years. Liberty issues new shares upon exercise of equity awards.

Pursuant to the Liberty Interactive Corporation 2002 Nonemployee Director Incentive Plan, as amended from time to time (the "2002 NDIP") and the Liberty Interactive Corporation 2011 Nonemployee Director Incentive Plan, as amended from time to time (the "2011 NDIP"), the Liberty Board of Directors has the full power and authority to grant eligible nonemployee directors stock options, SARs, stock options with tandem SARs, and restricted stock.

##### *Liberty - Grants*

During the year ended December 31, 2013, Liberty granted, primarily to QVC employees, 4.3 million options to purchase shares of Series A Liberty Interactive common stock. Such options had a weighted average grant-date fair value of \$8.26 per share. Liberty also granted approximately 7,000 options to purchase shares of Series A Liberty Ventures common stock. Such options had a weighted average grant-date fair value of \$57.37 per share.

In connection with the 2012 Option Exchange (see below), Liberty granted 20.1 million and 905 thousand options to purchase shares of Series A Liberty Interactive common stock and Series A Liberty Ventures common stock, respectively. Such options had a weighted average grant-date fair value of \$7.15 and \$26.58 per share, respectively.

During the years ended December 31, 2012 and 2011, the Company granted approximately 3.4 million and 6.2 million options to purchase shares of Series A Liberty Interactive common stock, respectively. Such options had a weighted average grant-date fair value of \$8.44 and \$7.32 per share, respectively. During the year ended December 31, 2012, the Company also granted 36 thousand options to purchase shares of Series A Liberty Ventures common stock, which options had a weighted average grant-date fair value of \$27.29 per share.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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During the fourth quarter of 2012, the Company entered into a series of transactions with certain officers of Liberty and its subsidiaries, associated with certain outstanding stock options, in order to recognize tax deductions in the current year versus future years (the "2012 Option Exchange"). On December 4, 2012 (the "Grant Date"), pursuant to the approval of the Compensation Committee of its Board of Directors, the Company effected the acceleration of (i) each invested in-the-money option to acquire shares of LINTA and (ii) each unvested in-the-money option to acquire shares of LVNTA, in each case, held by certain of its and its subsidiaries' officers (collectively, the "Eligible Optionholders"). Following this acceleration, also on the Grant Date, each Eligible Optionholder exercised, on a net settled basis, substantially all of his or her outstanding in-the-money vested and unvested options to acquire LINTA shares and LVNTA shares (the "Eligible Options"), and:

- with respect to each vested Eligible Option, the Company granted the Eligible Optionholder a vested new option with substantially the same terms and conditions as the exercised vested Eligible Option;
- and with respect to each unvested Eligible Option:
  - the Eligible Optionholder sold to the Company, for cash, the shares of LINTA or LVNTA, as applicable, received upon exercise of such unvested Eligible Option and used the proceeds of that sale to purchase from the Company an equal number of restricted LINTA or LVNTA shares, as applicable, which have a vesting schedule identical to that of the exercised unvested Eligible Option; and
  - the Company granted the Eligible Optionholder an unvested new option, with substantially the same terms and conditions as the exercised unvested Eligible Option, except that (a) the number of shares underlying the new option is equal to the number of shares underlying such exercised unvested Eligible Option less the number of restricted shares purchased from the Company as described above and (b) the exercise price of the new option is the closing price per LINTA or LVNTA share, as applicable, on The Nasdaq Global Select Market on the Grant Date.

The 2012 Option Exchange was considered a modification under ASC 718 -*Stock Compensation* and resulted in incremental compensation expense in 2012 of \$17 million and \$4 million for LINTA and LVNTA, respectively. Incremental compensation expense is also being recognized over the remaining vesting periods of the new unvested options and the restricted shares and is included in unrecognized compensation.

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. For grants made in 2013, 2012 and 2011, the range of expected terms was 1.3 to 9.0 years. The volatility used in the calculation for Awards is based on the historical volatility of Liberty's stocks 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.

The following table presents the range of volatilities used by Liberty in the Black-Scholes Model for the 2013, 2012 and 2011 Liberty Interactive and Liberty Ventures grants.

	<b>Volatility</b>	
<b>2013 grants</b>		
Liberty Interactive options	38.3%	- 38.7%
Liberty Ventures options	43.7%	- 49.9%
<b>2012 grants</b>		
Liberty Interactive options	28.2%	- 47.51%
Liberty Ventures options	47.5%	- 49.94%
<b>2011 grants</b>		
Liberty Interactive options	44.8%	- 47.51%

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*Liberty - Outstanding Awards*

The following table presents the number and weighted average exercise price ("WAEP") of the Awards to purchase Liberty Interactive and Liberty Ventures common stock granted to certain officers, employees and directors of the Company, as well as the weighted average remaining life and aggregate intrinsic value of the Awards.

	Liberty Interactive							
	Series A				Series B			
	Awards (000's)	WAEP	Weighted average remaining life	Aggregate Intrinsic Value (000's)	Awards (000's)	WAEP	Weighted average remaining life	Aggregate Intrinsic Value (000's)
Outstanding at January 1, 2013	33,839	\$ 16.92			432	\$ 17.92		
Granted	4,296	\$ 21.25			—	\$ —		
Exercised	(6,933)	\$ 15.05			—	\$ —		
Forfeited/Cancelled/Exchanged	(595)	\$ 15.28			—	\$ —		
Outstanding at December 31, 2013	<u>30,607</u>	\$ 17.98	5.0 years	\$ 348,277	<u>432</u>	\$ 17.92	1.4 years	\$ 4,955
Exercisable at December 31, 2013	<u>14,056</u>	\$ 16.47	4.4 years	\$ 181,315	<u>432</u>	\$ 17.92	1.4 years	\$ 4,955

  

	Liberty Ventures							
	Series A				Series B			
	Awards (000's)	WAEP	Weighted average remaining life	Aggregate Intrinsic Value (000's)	Awards (000's)	WAEP	Weighted average remaining life	Aggregate Intrinsic Value (000's)
Outstanding at January 1, 2013	1,155	\$ 56.26			22	46.69		
Granted	7	\$ 116.03			—	—		
Exercised	(195)	\$ 52.81			—	—		
Forfeited/Cancelled/Exchanged	(1)	\$ 45.28			—	—		
Outstanding at December 31, 2013	<u>966</u>	\$ 57.42	5.0 years	\$ 62,981	<u>22</u>	46.69	1.4 years	\$ 1,631
Exercisable at December 31, 2013	<u>492</u>	\$ 55.47	4.6 years	\$ 33,042	<u>22</u>	46.69	1.4 years	\$ 1,631

As of December 31, 2013, the total unrecognized compensation cost related to unvested Liberty Awards was approximately \$109 million, including incremental compensation under the Option Exchange. Such amount will be recognized in the Company's consolidated statements of operations over a weighted average period of approximately 1.5 years.

*Liberty - Exercises*

The aggregate intrinsic value of all options exercised during the years ended December 31, 2013, 2012 and 2011 was \$76 million, \$339 million and \$33 million, respectively. The aggregate intrinsic value of options exercised for the year ended December 31, 2012 includes approximately \$242 million related to the intrinsic value of options exercised as a result of the 2012 Option Exchange.

*Liberty - Restricted Stock*

Associated with the Option Exchange the Company issued approximately 4.6 million and 0.3 million shares of unvested restricted Liberty Interactive and Liberty Ventures common stock, respectively, of which 2.0 million and 0.1 million vested during the year ended December 31, 2013. These shares continue to vest over the next two years and since the Option Exchange was accounted for as a modification, the compensation expense associated with these restricted shares was treated as incremental compensation, as discussed above, and is included in the total unrecognized compensation costs under the outstanding Awards section above. The Company had approximately 1.5 million shares and 50 thousand shares of unvested restricted Liberty Interactive and Liberty Ventures common stock, respectively, held by certain directors, officers and employees of the Company as of December 31, 2013, not issued under the Option Exchange. These unvested restricted shares of LINTA and LVNTA had a weighted average grant date fair value of \$17.09 and \$13.36 per share, respectively.

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The aggregate fair value of all restricted shares of Liberty common stock that vested during the years ended December 31, 2013, 2012 and 2011 was \$16 million, \$12 million and \$14 million, respectively.

***TripAdvisor - Stock-based Compensation***

TripAdvisor has outstanding options and restricted stock which is exercisable in their common stock. During the year ended December 31, 2013, TripAdvisor issued 2.8 million of primarily service based stock options under their outstanding 2011 Incentive Plan with a weighted average exercise price per option of \$58.03 and a grant date fair value of \$28.30. Approximately 1.5 million equity awards were exercised during the period at a weighted average exercise price of \$23.81. As of December 31, 2013 TripAdvisor has 9.5 million options outstanding of which 3.5 million are exercisable with a weighted average exercise price of \$40.18 and \$30.11, respectively. The aggregate intrinsic value of these outstanding and exercisable options were \$404 million and \$186 million, respectively.

As of December 31, 2013, the total unrecognized compensation cost related to unvested TripAdvisor stock options was approximately \$104 million and will be recognized over a weighted average period of approximately 3.0 years. Additionally, TripAdvisor had unrecognized compensation, related to outstanding restricted stock units, of \$33 million.

***Other***

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

**(16) Employee Benefit Plans**

Subsidiaries of Liberty sponsor 401(k) plans, which provide their employees an opportunity to make contributions to a trust for investment in Liberty common stock, as well as other mutual funds. The Company's subsidiaries make matching contributions to their plans based on a percentage of the amount contributed by employees. Employer cash contributions to all plans aggregated \$29 million, \$19 million and \$18 million for the years ended December 31, 2013, 2012 and 2011, respectively.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

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(17) Other Comprehensive Earnings  
(Loss)

Accumulated other comprehensive earnings (loss) included in Liberty's consolidated balance sheets and consolidated statements of equity reflect the aggregate of foreign currency translation adjustments, unrealized holding gains and losses on AFS securities and Liberty's share of accumulated other comprehensive earnings of affiliates.

The change in the components of accumulated other comprehensive earnings (loss), net of taxes ("AOCI"), is summarized as follows:

	Foreign currency translation adjustments	Share of AOCI of equity affiliates	AOCI of discontinued operations	AOCI
amounts in millions				
Balance at January 1, 2011	\$ 173	(4)	57	226
Other comprehensive earnings (loss) attributable to Liberty Interactive Corporation stockholders	(15)	(2)	(26)	(43)
Distribution to stockholders for split-off of Liberty Media Corporation	—	—	(31)	(31)
Balance at December 31, 2011	158	(6)	—	152
Other comprehensive earnings (loss) attributable to Liberty Interactive Corporation stockholders	(7)	3	—	(4)
Balance at December 31, 2012	151	(3)	—	148
Other comprehensive earnings (loss) attributable to Liberty Interactive Corporation stockholders	(51)	2	—	(49)
Balance at December 31, 2013	\$ 100	(1)	—	99

The components of other comprehensive earnings (loss) are reflected in Liberty's consolidated statements of comprehensive earnings (loss) net of taxes. The following table summarizes the tax effects related to each component of other comprehensive earnings (loss).

	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
amounts in millions			
<i>Year ended December 31, 2013:</i>			
Foreign currency translation adjustments	\$ (123)	47	(76)
Share of other comprehensive earnings (loss) of equity affiliates	3	(1)	2
Other comprehensive earnings (loss)	\$ (120)	46	(74)
<i>Year ended December 31, 2012:</i>			
Foreign currency translation adjustments	\$ (40)	15	(25)
Share of other comprehensive earnings (loss) of equity affiliates	5	(2)	3
Other comprehensive earnings (loss)	\$ (35)	13	(22)
<i>Year ended December 31, 2011:</i>			
Foreign currency translation adjustments	\$ (18)	7	(11)
Share of other comprehensive earnings (loss) of equity affiliates	(3)	1	(2)
Other comprehensive earnings (loss) from discontinued operations	(42)	16	(26)
Other comprehensive earnings (loss)	\$ (63)	24	(39)

## LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

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#### (18) Commitments and Contingencies

##### *Operating Leases*

Liberty leases business offices, has entered into satellite transponder lease agreements and uses certain equipment under lease arrangements. Rental expense under such arrangements amounted to \$65 million, \$56 million and \$46 million for the years ended December 31, 2013, 2012 and 2011, respectively.

A summary of future minimum lease payments under noncancelable operating leases as of December 31, 2013 follows (amounts in millions):

Years ending December 31:	
2014	\$ 48
2015	\$ 43
2016	\$ 45
2017	\$ 41
2018	\$ 37
Thereafter	\$ 282

It is expected that in the normal course of business, leases that expire generally will be renewed or replaced by leases on other properties; thus, it is anticipated that future lease commitments will not be less than the amount shown for 2013.

##### *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 consolidated financial statements.

#### (19) 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 Adjusted OIBDA 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.

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For the year ended December 31, 2013, Liberty has identified the following consolidated subsidiaries 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 and mobile transactions through its domestic and international websites.
- TripAdvisor, Inc. - an online travel research company, empowering users to plan and maximize their travel experience.

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, LLC).

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.

Performance Measures

	Years ended					
	December 31,					
	2013		2012		2011	
Revenue	Adjusted OIBDA	Revenue	Adjusted OIBDA	Revenue	Adjusted OIBDA	
amounts in millions						
<b>Interactive Group</b>						
QVC	\$ 8,623	1,841	8,516	1,828	8,268	1,733
E-commerce	1,684	85	1,502	96	1,348	123
Corporate and other	—	(20)	—	(27)	—	(29)
<b>Total Interactive Group</b>	<b>10,307</b>	<b>1,906</b>	<b>10,018</b>	<b>1,897</b>	<b>9,616</b>	<b>1,827</b>
<b>Ventures Group</b>						
TripsAdvisor	945	379	36	8	—	—
Corporate and other	—	(11)	—	(5)	—	(4)
<b>Total Ventures Group</b>	<b>945</b>	<b>368</b>	<b>36</b>	<b>3</b>	<b>—</b>	<b>(4)</b>
<b>Consolidated Liberty</b>	<b>\$ 11,252</b>	<b>2,274</b>	<b>10,054</b>	<b>1,900</b>	<b>9,616</b>	<b>1,823</b>

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2013, 2012 and 2011

Other Information

	December 31, 2013			December 31, 2012		
	Total assets	Investments in affiliates	Capital expenditures	Total assets	Investments in affiliates	Capital expenditures
amounts in millions						
<b>Interactive Group</b>						
QVC	\$ 13,031	51	217	13,414	52	246
E-commerce	1,255	—	78	1,488	9	91
Corporate and other	576	292	—	213	243	1
<b>Total Interactive Group</b>	<b>14,862</b>	<b>343</b>	<b>295</b>	<b>15,115</b>	<b>304</b>	<b>338</b>
<b>Ventures Group</b>						
TripAdvisor	7,061	—	57	7,377	—	1
Corporate and other	2,923	894	—	3,919	547	—
<b>Total Ventures Group</b>	<b>9,984</b>	<b>894</b>	<b>57</b>	<b>11,296</b>	<b>547</b>	<b>1</b>
Inter-group eliminations	(170)	—	—	(156)	—	—
<b>Consolidated Liberty</b>	<b>\$ 24,676</b>	<b>1,237</b>	<b>352</b>	<b>26,255</b>	<b>851</b>	<b>339</b>

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

	Years ended December 31,		
	2013	2012	2011
amounts in millions			
Consolidated segment Adjusted OIBDA	\$ 2,274	1,900	1,823
Stock-based compensation	(178)	(91)	(49)
Depreciation and amortization	(943)	(609)	(641)
Impairment of intangible assets	(33)	(92)	—
Interest expense	(373)	(432)	(427)
Share of earnings (loss) of affiliates, net	33	85	140
Realized and unrealized gains (losses) on financial instruments, net	(22)	(351)	84
Gains (losses) on transactions, net	(2)	1,531	—
Other, net	(46)	44	9
<b>Earnings (loss) from continuing operations before income taxes</b>	<b>\$ 710</b>	<b>1,985</b>	<b>939</b>

Revenue by Geographic Area

Revenue by geographic area based on the location of customers is as follows:

	Years ended December 31,		
	2013	2012	2011
amounts in millions			
United States	\$ 7,872	7,009	6,670
Japan	1,029	1,251	1,133
Germany	971	957	1,068
Other foreign countries	1,380	837	745
<b>Total</b>	<b>\$ 11,252</b>	<b>10,054</b>	<b>9,616</b>

## LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

December 31, 2013, 2012 and 2011

## Long-lived Assets by Geographic Area

	December 31,	
	2013	2012
	amounts in millions	
United States	\$ 582	529
Japan	220	280
Germany	245	247
Other foreign countries	200	179
	<u>\$ 1,247</u>	<u>1,235</u>

## (20) Quarterly Financial Information (Unaudited)

	1st	2nd	3rd	4th
	Quarter	Quarter	Quarter	Quarter
	amounts in millions, except per share amounts			
<u>2013:</u>				
Revenue	\$ 2,664	2,647	2,500	3,441
Operating income	\$ 271	284	205	360
Earnings from continuing operations	\$ 53	150	131	246
Net earnings (loss) attributable to Liberty Interactive Corporation stockholders:				
Series A and Series B Liberty Interactive common stock	95	109	77	157
Series A and Series B Liberty Ventures common stock	(68)	11	36	84
Basic net earnings (loss) attributable to Liberty Interactive Corporation stockholders per common share:				
Series A and Series B Liberty Interactive common stock	\$ 0.18	0.21	0.15	0.31
Series A and Series B Liberty Ventures common stock	\$ (1.89)	0.30	1.00	2.27
Diluted net earnings (loss) attributable to Liberty Interactive Corporation stockholders per common share:				
Series A and Series B Liberty Interactive common stock	\$ 0.18	0.21	0.15	0.31
Series A and Series B Liberty Ventures common stock	\$ (1.89)	0.30	0.97	2.27

## LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

December 31, 2013, 2012 and 2011

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	amounts in millions, except per share amounts			
<u>2012:</u>				
Revenue	\$ 2,314	2,365	2,196	3,179
Operating income	\$ 258	290	189	371
Earnings from continuing operations	\$ 105	249	(26)	1,263
Net earnings (loss) attributable to Liberty Interactive Corporation stockholders:				
Series A and Series B Liberty Interactive Corporation common stock	\$ 91	234	(31)	NA
Series A and Series B Liberty Interactive common stock	NA	NA	38	174
Series A and Series B Liberty Ventures common stock	NA	NA	(48)	1,072
Basic net earnings (loss) attributable to Liberty Interactive Corporation stockholders per common share:				
Series A and Series B Liberty Interactive Corporation common stock	\$ 0.16	0.42	(0.06)	NA
Series A and Series B Liberty Interactive common stock	NA	NA	0.07	0.32
Series A and Series B Liberty Ventures common stock	NA	NA	(1.66)	30.63
Diluted net earnings (loss) attributable to Liberty Interactive Corporation stockholders per common share:				
Series A and Series B Liberty Interactive Corporation common stock	\$ 0.16	0.42	(0.06)	NA
Series A and Series B Liberty Interactive common stock	NA	NA	0.07	0.32
Series A and Series B Liberty Ventures common stock	NA	NA	(1.66)	30.63

### PART III

The following required information is incorporated by reference to our definitive proxy statement for our 2014 Annual Meeting of Stockholders presently scheduled to be held in the second quarter of 2014:

- Item 10. Directors, Executive Officers and Corporate Governance
- Item 11. Executive Compensation
- Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
- Item 13. Certain Relationships and Related Transactions, and Director Independence
- Item 14. Principal Accountant Fees and Services

We expect to file our definitive proxy statement for our 2014 Annual Meeting of Shareholders with the Securities and Exchange Commission on or before April 30, 2014.

**PART IV.**

**Item 15. Exhibits and Financial Statement Schedules.**

(a)(1) *Financial Statements*

Included in Part II of this report:

	<u>Page No.</u>
Liberty Interactive Corporation:	
Reports of Independent Registered Public Accounting Firm	<b>II-25 &amp; II-26</b>
Consolidated Balance Sheets, December 31, 2013 and 2012	<b>II-27</b>
Consolidated Statements of Operations, Years ended December 31, 2013, 2012 and 2011	<b>II-29</b>
Consolidated Statements of Comprehensive Earnings (loss), Years ended December 31, 2013, 2012 and 2011	<b>II-31</b>
Consolidated Statements of Cash Flows, Years ended December 31, 2013, 2012 and 2011	<b>II-32</b>
Consolidated Statements of Equity, Years ended December 31, 2013, 2012 and 2011	<b>II-33</b>
Notes to Consolidated Financial Statements, December 31, 2013, 2012 and 2011	<b>II-35</b>

(a)(2) *Financial Statement Schedules*

- (i) All schedules have been omitted because they are not applicable, not material or the required information is set forth in the financial statements or notes thereto.

(a)(3) *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):

2 - Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession:

- 2.1 Reorganization Agreement, dated as of August 30, 2011, between Liberty Interactive Corporation and Liberty Media Corporation (as assignee of Starz (f/k/a Liberty CapStarz, Inc.)) (incorporated by reference to Exhibit 2.1 to Post-Effective Amendment No. 1 to Starz's Registration Statement on Form S-4 filed on September 23, 2011 (File No. 333-171201) (the "Starz S-4")).

3 - Articles of Incorporation and Bylaws:

- 3.1 Form of Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to Amendment No. 3 to the Registrant's Form 8-A filed on August 2, 2012 (File No. 001-33982)).
- 3.2 Amended and Restated Bylaws of the Registrant.\*

4 - Instruments Defining the Rights to Securities Holders, including Indentures:

- 4.1 Specimen certificate for shares of the Registrant's Series A Liberty Interactive common stock, par value \$.01 per share (incorporated by reference to Exhibit 4.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011 filed on February 23, 2012 (File No. 001-33982) (the "Liberty 2011 10-K")).
- 4.2 Specimen certificate for shares of the Registrant's Series B Liberty Interactive common stock, par value \$.01 per share (incorporated by reference to Exhibit 4.2 to the Liberty 2011 10-K).

