The Malone Complex

A Study in Financial Brilliance

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November 2013
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Because we have benefitted from investing alongside John Malone through numerous entities, the purpose of this presentation is part analysis, part history, part opportunity, and part tribute.
Hiding in Plain Sight

- Due to **only perceived** complexity, most investors are unaware of one of the greatest owner/operator/allocators of this time.
- These opportunities are **hiding in plain sight**, if one is simply paying attention.
- Yet I have never seen consolidated summary or analysis across the Malone entities, so I decided to do it myself.
A Brief History
PROSPECTUS/OFFERING CIRCULAR

Up to 1,842,847 shares of Class A Common Stock
and
Up to 249,223 shares of Class B Common Stock

of

LIBERTY MEDIA CORPORATION
(A wholly-owned subsidiary of Tele-Communications, Inc.)

Issuable in exchange for shares of Class A Common Stock and Class B Common Stock
of

TELE-COMMUNICATIONS, INC.

Upon exercise of Transferable Exchange Rights described herein

THE EXCHANGE OFFERS AND WITHDRAWAL RIGHTS WILL TERMINATE AT 5:00 P.M., NEW YORK CITY TIME, ON MARCH 19, 1991, UNLESS EXTENDED

Liberty Media Corporation (the “Company”), a newly formed Delaware corporation and an indirect wholly-owned subsidiary of Tele-Communications, Inc. (“TCI”), is distributing with this Prospectus/Offering Circular ("Prospectus") to the holders of record at the close of business on February 6, 1991 (the "Record Date") of shares of TCI’s Class A Common Stock, par value $1.00 per share ("TCI Class A Stock"), one transferable right (a “Class A Exchange Right”) for every 200 shares of TCI Class A Stock held of record, and to the holders of record on the Record Date of certain options and convertible debt securities (including TCI’s 7% Convertible Subordinated Debentures, due October 1, 2012) that are exercisable for or convertible into TCI Class A Stock ("TCI Class A Convertible Securities"), one Class A Exchange Right for every 200 shares of TCI Class A Stock issuable on exercise or conversion of the TCI Class A Convertible Securities held of record. Each Class A Exchange Right entitles the holder thereof, upon the terms and conditions set forth in this Prospectus and the related Letter of Transmittal (which together constitute the “Class A Exchange Offer”), to exchange 16 shares of TCI Class A Stock for one share of the Company’s Class A Common Stock, par value $1.00 per share ("Company Class A Stock").

The Company is also distributing with this Prospectus to the holders of record on the Record Date of shares of TCI’s Class B Common Stock, par value $1.00 per share ("TCI Class B Stock"), one transferable right (a “Class B Exchange Right”) for every 200 shares of TCI Class B Stock held of record, and to the holders of record on the Record Date of certain options that are exercisable for TCI Class B Stock ("TCI Class B Convertible Securities"), one Class B Exchange Right for every 200 shares of TCI Class B Stock issuable on exercise of the TCI Class B Convertible Securities held of record. Each Class B Exchange Right entitles the holder thereof, upon the terms and conditions set forth in this Prospectus and the related Letter of Transmittal (which together constitute the “Class B Exchange Offer”), to exchange 16 shares of TCI Class B Stock for one share of the Company’s Class B Common Stock, par value $1.00 per share (the “Company Class B Stock”).

(Continued on following page)

THESSECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is February 11, 1991.
Lowest Paid, Best Performing CEO

- “During the preceding 15 years, Malone had enjoyed a reputation of being one of the lowest-paid, best performing CEOs in America.”
- “For more than 15 years of running TCI, what drove Malone was a determination to create the biggest and most cash-efficient cable operator in the country... Yet, for all this, his stake was puny: a tiny fraction of 1% in 1991.”
- “It was making Bob [Magness] very rich. And Bob wasn’t reciprocating. And that was just Bob... That’s what created Liberty... And it worked.” - Malone (Note: Magness was a father figure to Malone and there was no ill will)
Government Impetus

“Based on talks with his attorneys as well as his cable colleagues, Malone suspected that government regulators would try to force him to split TCI in two - a distribution company, owning all of TCI’s cable systems, and a content company, owning interests in cable channels. So Malone decided to do it for them.”

