

## 2009 Cost Basis

### Share and Cost Basis Allocation Information for U.S. Taxpayers Resulting from the DIRECTV – Liberty Entertainment Merger

The following is provided to assist you in determining your holding in DIRECTV Class A common stock as well as Liberty Starz Group class A shares after the completion of the merger as well as determining your tax basis in your current DIRECTV Class A common stock.

**Tax laws may have changed since the posting of this information. Please consult a professional tax advisor to help you with your specific situation.**

#### **What you received:**

**If you owned shares of DIRECTV common stock prior to 11/19/2009:** Each share of DIRECTV common stock (NASDAQ: DTV) you owned was exchanged for 1 share of new DIRECTV Class A common stock (ticker symbol remains DTV). There were no fractional shares.

**Example:** If you owned 75 shares of DIRECTV common stock on 11/19/2009, you exchanged those shares for 75 shares of DIRECTV Class A common stock.

**If you owned shares of Liberty Entertainment Series A common stock (NASDAQ: LMDIA) prior to 11/19/2009:** Each share of LMDIA was exchanged for 0.9 shares of Liberty Entertainment, Inc. Series A common stock (LEI) AND .1 share of Liberty Starz Group Class A common stock (NASDAQ:LSTZA). Fractional shares were paid in cash. In turn, each share of LEI was then immediately exchanged for 1.1113 shares of DIRECTV Class A common stock. Fractional shares were paid in cash.

**Example:** If you owned 75 shares of LMDIA on 11/19/2009:

- 1) You exchanged those shares for 67.5 shares of LEI (75 multiplied by 0.9 = 67.5).
  - a. As fractional shares were paid in cash, you actually received 67 shares of LEI and 0.5 shares were paid out in cash at the closing market price of LMDIA on November 19, 2009 of \$35.645 per share. IN this example, you would receive \$17.82 (5 multiplied by \$35.645 = \$17.82).
- 2) The 67 shares of LEI were then immediately exchanged for 74.457 shares of DTV Class A common stock (67 multiplied by 1.1113 = 74.457).
  - a. Again, as fractional shares were paid in cash, you actually received 74 shares of DTV Class A common stock and 0.457 shares was paid out in cash at \$32.41 per share or \$14.81 in this example (0.457 multiplied by \$32.41 = \$14.81).
- 3) Upon the exchange of your 75 LMDIA shares, you would have also received 7.5 shares of LSTZA (0.1 multiplied by 75 = 7.5)
  - a. As fractional shares were paid in cash, you actually received 7 shares of LSTZA and 0.5 shares was paid out in cash at \$35.64 per share or \$17.82 in this example (0.5 multiplied by \$35.645 = \$17.82).

## Cost Basis Adjustments

**If you owned shares of DIRECTV common stock prior to 11/19/2009:** The cost basis in your DTV common stock transfers directly to your DTV Class A common stock and remains the same.

**Example:** If you owned 75 shares of DTV prior to 11/19/2009 with a tax basis, for example, of \$20 per share, you now own 75 shares of DTV Class A common stock with a tax basis of \$20 per share.

**If you owned shares of LMDIA common stock prior to 11/19/2009:**

Federal tax law requires that the tax basis in your LMDIA be allocated between your DTV shares and your LSTZA shares that you received in the merger. This allocation should be based on the relative fair market value immediately after the merger of your new DTV Class A shares and your LSTZA shares.

Federal tax law does not specifically identify how one determines the fair market value of the new DTV Class A shares and your LSTZA shares that you received. There are arguably three alternative methods to determine the fair market value:

(i) the average of the high and low trading prices of such stocks on November 20<sup>th</sup> (the day on which both stocks first traded); (ii) the opening trading price on November 20<sup>th</sup>; and (iii) the closing trading price on November. In certain IRS private rulings, the IRS has recognized the use of the average of the high and low trading prices as an acceptable measure of fair market value. There may also be additional alternatives that may be acceptable to the IRS as well.

The example below uses the average of the high and low prices on November 20 shown in the following table to determine your cost basis – other methodologies may prove more optimal for you depending on your circumstances. **Ask a tax expert for assistance.**

### **November 20, 2009 Trading Activity**

	High	Low	Average
DTV Class A	32.07	30.88	31.475
LSTZA	50.50	48.00	49.250

These average amounts are then multiplied by the conversion ratio that represents the total number of shares of DTV Class A common stock and LSTZA received in the exchange for each share of LMDIA and without regard to the cash-in-lieu calculation, which is 0.1 shares of LSTZA and 1.00017 (0.9 multiplied by the exchange ratio of 1.11113) shares of DTV Class A common stock. The product of these calculations is then used as the base to which the cost basis in the LMDIA shares is allocated to the DTV and LSTZA shares received.

That calculation is shown in the table below.

### **Basis Allocation for LMDIA Common:**

	Average	x	Share Ratio	=	Total	Percent of cost basis allocated
DTV Class A	31.475		1.00017		31.4804	86.4718%
LSTZA	49.250		0.1		4.9250	13.5282%

In addition, if you received cash in lieu payments for fractional shares, you will have to then allocate some cost basis to those cash in lieu payments (see the examples below).

**Example:** If on 11/19/2009 you owned 75 shares of LMDIA with a tax basis of, for example, \$25 per share or total tax basis of \$1,875:

Step 1) You exchanged those 75 shares for 67.5 shares of LEI.

- a. 86.4718% of the original tax basis is allocated to these share or \$1,621.35.
- b. To allocate the cost basis to the fractional shares paid in cash, divide the fraction shares by the total shares and multiply the resulting percentage by the dollars you calculated in Step 1a.

In this example, 0.5 divided by 67.5 equals .00740; .00740 multiplied by \$1,621.35 equals \$12.00. This is the tax basis of your cash in lieu. The remaining tax basis in this example is \$1,609.35.

Step 2) The 67 shares of LEI were then immediately exchanged for 74.457 shares of DTV Class A common stock (67 multiplied by 1.1113 = 74.457). The total tax basis for these 74.457 shares is \$1,609.35 as calculated in Step 1 above.

- a. To allocate the cost basis to the fractional shares paid in cash, divide the fractional share by the total shares and multiply the resulting percentage by the tax basis amount you calculated in Step 1b.

In this example, 0.457 divided by 74.457 equals 0.00614. Multiply .00614 by \$1,609.35 which equals \$9.88. This is the tax basis allocated to the cash in lieu that you received. The remaining tax basis is allocated to your DTV Class A common shares, in this example \$1,599.47 or \$21.6144 per DTV share.

Step 3) You also received 7.5 shares of LSTZA in exchange for your 75 LMDIA shares and need to allocate basis to those shares.

- a. The total cost basis in these shares is simply your original cost basis in LMDIA less the cost basis you calculated in Step 1a above, in this example, \$253.65 (\$1,875 less \$1,621.35).
- b. To allocate the cost basis to the fractional shares paid in cash, divide the fractional share by the total shares and multiply the resulting percentage by the amount of the remaining basis that you calculated in Step 3a.

In this example, 0.5 divided by 7.5 equals 0.06667. Multiply 0.06667 by \$253.65 which equals \$9.88. This is the tax basis allocated to the cash in lieu. The remaining tax basis is allocated to your LSTZA shares, in this example \$243.77 or \$34.8243 per LSTZA share.

**These are examples only – tax laws may have changed since the posting of this information. You should consult a professional tax advisor to help you with your specific situation.**