- 4.3 Specimen certificate for shares of the Registrant's Series A Liberty Ventures common stock, par value \$.01 per share (incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-4, as filed on April 3, 2012 (File No. 333-180543) (the "Liberty S-4")).
- 4.4 Specimen certificate for shares of the Registrant's Series B Liberty Ventures common stock, par value \$.01 per share (incorporated by reference to Exhibit 4.4 to the Liberty S-4).
- 4.5 The Registrant undertakes to furnish to the Securities and Exchange Commission, upon request, a copy of all instruments with respect to long-term debt not filed herewith.

10 - Material Contracts:

- 10.1 Liberty Interactive Corporation 2000 Incentive Plan (As Amended and Restated Effective November 7, 2011) (the "2000 Incentive Plan") (incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ending September 30, 2011 filed on November 8, 2011 (File No. 001-33982) (the "Liberty 2011 10-Q")).
- 10.2 Amendment to the 2000 Incentive Plan (effective as of August 5, 2013) (incorporated by reference to Exhibit 10.3 to the Liberty Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 filed on November 5, 2013) (File No. 001-33982) (the "Liberty 2013 10-Q").
- 10.3 Liberty Interactive Corporation 2007 Incentive Plan (As Amended and Restated Effective November 7, 2011) (the "2007 Incentive Plan") (incorporated by reference to Exhibit 10.6 to the Liberty 2011 10-Q).
- 10.4 Amendment to the 2007 Incentive Plan (effective as of August 5, 2013) (incorporated by reference to Exhibit 10.4 to the Liberty 2013 10-Q).
- 10.5 Liberty Interactive Corporation 2010 Incentive Plan (As Amended and Restated Effective November 7, 2011) (the "2010 Incentive Plan") (incorporated by reference to Exhibit 10.7 to the Liberty 2011 10-Q).
- 10.6 Amendment to the 2010 Incentive Plan (effective August 5, 2013) (incorporated by reference to Exhibit 10.5 to the Liberty 2013 10-Q).
- 10.7 Liberty Interactive Corporation 2002 Nonemployee Director Incentive Plan (As Amended and Restated Effective November 7, 2011) (the "2002 Directors Plan") (incorporated by reference to Exhibit 10.8 to the Liberty 2011 10-Q).
- 10.8 Amendment to the 2002 Directors Plan (effective as of August 5, 2013) (incorporated by reference to Exhibit 10.1 to the Liberty 2013 10-Q).
- 10.9 Liberty Interactive Corporation 2011 Nonemployee Director Incentive Plan (As Amended and Restated Effective November 7, 2011) (the "2011 Directors Plan") (incorporated by reference to Exhibit 10.9 to the Liberty 2011 10-Q).
- 10.10 Amendment to the 2011 Directors Plan (effective as of August 5, 2013) (incorporated by reference to Exhibit 10.2 to the Liberty 2013 10-Q).
- 10.11 Form of Liberty Interactive Corporation 2012 Incentive Plan (the "2012 Incentive Plan") (incorporated by reference to Exhibit 99.1 to the Registrant's Registration Statement on Form S-8 filed on November 13, 2012 (File No. 333-184901)).
- 10.12 Amendment to the 2012 Incentive Plan (effective as of August 5, 2013) (incorporated by reference to Exhibit 10.6 to the Liberty 2013 10-Q).

- 10.13 Form of Non-Qualified Stock Option Agreement.\*
- 10.14 Form of Restricted Stock Award Agreement.\*
- 10.15 Form of Non-Qualified Stock Option Agreement under the 2000 Incentive Plan, the 2007 Incentive Plan and the 2010 Incentive Plan [for certain designated award recipients] (incorporated by reference to Exhibit 10.16 to the Liberty 2011 10-K).
- 10.16 Form of Restricted Stock Award Agreement under the 2000 Incentive Plan, the 2007 Incentive Plan and the 2010 Incentive Plan [for certain designated award recipients] (incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009 filed on February 25, 2010 (File No. 001-33982) (the "Liberty 2009 10-K")).
- 10.17 Form of Stock Appreciation Rights Agreement under the 2000 Incentive Plan and the 2007 Incentive Plan (incorporated by reference to Exhibit 10.20 to the Liberty 2009 10-K).
- 10.18 Form of Non-Qualified Stock Option Agreement under the 2002 Directors Plan and the 2011 Directors Plan (incorporated by reference to 10.19 to the Liberty 2011 10-K).
- 10.19 Form of Restricted Stock Award Agreement under the 2002 Directors Plan and the 2011 Directors Plan (incorporated by reference to 10.20 to the Liberty 2011 10-K).
- 10.20 Form of Stock Appreciation Rights Agreement under the 2002 Directors Plan (incorporated by reference to Exhibit 10.2 to the Liberty 2009 10-K).
- 10.21 Non-Qualified Stock Option Agreement under the 2007 Incentive Plan for Michael George dated March 2, 2011 (incorporated by reference to 10.22 to the Liberty 2011 10-K).
- 10.22 Amended and Restated Non-Qualified Stock Option Agreement under the 2000 Incentive Plan for Gregory B. Maffei (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ending June 30, 2012 filed on August 8, 2012 (File No. 001-33982) (the "Liberty 2012 10-Q")).
- 10.23 Amended and Restated Non-Qualified Stock Option Agreement under the 2007 Incentive Plan for Gregory B. Maffei (incorporated by reference to Exhibit 10.2 to the Liberty 2012 10-Q).
- 10.24 Employment Agreement between Michael George and QVC, Inc. ("QVC") dated May 3, 2011 (incorporated by reference to 10.23 to the Liberty 2011 10-K).
- 10.25 Letter Agreement regarding personal use of the Liberty aircraft, dated as of February 5, 2013, between Gregory B. Maffei and Liberty Media Corporation (incorporated by reference to Exhibit 10.18 to the Liberty 2012 10-K).
- 10.26 Agreement Regarding LINTA Equity Awards dated September 23, 2011, between Liberty Interactive Corporation and Gregory B. Maffei (incorporated by reference to Exhibit 10.25 to the Liberty 2011 10-K).
- 10.27 Call Agreement, dated as of February 9, 1998 (the "Call Agreement"), between Liberty Interactive Corporation (as successor of Liberty Interactive LLC (f/k/a Liberty Media LLC, "Old Liberty"), as assignee of Tele-Communications, Inc.) and the Malone Group (incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 filed on February 27, 2009 (File No. 001-33982)).
- 10.28 Letter, dated as of March 5, 1999, from Tele-Communications, Inc. and Old Liberty addressed to Mr. Malone and Leslie Malone relating to the Call Agreement (incorporated by reference to Exhibit 10.27 to the Liberty 2009 10-K).

- 10.29 Form of Indemnification Agreement between the Registrant and its executive officers/directors (incorporated by reference to Exhibit 10.29 to the Liberty 2011 10-K).
- 10.30 Tax Sharing Agreement, dated September 23, 2011, between Liberty Interactive Corporation, Liberty Interactive LLC and Liberty Media Corporation (as assignee of Starz (f/k/a Liberty Media Corporation)) (incorporated by reference to Exhibit 10.4 to the Starz S-4).
- 10.31 Services Agreement, dated as of September 23, 2011, by and between Liberty Interactive Corporation and Liberty Media Corporation (as assignee of Starz (f/k/a Liberty Media Corporation)) (incorporated by reference to Exhibit 10.5 to the Starz S-4).
- 10.32 Facilities Sharing Agreement, dated September 23, 2011, by and between Liberty Interactive Corporation and Liberty Property Holdings, Inc. (incorporated by reference to Exhibit 10.6 to the Starz S-4).
- 10.33 Aircraft Time Sharing Agreements, each effective as of January 11, 2013, by and between Starz and Liberty Interactive Corporation (incorporated by reference to Exhibit 10.27 to the Liberty 2012 10-K).
- 10.34 Indenture dated as of September 25, 2009 among QVC, the guarantors party thereto and U.S. Bank National Association, as trustee, as supplemented by that Supplemental Indenture dated as of June 30, 2011 (incorporated by reference to Exhibit 10.1 to QVC's Registration Statement on Form S-4 filed on October 19, 2012 (File No. 333-184501) (the "QVC S-4")).
- 10.35 Indenture dated as of March 23, 2010 among QVC, the guarantors party thereto and U.S. Bank National Association, as trustee, as supplemented by that Supplemental Indenture dated as of June 30, 2011 (incorporated by reference to Exhibit 10.2 to the QVC S-4).
- 10.36 Indenture dated as of July 2, 2012 among QVC, the guarantors party thereto and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to the QVC S-4).
- 10.37 Indenture dated as of March 18, 2013 among QVC, Inc., the guarantors party thereto and U.S. Bank National Association (incorporated by reference to Exhibit 10.2 to QVC's Quarterly Report on Form 10-Q (File No. 333-184501) as filed on May 9, 2013).
- 10.38 Form of Amended and Restated Credit Agreement, dated as of March 1, 2013, among QVC, Inc., as Borrower, J.P. Morgan Securities LLC, as Lead Arranger and Lead Bookrunner, JPMorgan Chase Bank, N.A., as Administrative Agent, Wells Fargo Bank, N.A., and BNP Paribas, as Syndication Agents, and the parties named therein as Lenders, Documentation Agents and Co-Lead Arrangers and Co-Bookrunners (incorporated by reference to Exhibit 99.2 to QVC's Current Report on Form 8-K filed on March 7, 2013 (File No. 333- 184501)).

21	Subsidiaries of Liberty Interactive Corporation.*
23.1	Consent of KPMG LLP.*
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	Unaudited Attributed Financial Information for Tracking Stock Groups.*
99.2	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.\*\*

\* Filed herewith.

\*\* Furnished herewith.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### LIBERTY INTERACTIVE CORPORATION

Date: February 28, 2014

By /s/Gregory B. Maffei  
Gregory B. Maffei  
Chief Executive Officer and President

Date: February 28, 2014

By /s/Christopher W. Shean  
Christopher W. Shean  
Senior Vice President and Chief Financial Officer (Principal Financial Officer and  
Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/John C. Malone</u> John C. Malone	Chairman of the Board and Director	February 28, 2014
<u>/s/Gregory B. Maffei</u> Gregory B. Maffei	Director, Chief Executive Officer and President	February 28, 2014
<u>/s/Michael A. George</u> Michael A. George	Director	February 28, 2014
<u>/s/M. Ian G. Gilchrist</u> M. Ian G. Gilchrist	Director	February 28, 2014
<u>/s/Evan D. Malone</u> Evan D. Malone	Director	February 28, 2014
<u>/s/David E. Rapley</u> David E. Rapley	Director	February 28, 2014
<u>/s/M. LaVoy Robison</u> M. LaVoy Robison	Director	February 28, 2014
<u>/s/Larry E. Romrell</u> Larry E. Romrell	Director	February 28, 2014
<u>/s/Andrea L. Wong</u> Andrea L. Wong	Director	February 28, 2014

## EXHIBIT INDEX

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):

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- 4.3 Specimen certificate for shares of the Registrant's Series A Liberty Ventures common stock, par value \$.01 per share (incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-4, as filed on April 3, 2012 (File No. 333-180543) (the "Liberty S-4")).
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- 4.5 The Registrant undertakes to furnish to the Securities and Exchange Commission, upon request, a copy of all instruments with respect to long-term debt not filed herewith.

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- 10.8 Amendment to the 2002 Directors Plan (effective as of August 5, 2013) (incorporated by reference to Exhibit 10.1 to the Liberty 2013 10-Q).
- 10.9 Liberty Interactive Corporation 2011 Nonemployee Director Incentive Plan (As Amended and Restated Effective November 7, 2011) (the "2011 Directors Plan") (incorporated by reference to Exhibit 10.9 to the Liberty 2011 10-Q).
- 10.10 Amendment to the 2011 Directors Plan (effective as of August 5, 2013) (incorporated by reference to Exhibit 10.2 to the Liberty 2013 10-Q).
- 10.11 Form of Liberty Interactive Corporation 2012 Incentive Plan (the "2012 Incentive Plan") (incorporated by reference to Exhibit 99.1 to the Registrant's Registration Statement on Form S-8 filed on November 13, 2012 (File No. 333-184901)).
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- 10.22 Amended and Restated Non-Qualified Stock Option Agreement under the 2000 Incentive Plan for Gregory B. Maffei (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on

Form 10-Q for the quarterly period ending June 30, 2012 filed on August 8, 2012 (File No. 001-33982) (the "Liberty 2012 10-Q").

- 10.23 Amended and Restated Non-Qualified Stock Option Agreement under the 2007 Incentive Plan for Gregory B. Maffei (incorporated by reference to Exhibit 10.2 to the Liberty 2012 10-Q).
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- 10.28 Letter, dated as of March 5, 1999, from Tele-Communications, Inc. and Old Liberty addressed to Mr. Malone and Leslie Malone relating to the Call Agreement (incorporated by reference to Exhibit 10.27 to the Liberty 2009 10-K).
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- 10.30 Tax Sharing Agreement, dated September 23, 2011, between Liberty Interactive Corporation, Liberty Interactive LLC and Liberty Media Corporation (as assignee of Starz (f/k/a Liberty Media Corporation)) (incorporated by reference to Exhibit 10.4 to the Starz S-4).
- 10.31 Services Agreement, dated as of September 23, 2011, by and between Liberty Interactive Corporation and Liberty Media Corporation (as assignee of Starz (f/k/a Liberty Media Corporation)) (incorporated by reference to Exhibit 10.5 to the Starz S-4).
- 10.32 Facilities Sharing Agreement, dated September 23, 2011, by and between Liberty Interactive Corporation and Liberty Property Holdings, Inc. (incorporated by reference to Exhibit 10.6 to the Starz S-4).
- 10.33 Aircraft Time Sharing Agreements, each effective as of January 11, 2013, by and between Starz and Liberty Interactive Corporation (incorporated by reference to Exhibit 10.27 to the Liberty 2012 10-K).
- 10.34 Indenture dated as of September 25, 2009 among QVC, the guarantors party thereto and U.S. Bank National Association, as trustee, as supplemented by that Supplemental Indenture dated as of June 30, 2011 (incorporated by reference to Exhibit 10.1 to QVC's Registration Statement on Form S-4 filed on October 19, 2012 (File No. 333-184501) (the "QVC S-4")).
- 10.35 Indenture dated as of March 23, 2010 among QVC, the guarantors party thereto and U.S. Bank National Association, as trustee, as supplemented by that Supplemental Indenture dated as of June 30, 2011 (incorporated by reference to Exhibit 10.2 to the QVC S-4).
- 10.36 Indenture dated as of July 2, 2012 among QVC, the guarantors party thereto and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to the QVC S-4).

- 10.37 Indenture dated as of March 18, 2013 among QVC, Inc., the guarantors party thereto and U.S. Bank National Association (incorporated by reference to Exhibit 10.2 to QVC's Quarterly Report on Form 10-Q (File No. 333-184501) as filed on May 9, 2013).
- 10.38 Form of Amended and Restated Credit Agreement, dated as of March 1, 2013, among QVC, Inc., as Borrower, J.P. Morgan Securities LLC, as Lead Arranger and Lead Bookrunner, JPMorgan Chase Bank, N.A., as Administrative Agent, Wells Fargo Bank, N.A., and BNP Paribas, as Syndication Agents, and the parties named therein as Lenders, Documentation Agents and Co-Lead Arrangers and Co-Bookrunners (incorporated by reference to Exhibit 99.2 to QVC's Current Report on Form 8-K filed on March 7, 2013 (File No. 333- 184501)).

21	Subsidiaries of Liberty Interactive Corporation.*
23.1	Consent of KPMG LLP.*
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	Unaudited Attributed Financial Information for Tracking Stock Groups.*
99.2	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.**

\* Filed herewith.

\*\* Furnished herewith.

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

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

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

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**LIBERTY INTERACTIVE CORPORATION**  
A Delaware Corporation  
AMENDED AND RESTATED BYLAWS

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ARTICLE I

STOCKHOLDERS

Section 1.1 Annual Meeting.

An annual meeting of stockholders for the purpose of electing directors and of transacting any other business properly brought before the meeting pursuant to these Bylaws shall be held each year at such date, time and place, either within or without the State of Delaware or, if so determined by the Board of Directors in its sole discretion, at no place (but rather by means of remote communication), as may be specified by the Board of Directors in the notice of meeting.

Section 1.2 Special Meetings.

Except as otherwise provided in the terms of any series of preferred stock or unless otherwise provided by law or by the Certificate of Incorporation, special meetings of stockholders of the Corporation, for the transaction of such business as may properly come before the meeting, may be called by the Secretary of the Corporation (the “**Secretary**”) only (i) upon written request received by the Secretary at the principal executive offices of the Corporation by or on behalf of the holder or holders of record of outstanding shares of capital stock of the Corporation, representing collectively not less than 66 <sup>2</sup>/<sub>3</sub>% of the total voting power of the outstanding capital stock of the Corporation entitled to vote at such meeting or (ii) at the request of not less than 75% of the members of the Board of Directors then in office. Only such business may be transacted as is specified in the notice of the special meeting. The Board of Directors shall have the sole power to determine the time, date and place, either within or without the State of Delaware, or, if so determined by the Board of Directors in its sole discretion, at no place (but rather by means of remote communication), for any special meeting of stockholders (including those properly called by the Secretary in accordance with Section 1.2(i) hereof). Following such determination, it shall be the duty of the Secretary to cause notice to be given to the stockholders entitled to vote at such meeting that a meeting will be held at the time, date and place, if any, and in accordance with the record date determined by the Board of Directors.

Section 1.3 Record Date.

In order that the Corporation may determine the stockholders entitled to notice of any meeting of stockholders or any adjournment thereof, the Board of Directors may fix, in advance, a record date, which shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than sixty (60) calendar days nor less than ten (10) calendar days before the date of such meeting. If the Board of Directors so fixes a record date for determining the stockholders entitled to notice of any

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meeting of stockholders, such date shall be the record date for determining the stockholders entitled to vote at such meeting, unless the Board of Directors determines, at the time it fixes the record date for determining the stockholders entitled to notice of such meeting, that a later date on or before the date of the meeting shall be the record date for determining stockholders entitled to vote at such meeting. In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than sixty (60) calendar days prior to such action. If no record date is fixed by the Board of Directors: (i) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held, and (ii) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting in accordance with this Section 1.3.

Section 1.4 Notice of Meetings.

Notice of all stockholders meetings, stating the place, if any, date and hour thereof, as well as the record date for determining stockholders entitled to vote at such meeting (if such record date is different from the record date for determining stockholders entitled to notice of the meeting); the means of remote communication, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting; and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered by the Corporation in accordance with Section 5.4 of these Bylaws, applicable law and applicable stock exchange rules and regulations by the Chairman of the Board, the President, any Vice President, the Secretary or an Assistant Secretary, to each stockholder entitled to notice of such meeting, unless otherwise provided by applicable law or the Certificate of Incorporation, at least ten (10) calendar days but not more than sixty (60) calendar days before the date of the meeting.

Section 1.5 Notice of Stockholder Business.

(a) Annual Meetings of Stockholders.

(1) At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, nominations for persons for election to the Board of Directors and the proposal of business to be considered by the stockholders must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof), (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof), or (iii) otherwise properly be requested to be brought before the meeting by a stockholder (x) who complies with the

procedures set forth in this Section 1.5 and (y) who was a stockholder of record of the Corporation (and, with respect to any beneficial owner, if different, on whose behalf such business is proposed or such nomination or nominations made, only if such beneficial owner was the beneficial owner of shares of the Corporation) both at the time the notice provided for in Section 1.5(a)(2) is delivered to the Secretary and on the record date for the determination of stockholders entitled to vote at the meeting, and (z) who is entitled to vote at the meeting upon such election of directors or upon such business, as the case may be.

(2) In addition to any other requirements under applicable law and the Corporation's Certificate of Incorporation, for a nomination for election to the Board of Directors or the proposal of business to be properly requested to be brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in proper written form to the Secretary and any such proposed business, other than the nominations of persons for election to the Board of Directors, must constitute a proper matter for stockholder action pursuant to the Certificate of Incorporation, these Bylaws, and applicable law. To be timely, a stockholder's notice must be received at the principal executive offices of the Corporation (x) in the case of an annual meeting that is called for a date that is within thirty (30) calendar days before or after the anniversary date of the immediately preceding annual meeting of stockholders, not less than sixty (60) calendar days nor more than ninety (90) calendar days prior to the meeting and (y) in the case of an annual meeting that is called for a date that is not within thirty (30) calendar days before or after the anniversary date of the immediately preceding annual meeting, not later than the close of business on the tenth (10<sup>th</sup>) day following the day on which notice of the date of the meeting was communicated to stockholders or public announcement (as defined below) of the date of the meeting was made, whichever occurs first. In no event shall the public announcement of an adjournment or postponement of a meeting of stockholders commence a new time period (or extend any time period) for the giving of a stockholder notice as described herein.