“In early 1991, he set up plans to form a new company, Liberty Media, and planned to stock it with more than $600 million worth of assets from TCI, roughly half the value in cable systems and the other half in programming stakes, mostly minority interests in small and large channels.”

Source: Cable Cowboy: John Malone and the Rise of the Modern Cable Business
Liberty Media returned 15x the initial investment in two years

- Shareholders received rights that entitled them to exchange some of their TCI stock for shares in the new company.
- Liberty was issuing a maximum of only 2.1m shares. TCI had 415m shares...
- 1 Right received for every 200 TCI shares. Each right + 16 shares of TCI (at $16) = 1 share of Liberty Media! = $256 per share...
- Liberty showed a pro forma loss.
- Another twist: Any common not sold in the rights offering would be replaced by preferred stock owned by TCI, i.e. a backstop to the deal.
- **The Bottom Line:** The fewer shareholders that participated in the Liberty offering, the more leveraged the upside potential for Liberty’s stock.

Sources: You Can be a Stock Market Genius. Cable Cowboy. Filings.
**Creating Liberty Media - 1991**

- Malone was granted nontransferable options to purchase 100,000 shares of Liberty at price per share equal to $256. **Malone got options on $25m in Liberty stock at $256 per share.**
- Hiding in Plain Sight: “Since the bulk of Liberty’s assets were made up of equity stakes in other companies, the revenues and earning of most of these interests were not consolidated into Liberty’s income statement. (These stakes merely appeared on Liberty’s balance sheet at cost.)”
- **Only about 700k shares were issued (out of 2.1m maximum)...**
- Rights were freely traded. Available at less than $1 per right...
- Most shareholders neither exercised nor sold their rights.
- **P.S. Less than two years after the rights offering, Liberty split its stock 20 for 1, then 4 for 1, and then 2 for 1...**

Sources: You Can be a Stock Market Genius. Cable Cowboy. Filings.
By the summer of 1993, shares that initially sold for $256 apiece were worth $3,700, sending Malone’s investment of $42.1m, most of it borrowed from Liberty on a personal note, climbing to more than $600m.

For Malone, the transaction was elegant given the gains came without enormous income taxes, since it was structured via stock swaps, which were not taxable.

Source: Cable Cowboy: John Malone and the Rise of the Modern Cable Business
Malone’s Alphabet Soup

- **LMCA / LMCB** (Liberty Media)
- **LINTA / LINTB** (Liberty Interactive)
- **LVNTA / LVNTB** (Liberty Ventures)
- **LBTYA / LBTYB** (Liberty Global)
- **STRZA / STRZB** (Starz)
- Numerous other current entities... (**DISCA / DISCB**, **ASCMA / ASCMB**, **EXPE A/B**, **TRIP A/B**...)
- Numerous other previous entities (TCI Ventures, TCI Intl, **LSTZA / LSTZB**, **LCAPA / LCAPB**, **LMDIA / LMDIB**...)

- Most investors lose interest about now...
Malone Strategy - The Flywheel

- Cash flow, EBITDA pioneer
- Tax efficiency / tax deferral
- Net operating losses, tax shield
- Leverage, bulkheads
- Equity shrink, opportunistic
- Synergies / Scale, horizontal / vertical
- Cost / Capex reduction
- Spinoffs / Reverse Morris Trust / Mergers
- Tracking stocks
- Stock swap / exchanges
- Hard / soft control, voting stock
- Decentralization
- Joint Ventures
## Chronology

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Entity Summary

- **LMCA / LMCB** (Liberty Media) - Holds SIRI, LVY, CHTR, other assets
- **LINTA / LINTB** (Liberty Interactive, Tracking stock) - Holds QVC, HSNI, Digital assets
- **LVNTA / LVNTB** (Liberty Ventures, Tracking stock) - Holds TRIP, EXPE, TWC, exchangeable debt, other assets, the “public hedge fund”
- **LBTYA / LBTYB** (Liberty Global) - International cable consolidation
- **STRZA / STRZB** (Starz) - Content entity spinoff from LMCA
LVNTA was spun off from LINTA August 10, 2012 at $40 per share. In Nov 2013, LVNTA is $120 per share.