To be in proper written form, such stockholder's notice to the Secretary must be submitted by a holder of record of stock entitled to vote on the nomination of directors of the Corporation and shall set forth in writing and describe in fair, accurate, and material detail (A) as to each person whom the stockholder proposes to nominate for election as a director (a "**nominee**") (i) all information relating to such nominee that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to and in accordance with Regulation 14A under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), and (ii) such nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (B) as to any other business that the stockholder proposes to bring before the annual meeting, (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the text of the proposal or business (including the text of any resolutions proposed for consideration and, in the event that such business includes a proposal to amend the Bylaws of the Corporation, the language of the proposed amendment), and (iii) any material interest of the stockholder and beneficial owner, if any, on whose behalf the proposal is made, in such business; and (C) as to such stockholder giving notice and the beneficial owner or owners, if different, on whose behalf the nomination or proposal is made, and any affiliates or associates (each within the meaning of Rule 12b-2 under the Exchange Act) of such stockholder or beneficial owner (each a "**Proposing Person**") (i) the name and address, as they

appear on the Corporation's books, of such Proposing Person, (ii) the class or series and number of shares of the capital stock of the Corporation that are owned beneficially and of record by such Proposing Person, (iii) a description of all arrangements or understandings between such Proposing Person and any other person or persons (including their names) pursuant to which the proposals are to be made by such stockholder, (iv) a representation by each Proposing Person who is a holder of record of stock of the Corporation (A) that the notice the Proposing Person is giving to the Secretary is being given on behalf of (x) such holder of record and/or (y) if different than such holder of record, one or more beneficial owners of stock of the Corporation held of record by such holder of record, (B) as to each such beneficial owner, the number of shares held of record by such holder of record that are beneficially owned by such beneficial owner, with documentary evidence of such beneficial ownership, and (C) that such holder of record is entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination set forth in its notice, (v) a representation (I) whether any such Proposing Person or nominee has received any financial assistance, funding or other consideration from any other person in respect of the nomination (and the details thereof) (a "**Stockholder Associated Person**") and (II) whether and the extent to which any hedging, derivative or other transaction has been entered into with respect to the Corporation within the past six (6) months by, or is in effect with respect to, such stockholder, any person to be nominated by such stockholder or any Stockholder Associated Person, the effect or intent of which transaction is to mitigate loss to or manage risk or benefit of share price changes for, or to increase or decrease the voting power of, such stockholder, nominee or any such Stockholder Associated Person, and (vi) a representation whether any Proposing Person intends or is part of a group that intends to (I) deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding voting power required to approve or adopt the proposal or elect the nominee and/or (II) otherwise solicit proxies from stockholders in support of such proposal, and (vii) any other information relating to such Proposing Person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies in support of such proposal pursuant to Section 14 of the Exchange Act, and any rules and regulations promulgated thereunder. The foregoing notice requirements of this Section 1.5 shall not apply to any proposal made pursuant to Rule 14a-8 (or any successor thereof) promulgated under the Exchange Act. A proposal to be made pursuant to Rule 14a-8 (or any successor thereof) promulgated under the Exchange Act shall be deemed satisfied if the stockholder making such proposal complies with the provisions of Rule 14a-8 and has notified the Corporation of his or her intention to present a proposal at an annual meeting in compliance with Rule 14a-8 and such stockholder's proposal has been included in a proxy statement that has been prepared by the Corporation to solicit proxies for such annual meeting. The Corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine (x) the eligibility of such proposed nominee to serve as a director of the Corporation and (y) whether the nominee would qualify as an "independent director" or "audit committee financial expert" under applicable law, securities exchange rule or regulation, or any publicly disclosed corporate governance guideline or committee charter of the Corporation.

(3) Notwithstanding anything in paragraph (a)(2) of this Section 1.5 to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation at an annual meeting is increased and there is no public announcement by the Corporation naming all of the nominees for director or specifying the size of the increased Board

of Directors at least one hundred (100) calendar days prior to the first anniversary date of the immediately preceding annual meeting, a stockholder's notice required by this Section 1.5 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be received by the Secretary at the principal executive offices of the Corporation not later than the close of business on the tenth (10<sup>th</sup>) day following the day on which such public announcement is first made by the Corporation.

(b) Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder entitled to vote at such meeting who was a stockholder of record of the Corporation (and, with respect to any beneficial owner, if different, on whose behalf such nomination or nominations are made, only if such beneficial owner was the beneficial owner of shares of the Corporation) both at the time the notice provided for in paragraph (a)(2) of this Section 1.5 is delivered to the Secretary and on the record date for the determination of stockholders entitled to vote at the special meeting may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation's notice of meeting, if the stockholder's notice meeting the requirements of paragraph (a)(2) of this Section 1.5 (substituting special meeting for annual meeting as applicable) shall be received by the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the ninetieth (90<sup>th</sup>) day prior to such special meeting and not later than the close of business on the later of the sixtieth (60<sup>th</sup>) day prior to such special meeting or the tenth (10<sup>th</sup>) day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting; provided, however, that a stockholder may nominate persons for election at a special meeting only to such directorship(s) as specified in the Corporation's notice of the meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above.

(c) Updating and Supplementing of Stockholder Information. A stockholder providing notice of nominations of persons for election to the Board of Directors at an annual or special meeting of stockholders or notice of business proposed to be brought before an annual meeting of stockholders shall further update and supplement such notice so that the information provided or required to be provided in such notice pursuant to paragraph (a)(2) of this Section 1.5 shall be true and correct both as of the record date for the determination of stockholders entitled to notice of the meeting and as of the date that is ten (10) business days before the meeting or any adjournment or postponement thereof, and such updated and supplemental information shall be delivered to, or mailed and received by, the Secretary at the principal executive offices of the Corporation (a) in the case of information that is required to be updated and supplemented to be true and correct as of the record date for the determination of stockholders entitled to notice of the meeting, not later than the later of five (5) business days after such record date or five (5) business days after the public announcement of such record date, and (b) in the case of information that is required to be updated and supplemented to be true and correct as of ten (10) business days before the meeting or any adjournment or postponement thereof, not later than eight (8) business days before the meeting or any adjournment or postponement thereof (or if not practicable to provide

such updated and supplemental information not later than eight (8) business days before any adjournment or postponement, on the first practicable date before any such adjournment or postponement).

(d) General.

(1) Only such persons who are nominated in accordance with the procedures set forth in this Section 1.5 shall be eligible to be elected at an annual or special meeting of stockholders of the Corporation to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 1.5. Except as otherwise provided by law, the chairman of the meeting shall have the power and duty (i) to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Section 1.5 (including whether the stockholder or beneficial owner, if any, on whose behalf the nomination or proposal is made solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in support of such stockholder's nominee or proposal in compliance with such stockholder's representation as required by clause (a)(2)(C)(vi) of this Section 1.5) and (ii) if any proposed nomination or proposed business was not made or proposed in compliance with this Section 1.5, to declare that such nomination shall be disregarded or that such proposed business shall not be transacted. Notwithstanding the foregoing provisions of this Section 1.5, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders of the Corporation to present the nomination to the Board of Directors or to present the proposed business, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the Corporation. For purposes of this Section 1.5, to be considered a qualified representative of the stockholder, a person must be authorized by a writing executed by such stockholder or an electronic transmission delivered by such stockholder to act for such stockholder as proxy at the meeting of stockholders and such person must produce such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, at the meeting of stockholders.

(2) For purposes of this Section 1.5, (i) "**public announcement**" shall mean disclosure in a press release reported by a national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to the Exchange Act, and (ii) "**business day**" shall mean any day, other than Saturday, Sunday and any day on which banks located in the State of New York are authorized or obligated by applicable law to close.

(3) Notwithstanding the foregoing provisions of this Section 1.5, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 1.5. Nothing in this Section 1.5 shall be deemed to affect any rights (i) of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (ii) of the holders of any series of preferred stock to elect directors pursuant to any applicable provisions of the Corporation's Certificate of Incorporation.

#### Section 1.6 Quorum.

Subject to the rights of the holders of any series of preferred stock and except as otherwise provided by law or in the Certificate of Incorporation or these Bylaws, at any meeting of stockholders, the holders of a majority in total voting power of the outstanding shares of stock entitled to vote at the meeting shall be present or represented by proxy in order to constitute a quorum for the transaction of any business. The chairman of the meeting shall have the power and duty to determine whether a quorum is present at any meeting of the stockholders. Shares of its own stock belonging to the Corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by the Corporation, shall neither be entitled to vote nor be counted for quorum purposes; provided, however, that the foregoing shall not limit the right of the Corporation or any subsidiary of the Corporation to vote stock, including, but not limited to, its own stock, held by it in a fiduciary capacity. In the absence of a quorum, the chairman of the meeting may adjourn the meeting from time to time in the manner provided in Section 1.7 hereof until a quorum shall be present.

#### Section 1.7 Adjournment.

Any meeting of stockholders, annual or special, may be adjourned from time to time solely by the chairman of the meeting because of the absence of a quorum or for any other reason and to reconvene at the same or some other time, date and place, if any, or by means of remote communication. Notice need not be given of any such adjourned meeting if the time, date and place, if any, and the means of remote communications, if any, thereof are announced at the meeting at which the adjournment is taken. The chairman of the meeting shall have full power and authority to adjourn a stockholder meeting in his sole discretion even over stockholder opposition to such adjournment. The stockholders present at a meeting shall not have the authority to adjourn the meeting. If the time, date and place, if any, thereof, and the means of remote communication, if any, by which the stockholders and the proxy holders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken and the adjournment is for less than thirty (30) calendar days, no notice need be given of any such adjourned meeting. If the adjournment is for more than thirty (30) calendar days or if after the adjournment a new record date for determining stockholders entitled to vote at the adjourned meeting is fixed for the adjourned meeting, then notice shall be given to each stockholder entitled to vote at the meeting. At the adjourned meeting, the stockholders may transact any business that might have been transacted at the original meeting.

#### Section 1.8 Organization.

The Chairman of the Board, or in his absence the President, or in their absence any Vice President, shall call to order meetings of stockholders and preside over and act as chairman of such meetings. The Board of Directors or, if the Board fails to act, the stockholders, may appoint any stockholder, director or officer of the Corporation to act as chairman of any meeting in the absence of the Chairman of the Board, the President and all Vice Presidents. The date and time of the opening and closing of the polls for each matter upon which the stockholders will vote at a meeting shall be determined by the chairman of the meeting and announced at the meeting. The Board of Directors may adopt by resolution such rules and regulations for the conduct of the

meeting of stockholders as it shall deem appropriate. Unless otherwise determined by the Board of Directors, the chairman of the meeting shall have the exclusive right to determine the order of business and to prescribe other such rules, regulations and procedures and shall have the authority in his discretion to regulate the conduct of any such meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (i) rules and procedures for maintaining order at the meeting and the safety of those present; (ii) limitations on attendance at or participation in the meeting to stockholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (iii) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (iv) limitations on the time allotted to questions or comments by participants. Unless and to the extent determined by the Board of Directors or the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

The Secretary shall act as secretary of all meetings of stockholders, but, in the absence of the Secretary, the chairman of the meeting may appoint any other person to act as secretary of the meeting.

#### Section 1.9 Postponement or Cancellation of Meeting.

Any previously scheduled annual or special meeting of the stockholders may be postponed or canceled by resolution of the Board of Directors upon public notice given prior to the time previously scheduled for such meeting of stockholders.

#### Section 1.10 Voting.

Subject to the rights of the holders of any series of preferred stock and except as otherwise provided by law, the Certificate of Incorporation or these Bylaws and except for the election of directors, at any meeting duly called and held at which a quorum is present, the affirmative vote of a majority of the combined voting power of the outstanding shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders. Subject to the rights of the holders of any series of preferred stock, at any meeting duly called and held for the election of directors at which a quorum is present, directors shall be elected by a plurality of the combined voting power of the outstanding shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors.

#### Section 1.11 List of Stockholders.

It shall be the duty of the Secretary or other officer of the Corporation who shall have charge of the stock ledger to prepare and make, at least ten (10) calendar days before every meeting of the stockholders, a complete list of the stockholders entitled to vote thereat, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the stockholder's name; provided, however, if the record date for determining the stockholders entitled to vote at the meeting is fewer than ten (10) calendar days before the meeting date, the list shall reflect the stockholders entitled to vote as of the tenth (10<sup>th</sup>) calendar day before the meeting date. Nothing contained in this Section 1.11 shall require the Corporation to include

electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting for a period of at least ten (10) calendar days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the principal place of business of the Corporation. If the Corporation determines to make the list available on an electronic network, the Corporation may take reasonable steps to ensure that such information is available only to stockholders of the Corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible network, and the information required to access such list shall be provided with the notice of the meeting. The stock ledger shall be the only evidence of the identity of the stockholders entitled to examine such list.

Section 1.12 Remote Communications.

For purposes of these Bylaws, if authorized by the Board of Directors in its sole discretion, and subject to such guidelines and procedures as the Board of Directors may adopt, stockholders and proxyholders may, by means of remote communication:

(a) participate in a meeting of stockholders; and

(b) be deemed present in person and vote at a meeting of stockholders whether such meeting is to be held at a designated place or solely by means of remote communication, provided that (i) the Corporation shall implement reasonable measures to verify that each person deemed present and permitted to vote at the meeting by means of remote communication is a stockholder or proxyholder, (ii) the Corporation shall implement reasonable measures to provide such stockholders and proxyholders a reasonable opportunity to participate in the meeting and to vote on matters submitted to the stockholders, including an opportunity to read or hear the proceedings of the meeting substantially concurrent with such proceedings, and (iii) if any stockholder or proxyholder votes or takes other action at the meeting by means of remote communication, a record of such vote or other action shall be maintained by the Corporation.

ARTICLE II

BOARD OF DIRECTORS

Section 2.1 Number and Term of Office.

(a) Subject to any limitations set forth in the Certificate of Incorporation and to any provision of the Delaware General Corporation Law relating to the powers or rights conferred upon or reserved to the stockholders or the holders of any class or series of the issued and outstanding stock of the Corporation, the business and affairs of the Corporation shall be managed, and all corporate powers shall be exercised, by or under the direction of the Board of Directors.

Subject to any rights of the holders of any series of preferred stock to elect additional directors, the Board of Directors shall be comprised of not less than three (3) members and the exact number will be fixed from time to time by the Board of Directors by resolution adopted by the affirmative vote of not less than 75% of the members of the Board of Directors then in office. Directors need not be stockholders of the Corporation. The Corporation shall nominate the persons holding the offices of Chairman of the Board and President for election as directors at any meeting at which such persons are subject to election as directors.

(b) Except as otherwise fixed by the Certificate of Incorporation relating to the rights of the holders of any series of preferred stock to separately elect additional directors, which additional directors are not required to be classified pursuant to the terms of such series of preferred stock, the Board of Directors shall be divided into three (3) classes: Class I, Class II and Class III. Each class shall consist, as nearly as possible, of a number of directors equal to one-third ( $33\frac{1}{3}\%$ ) of the then authorized number of members of the Board of Directors. The term of office of the initial Class I directors shall expire at the annual meeting of stockholders in 2008; the term of office of the initial Class II directors shall expire at the annual meeting of stockholders in 2009; and the term of office of the initial Class III directors shall expire at the annual meeting of stockholders in 2007. At each annual meeting of stockholders of the Corporation the successors of that class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. The directors of each class will serve until the earliest to occur of their death, resignation, removal or disqualification or the election and qualification of their respective successors.

#### Section 2.2 Resignations.

Any director of the Corporation, or any member of any committee, may resign at any time by giving notice in writing or by electronic transmission to the Board of Directors, the Chairman of the Board or the President or Secretary. Any such resignation shall take effect at the time specified therein or, if the time be not specified therein, then upon receipt thereof. The acceptance of such resignation shall not be necessary to make it effective unless otherwise stated therein.

#### Section 2.3 Removal of Directors.

Subject to the rights of the holders of any series of preferred stock, directors may be removed from office only for cause upon the affirmative vote of the holders of not less than a majority of the total voting power of the then outstanding shares entitled to vote at an election of directors voting together as a single class.

#### Section 2.4 Newly Created Directorships and Vacancies.

Subject to the rights of the holders of any series of preferred stock, vacancies on the Board of Directors resulting from death, resignation, removal, disqualification or other cause, and newly created directorships resulting from any increase in the number of directors on the Board of Directors, shall be filled only by the affirmative vote of a majority of the remaining directors then in office (even though less than a quorum) or by the sole remaining director. Any director elected

in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the vacancy occurred or to which the new directorship is apportioned, and until such director's successor shall have been elected and qualified. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director, except as may be provided in the terms of any series of preferred stock with respect to any additional director elected by the holders of such series of preferred stock. If at any time, by reason of death or resignation or other cause, the Corporation should have no directors in office, then any officer or any stockholder may call a special meeting of stockholders in the same manner that the Board of Directors may call such a meeting, and directors for the unexpired terms may be elected at such special meeting.

Section 2.5 Meetings.

Regular meetings of the Board of Directors shall be held on such dates and at such times and places, within or without the State of Delaware, as shall from time to time be determined by the Board of Directors, such determination to constitute the only notice of such regular meetings to which any director shall be entitled. In the absence of any such determination, such meeting shall be held, upon notice to each director in accordance with Section 2.6 of this Article II, at such times and places, within or without the State of Delaware, as shall be designated in the notice of meeting.

Special meetings of the Board of Directors shall be held at such times and places, if any, within or without the State of Delaware, as shall be designated in the notice of the meeting in accordance with Section 2.6 hereof. Special meetings of the Board of Directors may be called by the Chairman of the Board, and shall be called by the President or Secretary upon the written request of not less than 75% of the members of the Board of Directors then in office.

Section 2.6 Notice of Meetings.

The Secretary, or in his absence any other officer of the Corporation, shall give each director notice of the time and place of holding of any regular meetings (if required) or special meetings of the Board of Directors, in accordance with Section 5.4 of these Bylaws, by mail at least ten (10) calendar days before the meeting, or by courier service at least three (3) calendar days before the meeting, or by facsimile transmission, electronic mail or other electronic transmission, or personal service, in each case, at least twenty-four (24) hours before the meeting, unless notice is waived in accordance with Section 5.4 of these Bylaws. Unless otherwise stated in the notice thereof, any and all business may be transacted at any meeting without specification of such business in the notice.

Section 2.7 Meetings by Conference Telephone or Other Communications.

Members of the Board of Directors, or any committee thereof, may participate in a meeting of the Board of Directors or such committee by means of telephone conference or other communications equipment by means of which all persons participating in the meeting can hear each other and communicate with each other, and such participation in a meeting by such means shall constitute presence in person at such meeting.

#### Section 2.8 Quorum and Organization of Meetings.

A majority of the total number of members of the Board of Directors as constituted from time to time shall constitute a quorum for the transaction of business, but, if at any meeting of the Board of Directors (whether or not adjourned from a previous meeting) there shall be less than a quorum present, a majority of those present may adjourn the meeting to another time, date and place, and the meeting may be held as adjourned without further notice or waiver. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, a majority of the directors present at any meeting at which a quorum is present may decide any question brought before such meeting. Meetings shall be presided over by the Chairman of the Board or in his absence by such other person as the directors may select. The Board of Directors shall keep written minutes of its meetings. The Secretary shall act as secretary of the meeting, but in his absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

The Board may designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board may designate one or more Directors as alternate members of any committee to replace absent or disqualified members at any meeting of such committee. If a member of a committee shall be absent from any meeting, or disqualified from voting thereat, the remaining member or members present and not disqualified from voting, whether or not such member or members constitute a quorum, may, by a unanimous vote, appoint another member of the Board of Directors to act at the meeting in place of any such absent or disqualified member. Any such committee, to the extent provided in a resolution of the Board of Directors passed as aforesaid, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be impressed on all papers that may require it, but no such committee shall have the power or authority of the Board of Directors in reference to (i) approving or adopting, or recommending to the stockholders, any action or matter expressly required by the laws of the State of Delaware to be submitted to the stockholders for approval or (ii) adopting, amending or repealing any Bylaw of the Corporation. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors. Unless otherwise specified in the resolution of the Board of Directors designating a committee, at all meetings of such committee a majority of the total number of members of the committee shall constitute a quorum for the transaction of business, and the vote of a majority of the members of the committee present at any meeting at which there is a quorum shall be the act of the committee. Each committee shall keep regular minutes of its meetings. Unless the Board of Directors otherwise provides, each committee designated by the Board of Directors may make, alter and repeal rules for the conduct of its business. In the absence of such rules each committee shall conduct its business in the same manner as the Board of Directors conducts its business pursuant to Article II of these Bylaws.

#### Section 2.9 Indemnification.

The Corporation shall indemnify members of the Board of Directors and officers of the Corporation and their respective heirs, personal representatives and successors in interest for or on account of any action performed on behalf of the Corporation, to the fullest extent permitted by

the laws of the State of Delaware and the Corporation's Certificate of Incorporation, as now or hereafter in effect.

Section 2.10 Indemnity Undertaking.

To the extent not prohibited by law, the Corporation shall indemnify any person who is or was made, or threatened to be made, a party to any threatened, pending or completed action, suit or proceeding (a "**Proceeding**"), whether civil, criminal, administrative or investigative, including, without limitation, an action by or in the right of the Corporation to procure a judgment in its favor, by reason of the fact that such person, or a person of whom such person is the legal representative, is or was a director or officer of the Corporation, or is or was serving in any capacity at the request of the Corporation for any other corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprises (an "**Other Entity**"), against judgments, fines, penalties, excise taxes, amounts paid in settlement and costs, charges and expenses (including attorneys' fees). Persons who are not directors or officers of the Corporation may be similarly indemnified in respect of service to the Corporation or to an Other Entity at the request of the Corporation to the extent the Board of Directors at any time specifies that such persons are entitled to the benefits of this Section 2.10. Except as otherwise provided in Section 2.12 hereof, the Corporation shall be required to indemnify a person in connection with a proceeding (or part thereof) commenced by such person only if the commencement of such proceeding (or part thereof) by the person was authorized by the Board of Directors.

Section 2.11 Advancement of Expenses.

The Corporation shall, from time to time, reimburse or advance to any director or officer or other person entitled to indemnification hereunder the funds necessary for payment of expenses, including attorneys' fees, incurred in connection with any Proceeding in advance of the final disposition of such Proceeding; provided, however, that, such expenses incurred by or on behalf of any director or officer or other person may be paid in advance of the final disposition of a Proceeding only upon receipt by the Corporation of an undertaking, by or on behalf of such director or officer or such person, to repay all amounts advanced if it shall ultimately be determined by final judicial decision from which there is no further right of appeal that such director, officer or other person is not entitled to be indemnified for such expenses. Except as otherwise provided in Section 2.12 hereof, the Corporation shall be required to reimburse or advance expenses incurred by a person in connection with a proceeding (or part thereof) commenced by such person only if the commencement of such proceeding (or part thereof) by the person was authorized by the Board of Directors.

Section 2.12 Claims.

If a claim for indemnification or advancement of expenses under this Article II is not paid in full within sixty (60) calendar days after a written claim therefor by the person seeking indemnification or reimbursement or advancement of expenses has been received by the Corporation, the person may file suit to recover the unpaid amount of such claim and, if successful, in whole or in part, shall be entitled to be paid the expense (including attorneys' fees) of

prosecuting such claim to the fullest extent permitted by Delaware law. In any such action the Corporation shall have the burden of proving that the person seeking indemnification or reimbursement or advancement of expenses is not entitled to the requested indemnification, reimbursement or advancement of expenses under applicable law.

Section 2.13 Amendment, Modification or Repeal.

Any amendment, modification or repeal of the foregoing provisions of this Article II shall not adversely affect any right or protection hereunder of any person entitled to indemnification under Section 2.9 hereof in respect of any act or omission occurring prior to the time of such repeal or modification.

Section 2.14 Executive Committee of the Board of Directors.

The Board of Directors, by the affirmative vote of not less than 75% of the members of the Board of Directors then in office, may designate an executive committee, all of whose members shall be directors, to manage and operate the affairs of the Corporation or particular properties or enterprises of the Corporation. Subject to the limitations of the law of the State of Delaware and the Certificate of Incorporation, such executive committee shall exercise all powers and authority of the Board of Directors in the management of the business and affairs of the Corporation including, but not limited to, the power and authority to authorize the issuance of shares of common or preferred stock. The executive committee shall keep minutes of its meetings and report to the Board of Directors not less often than quarterly on its activities and shall be responsible to the Board of Directors for the conduct of the enterprises and affairs entrusted to it. Regular meetings of the executive committee, of which no notice shall be necessary, shall be held at such time, dates and places, if any, as shall be fixed by resolution adopted by the executive committee. Special meetings of the executive committee shall be called at the request of the President or of any member of the executive committee, and shall be held upon such notice as is required by these Bylaws for special meetings of the Board of Directors, provided that oral notice by telephone or otherwise, or notice by electronic transmission shall be sufficient if received not later than the day immediately preceding the day of the meeting.

Section 2.15 Other Committees of the Board of Directors.

The Board of Directors may by resolution establish committees other than an executive committee and shall specify with particularity the powers and duties of any such committee. Subject to the limitations of the laws of the State of Delaware and the Certificate of Incorporation, any such committee shall exercise all powers and authority specifically granted to it by the Board of Directors, which powers may include the authority to authorize the issuance of shares of common or preferred stock. Such committees shall serve at the pleasure of the Board of Directors, keep minutes of their meetings and have such names as the Board of Directors by resolution may determine and shall be responsible to the Board of Directors for the conduct of the enterprises and affairs entrusted to them.

Section 2.16 Directors' Compensation.

Directors shall receive such compensation for attendance at any meetings of the Board and any expenses incidental to the performance of their duties as the Board of Directors shall determine by resolution. Such compensation may be in addition to any compensation received by the members of the Board of Directors in any other capacity.

Section 2.17 Action Without Meeting.

Nothing contained in these Bylaws shall be deemed to restrict the power of members of the Board of Directors or any committee designated by the Board of Directors to take any action required or permitted to be taken by them without a meeting; provided, however, that if such action is taken without a meeting by consent by electronic transmission or transmissions, such electronic transmission or transmissions must either set forth or be submitted with information from which it can be determined that the electronic transmission or transmissions were authorized by the director.

### ARTICLE III

#### OFFICERS

Section 3.1 Executive Officers.

The Board of Directors shall elect from its own number, a Chairman of the Board and a President. The Board of Directors may also elect such Vice Presidents as in the opinion of the Board of Directors the business of the Corporation requires, a Treasurer and a Secretary, any of whom may or may not be directors. The Board of Directors may also elect, from time to time, such other or additional officers as in its opinion are desirable for the conduct of business of the Corporation and such officers shall hold office at the pleasure of the Board of Directors; provided, however, that the President shall not hold any other office except that of Chairman of the Board.

Section 3.2 Powers and Duties of Officers.

The Chairman of the Board shall have overall responsibility for the management and direction of the business and affairs of the Corporation and shall exercise such duties as customarily pertain to the office of Chairman of the Board and such other duties as may be prescribed from time to time by the Board of Directors. He shall be the senior officer of the Corporation and in case of the inability or failure of the President to perform his duties, he shall perform the duties of the President. He may appoint and terminate the appointment or election of officers, agents or employees other than those appointed or elected by the Board of Directors. He may sign, execute and deliver, in the name of the Corporation, powers of attorney, contracts, bonds and other obligations. The Chairman of the Board shall preside at all meetings of stockholders and of the Board of Directors at which he is present, and shall perform such other duties as may be prescribed from time to time by the Board of Directors or these Bylaws.

The President of the Corporation shall have such powers and perform such duties as customarily pertain to a chief executive officer and the office of a president, including, without limitation, being responsible for the active direction of the daily business of the Corporation, and shall exercise such other duties as may be prescribed from time to time by the Board of Directors. The President may sign, execute and deliver, in the name of the Corporation, powers of attorney, contracts, bonds and other obligations. In the absence or disability of the Chairman of the Board, the President shall perform the duties and exercise the powers of the Chairman of the Board.

Vice Presidents shall have such powers and perform such duties as may be assigned to them by the Chairman of the Board, the President, the executive committee, if any, or the Board of Directors. A Vice President may sign and execute contracts and other obligations pertaining to the regular course of his duties which implement policies established by the Board of Directors.

The Treasurer shall be the chief financial officer of the Corporation. Unless the Board of Directors otherwise declares by resolution, the Treasurer shall have general custody of all the funds and securities of the Corporation and general supervision of the collection and disbursement of funds of the Corporation. He shall endorse for collection on behalf of the Corporation checks, notes and other obligations, and shall deposit the same to the credit of the Corporation in such bank or banks or depository as the Board of Directors may designate. He may sign, with the Chairman of the Board, President or such other person or persons as may be designated for the purpose by the Board of Directors, all bills of exchange or promissory notes of the Corporation. He shall enter or cause to be entered regularly in the books of the Corporation a full and accurate account of all moneys received and paid by him on account of the Corporation, shall at all reasonable times exhibit his books and accounts to any director of the Corporation upon application at the office of the Corporation during business hours and, whenever required by the Board of Directors or the President, shall render a statement of his accounts. He shall perform such other duties as may be prescribed from time to time by the Board of Directors or by these Bylaws. He may be required to give bond for the faithful performance of his duties in such sum and with such surety as shall be approved by the Board of Directors. Any Assistant Treasurer shall, in the absence or disability of the Treasurer, perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

The Secretary shall keep the minutes of all meetings of the stockholders and of the Board of Directors. The Secretary shall cause notice to be given of meetings of stockholders, of the Board of Directors, and of any committee appointed by the Board of Directors. He shall have custody of the corporate seal, minutes and records relating to the conduct and acts of the stockholders and Board of Directors, which shall, at all reasonable times, be open to the examination of any director. The Secretary or any Assistant Secretary may certify the record of proceedings of the meetings of the stockholders or of the Board of Directors or resolutions adopted at such meetings, may sign or attest certificates, statements or reports required to be filed with governmental bodies or officials, may sign acknowledgments of instruments, may give notices of meetings and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

Section 3.3 Bank Accounts.

In addition to such bank accounts as may be authorized in the usual manner by resolution of the Board of Directors, the Treasurer, with approval of the Chairman of the Board or the President, may authorize such bank accounts to be opened or maintained in the name and on behalf of the Corporation as he may deem necessary or appropriate, provided payments from such bank accounts are to be made upon and according to the check of the Corporation, which may be signed jointly or singularly by either the manual or facsimile signature or signatures of such officers or bonded employees of the Corporation as shall be specified in the written instructions of the Treasurer or Assistant Treasurer of the Corporation with the approval of the Chairman of the Board or the President of the Corporation.

Section 3.4 Proxies; Stock Transfers.

Unless otherwise provided in the Certificate of Incorporation or directed by the Board of Directors, the Chairman of the Board or the President or any Vice President or their designees shall have full power and authority on behalf of the Corporation to attend and to vote upon all matters and resolutions at any meeting of stockholders of any corporation in which this Corporation may hold stock, and may exercise on behalf of this Corporation any and all of the rights and powers incident to the ownership of such stock at any such meeting, whether regular or special, and at all adjournments thereof, and shall have power and authority to execute and deliver proxies and consents on behalf of this Corporation in connection with the exercise by this Corporation of the rights and powers incident to the ownership of such stock, with full power of substitution or revocation. Unless otherwise provided in the Certificate of Incorporation or directed by the Board of Directors, the Chairman of the Board or the President or any Vice President or their designees shall have full power and authority on behalf of the Corporation to transfer, sell or dispose of stock of any corporation in which this Corporation may hold stock.

ARTICLE IV

CAPITAL STOCK

Section 4.1 Shares.

The shares of the Corporation shall be represented by a certificate or shall be uncertificated. Certificates shall be signed by the Chairman of the Board of Directors or the President and by the Secretary or the Treasurer, and sealed with the seal of the Corporation. Such seal may be a facsimile, engraved or printed. Within a reasonable time after the issuance or transfer of uncertificated shares, the Corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to Sections 151, 156, 202(a) or 218(a) of the Delaware General Corporation Law or a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualification, limitations or restrictions of such preferences and/or rights.

Any of or all the signatures on a certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such an officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such officer, transfer agent or registrar had not ceased to hold such position at the time of its issuance.

Except as otherwise expressly provided by law, the rights and obligations of the holders of uncertificated shares and the rights and obligations of the holders of certificates representing stock of the same class and series shall be identical.

#### Section 4.2 Transfer of Shares.

(a) Upon surrender to the Corporation or the transfer agent of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books. Upon receipt of proper transfer instructions from the registered owner of uncertificated shares such uncertificated shares shall be cancelled, and the issuance of new equivalent uncertificated shares or certificated shares shall be made to the person entitled thereto and the transaction shall be recorded upon the books of the Corporation.

(b) The person in whose name shares of stock stand on the books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes, and the Corporation shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Delaware.

#### Section 4.3 Lost Certificates.

The Board of Directors or any transfer agent of the Corporation may direct a new certificate or certificates or uncertificated shares representing stock of the Corporation to be issued in place of any certificate or certificates theretofore issued by the Corporation, alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates or uncertificated shares, the Board of Directors (or any transfer agent of the Corporation authorized to do so by a resolution of the Board of Directors) may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to give the Corporation a bond in such sum as the Board of Directors (or any transfer agent so authorized) shall direct to indemnify the Corporation and the transfer agent against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed or the issuance of such new certificates or uncertificated shares, and such requirement may be general or confined to specific instances.

Section 4.4 Transfer Agent and Registrar.

The Board of Directors may appoint one or more transfer agents and one or more registrars, and may require all certificates for shares to bear the manual or facsimile signature or signatures of any of them.

Section 4.5 Regulations.

The Board of Directors shall have power and authority to make all such rules and regulations as it may deem expedient concerning the issue, transfer, registration, cancellation and replacement of certificates representing stock of the Corporation or uncertificated shares, which rules and regulations shall comply in all respects with the rules and regulations of the transfer agent.

ARTICLE V

GENERAL PROVISIONS

Section 5.1 Offices.

The Corporation shall maintain a registered office in the State of Delaware as required by the laws of the State of Delaware. The Corporation may also have offices in such other places, either within or without the State of Delaware, as the Board of Directors may from time to time designate or as the business of the Corporation may require.

Section 5.2 Corporate Seal.

The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization, and the words “Corporate Seal” and “Delaware.”

Section 5.3 Fiscal Year.

The fiscal year of the Corporation shall be determined by resolution of the Board of Directors.

Section 5.4 Notices and Waivers Thereof.

Whenever any notice is required by the laws of the State of Delaware, the Certificate of Incorporation or these Bylaws to be given by the Corporation to any stockholder, director or officer, such notice, except as otherwise provided by law, may be given personally, or by mail, or, in the case of directors or officers, or stockholders who consent thereto, by electronic transmission in accordance with applicable law. Any notice given by electronic transmission shall be deemed to have been given when it shall have been transmitted and any notice given by mail shall be deemed to have been given when deposited in the United States mail with postage thereon prepaid directed to such stockholder, director, or officer, as the case may be, at such stockholder’s,

director's, or officer's, as the case may be, address as it appears in the records of the Corporation. An affidavit of the Secretary or Assistant Secretary or of the transfer agent or other agent of the Corporation that the notice has been given by personal delivery, by mail, or by a form of electronic transmission shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

Whenever any notice is required to be given by law, the Certificate of Incorporation, or these Bylaws to the person entitled to such notice, a waiver thereof, in writing signed by the person, or by electronic transmission, whether before or after the meeting or the time stated therein, shall be deemed equivalent in all respects to such notice to the full extent permitted by law. If such waiver is given by electronic transmission, the electronic transmission must either set forth or be submitted with information from which it can be determined that the electronic transmission was authorized by the person waiving notice. In addition, notice of any meeting of the Board of Directors, or any committee thereof, need not be given to any director if such director shall sign the minutes of such meeting or attend the meeting, except that if such director attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened, then such director shall not be deemed to have waived notice of such meeting.

#### Section 5.5 Saving Clause.

These Bylaws are subject to the provisions of the Certificate of Incorporation and applicable law. In the event any provision of these Bylaws is inconsistent with the Certificate of Incorporation or the corporate laws of the State of Delaware, such provision shall be invalid to the extent only of such conflict, and such conflict shall not affect the validity of any other provision of these Bylaws.

#### Section 5.6 Amendments.

In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors, by action taken by the affirmative vote of not less than 75% of the members of the Board of Directors then in office, is hereby expressly authorized and empowered to adopt, amend or repeal any provision of the Bylaws of this Corporation.

Subject to the rights of the holders of any series of preferred stock, these Bylaws may be adopted, amended or repealed by the affirmative vote of the holders of not less than 66 <sup>2</sup>/<sub>3</sub>% of the total voting power of the then outstanding capital stock of the Corporation entitled to vote thereon; provided, however, that this paragraph shall not apply to, and no vote of the stockholders of the Corporation shall be required to authorize, the adoption, amendment or repeal of any provision of the Bylaws by the Board of Directors in accordance with the preceding paragraph.

#### Section 5.7 Gender/Number.

As used in these Bylaws, the masculine, feminine, or neuter gender, and the singular and plural number, shall include the other whenever the context so indicates.

Section 5.8 Electronic Transmission.

For purposes of these Bylaws, “**electronic transmission**” means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved, and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such recipient through an automated process.

## NONQUALIFIED STOCK OPTION AGREEMENT

THIS NONQUALIFIED STOCK OPTION AGREEMENT (this “Agreement”) is made as of the date set forth on Schedule I hereto (the “Grant Date”), by and between the issuer identified in Schedule I hereto (the “Company”), and the recipient (the “Grantee”) of an Award of Options granted by the Plan Administrator (as defined in Schedule I hereto) as set forth in this Agreement.

The Company has adopted the incentive plan identified on Schedule I hereto (as has been or may hereafter be amended, the “Plan”), a copy of which is attached via a link at the end of this online Agreement as Exhibit A and by this reference made a part hereof, for the benefit of eligible persons as specified in the Plan. Capitalized terms used and not otherwise defined in this Agreement will have the meanings ascribed to them in the Plan.

Pursuant to the Plan, the Plan Administrator has determined that it would be in the interest of the Company and its stockholders to award Options to the Grantee, subject to the conditions and restrictions set forth herein and in the Plan, in order to provide the Grantee with additional remuneration for services rendered, to encourage the Grantee to remain in the service or employ of the Company or its Subsidiaries and to increase the Grantee’s personal interest in the continued success and progress of the Company.

The Company and the Grantee therefore agree as follows:

**1. Definitions.** The following terms, when used in this Agreement, have the following meanings:

“Base Price” means, with respect to each type of Common Stock for which Options are granted hereunder, the amount set forth on Schedule I hereto as the Base Price for such Common Stock, which is the Fair Market Value of a share of such Common Stock on the Grant 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 as “cause” in Section 10.2(b) of the Plan.

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

“Common Stock” has the meaning specified in Schedule I hereto.

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

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

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

“Options” has the meaning specified in Section 2.

“Option Share” has the meaning specified in Section 4(c)(i).

“Option Termination Date” has the meaning specified in Schedule I hereto.

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

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“Plan Administrator” has the meaning specified in Schedule I hereto.

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

“Section 409(A)” has the meaning specified in Section 21.

“Term” has the meaning specified in Section 2.

“Unvested Fractional Option” has the meaning specified in Section 3(b).

“Vesting Date” has the meaning specified in Section 3(a).

“Vesting Percentage” has the meaning specified in Section 3(a).

**2. Award.** Pursuant to the terms of the Plan and in consideration of the covenants and promises of the Grantee herein contained, the Company hereby awards to the Grantee as of the Grant Date nonqualified stock options to purchase from the Company at the applicable Base Price the number and type of shares of Common Stock authorized by the Plan Administrator and set forth in the notice of online grant delivered to the Grantee pursuant to the Company’s online grant and administration program, subject to the conditions and restrictions set forth in this Agreement and in the Plan (the “Options”). The Options are exercisable as set forth in Section 3 during the period commencing on the Grant Date and expiring at the Close of Business on the Option Termination Date (the “Term”), subject to earlier termination as provided in Section 7 below. No fractional shares of Common Stock will be issuable upon exercise of an Option, and the Grantee will receive, in lieu of any fractional share of such Common 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 such Common Stock as of the date on which such exercise is considered to occur pursuant to Section 4.

**3. Conditions of Exercise.** Unless otherwise determined by the Plan Administrator in its sole discretion, the Options will be exercisable only in accordance with the conditions stated in this Section 3.

(a) Except as otherwise provided in Section 10.1(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) or Section 3(b), and subject to the provisions of Section 3(c). That number of each type of Options that is equal to the fraction or percentage specified on Schedule I hereto (the “Vesting Percentage”) of the total number of such type of Options that are subject to this Agreement, in each case rounded down to the nearest whole number of such type of Options, shall become exercisable on each of the dates specified on Schedule I hereto (each such date, together with any other date on which Options vest pursuant to this Agreement, a “Vesting Date”).

(b) If rounding pursuant to Section 3(a) prevents any portion of an Option from becoming exercisable on a particular Vesting Date (any such portion, an “Unvested Fractional Option”), one additional Option to purchase a share of the type of Common Stock covered by such Option will become exercisable on the earliest succeeding Vesting Date on which the cumulative fractional amount of all Unvested Fractional Options to purchase shares of such type of Common Stock (including any Unvested Fractional Option created on such succeeding Vesting Date) equals or exceeds one whole Option, with any excess treated as an Unvested Fractional Option thereafter subject to the application of this Section 3(b). Any Unvested Fractional Option comprising part of a

whole Option that vests pursuant to the preceding sentence will thereafter cease to be an Unvested Fractional Option.

(c) 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 first Business Day following such date, (ii) all Options will become exercisable on the date of the Grantee's termination of employment or, if the Grantee is a non-employee director of the Company, on the date of the Grantee's termination of service as such if (A) the Grantee's employment with the Company or a Subsidiary or service as a non-employee director, as applicable terminates by reason of Disability or (B) the Grantee dies while employed by the Company or a Subsidiary or while serving as a non-employee director of the Company, as applicable, and (iii) if the Grantee's employment with the Company or a Subsidiary is terminated by the Company or such Subsidiary without Cause, any unvested Options will become exercisable to the extent, if any, indicated on Schedule I.

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

(e) The Grantee acknowledges and agrees that the Plan Administrator, 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 Plan Administrator 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(c)(i)) on the latest of (a) the date of exercise designated in the written notice referred to in Section 4(c)(i), (b) if the date so designated is not a Business Day, the first Business Day following such date or (c) the earliest Business Day by which the Company has received all of the following:

(i) Written notice, in such form as the Plan Administrator may require, containing such representations and warranties as the Plan Administrator may

require and designating, among other things, the date of exercise and the number and type of shares of Common Stock to be purchased by exercise of Options (each, an “Option Share”);

(ii) Payment of the applicable Base Price for each Option Share in any (or a combination) of the following forms: (A) cash, (B) check, (C) 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 such Base Price (and, if applicable, the Required Withholding Amount as described in Section 5) or (D) the delivery of irrevocable instructions via the Company’s online grant and administration program for the Company to withhold the number of shares of Common Stock (valued at the Fair Market Value of such Common Stock on the date of exercise) required to pay such Base Price (and, if applicable, the Required Withholding Amount as described in Section 5) that would otherwise be delivered by the Company to the Grantee upon exercise of the Options; and

(iii) Any other documentation that the Plan Administrator may reasonably require.