- 20 LINTA shares = 1 LVNTA share
- 3 LVNTA shares = 1 Right at a 20% discount to 20 day VWAP
- Assets include Public Holdings (TRIP, EXPE, TWX, TWC, IILG, TREE, AOL) + Cash + Tax adjustments
- Liabilities include tax-advantaged exchangeable debt
- No dates were given in any filings (to keep investors guessing)
- Only approved spinoff on August 8, 2012, two days before...
- Parallel announcement of LMCA+STRZA spinoff (which shifts attention from the LVNTA opportunity)
Four-Way Spinoff - Q2 2014

- **LINTA**
  - **QVCA**
    - QVC, HSNI, CNR Assets
  - **LDCA**
    - eCommerce Assets

- **LVNTA**
  - **LVNTA**
    - Public Holdings, Solar Assets
  - **LTCA**
    - TRIP Holdings
LINTA to Become QVCA + Spinoff LDCA

- **QVCA (QVC Group)** to hold QVC related assets, HSNI stake, CNR stake, Cash, Certain Liabilities
- **LDCA (Liberty Digital Commerce)** to hold ecommerce assets (such as Provide Commerce, Backcountry.com, Bodybuilding.com, Evite.com), Cash, Certain Liabilities
- 1 LDCA Share = 10 QVCA Shares
- 1 QVCA Share = 1 LINTA Share
- Separation to highlight value of QVCA and LDCA assets
- Highlight growth, margin expansion, hidden assets
- Continued accretive share buybacks

**LINTA = QVCA + LDCA - Q2 2014**
LVNTA + LTCA - Q2 2014

LVNTA to Spinoff LTCA

- **LVNTA (Liberty Ventures)** to hold EXPE, IILG, TREE, TWC, TWX, AOL, Solar, Cash, Certain Liabilities
- **LTCA (Liberty TripAdvisor Holdings)** to hold 22% TRIP common stake, 57% TRIP voting stake, BuySeasons, Cash, Certain Liabilities
- 1 LTCA Share = 1 LVNTA Share
- Separation to highlight value of LTCA and LVNTA assets
- Highlight hidden assets
- Address significant sum of the parts discount
$1 invested at the beginning of the Malone era in 1973 was worth over $900 by 1998.

Source: Center for Research in Security Prices (CRSP) and TCI annual reports.

Source: The Outsiders
Some History: Spins/Splits at TCI

- Liberty Media was the first in a series of tracking stocks that Malone created, including TCI Ventures (for Teleport, Sprint/PCS, and other non-cable assets) and TCI International (for TCI’s ownership in miscellaneous foreign cable assets).
- Malone started with the spinoff of Western Tele-Communications microwave business in 1981.
- By the time of the sale to AT&T, TCI had spun off a remarkable **seven different entities** to shareholders.

Source: The Outsiders
Some History: Spins/Splits at TCI

* Based on the current share count at distribution/exchange, i.e., after stock splits
** One exchange right to tender 16 TCI shares of either class were awarded for every 200 shares held

Source: CRSP, TCI Annual Reports
Source: William Thorndike

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Distribution/exchange terms*

- Distribution of 1:1 for TCI Class A
- Distribution of 1:20 for TCI Class A
- Distribution of 1:20 for TCI Class B
- Distribution of 1:13 for TCI Class A
- Distribution of 1:13 for TCI Class B
- Distribution of 1:1 for WTCI A/B
- Distribution of 1:1 for WTCI A/B
- Tender of 1:16 for TCI Class A**
- Tender of 1:16 for TCI Class B**
- Distribution of 1:4 for TCI Class A
- Distribution of 1:4 for TCI Class B
- Distribution of 1:4 for TCI Class A
- Distribution of 1:4 for TCI Class B
- Exchange of 2:1 for TCI Class A
- Exchange of 2:1 for TCI Class B

Sources:
- CRSP
- TCI Annual Reports
- William Thorndike
Some History: IACI & Barry Diller

The current stakes in EXPE, TRIP (EXPE Spin), IILG, TREE, LYV (TKTM) came from one company, IACI, which originally completed a five-way spinoff in 2008

- Liberty owned about 30% of IACI common and about 62% of voting power, although through an agreement, Mr. Diller had controlled Liberty’s votes.
- Malone initially opposed the spinoffs because the new companies have a single-tier voting structure, shrinking Liberty’s power.
- Liberty sued IACI, but a Delaware judge sided with Mr. Diller, and Mr. Malone later dropped his appeal.