**5. Mandatory Withholding for Taxes.** The Grantee acknowledges and agrees that the Company will deduct from the shares of Common Stock otherwise payable or deliverable upon exercise of any Options that number of shares of the applicable Common Stock (valued at the Fair Market Value of such Common Stock on the date of exercise) that is equal to the amount of all federal, state and other governmental 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 applicable 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 such 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 its 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 (a) 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 Common Stock purchased by exercise of Options and (b) deliver any cash payment to which the Grantee is entitled in lieu of a fractional share of Common Stock as provided in Section 2. Any delivery of shares of Common 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. Early Termination of Options.** Subject to any longer period of exercisability specified in Schedule I hereto, the Options will terminate, prior to the expiration of the Term, at the time specified below:

(a) Subject to Section 7(b), if the Grantee's employment with the Company or a Subsidiary is terminated or, if the Grantee is a non-employee director of the Company, if the Grantee's service to the Company as such is terminated, in each case other than (i) by the Company or such Subsidiary for Cause, or (ii) by reason of death or Disability, then the Options 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 termination of the Grantee's employment or, in the case of a non-employee director of the Company, at the Close of Business on the first Business Day following the expiration of the one-year period that began on the date of termination of the Grantee's service as a non-employee director of the Company.

(b) If the Grantee dies while employed by the Company or a Subsidiary or while serving as a non-employee director of the Company, as applicable, or prior to the expiration of a period of time following termination of the Grantee's employment or service during which the Options remain exercisable as provided in Section 7(a) or Section 7(c), as applicable, the Options will terminate at the Close of Business on the first Business Day following the expiration of the one-year period that began on the date of the Grantee's death.

(c) Subject to Section 7(b), if the Grantee's employment with the Company or a Subsidiary terminates by reason of Disability, or, if the Grantee is a non-employee director of the Company, if the Grantee's service to the Company as such is terminated by reason of Disability, then the Options will terminate at the Close of Business on the first Business Day following the expiration of the one-year period that began on the date of termination of the Grantee's employment or service.

(d) If the Grantee's employment with the Company or a Subsidiary is terminated by the Company or such Subsidiary for Cause, or, if the Grantee is a non-employee director of the Company, if the Grantee's service to the Company as such is terminated by the Company for Cause, then the Options will terminate immediately upon such termination of the Grantee's employment or service.

In any event in which Options remain exercisable for a period of time following the date of termination of the Grantee's employment or service 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 on such date of termination of the Grantee's employment or service. Notwithstanding any period of time referenced in this Section 7 or any other provision of this Section 7 that may be construed to the contrary, the Options will in any event terminate upon the expiration of the Term.

Unless the Plan Administrator otherwise determines, a change of the Grantee's employment from the Company to a Subsidiary or from a Subsidiary to the Company or another Subsidiary will not be considered a termination of the Grantee's employment for purposes of this Agreement if such change of employment is made at the request or with the express consent of the Company. Unless the Plan

Administrator otherwise determines, however, any such change of employment that is not made at the request or with the express consent of the Company will be a termination of the Grantee's employment within the meaning of this Agreement.

**8. Nontransferability.** Options are not transferable (either voluntarily or involuntarily), before or after Grantee's death, except as follows: (a) during Grantee's lifetime, pursuant to a domestic relations order, issued by a court of competent jurisdiction, that is not contrary to the terms and conditions of the Plan or this Agreement, and in a form acceptable to the Plan Administrator; or (b) after Grantee's death, by will or pursuant to the applicable laws of descent and distribution, as may be the case. Any person to whom Options are transferred in accordance with the provisions of the preceding sentence shall take such Options subject to all of the terms and conditions of the Plan and this Agreement, including that the vesting and termination provisions of this Agreement will continue to be applied with respect to the Grantee. Options are exercisable only by the Grantee (or, during the Grantee's lifetime, by the Grantee's court appointed legal representative) or a person to whom the Options have been transferred in accordance with this Section.

**9. 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 Common Stock represented by the Options, nor will the existence of this Agreement affect in any way the right or power of the Company or its stockholders to accomplish any corporate act, including, without limitation, the acts referred to in Section 10.15 or Section 10.16, as applicable, of the Plan.

**10. Adjustments.**

(a) The Options will be subject to adjustment (including, without limitation, as to the Base Price) in such manner as the Plan Administrator, in its sole discretion, deems equitable and appropriate in connection with the occurrence of any of the events described in Section 4.2 of the Plan following the Grant Date.

(b) In the event of any Approved Transaction, Board Change or Control Purchase following the Grant Date, the Options may become exercisable in accordance with Section 10.1(b) of the Plan.

**11. Restrictions Imposed by Law.** Without limiting the generality of Section 10.7 or Section 10.8, as applicable, 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 Common 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 Common 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 Common Stock to comply with any such law, rule, regulation or agreement.

**12. Notice.** Unless the Company notifies the Grantee in writing of a different procedure or address, 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 first class mail, postage prepaid, to the address specified for the Company in Schedule I hereto. Unless the Company elects to notify the Grantee electronically pursuant to the online grant and administration program or via email, 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 first class mail, postage prepaid, to the Grantee's address as listed in the records of the Company or any Subsidiary of the Company on the Grant Date, unless the Company has received written notification from the Grantee of a change of address.

**13. Amendment.** Notwithstanding any other provision hereof, this Agreement may be supplemented or amended from time to time as approved by the Plan Administrator as contemplated by Section 10.6(b) or Section 10.7(b), as applicable, of the Plan. Without limiting the generality of the foregoing, without the consent of the Grantee:

(a) this Agreement may be amended or supplemented from time to time as approved by the Plan Administrator (i) to cure any ambiguity or to correct or supplement any provision herein that may be defective or inconsistent with any other provision herein, (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 or advisable because of the adoption or promulgation of, or change in 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 of Directors or the stockholders of the Company, the Options granted under this Agreement may be canceled by the Plan Administrator 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 to the extent then exercisable.

**14. Grantee Employment or Status as a Director.** Nothing contained in this Agreement, and no action of the Company or the Plan Administrator with respect hereto, will confer or be construed to confer on the Grantee any right to continue in the employ of the Company or any Subsidiary or as a non-employee director of the Company or interfere in any way with the right of the Company or any employing Subsidiary (or the Company's stockholders in the case of a non-employee director) to terminate the Grantee's employment or service, as

applicable, at any time, with or without Cause, subject to the provisions of any employment agreement between the Grantee and the Company or any Subsidiary.

**15. Nonalienation of Benefits.** Except as provided in Section 8, (a) 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 (b) no right or benefit hereunder will in any manner be subjected to or liable for the debts, contracts, liabilities or torts of the Grantee or other person entitled to such benefits.

**16. 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.

**17. Construction.** References in this Agreement to “this Agreement” and the words “herein,” “hereof,” “hereunder” and similar terms include all Exhibits and Schedules appended hereto, including the Plan. All references to “Sections” in this Agreement shall be to Sections of this Agreement unless explicitly stated otherwise. The word “include” and all variations thereof are used in an illustrative sense and not in a limiting sense. All decisions of the Plan Administrator upon questions regarding the Plan or 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.

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

**19. Entire Agreement.** This Agreement 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 herein expressed has been made and that this Agreement 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. Subject to the restrictions set forth in Sections 8 and 15, this Agreement will be binding upon and inure to the benefit of the parties and their respective heirs, successors and assigns.

**20. Grantee Acknowledgment.** The Grantee will signify acceptance of the terms and conditions of this Agreement by acknowledging the acceptance of this Agreement via the procedures described in the online grant and administration program utilized by the Company.

**21. Code Section 409A Compliance.** To the extent that Section 409A of the Code or the related regulations and Treasury pronouncements (“Section 409A”) is applicable to the Grantee in connection with the Award, if any provision of this Agreement would result in the

imposition of an excise tax under Section 409A, that provision will be reformed to avoid imposition of the excise tax and no action taken to comply with Section 409A shall be deemed to impair a benefit under this Agreement.

**Schedule I**  
**to Liberty Interactive Corporation**  
**Nonqualified Stock Option Agreement**  
**[NOA][NND][QOA][QOX]\_\_\_\_\_**

Grant Date: \_\_\_\_\_, 201\_\_

Issuer/Company: Liberty Interactive Corporation, a Delaware corporation

Plan: Liberty Interactive Corporation \_\_\_\_\_ Incentive Plan

Plan Administrator: **[The Compensation Committee of the Board of Directors of the Company appointed by the Board of Directors of the Company pursuant to Section 3.1 of the Plan to administer the Plan] [The Board of Directors of the Company]**

Common Stock: Series A Liberty Interactive Common Stock (“LINTA Common Stock”); **and/or Series A Liberty Ventures Common Stock (“LVNTA Common Stock”), as applicable.**

Option Termination Date: The [7<sup>th</sup>][10<sup>th</sup>] anniversary of the Grant Date.

Base Price: The Base Price for LINTA Common Stock: \$ \_\_\_\_\_; **and/or The Base Price for LVNTA Common Stock: \$ \_\_\_\_\_, as applicable.**

Vesting Percentage: \_\_\_\_\_%

Vesting Dates: \_\_\_\_\_

Additional Vesting Terms: **[INCLUDE ONLY IN STANDARD OPTION AGREEMENT FOR LIC EMPLOYEES; DO NOT INCLUDE IN STANDARD OPTION AGREEMENT FOR QVC U.S. OR FOREIGN EMPLOYEES, STANDARD OPTION AGREEMENT FOR LIC NON-EMPLOYEE DIRECTORS OR IN MULTI-YEAR OPTION AGREEMENT.]**

If the Grantee’s employment with the Company or a Subsidiary is terminated by the Company or such Subsidiary without Cause, any unvested Options that otherwise would become exercisable during the remainder of the calendar year in which the Grantee’s employment with the Company or a Subsidiary is terminated will become exercisable on the date of the Grantee’s termination of employment.

**[INCLUDE ONLY IN MULTI-YEAR OPTION AGREEMENT**

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**FOR LIC EMPLOYEES.]**

If the Grantee's employment with the Company or a Subsidiary is terminated by the Company or such Subsidiary without Cause prior to \_\_\_\_\_ **[Insert final Vesting Date]**, the number of each type of Option subject to this Agreement that shall become exercisable as of the date of such termination shall equal the sum of (a) the number of such Options that would have become exercisable during the Forward Vesting Period had the Grantee remained in the employ of the Company or a Subsidiary for the entire Forward Vesting Period plus (b) the number of such Options that is equal to the product (rounded down to the nearest whole number) of (i) the total number of such Options subject to this Agreement minus (A) any such Options that have already become exercisable prior to the date of such termination and (B) any such Options that would have become exercisable during the Forward Vesting Period in clause (a) above multiplied by (ii) a fraction, the numerator of which is the total number of days elapsed during the period beginning on the Grant Date, and ending on the date of termination, inclusive, and the denominator of which is the total number of days during the period beginning on the Grant Date, and ending on \_\_\_\_\_ **[Insert final Vesting Date]**, inclusive.

For purposes of determining the number of Options that would have become exercisable in clause (a) above, "Forward Vesting Period" shall mean the period beginning on the date of termination and ending on the corresponding day (or, if there is no corresponding day, on the last day) of (x) the ninth month thereafter, if the Grantee is an Assistant Vice President or Vice President of the Company or a Subsidiary on the date of termination of his or her employment with the Company or a Subsidiary or (y) the twelfth month thereafter, if the Grantee is a Senior Vice President or Executive Vice President of the Company or a Subsidiary on the date of termination of his or her employment with the Company or a Subsidiary.

Additional Exercisability Terms:

**[INCLUDE IN STANDARD AND MULTI-YEAR OPTION AGREEMENTS FOR LIC EMPLOYEES; DO NOT INCLUDE IN STANDARD OPTION AGREEMENT FOR QVC U.S. OR FOREIGN EMPLOYEES OR IN STANDARD OPTION AGREEMENT FOR LIC NON-EMPLOYEE DIRECTORS.]**

Section 7 of the Option Agreement is supplemented as follows:

1. The following sentence is added to the end of Section 7(b):

If the Grantee dies prior to the expiration of a period of time following termination of the Grantee's employment during which the Options remain exercisable as provided in Section

7(e), the Options will terminate at the Close of Business on the first Business Day following the later of the expiration of (i) the one-year period that began on the date of the Grantee's death or (ii) the Special Termination Period (as defined in Section 7(e)).

2. The following provisions are added as Section 7(e):

Subject to Section 7(b), if the Grantee's employment with the Company or a Subsidiary is terminated by the Company or such Subsidiary without Cause, the Options will terminate at the Close of Business on the first Business Day following the expiration of the Special Termination Period. The Special Termination Period is the period of time beginning on the date of the Grantee's termination of employment and continuing for the number of days that is equal to the sum of (i) 90, plus (ii) 180 multiplied by the Grantee's total Years of Continuous Service. A Year of Continuous Service means a consecutive 12-month period, measured by the Grantee's hire date (as reflected in the payroll records of the Company or a Subsidiary) and the anniversaries of that date, during which the Grantee is employed by the Company or a Subsidiary (or an applicable predecessor of the Company) without interruption. If the Grantee was employed by a Subsidiary at the time of such Subsidiary's acquisition by the Company, the Grantee's employment with the Subsidiary prior to the acquisition date will be included in determining the Grantee's Years of Continuous Service unless the Plan Administrator, in its sole discretion, determines that such prior employment will be excluded.

Additional Provisions Applicable to Grantees who hold the office of **[Vice President]** **[Senior Vice President]** or above as of the Grant Date:

**[INCLUDE IN STANDARD AND MULTI-YEAR OPTION AGREEMENTS FOR LIC EMPLOYEES (AT VP LEVEL) AND IN STANDARD OPTION AGREEMENTS FOR QVC U.S. AND FOREIGN EMPLOYEES (AT SVP LEVEL); DO NOT INCLUDE IN STANDARD OPTION AGREEMENT FOR LIC NON-EMPLOYEE DIRECTORS.]**

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 Plan Administrator, (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 Plan Administrator may

reasonably determine, taking into account, in addition to any other factors deemed relevant by the Plan Administrator, the extent to which the market value of Common 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 Common 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 Common 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 Common 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 Common 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.

Qualifying Service:

**[INCLUDE IN STANDARD AND MULTI-YEAR OPTION AGREEMENTS FOR LIC EMPLOYEES AND IN STANDARD OPTION AGREEMENT FOR LIC NON-EMPLOYEE DIRECTORS; DO NOT INCLUDE IN STANDARD OPTION AGREEMENT FOR QVC U.S. OR FOREIGN EMPLOYEES.]**

Unless the Plan Administrator in its sole discretion determines otherwise in connection with the commencement of employment or service to Liberty Media Corporation or its Subsidiary, notwithstanding anything to the contrary in this Agreement, Grantee's employment or service with Liberty Media Corporation or any entity that is a Subsidiary of Liberty Media Corporation at the time of determination shall be deemed to be employment or service with the Company for all purposes under the Awards granted pursuant to this Agreement.

Company Notice Address:

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

Data Privacy

**[INCLUDE ONLY IN STANDARD OPTION AGREEMENT FOR QVC FOREIGN EMPLOYEES.]**

The following provisions are added to the Option Agreement as Section 22:

## 22. Data Privacy.

(a)The Grantee's acceptance hereof shall evidence the Grantee's explicit and unambiguous consent to the collection, use and transfer, in electronic or other form, of the Grantee's personal data by and among, as applicable, the Company and its Subsidiaries and Affiliates for the exclusive purpose of implementing, administering and managing the Grantee's participation in the Plan. The Grantee understands that the Company and its Subsidiaries and Affiliates may hold certain personal information about the Grantee, including, but not limited to, the Grantee's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, bonus and employee benefits, nationality, job title and description, any shares of stock or directorships or other positions held in the Company, its Subsidiaries and Affiliates, details of all options, stock appreciation rights, restricted shares, restricted share units or any other entitlement to shares of stock or other Awards granted, canceled, exercised, vested, unvested or outstanding in the Grantee's favor, annual performance objectives, performance reviews and performance ratings, for the purpose of implementing, administering and managing Awards under the Plan ("Data").

(b)The Grantee understands that Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in the Grantee's country or elsewhere, and that the recipients' country (e.g., the United States) may have different data privacy laws and protections than the Grantee's country. The Grantee understands that the Grantee may request a list with the names and addresses of any potential recipients of the Data by contacting the Grantee's local human resources representative. The Grantee authorizes the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing the Grantee's participation in the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom the Grantee may elect to deposit any shares of stock acquired with respect to an Award.

(c)The Grantee understands that Data will be held only as long as is necessary to implement, administer and manage the Grantee's participation in the Plan. The Grantee understands that the Grantee may at any time view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing the Grantee's local human resources representative. The Grantee understands, however, that refusing or withdrawing the Grantee's consent may affect the Grantee's ability to

participate in the Plan. For more information on the consequences of a refusal to consent or withdrawal of consent, the Grantee may contact the Grantee's local human resources representative.

## RESTRICTED STOCK AWARD AGREEMENT

**THIS RESTRICTED STOCK AWARD AGREEMENT** (this “Agreement”) is made as of the date set forth on Schedule I hereto (the “Grant Date”), by and between the issuer identified in Schedule I hereto (the “Company”), and the recipient (the “Grantee”) of an Award of Restricted Shares granted by the Plan Administrator (as defined in Schedule I hereto) as set forth in this Agreement.

The Company has adopted the incentive plan identified on Schedule I hereto (as has been or may hereafter be amended, the “Plan”), a copy of which is attached via a link at the end of this online Agreement as Exhibit A and by this reference made a part hereof, for the benefit of eligible persons as specified in the Plan. Capitalized terms used and not otherwise defined in this Agreement will have the meanings ascribed to them in the Plan.

Pursuant to the Plan, the Plan Administrator has determined that it would be in the interest of the Company and its stockholders to award shares of common stock to the Grantee, subject to the conditions and restrictions set forth herein and in the Plan, in order to provide the Grantee with additional remuneration for services rendered, to encourage the Grantee to remain in the service or employ of the Company or its Subsidiaries and to increase the Grantee’s personal interest in the continued success and progress of the Company.

The Company and the Grantee therefore agree as follows:

**1. Definitions.** The following terms, when used in this Agreement, have the following meanings:

“Cause” has the meaning specified as “cause” in Section 10.2(b) of the Plan.

“Common Stock” has the meaning specified in Section 2.

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

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

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

“Plan” has the meaning specified in Schedule I hereto.

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

“Restricted Shares” has the meaning specified in Section 2.

“Retained Distributions” has the meaning specified in Section 4.

“Section 409(A)” has the meaning specified in Section 23.

“Unvested Fractional Restricted Share” has the meaning specified in Section 5.

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“Vesting Date” has the meaning specified in Section 5.

“Vesting Percentage” has the meaning specified in Section 5.

**2. Award.** Pursuant to the terms of the Plan and in consideration of the covenants and promises of the Grantee herein contained, the Company hereby awards to the Grantee as of the Grant Date the number and type of shares of Common Stock authorized by the Plan Administrator and set forth in the notice of online grant delivered to the Grantee pursuant to the Company’s online grant and administration program, subject to the conditions and restrictions set forth in this Agreement and in the Plan (the “Restricted Shares”).

**3. Issuance of Restricted Shares at Beginning of the Restriction Period.** Upon issuance of the Restricted Shares, such Restricted Shares will be registered in a book entry account in the name of the Grantee. During the Restriction Period, any certificates representing the Restricted Shares that may be issued during the Restriction Period, and any securities constituting Retained Distributions will bear a restrictive legend to the effect that ownership of the Restricted Shares (and such Retained Distributions), and the enjoyment of all rights appurtenant thereto, are subject to the restrictions, terms and conditions provided in the Plan and this Agreement. Any such certificates will remain in the custody of the Company, and upon their issuance the Grantee will deposit with the Company stock powers or other instruments of assignment, each endorsed in blank, so as to permit retransfer to the Company of all or any portion of the Restricted Shares and any securities constituting Retained Distributions that are forfeited or otherwise do not become vested in accordance with the Plan and this Agreement.

**4. Restrictions.** The Restricted Shares will constitute issued and outstanding shares of Common Stock for all corporate purposes. The Grantee will have the right to vote such Restricted Shares, to receive and retain such dividends and distributions paid or distributed on such Restricted Shares as the Plan Administrator may in its sole discretion designate and to exercise all other rights, powers and privileges of a holder of Common Stock with respect to such Restricted Shares, except that (a) the Grantee will not be entitled to delivery of the stock certificate or certificates representing such Restricted Shares until the Restriction Period shall have expired and unless all other vesting requirements with respect thereto shall have been fulfilled or waived, (b) the Company will retain custody of any stock certificate or certificates representing the Restricted Shares during the Restriction Period as provided in Section 8.2 of the Plan, (c) other than such dividends and distributions as the Plan Administrator may in its sole discretion designate, the Company or its designee will retain custody of all distributions (“Retained Distributions”) made or declared with respect to the Restricted Shares (and such Retained Distributions will be subject to the same restrictions, terms and vesting and other conditions as are applicable to the Restricted Shares) until such time, if ever, as the Restricted Shares with respect to which such Retained Distributions shall have been made, paid or declared shall have become vested, and such Retained Distributions will not bear interest or be segregated in a separate account, (d) the Grantee may not sell, assign, transfer, pledge, exchange, encumber or dispose of the Restricted Shares or any Retained Distributions or the Grantee’s interest in any of them during the Restriction Period and (e) a breach of any restrictions, terms or conditions provided in the Plan or established by the Plan Administrator with respect to any Restricted Shares or Retained Distributions will cause a forfeiture of such Restricted Shares and any Retained Distributions with respect thereto.

**5. Vesting and Forfeiture of Restricted Shares.** Subject to earlier vesting in accordance with Section 6, the Grantee will become vested as to that number of each type of Restricted Shares (if any) subject to this Agreement that is equal to the fraction or percentage set forth on Schedule I hereto (the “Vesting Percentage”) of the total number of such type of Restricted Shares that are subject to this Agreement (in each case, rounded down to the nearest whole number of such type of Restricted Shares) on each of the dates indicated on Schedule I hereto (each such date, together with any other date on which Restricted Shares vest pursuant to this Agreement, a “Vesting Date”). If rounding pursuant to the preceding sentence prevents any portion of a Restricted Share from becoming vested on a particular Vesting Date (any such portion, an “Unvested Fractional Restricted Share”), one additional Restricted Share of such type of Restricted Share will become vested on the earliest succeeding Vesting Date on which the cumulative fractional amount of all Unvested Fractional Restricted Shares of such type of Restricted Share (including any Unvested Fractional Restricted Share created on such succeeding Vesting Date) equals or exceeds one whole Restricted Share, with any excess treated as an Unvested Fractional Restricted Share thereafter subject to the application of this sentence and the following sentence. Any Unvested Fractional Restricted Share comprising part of a whole Restricted Share that vests pursuant to the preceding sentence will thereafter cease to be an Unvested Fractional Restricted Share. Notwithstanding the foregoing, (a) the Grantee will not vest, pursuant to this Section 5, in Restricted Shares as to which the Grantee would otherwise vest as of a given date if the Grantee has not been continuously employed by the Company or its Subsidiaries from the date of this Agreement through such date, or, if the Grantee is a non-employee director, the Grantee has not been continuously providing services as a non-employee director through such date (the vesting or forfeiture of such shares to be governed instead by the provisions of Section 6), and (b) in the event that any date on which vesting would otherwise occur is a Saturday, Sunday or a holiday, such vesting will instead occur on the business day next following such date. Unless otherwise determined by the Plan Administrator in its sole discretion, Retained Distributions will be subject to the same vesting and forfeiture conditions that are applicable to the Restricted Shares to which such Retained Distributions relate.

**6. Early Termination or Vesting.** Unless otherwise determined by the Plan Administrator in its sole discretion:

- (a) If the Grantee’s employment with the Company or a Subsidiary terminates or, if the Grantee is a non-employee director of the Company, if the Grantee’s service to the Company as such terminates, in each case for any reason other than death or Disability or a termination by the Company or such Subsidiary without Cause, then the Award, to the extent not theretofore vested, will be forfeited immediately;
- (b) If the Grantee dies while employed by the Company or a Subsidiary or while serving as a non-employee director of the Company, as applicable, then the Award, to the extent not theretofore vested, will immediately become fully vested;
- (c) If the Grantee’s employment with the Company or a Subsidiary or service as a non-employee director, as applicable, terminates by reason of Disability, then the Award, to the extent not theretofore vested, will immediately become fully vested; and

(d) If the Grantee's employment with the Company or a Subsidiary is terminated by the Company or such Subsidiary without Cause, or, if the Grantee is a non-employee director of the Company, if the Grantee's service to the Company as such is terminated by the Company or such Subsidiary without Cause, then the Award, to the extent not theretofore vested, will be forfeited immediately, except to the extent, if any, otherwise specified on Schedule I hereto.

Unless the Plan Administrator otherwise determines, a change of the Grantee's employment from the Company to a Subsidiary or from a Subsidiary to the Company or another Subsidiary will not be considered a termination of the Grantee's employment for purposes of this Agreement if such change of employment is made at the request or with the express consent of the Company. Unless the Plan Administrator otherwise determines, however, any such change of employment that is not made at the request or with the express consent of the Company will be a termination of the Grantee's employment within the meaning of this Agreement.

**7. Completion of the Restriction Period.** On the Vesting Date with respect to each award of Restricted Shares, and the satisfaction of any other applicable restrictions, terms and conditions (a) all or the applicable portion of such Restricted Shares will become vested and (b) any Retained Distributions with respect to such Restricted Shares will become vested to the extent that the Restricted Shares related thereto shall have become vested, all in accordance with the terms of this Agreement. Any such Restricted Shares and Retained Distributions that shall not become vested will be forfeited to the Company, and the Grantee will not thereafter have any rights (including dividend and voting rights) with respect to such Restricted Shares or any Retained Distributions that are so forfeited.

**8. Adjustments; Early Vesting in Certain Events.**

(a) The Restricted Shares will be subject to adjustment (including, without limitation, as to the number of Restricted Shares) in such manner as the Plan Administrator, in its sole discretion, deems equitable and appropriate in connection with the occurrence of any of the events described in Section 4.2 of the Plan following the Grant Date.

(b) In the event of any Approved Transaction, Board Change or Control Purchase following the Grant Date, the restrictions in Sections 3 and 4 may lapse in accordance with Section 10.1(b) of the Plan.

**9. Mandatory Withholding for Taxes.** The Grantee acknowledges and agrees that, upon the expiration of the Restriction Period, the Company will deduct from the shares of applicable Common Stock otherwise deliverable to the Grantee (or the Grantee's beneficiary, if applicable) that number of shares of such Common Stock (valued at the Fair Market Value on the applicable Vesting Date) that is equal to the amount, as determined by the Company, of all federal, state or other governmental taxes required to be withheld by the Company or any Subsidiary of the Company with respect to the vesting of Restricted Shares and any related Retained Distributions, unless other provisions to pay such withholding requirements have been made to the satisfaction of the Company. Upon the payment of any cash dividends with respect to Restricted Shares during the Restriction Period, the amount of such dividends will be reduced

to the extent necessary to satisfy any withholding tax requirements applicable thereto prior to payment to the Grantee.

**10. Delivery by the Company.** As soon as practicable after the vesting of Restricted Shares pursuant to Sections 5, 6 or 8, but no later than 30 days after such vesting occurs, and subject to the withholding referred to in Section 9, the Company will (a) cause to be removed from the Restricted Shares that have vested the restriction described in Section 3 or cause to be issued and delivered to the Grantee (in certificate or electronic form) shares of Common Stock equal to the number of Restricted Shares that have vested, and (b) shall cause to be delivered to the Grantee any Retained Distributions with respect to such vested shares. If delivery of certificates is by mail, delivery of shares of Common Stock will be deemed effected for all purposes when a stock transfer agent of the Company has deposited the certificates in the United States mail, addressed to the Grantee.

**11. Nontransferability of Restricted Shares Before Vesting.** Restricted Shares that have not vested are not transferable (either voluntarily or involuntarily), before or after Grantee's death, except as follows: (a) during Grantee's lifetime, pursuant to a domestic relations order, issued by a court of competent jurisdiction, that is not contrary to the terms and conditions of the Plan or this Agreement, and in a form acceptable to the Committee; or (b) after Grantee's death, by will or pursuant to the applicable laws of descent and distribution, as may be the case. Any person to whom Restricted Shares are transferred in accordance with the provisions of the preceding sentence shall take such Restricted Shares subject to all of the terms and conditions of the Plan and this Agreement, including that the vesting and termination provisions of this Agreement will continue to be applied with respect to the Grantee. Certificates representing Restricted Shares that have vested may be delivered (or, in the case of book entry registration, registered) only to the Grantee (or during the Grantee's lifetime, to the Grantee's court appointed legal representative) or to a person to whom the Restricted Shares have been transferred in accordance with this Section.

**12. Company's Rights.** The existence of this Agreement will not affect in any way the right or power of the Company or its stockholders to accomplish any corporate act, including without limitation, the acts referred to in Section 10.15 or Section 10.16 of the Plan, as applicable.

**13. Restrictions Imposed by Law.** Without limiting the generality of Section 10.7 or Section 10.8 of the Plan, as applicable, the Grantee will not require the Company to deliver any Restricted Shares and the Company will not be obligated to deliver any Restricted Shares if counsel to the Company determines that such exercise, delivery or payment 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 Common Stock are listed or quoted. The Company will in no event be obligated to take any affirmative action in order to cause the delivery of any Restricted Shares to comply with any such law, rule, regulation or agreement.

**14. Notice.** Unless the Company notifies the Grantee in writing of a different procedure or address, 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 first class mail, postage

prepaid, to the address specified for the Company in Schedule I hereto. Unless the Company elects to notify the Grantee electronically pursuant to the online grant and administration program or via email, 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 first class mail, postage prepaid, to the Grantee's address as listed in the records of the Company or any Subsidiary of the Company on the Grant Date, unless the Company has received written notification from the Grantee of a change of address.

**15. Amendment.** Notwithstanding any other provision hereof, this Agreement may be supplemented or amended from time to time as approved by the Plan Administrator as contemplated by Section 10.6(b) or Section 10.7(b) of the Plan, as applicable. Without limiting the generality of the foregoing, without the consent of the Grantee:

(a) this Agreement may be amended or supplemented from time to time as approved by the Plan Administrator (i) to cure any ambiguity or to correct or supplement any provision herein that may be defective or inconsistent with any other provision herein, (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 or advisable because of the adoption or promulgation of, or change in 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 of Directors or the stockholders of the Company, the Award evidenced by this Agreement may be canceled by the Plan Administrator 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 the Restricted Shares to the extent then vested.

**16. Grantee Employment or Status as a Director.** Nothing contained in this Agreement, and no action of the Company or the Plan Administrator with respect hereto, will confer or be construed to confer on the Grantee any right to continue in the employ of the Company or any Subsidiary or to continue as a non-employee director of the Company, or interfere in any way with the right of the Company or any employing Subsidiary (or the Company's stockholders in the case of a non-employee director) to terminate the Grantee's employment or service, as applicable, at any time, with or without Cause, subject to the provisions of any employment agreement between the Grantee and the Company or any Subsidiary.

**17. Nonalienation of Benefits.** Except as provided in Section 11 and prior to the vesting of any Restricted Share with respect to such vested Restricted Share, (a) 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 (b) no right or benefit hereunder will in any manner be subjected to or liable for the debts, contracts, liabilities or torts of the Grantee or other person entitled to such benefits.

**18. 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.

**19. Construction.** References in this Agreement to “this Agreement” and the words “herein,” “hereof,” “hereunder” and similar terms include all Exhibits and Schedules appended hereto, including the Plan. All references to “Sections” in this Agreement shall be to Sections of this Agreement unless explicitly stated otherwise. The word “include” and all variations thereof are used in an illustrative sense and not in a limiting sense. All decisions of the Plan Administrator upon questions regarding the Plan or 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.

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

**21. Entire Agreement.** This Agreement 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 herein expressed has been made and that this Agreement contains the entire agreement between the parties hereto with respect to the Restricted Shares and replaces and makes null and void any prior agreements between the Grantee and the Company regarding the Restricted Shares. Subject to the restrictions set forth in Sections 11 and 17, this Agreement will be binding upon and inure to the benefit of the parties and their respective heirs, successors and assigns.

**22. Grantee Acknowledgment.** The Grantee will signify acceptance of the terms and conditions of this Agreement by acknowledging the acceptance of this Agreement via the procedures described in the online grant and administration program utilized by the Company.

**23. Code Section 409A Compliance.** To the extent that Section 409A of the Code or the related regulations and Treasury pronouncements (“Section 409A”) is applicable to the Grantee in connection with the Award, if any provision of this Agreement would result in the imposition of an excise tax under Section 409A, that provision will be reformed to avoid imposition of the excise tax and no action taken to comply with Section 409A shall be deemed to impair a benefit under this Agreement.

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**Schedule I**  
**to Liberty Interactive Corporation**  
**Restricted Stock Award Agreement**  
**[NRA][NDR][QRA]\_\_\_\_\_**

Grant Date: \_\_\_\_\_, 201\_\_

Issuer/Company: Liberty Interactive Corporation, a Delaware corporation

Plan: Liberty Interactive Corporation \_\_\_\_\_ Incentive Plan

Plan Administrator: **[The Compensation Committee of the Board of Directors of the Company appointed by the Board of Directors of the Company pursuant to Section 3.1 of the Plan to administer the Plan] [The Board of Directors of the Company]**

Common Stock: Series A Liberty Interactive Common Stock (“LINTA Common Stock”); and/or Series A Liberty Ventures Common Stock (“LVNTA Common Stock”), as applicable.]

Vesting Percentage: \_\_\_\_\_%

Vesting Dates: \_\_\_\_\_

Additional Vesting Terms: **[INCLUDE ONLY IN STANDARD RSA FOR LIC EMPLOYEES. DO NOT INCLUDE IN LIC MULTI-YEAR RSA, LIC NEW EMPLOYEE LONG-TERM RSA, RSA FOR QVC EMPLOYEES, OR IN RSA FOR LIC NON-EMPLOYEE DIRECTORS.]**

If the Grantee’s employment with the Company or a Subsidiary is terminated by the Company or such Subsidiary without Cause, then any unvested Restricted Shares that otherwise would have vested during the remainder of the calendar year in which the Grantee’s employment with the Company or a Subsidiary is terminated will become vested on the date of the Grantee’s termination of employment.

**[INCLUDE ONLY IN LIC NEW EMPLOYEE LONG-TERM RSA.]**

If the Grantee’s employment with the Company or a Subsidiary is terminated by the Company or such Subsidiary without Cause after the second anniversary of the Grant Date, then the Award, to the extent not theretofore vested, will become fully vested upon the Grantee’s execution and delivery to the Company in accordance with the notice requirements of this Agreement of a general release

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agreement in a form satisfactory to the Company, provided that such release has been so delivered and has become irrevocable in accordance with its terms not later than 60 days following the date of the Grantee's termination without Cause.

**[INCLUDE ONLY IN MULTI-YEAR RSA FOR LIC EMPLOYEES.]**

If the Grantee's employment with the Company or a Subsidiary is terminated by the Company or such Subsidiary without Cause prior to \_\_\_\_\_ **[Insert final Vesting Date]**, the number of each type of Restricted Shares subject to this Agreement that shall become vested as of the date of such termination shall equal the sum of (a) the number of such Restricted Shares that would have become vested during the Forward Vesting Period had the Grantee remained in the employ of the Company or a Subsidiary for the entire Forward Vesting Period plus (b) the number of such Restricted Shares that is equal to the product (rounded down to the nearest whole number) of (i) the total number of such Restricted Shares subject to this Agreement minus (A) any such Restricted Shares that have already become vested prior to the date of such termination and (B) any such Restricted Shares that would have become vested during the Forward Vesting Period in clause (a) above multiplied by (ii) a fraction, the numerator of which is the total number of days elapsed during the period beginning on the Grant Date, and ending on the date of termination, inclusive, and the denominator of which is the total number of days during the period beginning on the Grant Date, and ending on \_\_\_\_\_ **[Insert final Vesting Date]**, inclusive.

For purposes of determining the number of Restricted Shares that would have become vested in clause (a) above, "Forward Vesting Period" shall mean the period beginning on the date of termination and ending on the corresponding day (or, if there is no corresponding day, on the last day) of (x) the ninth month thereafter, if the Grantee is an Assistant Vice President or Vice President of the Company or a Subsidiary on the date of termination of his or her employment with the Company or a Subsidiary or (y) the twelfth month thereafter, if the Grantee is a Senior Vice President or Executive Vice President of the Company or a Subsidiary on the date of termination of his or her employment with the Company or a Subsidiary.

Additional Provisions Applicable to Grantees who hold the office of **[Vice President][Senior Vice President]** or above as of the Grant Date:

**[INCLUDE AT VP LEVEL IN (1) STANDARD RSA FOR LIC EMPLOYEES, (2) MULTI-YEAR RSA FOR LIC EMPLOYEES AND (3) LIC NEW EMPLOYEE LONG-TERM RSA. INCLUDE AT SVP LEVEL IN STANDARD RSA FOR QVC EMPLOYEES. DO NOT INCLUDE IN RSA FOR LIC NON-EMPLOYEE DIRECTORS.]**

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 Plan Administrator, (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 Plan Administrator may reasonably determine, taking into account, in addition to any other factors deemed relevant by the Plan Administrator, the extent to which the market value of Common 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 Common 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 Common 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 Common 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 Common Stock received upon vesting of any Restricted Shares 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.

**[INCLUDE IN STANDARD AND MULTI-YEAR RSA AGREEMENTS FOR LIC EMPLOYEES, IN NEW EMPLOYEE LONG-TERM RSA AND IN STANDARD RSA FOR LIC NON-EMPLOYEE DIRECTORS; DO NOT INCLUDE IN STANDARD RSA FOR QVC EMPLOYEES.]**

Unless the Plan Administrator in its sole discretion determines otherwise in connection with the commencement of employment or service to Liberty Media Corporation or its Subsidiary, notwithstanding anything to the contrary in this Agreement, Grantee's employment or service with Liberty Media Corporation or any entity that is a Subsidiary of Liberty Media Corporation at the time of determination shall be deemed to be employment or service

Qualifying Service:

with the Company for all purposes under the Awards granted pursuant to this Agreement.

Company Notice Address:

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

Entity Name	Domicile
1227844 Ontario Ltd.	Ontario
8324425 Canada, Inc.	Canada
Affiliate Investment, Inc.	DE
Affiliate Relations Holdings, Inc.	DE
AMI 2, Inc.	DE
ASO Holdings Company LLC	DE
Backcountry De Costa Rica Sociedad De Responsabilidad Limitada	Costa Rica
Backcountry.com, Inc.	UT
Backcountry Detour, LLC	DE
Backcountry GmbH	Germany
Big Horn Alternative Energy, LLC	DE
Bergfreunde GmbH	Germany
Bodybuilding.com EU B.V. (fka BLE BV)	Netherlands
Bodybuilding.com, LLC	DE
Bodybuilding.com, Sociedad De Responsabilidad Limitada	Costa Rica
BuySeasons, Inc.	DE
California Voices, LLC (f/k/a QVC Voices, LLC)	DE
CDirect Mexico I, Inc.	DE
CDirect Mexico II, Inc.	DE
Celebrate Interactive LLC	DE
Centennial Rural Development, inc.	DE
City Cycle, Inc.	AR
Commerce Technologies, Inc. [dba Commerce Hub]	NY
Cool Kicks Media, LLC	DE
Diamonique Canada Holdings, Inc.	DE
DMS DE, Inc.	DE
ER Development International, Inc. (dba QVC International Development)	PA
ER Marks, Inc.	DE
e-Style, LLC	DE
Evite, Inc.	DE
GC Marks, Inc. (f/k/a TATV, Inc.)	DE
Gear Outlet, LLC	DE
GiftCo, LLC	DE
Higher Power Nutrition Common Holdings, LLC	DE
Hopkins Real Estate Investments, LLC	ID
IC Marks, Inc.	DE
IM Experience, Inc.	PA
Influence Marketing Corp (dba QVC @ theMall) [Unlimited Liability Corp.]	Nova Scotia
Influence Marketing Services, Inc.	Ontario
Innovative Retailing, Inc.	DE
iQVC GmbH	Germany
Liberty Alta IV, Inc.	DE
Liberty Alta, Inc.	DE
Liberty Alternative Energy, LLC	DE

Liberty CDE Investments, Inc.	DE
Liberty Clean Fuels, Inc.	DE
Liberty Clean Fuels 2, LLC	DE
Liberty Digital Commerce, LLC	DE
Liberty Interactive Advertising, LLC d/b/a Liberty Advertising	DE
Liberty Interactive, LLC	DE
Liberty Protein, Inc.	DE
Liberty TripAdvisor Holdings, Inc	DE
Liberty Solar Energy, LLC	DE
Liberty QVC Holding, LLC	DE
Liberty USA Holdings, LLC	DE
Liberty USVI Energy, Inc.	DE
LMC Lockerz, LLC	DE
LMC Right Start, Inc.	DE
LMC Social, LLC	DE
Monroe Fuels Company, LLC	DE
MotoSport, LLC (fka MotoSport, Inc.)	DE
NSTBC, Inc.	DE
Provide Cards, Inc	CA
Provide Commerce, Inc. (dba Shari's Berries)	DE
Provide Creations, Inc., d/b/a Personal Creations	DE
Provide Gifts, Inc. (dba RedEnvelope)	DE
QC Marks, Inc.	DE
QDirect Ventures, Inc. (fka Qdirect, Inc.)	DE
QExhibits, Inc.	DE
QHealth, Inc.	DE
QLocal, Inc. (fka QVC Local, Inc.)(dba QVC Productions; QVC Remote Productions]	DE
QVC [English Unlimited Liability Company]	UK
QVC Brazil Holdings I, S.à.r.l.	Luxembourg
QVC Brazil Holdings II, S.à.r.l.	Luxembourg
QVC Britain [English Unlimited Liability Company]	UK
QVC Britain I Limited [English limited liability company]	England
QVC Britain I, Inc.	UK
QVC Britain II, Inc.	UK
QVC Britain III, Inc.	UK
QVC Call Center GmbH & Co. KG	Germany
QVC Call Center Verwaltungs-GmbH	Germany
QVC Cayman Holdings LLC	DE
QVC Cayman, Ltd.	Cayman
QVC Chesapeake, Inc.	VA
QVC China Domain Limited (fka QVC Pacific international Limited; Discerning Holdings Limited	Hong Kong
QVC China Holdings Limited	Hong Kong
QVC China Licensing, Inc. (f/k/a AI 2, Inc.)	DE
QVC China, Inc.	DE
QVC Delaware, Inc.	DE
QVC Deutschland GP, Inc.	DE

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QVC Deutschland Inc. & Co. KG (a partnership) (fka QVC Deutschland GmbH)	Germany
QVC eDistribution Inc. & Co. KG	Germany
QVC eProperty Management GmbH & Co. KG	Germany
QVC eService Inc. & Co. KG	Germany
QVC France SAS	France
QVC Germany I LLC (fka QVC Germany I, Inc.)	DE
QVC Germany II LLC (fka QVC Germany II, Inc.)	DE
QVC Global DDGS, Inc.	DE
QVC Grundstücksverwaltungs GmbH	Germany
QVC GV Real Estate GmbH & Co. KG	Germany
QVC Handel GmbH	Germany
QVC HK Holdings, LLC	DE
QVC Iberia, S.L.	Spain
QVC India, Ltd.	DE
QVC Information and Technologies (Shenzhen) Co., Ltd	China
QVC International LLC (fka QVC International, Inc.)	DE
QVC International Management GP LLC	DE
QVC Italia S.r.l. [Italian limited liability company]	Italy
QVC Italy Holdings, LLC	DE
QVC Japan Holdings, Inc.	DE
QVC Japan Services, Inc.	DE
QVC Japan, Inc.	Japan
QVC Lux Holdings, LLC	DE
QVC Mexico II, Inc.	DE
QVC Mexico III, Inc.	DE
QVC Mexico, Inc.	DE
QVC of Thailand, Inc.	DE
QVC Pension Trustee Limited	UK
QVC Properties, Ltd.	UK
QVC Realty, Inc.	PA
QVC Rocky Mount, Inc.	NC
QVC RS Naples, Inc.	FL
QVC San Antonio, LLC (fka QVC San Antonio, Inc.)	TX
QVC Satellite, Ltd	Japan
QVC Shop International, Inc. (f/k/a EZShop International, Inc.)	DE
QVC St. Lucie, Inc.	FL
QVC STT Holdings, LLC	DE
QVC Studio GmbH	Germany
QVC Suffolk, Inc. (fka CVN Distribution Co., Inc.; C.O.M.B. Distribution Co.)	VA
QVC UK Holdings Limited	England-Wales
QVC, Inc.	DE
QVC-QRT, Inc.	DE
RS Marks, Inc.	DE
RS Mebane, Inc.	NC
RS Myrtle Beach, Inc.	SC
Savor North Carolina, Inc.	NC

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Send the Trend, Inc  
Sincerely Incorporated  
TOBH, Inc.  
TripAdvisor, Inc

DE  
DE  
DE

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Liberty Interactive Corporation:

We consent to the incorporation by reference in the following registration statements of Liberty Interactive Corporation and subsidiaries (the Company) of our reports dated February 28, 2014, with respect to the consolidated balance sheets of the Company as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive earnings (loss), cash flows, and equity for each of the years in the three-year period ended December 31, 2013, and the effectiveness of internal control over financial reporting as of December 31, 2013, which reports appear in the December 31, 2013 annual report on Form 10-K of the Company.