Source: Investors Welcome IAC Spinoff
Liberty Media Corporate Actions

- **January 13, 2013** - **LMCA spin-off of STRZA**. Effected by Old LMC, (i) all of the businesses, assets, and liabilities of Old LMC, other than Starz, LLC, were contributed to Liberty Spinco, Inc., a former subsidiary of Old LMC; (ii) Old LMC was renamed Starz (STRZ); (iii) Liberty Spinco, Inc. was renamed Liberty Media Corporation (New LMC); and (iv) all of the stock of New LMCA distributed on January 11, 2013 to the holders of record of Old LMC stock on the record date. [Click here for Basis Allocation](#).

- **August 10, 2012** - LINTA/B created the new Liberty Ventures (LVNTA/B) common stock.

- **November 28, 2011** - Liberty Media completes the conversion of each share of its Liberty Starz common stock (LSTZA and LSTZB) into 0.88129 of a share of the corresponding series of Liberty Capital common stock (LMCA and LMCB). [Download FORM 8937 RECAPITALIZATION](#).

- **September 23, 2011** – LINTA/B (f/k/a Liberty Media Corporation) completes the split-off of L/LMC.B (f/k/a Liberty CapStarz, Inc. and Liberty Splitco, Inc.). In the split-off, LINTA/B redeemed each share of its LCAPA/B and LSTZA/B common stock in exchange for one share of the corresponding series of L/LMC.B’s LCAPA/B and LSTZA/B common stock, respectively. The ticker symbols for L/LMC.B’s LCAPA/B and LSTZA/B common stock are the same as the ticker symbols for LINTA/B’s LCAPA/B and LSTZA/B common stock. [Download FORM 8937 SPLIT-OFF](#).

- **November 19, 2009**, Liberty completes split-off of the Liberty Entertainment Inc (LEI) and business combination with DIRECTV (NASDAQ: DTV). Remaining businesses, assets and liabilities not held by LEI remain with Liberty Media and are reclassified as the Liberty Starz group (NASDAQ: LSTZA/B). 1 share of DTV and .1 shares of LSTZA/B issued for each share of LMDIA/B. [Click here for basis allocation](#).

- **September 18, 2008**, Discovery Holding Company (DHC) completes restructuring into Discovery Communications, Inc. (DCI), and spin off of Ascent Media Corporation (ASCM). [Click here for basis allocation](#).

- **March 3, 2008**, Liberty Media Corporation completes reclassification of its Liberty Capital group common stock (NASDAQ: LCAPA/B) and issues new tracking stock for the Liberty Entertainment group common stock (NASDAQ: LMDIA/B): 4 shares of LMDIA/B issued for each share of LCAPA/B. [Click here for Basis Allocation](#).

- **May 9, 2006**, Liberty Media completes its restructuring and issues two new tracking stocks Liberty Capital group and Liberty Interactive group (NASDAQ: LCAPA/B and LINTA/B, respectively): 0.05 shares of LCAPA/B issued for each 1 share of L/LMC.B held and 0.25 shares of LINTA/B shares issued for each 1 share of L/LMC.B held. [Click here for Basis Allocation](#).

- **July 21, 2005**, Discovery Holding Company Spin Off from Liberty Media Corporation: 0.10 shares of DISCA/DISCB issued for each 1 share of L/LMC.B. [Click here for Basis Allocation](#).