<b>Description</b>	<b>Registration Statement No.</b>	<b>Description</b>
S-8	333-134114	Liberty Interactive Corporation 2002 Nonemployee Director Incentive Plan (Amended 11/7/11)
S-8	333-134115	Liberty Interactive Corporation 2000 Incentive Plan (Amended 11/7/11)
S-8	333-142626	Liberty Interactive Corporation 2007 Incentive Plan (Amended 11/7/11)
S-8	333-171192	Liberty Interactive Corporation 2000 Incentive Plan (Amended 11/7/11)
S-8	333-171193	Liberty Interactive Corporation 2007 Incentive Plan (Amended 11/7/11)
S-8	333-172512	Liberty Interactive Corporation 2007 Incentive Plan (Amended 11/7/11)
S-8	333-176989	Liberty Interactive 401(k) Savings Plan
S-8	333-177840	Liberty Interactive Corporation 2011 Nonemployee Director Incentive Plan (Amended 11/7/11)
S-8	333-177841	Liberty Interactive Corporation 2010 Incentive Plan (Amended 11/7/11)

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S-8	333-177842	Liberty Interactive Corporation 2007 Incentive Plan (Amended 11/7/11)
S-8	333-184901	Liberty Interactive Corporation 2012 Incentive Plan
S-8	333-184905	Liberty Interactive Corporation 2011 Nonemployee Director Incentive Plan (As Amended and Restated Effective 11/7/11)
S-8	333-184904	Liberty Interactive Corporation 2011 Nonemployee Director Incentive Plan (As Amended and Restated Effective 11/7/11)
S-8	333-184902	Liberty Interactive Corporation 2010 Incentive Plan (As Amended and Restated Effective 11/7/11)
S-8	333-184903	Liberty Interactive Corporation 2010 Incentive Plan (As Amended and Restated Effective 11/7/11)
S-8	333-183434	Liberty Interactive Corporation 2007 Incentive Plan (As Amended and Restated Effective 11/7/11)
S-8	333-183433	Liberty Interactive Corporation 2002 Nonemployee Director Incentive Plan (As Amended and Restated Effective 11/7/11)
S-8	333-183432	Liberty Interactive Corporation 2000 Incentive Plan (As Amended and Restated Effective 11/7/11)
S-8	333-183253	Liberty Media 401(k) Savings Plan

/s/ KPMG LLP

Denver, Colorado  
February 28, 2014

## CERTIFICATION

I, Gregory B. Maffei, certify that:

1. I have reviewed this annual report on Form 10-K of Liberty Interactive Corporation;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements and other financial information included in this annual 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 annual 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 annual 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 annual report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this annual report based on such evaluation; and
  - d) disclosed in this annual 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: February 28, 2014

/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 annual report on Form 10-K of Liberty Interactive Corporation;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements and other financial information included in this annual 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 annual 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 annual 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 annual report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this annual report based on such evaluation; and
  - d) disclosed in this annual 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: February 28, 2014

/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 Annual Report on Form 10-K for the year ended December 31, 2013 (the "Form 10-K") 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-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2014

/s/ GREGORY B. MAFFEI

Gregory B. Maffei  
*President and Chief Executive Officer*

Date: February 28, 2014

/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-K or as a separate disclosure document.

**Unaudited Attributed Financial Information for Tracking Stock Groups**

Our Liberty Interactive common stock is intended to reflect the separate performance of our Interactive Group which is comprised of our businesses engaged in video and on-line commerce, including our subsidiaries, QVC, Inc., Provide Commerce, Inc., Backcountry.com, Inc., Bodybuilding.com, LLC, Celebrate Interactive Holdings, LLC and our interest in HSN, Inc. Our Liberty Ventures common stock is intended to reflect the separate performance of our Ventures Group which consists of all of our businesses not included in the Interactive Group including our consolidated subsidiary TripAdvisor, Inc. ("TripAdvisor"), as of December 11, 2012, and our interest in equity method investments of Expedia, Inc., Interval Leisure Group, Inc. and Tree.com, Inc. and available-for-sale securities Time Warner, Time Warner Cable and AOL.

The following tables present our assets and liabilities as of December 31, 2013 and 2012 and revenue, expenses and cash flows for the three years ended December 31, 2013, 2012 and 2011. The tables further present our assets, liabilities, revenue, expenses and cash flows that are attributed to the Interactive Group and the Ventures Group, respectively, as if those businesses and assets had been attributed to those respective groups at the beginning of each period, for comparative purposes. Therefore, the attributed earnings in the periods presented in the Unaudited Attributed Financial Information Statements are not the same as those reflected in the Liberty Interactive Corporation consolidated financial statements. The earnings attributed to the Liberty Interactive common stock and Liberty Ventures common stock for purposes of those financial statements only relate to the periods after the tracking stocks were issued. The financial information in this Exhibit should be read in conjunction with our consolidated financial statements for the year ended December 31, 2013 included in this Annual Report on Form 10-K.

Notwithstanding the following attribution of assets, liabilities, revenue, expenses and cash flows to the Interactive Group and the Ventures Group, our tracking stock structure does not affect the ownership or the respective legal title to our assets or responsibility for our liabilities. We and our subsidiaries are each responsible for our respective liabilities. Holders of Liberty Interactive common stock and Liberty Ventures common stock are holders of our common stock and are subject to risks associated with an investment in our company and all of our businesses, assets and liabilities. The issuance of Liberty Interactive common stock and Liberty Ventures common stock does not affect the rights of our creditors or creditors of our subsidiaries.

**SUMMARY ATTRIBUTED FINANCIAL DATA**

*Interactive Group*

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
	<b>amounts in millions</b>	
<b>Summary balance sheet data:</b>		
Current assets	\$ 3,245	3,141
Investments in affiliates, accounted for using the equity method	\$ 343	304
Intangible assets not subject to amortization, net	\$ 8,387	8,431
<b>Total assets</b>	<b>\$ 14,862</b>	<b>15,115</b>
Long-term debt	\$ 5,044	4,277
Long-term deferred income tax liabilities	\$ 1,208	1,318
Attributed net assets	\$ 6,378	7,011

	<b>Years ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<b>amounts in millions</b>		
<b>Summary operations data:</b>			
Revenue	\$ 10,307	10,018	9,616
Cost of sales	(6,602)	(6,396)	(6,114)
Operating expenses	(876)	(833)	(866)
Selling, general and administrative expenses (1)	(1,033)	(977)	(858)
Impairment of intangible assets	(33)	(92)	—
Depreciation and amortization	(632)	(596)	(641)
<b>Operating income (loss)</b>	<b>1,131</b>	<b>1,124</b>	<b>1,137</b>
Interest expense	(292)	(322)	(317)
Share of earnings (losses) of affiliates, net	48	28	23
Realized and unrealized gains (losses) on financial instruments, net	(12)	51	75
Gains (losses) on transactions, net	(1)	—	—
Other income (expense), net	(53)	—	15
Income tax benefit (expense)	(338)	(352)	(353)
Earnings (loss) from continuing operations	483	529	580
Earnings (loss) from discontinued operations, net of taxes	—	—	378
Net earnings (loss)	483	529	958
Less net earnings (loss) attributable to noncontrolling interests	45	63	53
Net earnings (loss) attributable to Liberty Interactive Corporation shareholders	\$ 438	466	905

(1) Includes stock-based compensation of \$110 million, \$85 million and \$49 million for the years ended December 31, 2013, 2012 and 2011, respectively.

**SUMMARY ATTRIBUTED FINANCIAL DATA (Continued)**

Ventures Group

	December 31, 2013	December 31, 2012
	amounts in millions	
<b>Summary balance sheet data:</b>		
Cash and cash equivalents	\$ 658	1,961
Investments in available-for-sale securities and other cost investments	\$ 1,497	1,815
Investments in affiliates, accounted for using the equity method	\$ 894	547
Intangible assets not subject to amortization, net	\$ 5,288	5,449
Long-term debt, including current portion	\$ 2,301	3,342
Deferred tax liabilities, including current portion	\$ 2,731	2,959
Attributed net assets (liabilities)	\$ 558	551

	Years ended December 31,		
	2013	2012	2011
	amounts in millions		
<b>Summary operations data:</b>			
Revenue	\$ 945	36	—
Operating expenses	(153)	(7)	—
Selling, general and administrative expenses (1)	(492)	(32)	(4)
Depreciation and amortization	(311)	(13)	—
Operating income (loss)	(11)	(16)	(4)
Interest expense	(81)	(110)	(110)
Share of earnings (losses) of affiliates, net	(15)	57	117
Realized and unrealized gains (losses) on financial instruments, net	(10)	(402)	9
Gains (losses) on transactions, net	(1)	1,531	—
Other, net	7	44	(6)
Income tax benefit (expense)	208	(42)	1
Net earnings (loss)	97	1,062	7
Less net earnings (loss) attributable to noncontrolling interests	34	(2)	—
Net earnings (loss) attributable to Liberty Interactive Corporation shareholders	\$ 63	1,064	7

(1) Includes stock-based compensation of \$68 million, \$6 million and zero for the years ended December 31, 2013, 2012 and 2011, respectively.

**BALANCE SHEET INFORMATION**

**December 31, 2013**

**(unaudited)**

	Attributed (note 1)		Inter-group eliminations	Consolidated Liberty
	Interactive Group	Ventures Group		
amounts in millions				
<i>Assets</i>				
Current assets:				
Cash and cash equivalents	\$ 598	658	—	1,256
Trade and other receivables, net	1,150	124	—	1,274
Inventory, net	1,135	—	—	1,135
Short-term marketable securities	—	543	—	543
Other current assets	362	26	(170)	218
Total current assets	3,245	1,351	(170)	4,426
Investments in available-for-sale securities and other cost investments (note 2)	4	1,497	—	1,501
Investments in affiliates, accounted for using the equity method (note 3)	343	894	—	1,237
Property and equipment, net	1,213	34	—	1,247
Intangible assets not subject to amortization, net	8,387	5,288	—	13,675
Intangible assets subject to amortization, net	1,589	903	—	2,492
Other assets, at cost, net of accumulated amortization	81	17	—	98
Total assets	\$ 14,862	9,984	(170)	24,676
<i>Liabilities and Equity</i>				
Current liabilities:				
Intergroup payable (receivable)	\$ 221	(221)	—	—
Accounts payable	553	38	—	591
Accrued liabilities	958	109	—	1,067
Current portion of debt (note 4)	39	939	—	978
Deferred tax liabilities	—	1,095	(170)	925
Other current liabilities	145	50	—	195
Total current liabilities	1,916	2,010	(170)	3,756
Long-term debt (note 4)	5,044	1,362	—	6,406
Deferred income tax liabilities	1,208	1,636	—	2,844
Other liabilities	192	43	—	235
Total liabilities	8,360	5,051	(170)	13,241
Equity/Attributed net assets (liabilities)	6,378	558	—	6,936
Noncontrolling interests in equity of subsidiaries	124	4,375	—	4,499
Total liabilities and equity	\$ 14,862	9,984	(170)	24,676

**BALANCE SHEET INFORMATION**

**December 31, 2012**

**(unaudited)**

	Attributed (note 1)			
	Interactive Group	Ventures Group	Inter-group eliminations	Consolidated Liberty
	amounts in millions			
<i>Assets</i>				
Current assets:				
Cash and cash equivalents	\$ 699	1,961	—	2,660
Trade and other receivables, net	1,095	106	—	1,201
Inventory, net	1,106	—	—	1,106
Short-term marketable securities	—	186	—	186
Other current assets	241	20	(156)	105
Total current assets	<u>3,141</u>	<u>2,273</u>	<u>(156)</u>	<u>5,258</u>
Investments in available-for-sale securities and other cost investments (note 2)	4	1,815	—	1,819
Investments in affiliates, accounted for using the equity method (note 3)	304	547	—	851
Property and equipment, net	1,220	15	—	1,235
Intangible assets not subject to amortization, net	8,431	5,449	—	13,880
Intangible assets subject to amortization, net	1,934	1,183	—	3,117
Other assets, at cost, net of accumulated amortization	81	14	—	95
Total assets	<u>\$ 15,115</u>	<u>11,296</u>	<u>(156)</u>	<u>26,255</u>
<i>Liabilities and Equity</i>				
Current liabilities:				
Intergroup payable (receivable)	\$ 70	(70)	—	—
Accounts payable	705	14	—	719
Accrued liabilities	819	99	—	918
Current portion of debt (note 4)	265	1,373	—	1,638
Deferred tax liabilities	—	1,068	(156)	912
Other current liabilities	267	35	—	302
Total current liabilities	<u>2,126</u>	<u>2,519</u>	<u>(156)</u>	<u>4,489</u>
Long-term debt (note 4)	4,277	1,969	—	6,246
Deferred income tax liabilities	1,318	1,891	—	3,209
Other liabilities	234	26	—	260
Total liabilities	<u>7,955</u>	<u>6,405</u>	<u>(156)</u>	<u>14,204</u>
Equity/Attributed net assets (liabilities)	7,011	551	—	7,562
Noncontrolling interests in equity of subsidiaries	149	4,340	—	4,489
Total liabilities and equity	<u>\$ 15,115</u>	<u>11,296</u>	<u>(156)</u>	<u>26,255</u>

**STATEMENT OF OPERATIONS INFORMATION**

**Year ended December 31, 2013**

**(unaudited)**

	Attributed (note 1)		Consolidated Liberty
	Interactive Group	Ventures Group	
amounts in millions			
<b>Revenue:</b>			
Net retail sales	\$ 10,307	—	10,307
Service and other revenue, net	—	945	945
Total revenue, net	10,307	945	11,252
<b>Operating costs and expenses:</b>			
Cost of retail sales (exclusive of depreciation shown separately below)	6,602	—	6,602
Operating	876	153	1,029
Selling, general and administrative, including stock-based compensation (note 5)	1,033	492	1,525
Impairment of intangible assets	33	—	33
Depreciation and amortization	632	311	943
	9,176	956	10,132
Operating income (loss)	1,131	(11)	1,120
<b>Other income (expense):</b>			
Interest expense	(292)	(81)	(373)
Share of earnings (losses) of affiliates, net (note 3)	48	(15)	33
Realized and unrealized gains (losses) on financial instruments, net	(12)	(10)	(22)
Gains (losses) on transactions, net	(1)	(1)	(2)
Other, net	(53)	7	(46)
	(310)	(100)	(410)
Earnings (loss) before income taxes	821	(111)	710
Income tax benefit (expense)	(338)	208	(130)
Net earnings (loss)	483	97	580
Less net earnings (loss) attributable to noncontrolling interests	45	34	79
Net earnings (loss) attributable to Liberty Interactive Corporation shareholders	\$ 438	63	501

**STATEMENT OF OPERATIONS INFORMATION**

**Year ended December 31, 2012**

**(unaudited)**

	Attributed (note 1)		Consolidated Liberty
	Interactive Group	Ventures Group	
amounts in millions			
<b>Revenue:</b>			
Net retail sales	\$ 10,018	—	10,018
Service and other revenue, net	—	36	36
Total revenue, net	10,018	36	10,054
<b>Operating costs and expenses:</b>			
Cost of retail sales (exclusive of depreciation shown separately below)	6,396	—	6,396
Operating	833	7	840
Selling, general and administrative, including stock-based compensation (note 5)	977	32	1,009
Depreciation and amortization	596	13	609
Impairment of intangible assets	92	—	92
	8,894	52	8,946
Operating income (loss)	1,124	(16)	1,108
<b>Other income (expense):</b>			
Interest expense	(322)	(110)	(432)
Share of earnings (losses) of affiliates, net (note 3)	28	57	85
Realized and unrealized gains (losses) on financial instruments, net	51	(402)	(351)
Gains (losses) on transactions, net	—	1,531	1,531
Other, net	—	44	44
	(243)	1,120	877
Earnings (loss) from continuing operations before income taxes	881	1,104	1,985
Income tax benefit (expense)	(352)	(42)	(394)
Earnings (loss) from continuing operations	529	1,062	1,591
Earnings (loss) from discontinued operations, net of taxes	—	—	—
Net earnings (loss)	529	1,062	1,591
Less net earnings (loss) attributable to noncontrolling interests	63	(2)	61
Net earnings (loss) attributable to Liberty Interactive Corporation shareholders	\$ 466	1,064	1,530

**STATEMENT OF OPERATIONS INFORMATION**

**Year ended December 31, 2011**

**(unaudited)**

	Attributed (note 1)		Consolidated Liberty
	Interactive Group	Ventures Group	
amounts in millions			
<b>Revenue:</b>			
Net retail sales	\$ 9,616	—	9,616
Service and other revenue, net	—	—	—
Total revenue, net	9,616	—	9,616
<b>Operating costs and expenses:</b>			
Cost of retail sales (exclusive of depreciation shown separately below)	6,114	—	6,114
Operating	866	—	866
Selling, general and administrative, including stock-based compensation (note 5)	858	4	862
Depreciation and amortization	641	—	641
	8,479	4	8,483
Operating income (loss)	1,137	(4)	1,133
<b>Other income (expense):</b>			
Interest expense	(317)	(110)	(427)
Share of earnings (losses) of affiliates, net (note 3)	23	117	140
Realized and unrealized gains (losses) on financial instruments, net	75	9	84
Other, net	15	(6)	9
	(204)	10	(194)
Earnings (loss) before income taxes	933	6	939
Income tax benefit (expense)	(353)	1	(352)
Earnings (loss) from continuing operations	580	7	587
Earnings (loss) from discontinued operations, net of taxes	378	—	378
Net earnings (loss)	958	7	965
Less net earnings (loss) attributable to noncontrolling interests	53	—	53
Net earnings (loss) attributable to Liberty Interactive Corporation shareholders	\$ 905	7	912

**STATEMENT OF CASH FLOWS INFORMATION**

**Year ended December 31, 2013**

**(unaudited)**

	Attributed (note 1)		Consolidated Liberty
	Interactive Group	Ventures Group	
amounts in millions			
<b>Cash flows from operating activities:</b>			
Net earnings (loss)	\$ 483	97	580
<b>Adjustments to reconcile net earnings to net cash provided by operating activities:</b>			
Depreciation and amortization	632	311	943
Stock-based compensation	110	68	178
Cash payments for stock-based compensation	(8)	(2)	(10)
Excess tax benefit from stock-based compensation	(13)	(10)	(23)
Noncash interest expense	11	2	13
Share of losses (earnings) of affiliates, net	(48)	15	(33)
Cash receipts from return on equity investments	16	19	35
Realized and unrealized gains (losses) on financial instruments, net	12	10	22
(Gains) losses on transactions, net	1	1	2
(Gains) losses on extinguishment of debt	57	—	57
Impairment of intangible assets	33	—	33
Deferred income tax (benefit) expense	(131)	(5)	(136)
Other, net	(3)	1	(2)
Intergroup tax allocation	272	(272)	—
Intergroup tax payments	(52)	52	—
<b>Changes in operating assets and liabilities</b>			
Current and other assets	(63)	(18)	(81)
Payables and other current liabilities	(337)	119	(218)
Net cash provided (used) by operating activities	<u>972</u>	<u>388</u>	<u>1,360</u>
<b>Cash flows from investing activities:</b>			
Cash proceeds from dispositions	1	1,136	1,137
Investments in and loans to cost and equity investees	(4)	(380)	(384)
Capital expended for property and equipment	(295)	(57)	(352)
Cash paid for acquisitions, net of cash acquired	(24)	(34)	(58)
Purchases of short term and other marketable securities	—	(1,391)	(1,391)
Sales of short term and other marketable securities	—	726	726
Other investing activities, net	(40)	2	(38)
Net cash provided (used) by investing activities	<u>(362)</u>	<u>2</u>	<u>(360)</u>
<b>Cash flows from financing activities:</b>			
Borrowings of debt	3,520	853	4,373
Repayments of debt	(3,056)	(2,418)	(5,474)
Intergroup receipts (payments), net	2	(2)	—
Repurchases of Liberty Interactive common stock	(1,089)	—	(1,089)
Shares repurchased by subsidiary	—	(145)	(145)
Shares issued by subsidiary	—	27	27
Taxes paid in lieu of shares issued for stock-based compensation	(21)	(17)	(38)
Excess tax benefit from stock-based compensation	13	10	23
Other financing activities, net	(56)	(1)	(57)
Net cash provided (used) by financing activities	<u>(687)</u>	<u>(1,693)</u>	<u>(2,380)</u>
Effect of foreign currency rates on cash	(24)	—	(24)
Net increase (decrease) in cash and cash equivalents	(101)	(1,303)	(1,404)
Cash and cash equivalents at beginning of period	699	1,961	2,660
Cash and cash equivalents at end period	<u>\$ 598</u>	<u>658</u>	<u>1,256</u>

**STATEMENT OF CASH FLOWS INFORMATION**

**Year ended December 31, 2012**

(unaudited)

	Attributed (note 1)		Consolidated Liberty
	Interactive Group	Ventures Group	
amounts in millions			
<b>Cash flows from operating activities:</b>			
Net earnings (loss)	\$ 529	1,062	1,591
<b>Adjustments to reconcile net earnings to net cash provided by operating activities:</b>			
Depreciation and amortization	596	13	609
Stock-based compensation	85	6	91
Cash payments for stock-based compensation	(12)	—	(12)
Excess tax benefit from stock-based compensation	(56)	(8)	(64)
Noncash interest expense	9	—	9
Share of losses (earnings) of affiliates, net	(28)	(57)	(85)
Cash receipts from return on equity investments	11	34	45
Realized and unrealized gains (losses) on financial instruments, net	(51)	402	351
(Gains) losses on transactions, net	—	(1,531)	(1,531)
Impairment of intangible assets	92	—	92
Deferred income tax (benefit) expense	(179)	192	13
Other, net	—	(30)	(30)
Intergroup tax allocation	152	(152)	—
Intergroup tax payments	(33)	33	—
<b>Changes in operating assets and liabilities</b>			
Current and other assets	(78)	8	(70)
Payables and other current liabilities	433	(10)	423
Net cash provided (used) by operating activities	<u>1,470</u>	<u>(38)</u>	<u>1,432</u>
<b>Cash flows from investing activities:</b>			
Cash proceeds from dispositions	—	1,030	1,030
Proceeds (settlements) of financial instruments, net	—	(258)	(258)
Investments in and loans to cost and equity investees	(59)	(177)	(236)
Capital expended for property and equipment	(338)	(1)	(339)
Net sales (purchases) of short term and other marketable securities	46	(76)	(30)
Other investing activities, net	(111)	97	(14)
Net cash provided (used) by investing activities	<u>(462)</u>	<u>615</u>	<u>153</u>
<b>Cash flows from financing activities:</b>			
Borrowings of debt	2,316	—	2,316
Repayments of debt	(1,392)	(120)	(1,512)
Proceeds from rights offering	—	328	328
Reattribution of cash between groups	(1,346)	1,346	—
Intergroup receipts (payments), net	162	(162)	—
Repurchases of Liberty common stock	(815)	—	(815)
Taxes paid in lieu of shares issued for stock-based compensation	(112)	(16)	(128)
Excess tax benefit from stock-based compensation	56	8	64
Other financing activities, net	(5)	—	(5)
Net cash provided (used) by financing activities	<u>(1,136)</u>	<u>1,384</u>	<u>248</u>
Effect of foreign currency rates on cash	(20)	—	(20)
Net increase (decrease) in cash and cash equivalents	(148)	1,961	1,813
Cash and cash equivalents at beginning of period	847	—	847
Cash and cash equivalents at end period	<u>\$ 699</u>	<u>1,961</u>	<u>2,660</u>

**STATEMENT OF CASH FLOWS INFORMATION**

**Year ended December 31, 2011**

**(unaudited)**

	<u>Attributed (note 1)</u>		<u>Consolidated Liberty</u>
	<u>Interactive Group</u>	<u>Ventures Group</u>	
amounts in millions			
<b>Cash flows from operating activities:</b>			
Net earnings (loss)	\$ 958	7	965
<b>Adjustments to reconcile net earnings to net cash provided by operating activities:</b>			
(Earnings) loss from discontinued operations	(378)	—	(378)
Depreciation and amortization	641	—	641
Stock-based compensation	49	—	49
Cash payments for stock-based compensation	(3)	—	(3)
Excess tax benefit from stock-based compensation	(19)	—	(19)
Noncash interest expense	4	5	9
Share of losses (earnings) of affiliates, net	(23)	(117)	(140)
Cash receipts from return on equity investments	3	19	22
Realized and unrealized gains (losses) on financial instruments, net	(75)	(9)	(84)
Deferred income tax (benefit) expense	(109)	153	44
Other, net	(20)	15	(5)
Intergroup tax allocation	154	(154)	—
<b>Changes in operating assets and liabilities</b>			
Current and other assets	(174)	—	(174)
Payables and other current liabilities	(20)	(7)	(27)
Net cash provided (used) by operating activities	<u>988</u>	<u>(88)</u>	<u>900</u>
<b>Cash flows from investing activities:</b>			
Investments in and loans to cost and equity investees	(56)	(9)	(65)
Capital expended for property and equipment	(312)	—	(312)
Net sales (purchases) of short term and other marketable securities	(46)	—	(46)
Other investing activities, net	(14)	—	(14)
Net cash provided (used) by investing activities	<u>(428)</u>	<u>(9)</u>	<u>(437)</u>
<b>Cash flows from financing activities:</b>			
Borrowings of debt	383	—	383
Repayments of debt	(788)	(111)	(899)
Intergroup receipts (payments), net	(208)	208	—
Repurchases of Liberty common stock	(366)	—	(366)
Taxes paid in lieu of shares issued for stock-based compensation	(5)	—	(5)
Excess tax benefit from stock-based compensation	19	—	19
Other financing activities, net	(48)	—	(48)
Net cash provided (used) by financing activities	<u>(1,013)</u>	<u>97</u>	<u>(916)</u>
Effect of foreign currency rates on cash	(4)	—	(4)
<b>Net cash provided by (to) discontinued operations</b>			
Cash provided (used) by operating activities	304	—	304
Cash provided (used) by investing activities	(104)	—	(104)
Cash provided (used) by financing activities	(264)	—	(264)
Change in available cash held by discontinued operations	15	—	15
Net cash provided by (to) discontinued operations	<u>(49)</u>	<u>—</u>	<u>(49)</u>
Net increase (decrease) in cash and cash equivalents	(506)	—	(506)
Cash and cash equivalents at beginning of period	1,353	—	1,353
Cash and cash equivalents at end period	<u>\$ 847</u>	<u>—</u>	<u>847</u>

## Notes to Attributed Financial Information

(unaudited)

- (1) The Interactive Group is comprised of our consolidated subsidiaries QVC, Inc., Provide Commerce, Inc., Backcountry.com, Inc., Bodybuilding.com, LLC and Celebrate Interactive Holdings, LLC and our interest in HSN, Inc. Accordingly, the accompanying attributed financial information for the Interactive Group includes the foregoing investment, as well as the assets, liabilities, revenue, expenses and cash flows of those consolidated subsidiaries. We have also attributed certain of our debt obligations (and related interest expense) to the Interactive Group based upon a number of factors, including the cash flow available to the Interactive Group and its ability to pay debt service and our assessment of the optimal capitalization for the Interactive Group. The specific debt obligations attributed to each of the Interactive Group and the Ventures Group are described in note 4 below. In addition, we have allocated certain corporate general and administrative expenses among the Interactive Group and the Ventures Group as described in note 5 below.

The Interactive Group focuses on video and on-line commerce businesses. Accordingly, we expect that businesses that we may acquire in the future that we believe are complementary to this strategy will also be attributed to the Interactive Group.

The Ventures Group consists of all of our businesses not included in the Interactive Group including our consolidated subsidiary TripAdvisor, Inc. ("TripAdvisor") and interests in equity method investments of Expedia, Inc., Interval Leisure Group, Inc. and Tree.com, Inc. and available-for-sale securities Time Warner, Time Warner Cable and AOL. Accordingly, the accompanying attributed financial information for the Ventures Group includes these investments, as well as the assets, liabilities, revenue, expenses and cash flows of TripAdvisor. In addition, we have attributed to the Ventures Group all of our senior exchangeable debentures (and related interest expense). See note 4 below for the debt obligations attributed to the Ventures Group.

Any businesses that we may acquire in the future that we do not attribute to the Interactive Group will be attributed to the Ventures Group.

At the time of issuance of Liberty Ventures common stock, cash of \$1,346 million was reattributed to the Ventures Group from the Interactive Group. The Interactive Group borrowed funds under QVC's credit facility in connection with the completion of the recapitalization to have the appropriate amount of cash available to be attributed to each Group.

- (2) Investments in available-for-sale securities, including non-strategic securities, and other cost investments are summarized as follows:

	December 31, 2013	December 31, 2012
	amounts in millions	
<b>Interactive Group</b>		
Other cost investments	\$ 4	4
<b>Total Interactive Group</b>	<b>4</b>	<b>4</b>
<b>Ventures Group</b>		
Time Warner Inc.	306	1,042
Time Warner Cable Inc.	741	531
Other AFS investments	262	143
TripAdvisor AFS securities	188	99
<b>Total Ventures Group</b>	<b>1,497</b>	<b>1,815</b>
Consolidated Liberty	<b>\$ 1,501</b>	<b>1,819</b>

- (3) The following table presents information regarding certain equity method investments:

	December 31, 2013			Share of earnings (losses)		
	Percentage ownership	Carrying value	Market value	Years ended December 31,		
				2013	2012	2011
		dollar amounts in millions				
<b>Interactive Group</b>						
HSN, Inc. (3)	38%	\$ 293	1,247	61	40	38
Other	various	50	N/A	(13)	(12)	(15)
Total Interactive Group		343		48	28	23
<b>Ventures Group</b>						
Expedia, Inc. (1)(2)(3)	18%	477	1,608	31	67	119
TripAdvisor, Inc. (1)(4)	N/A	N/A	N/A	NA	38	NA
Other (5)	various	417	N/A	(46)	(48)	(2)
Total Ventures Group		894		(15)	57	117
Consolidated Liberty		\$ 1,237		33	85	140

- (1) During the fourth quarter of 2011 Expedia, Inc. completed the pro-rata split-off of TripAdvisor, a wholly owned subsidiary. Therefore, the Company had a 26% ownership interest in each of Expedia, Inc. and TripAdvisor as of December 31, 2011.
- (2) 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 was settled in October 2012 for total cash proceeds of \$412 million and the 12 million shares of Expedia common stock, previously held as collateral, were released to the counterparty. In the fourth quarter when the forward contract settled, the difference between the fair value of the Expedia shares and the carrying value of the shares (\$443 million) was recognized in the gain (loss) on dispositions, net line item in the statement of operations. Liberty owns an approximate 18% equity interest and 58% voting interest in Expedia. Liberty has entered into governance arrangements pursuant to which Mr. Barry Diller, Chairman of the Board and Senior Executive Officer of Expedia, may vote its interests of Expedia, subject to certain limitations. Additionally, through our governance arrangements with Mr. Diller, we have the right to appoint and have appointed 20% of the members of Expedia's board of directors, which is currently comprised of 10 members. Therefore, we determined based on these arrangements that we have significant influence through our arrangements with Expedia and have accounted for the investment as an equity method affiliate.
- (3) During the year ended December 31, 2013, Expedia, Inc. and HSN, Inc. paid dividends aggregating \$13 million and \$16 million, respectively, which were recorded as reductions to the investment balances.
- (4) In May 2012, Liberty sold approximately 8.5 million shares of TripAdvisor for cash proceeds of \$338 million. The sale resulted in a \$288 million gain recorded in gain (losses) on transactions, net, based on the average cost, in the statement of operations. On December 11, 2012, we acquired approximately 4.8 million additional shares of common stock of TripAdvisor (an additional 4% equity ownership interest), for \$300 million, and obtained voting control of TripAdvisor; see note 5 in the accompanying consolidated financial statements for additional details of the transactions related to TripAdvisor.
- (5) Liberty invested \$300 million in a solar energy plant during 2013. Liberty expects to receive a portion of the initial investment back within a year as the entity expects to receive grant proceeds and other favorable tax attributes. Similar to some of Liberty's other alternative energy investments, the Company expects to record the Company's share of losses of the solar plant initially but expects to record the impacts of favorable tax attributes (primarily accelerated depreciation) as a current tax benefit with an offsetting deferred tax expense in the tax expense (benefit) line item in the Statement of Operations.

- (4) Debt attributed to the Interactive Group and the Ventures Group is comprised of the following:

	December 31, 2013	
	Outstanding principal	Carrying value
	amounts in millions	
<b>Interactive Group</b>		
Corporate level notes and debentures		
8.5% Senior Debentures due 2029	\$ 287	285
8.25% Senior Debentures due 2030	504	501
1% Exchangeable Senior Debentures due 2043	400	423
Subsidiary level notes and facilities		
QVC 7.5% Senior Secured Notes due 2019	769	761
QVC 7.375% Senior Secured Notes due 2020	500	500
QVC 5.125% Senior Secured Notes due 2022	500	500
QVC 4.375% Senior Secured Notes due 2023	750	750
QVC 5.95% Senior Secured Notes due 2043	300	300
QVC Bank Credit Facilities	922	922
Other subsidiary debt	141	141
Total Interactive Group	<u>5,073</u>	<u>5,083</u>
<b>Ventures Group</b>		
Corporate level debentures		
4% Exchangeable Senior Debentures due 2029	439	284
3.75% Exchangeable Senior Debentures due 2030	439	270
3.5% Exchangeable Senior Debentures due 2031	363	316
0.75% Exchangeable Senior Debentures due 2043	850	1,062
Subsidiary level notes and facilities		
TripAdvisor Debt Facilities	369	369
Total Ventures Group	<u>2,460</u>	<u>2,301</u>
Total consolidated Liberty debt	<u>\$ 7,533</u>	7,384
Less current maturities		<u>(978)</u>
Total long-term debt		<u>\$ 6,406</u>

- (5) Cash compensation expense for our corporate employees will be allocated among the Interactive Group and the Ventures Group based on the estimated percentage of time spent providing services for each group. On a semi-annual basis estimated time spent will be determined through an interview process and a review of personnel duties unless transactions significantly change the composition of companies and investments in either respective group which would require a more timely reevaluation of estimated time spent. Other general and administrative expenses will be charged directly to the groups whenever possible and are otherwise allocated based on estimated usage or some other reasonably determined methodology. Amounts allocated from the Interactive Group to the Ventures Group was determined to be \$11 million and \$5 million for the years ended December 31, 2013 and 2012, respectively. We note that stock compensation related to each tracking stock group is determined based on actual options outstanding for each respective tracking stock group, therefore, as it relates to periods prior to the Split-Off no stock compensation expense was recognized by the Ventures group.

While we believe that this allocation method is reasonable and fair to each group, we may elect to change the allocation methodology or percentages used to allocate general and administrative expenses in the future.

- (6) We have accounted for income taxes for the Interactive Group and the Ventures Group in the accompanying attributed financial information in a manner similar to a stand-alone company basis. To the extent this methodology differs from our tax sharing policy, differences have been reflected in the attributed net assets of the groups.

**Interactive Group**

Income tax benefit (expense) consists of:

	Years ended December 31,		
	2013	2012	2011
	amounts in millions		
Current:			
Federal	\$ (361)	(365)	(310)
State and local	(26)	(26)	(32)
Foreign	(82)	(140)	(120)
	<u>\$ (469)</u>	<u>(531)</u>	<u>(462)</u>
Deferred:			
Federal	\$ 196	152	103
State and local	(58)	20	2
Foreign	(7)	7	4
	<u>131</u>	<u>179</u>	<u>109</u>
Income tax benefit (expense)	<u>\$ (338)</u>	<u>(352)</u>	<u>(353)</u>

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

	Years ended December 31,		
	2013	2012	2011
	amounts in millions		
Computed expected tax benefit (expense)	\$ (288)	(309)	(327)
State and local income taxes, net of federal income taxes	(22)	(4)	(17)
Foreign taxes, net of foreign tax credits	(7)	5	(3)
Change in valuation allowance affecting tax expense	(26)	(8)	(15)
Impairment of intangible assets	(2)	(29)	—
Other, net	7	(7)	9
Income tax benefit (expense)	<u>\$ (338)</u>	<u>(352)</u>	<u>(353)</u>

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are presented below:

	December 31,	
	2013	2012
amounts in millions		
Deferred tax assets:		
Net operating and capital loss carryforwards	\$ 68	92
Foreign tax credit carryforwards	129	87
Accrued stock compensation	26	11
Other accrued liabilities	79	80
Investments	—	16
Other future deductible amounts	130	133
Deferred tax assets	432	419
Valuation allowance	(51)	(40)
Net deferred tax assets	381	379
Deferred tax liabilities:		
Intangible assets	1,419	1,541
Deferred tax liabilities	1,419	1,541
Net deferred tax liabilities	\$ 1,038	1,162

The Company's deferred tax assets and liabilities are reported in the accompanying balance sheet information as follows:

	December 31,	
	2013	2012
amounts in millions		
Current deferred tax (assets) liabilities	\$ (170)	(156)
Long-term deferred tax liabilities	1,208	1,318
Net deferred tax liabilities	\$ 1,038	1,162

#### Ventures Group

Income tax benefit (expense) consists of:

	Years ended December 31,		
	2013	2012	2011
amounts in millions			
Current:			
Federal	\$ 233	151	154
State and local	(10)	(1)	—
Foreign	(20)	—	—
	\$ 203	150	154
Deferred:			
Federal	\$ (207)	(183)	(145)
State and local	180	(9)	(8)
Foreign	32	—	—
	5	(192)	(153)
Income tax benefit (expense)	\$ 208	(42)	1

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

	Years ended December 31,		
	2013	2012	2011
	amounts in millions		
Computed expected tax benefit (expense)	\$ 39	(386)	(2)
State and local income taxes, net of federal income taxes	5	(7)	(5)
Foreign taxes, net of foreign tax credits	15	—	—
Impact of change in state rate on deferred taxes	109	—	—
Consolidation of previously held equity method affiliate	—	294	—
Change in valuation allowance affecting tax expense	(6)	—	—
Dividends received deductions	—	10	5
Alternative energy tax credits	54	48	3
Other, net	(8)	(1)	—
Income tax benefit (expense)	<u>\$ 208</u>	<u>(42)</u>	<u>1</u>

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are presented below:

	December 31,	
	2013	2012
	amounts in millions	
Deferred tax assets:		
Net operating and capital loss carryforwards	\$ 34	18
Other	48	36
Deferred tax assets	82	54
Valuation allowance	(17)	(12)
Net deferred tax assets	<u>65</u>	<u>42</u>
Deferred tax liabilities:		
Investments	569	508
Intangible assets	862	1,209
Discount on exchangeable debentures	965	890
Deferred gain on debt retirements	313	321
Other	82	73
Deferred tax liabilities	<u>2,791</u>	<u>3,001</u>
Net deferred tax liabilities	<u>\$ 2,726</u>	<u>2,959</u>

The Company's deferred tax assets and liabilities are reported in the accompanying balance sheet information as follows:

	December 31,	
	2013	2012
	amounts in millions	
Current deferred tax asset of TripAdvisor (1)	\$ (5)	—
Current deferred tax liabilities	1,095	1,068
Long-term deferred tax liabilities	1,636	1,891
Net deferred tax liabilities	<u>\$ 2,726</u>	<u>2,959</u>

(1) TripAdvisor's deferred tax asset is not offset with Liberty's deferred tax liabilities as TripAdvisor is not included in the group tax return of Liberty. TripAdvisor's deferred tax asset has been included in other current assets in the accompanying consolidated balance sheet.

*Intergroup payable (receivable)*

The intergroup balance, at December 31, 2013, is primarily a result of timing of tax benefits taken by the Ventures group as a result of the Solar investment made in the third quarter and the resulting cash payments to be made from the Interactive group.

- (7) The Liberty Interactive Stock and the Liberty Ventures Stock have voting and conversion rights under our restated charter. Following is a summary of those rights. Holders of Series A common stock of each group is entitled to one vote per share, and holders of Series B common stock of each group are entitled to ten votes per share. Holders of Series C common stock of each group, if issued, are entitled to 1/100th of a vote per share in certain limited cases and will otherwise not be entitled to vote. In general, holders of Series A and Series B common stock will vote as a single class. In certain limited circumstances, the board may elect to seek the approval of the holders of only Series A and Series B Liberty Interactive Stock or the approval of the holders of only Series A and Series B Liberty Ventures Stock.

At the option of the holder, each share of Series B common stock will be convertible into one share of Series A common stock of the same group. At the discretion of our board, the common stock related to one group may be converted into common stock of the same series that is related to the other group.

**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**

**December 31, 2013**

**(unaudited)**

**amounts in millions**

Liberty Interactive Corporation Net Assets	\$ 11,435
Reconciling items:	
LINT put option obligations	—
LINT LLC Net Assets	<u>\$ 11,435</u>
Liberty Interactive Corporation Net Earnings	\$ 580
Reconciling items:	
General and administrative expenses	1
Unrealized gain on LINT put options	<u>(2)</u>
Liberty Interactive LLC Net Earnings	<u>\$ 579</u>