Source: Liberty Media website
Liberty Media Corporate Actions

- **June 8, 2004, Liberty Media International Spin Off** from Liberty Media: 0.05 shares of LBTYA/LBTYB issued for each 1 share of L/LMC.B. Click here for Basis Allocation.
- **October 31, 2002, Rights Offering** to Liberty Media Shareholders: 0.04 transferable subscription rights issued for each share of Series A common stock and Series B common stock held. Each whole right entitled the holder to purchase one share of Series A common stock at a subscription price of $6.00 per share.
- **August 10, 2001, Liberty Media Split Off from AT&T**: Each share of LMG.A/B exchanged on a 1 for 1 basis for shares of the new Liberty Media Series A and Series B Common stock, trading on the New York Stock Exchange under the symbols LMC.A and LMC.B respectively.
- **June 9, 2000, 2-for-1 Stock Split**: 1 additional share of LMG.A/B issued for every share of LMG.A/B held
- **June 11, 1999, 2-for-1 Stock Split**: 1 additional share of LMG.A/B issued for every share of LMG.A/B held
- **March 9, 1999, AT&T/TCI Merger**: Each share of LBTYA/B exchanged on a 1 for 1 basis for shares of AT&T Liberty Media group A/B, trading on the New York Stock Exchange under the symbols LMG.A/LMG.B
- **February 6, 1998, 3-for-2 Stock Split**: 1 additional share of LBTYA/B issued for every 2 shares of LBTYA/B held
- **January 6, 1998, TCI/Liberty Merger Settlement**: 0.01345 share TCOMA for each share of LBTYA held on August 4, 1994; 0.01542 share TCOMB for each share of LBTYB held on August 4, 1994
- **January 13, 1997, 3-for-2 Stock Split**: 1 additional share of LBTYA for every 2 shares of LBTYA and LBTYB
- **August 10, 1995, distribution of Liberty tracking stock**: 0.25 shares LBTYA/B issued for each 1 share of TCOMA/B
- **August 4, 1994, Merger with TCI**: 0.975 shares TCOMA/B for each share of LBTYA/B; 1 share TCOMP for each share of LBTYP
- **March 17, 1993, 2-for-1 Stock Split**: 1 additional share LBTYA/B issued for each one held
- **December 3, 1992, 4-for-1 Stock Split**: 3 additional shares LBTYA/B issued for each one held
- **March 12, 1992, Liberty recapitalization**: 20 shares new LBTYA/B + 2 shares LBTYP issued in exchange for each share of old LBTYA/B
- **March 28, 1991, Liberty trades publicly
- **March 19, 1991, exercise of Liberty Rights**: 16 shares TCOMA/B + 1 Right = LBTYA/B
- **March 19, 1991, expiration of Liberty Rights**: Any not exercised expired with no value
- **February 6, 1991, issuance of Liberty Rights**: 1 Right for every 200 shares of TCOMA/B

Source: Liberty Media website
“As you look back at your career, will you share some examples of your most successful investments?”

- My most successful investment involved one of the executives that I have an enormous amount of respect for, John Malone. John for years headed up Tele-Communications (TCI), which was the biggest cable company in the business. In the early 1990s, he decided to spin off Liberty Media, which was a collection of TCI’s programming and cable network assets, and he did it in typical John Malone fashion. It was a very complicated split-off, not a spinoff. They set up an exchange ratio between Liberty and TCI that people didn’t understand. The prospectus was daunting. John put low valuations on the assets, because none of them were traded publicly. I thought it was an enormously attractive situation.

- We decided we still loved TCI. We didn’t want to give up our ownership, so we went out in the open market and bought enough TCI shares to submit into this split-off so that we would own about 15% of Liberty Media, as well. And then we actually bought some rights and thought maybe we would ultimately own 18% or 19% of Liberty Media.

- Two days before the deal closed, I got a call from John Malone because he knew what I was doing. He said, “Gordy, less than half the people are going to exercise their rights to trade into the split-off, so you’re going to own 43% of Liberty Media.” I talked to our lawyers and we figured out that, although the ownership limit was 20%, we were only going to have about 12% of the votes. For that reason they let us go ahead with it and, on day one, we owned 43% of Liberty Media. For a couple of months the stock almost never had a down day because everybody that owned it had jumped through hoops to get there, so there were no sellers. People finally figured out how valuable, and undervalued, these assets were. Over the next few years the stock went up, I think, 20 times. It was an enormously successful investment.

Source: Four decades of investing with Gordon Crawford
References

- Cable Cowboy: John Malone and the Rise of the Modern Cable Business by Mark Robichaux
- The Billionaire Shell Game: How Cable Baron John Malone and Assorted Corporate Titans Invented a Future Nobody Wanted by L.J. Davis
- End of the Line: The Rise and Fall of AT&T by Leslie Cauley
- The Outsiders by William Thorndike
- You Can be a Stock Market Genius by Joel Greenblatt
- Articles
- Press Releases
- Filings