THE SPIN-OFF REPORT

December 8, 2010

Liberty Interactive

(BUY)

Current Share Price (11/29/10): $15.76
Fair Value Estimate: $22 per share
Shares Outstanding: 598.3 million
Market Capitalization: $9.4 billion

Ticker: LINTA, LINTB
Dividend: $0.00
Yield: N/A

Splitco Starz

(BUY)

Current Share Price (11/29/10): $62.34
Fair Value Estimate: $75 per share
Shares Outstanding: 51.6 million
Market Capitalization: $3.2 billion

Ticker: STZA, STZB
Dividend: $0.00
Yield: N/A

Splitco Capital

(BUY)

Current Share Price (11/29/10): $58.14
Fair Value Estimate: $77 per share
Shares Outstanding: 84.6 million
Market Capitalization: $4.9 billion

Ticker: CAPA, CAPB
Dividend: $0.00
Yield: N/A

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The Spin-Off Report

PCS Research Services
125 Maiden Lane, 6th Floor
New York, NY 10038
(212) 233-0100
www.pcsresearchservices.com

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Horizon Research Group

Murray Stahl
Thérèse Byars
Derek Devens
Michael Gallant
David Leibowitz
Fredrik Tjernstrom

Steven Bregman
Ryan Casey
Peter Doyle
Matthew Houk
Eric Sites
Steven Tuen

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Investment Thesis

On June 20, 2010, Liberty Media Corporation (NASDAQ: LCAPA, LCAPB, LINTA, LINTB,LSTZA, LSTZB) announced that its Board of Directors had approved the tax-free split-off of its Liberty Capital and Liberty Starz businesses from its Liberty Interactive business. As a result, Liberty Interactive will emerge as a stand-alone, asset-backed security, while Liberty Capital and Liberty Starz will retain their status as tracking stocks within the newly formed entity, currently called Splitco. Each outstanding share of Series A or B Liberty Capital and Liberty Starz tracking stocks will be redeemed, on a 1:1 basis, for Series A or B Splitco Capital or Splitco Starz tracking stocks, respectively. Liberty Media Corporation expects the shareholder vote on the proposed split-off to occur in the first half of 2011, with the transaction to follow shortly thereafter. Significant discounts to fair value persist at all of the Liberty entities, and, because of this, shares of Liberty Interactive, Splitco Capital, and Splitco Starz are recommended for purchase.

After the split-off, Liberty Media Corporation will be composed solely of the Interactive Group (LINTA, LINTB), which owns video and online commerce companies such as subsidiary QVC, Inc., as well as interests in HSN, Inc. (32%), Expedia, Inc. (24%), Tree.com, Inc. (25%), IAC/Interactive Corp. (12%), and Interval Leisure Group (29%). The transaction should lend greater transparency to these operations and erase the tracking stock discount attached to this security, which could be a catalyst for share price appreciation of as much as 40%. Further, Liberty Interactive expects to improve its long-term credit outlook after divesting the liabilities associated with the Splitco entertainment businesses. If one were to attach a conservative target free cash flow yield of 10% (a 10x multiple) to the QVC operations, while giving full value to the entity’s publicly traded investments, shares of Liberty Interactive would be worth $22 versus their current price of $15.76.

Shares of Splitco Capital (CAPA, CAPB) are similarly attractive, as the value of its publicly listed investments (the most prominent being a 40% equity stake in Sirius XM Radio), less net liabilities, is approximately 14% higher than this segment’s current market capitalization. Splitco Capital also has private businesses, including the Atlanta Braves, which boost its estimated fair value to $77 per share, or over 30% higher than the entity’s current share price. Although the potential tax consequences of its investment in Sirius XM Radio could explain part of this discount, Liberty has proven to be adept at avoiding these taxes, as demonstrated most recently by its transaction with DIRECTV, Inc. Regardless, these taxes are more than reflected in the current share price, making the Capital Group an attractive way of gaining exposure to its publicly traded investments at a discount to current market value.

Finally, Splitco Starz (STZA, STZB), valued at only 6.5x consensus 2011E EBITDA, represents a fair value estimate approximately 20% higher than the company’s current share price, while valuations based on a target free cash flow yield of 8% represent upside of nearly 40%. Although Splitco Starz will continue to be a tracking stock and, as such, may trade at a discount to fair value, Liberty management has a track record of taking advantage of this discount by repurchasing significant amounts of stock. Splitco Starz, with over $900 million in net cash, will have ample balance sheet capacity to either repurchase shares and/or pay dividends. It should be

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noted that this same tracking stock discount and share repurchase opportunity exists with Splitco Capital, where the number of outstanding shares has shrunk by 34% since March 2008.

Liberty Media co-founder John Malone, one of the leading entrepreneurs in the media and telecommunications industry, holds 38.7% of the voting power in the Splitco tracking stocks, with a 3.5% ownership interest in Splitco Capital A shares, an 83.7% ownership interest in Splitco Capital B shares, and a 93.2% ownership interest in Splitco Starz B shares. As Chairman of the Board of both Liberty Media Corporation and Splitco, Mr. Malone is considered to have operating control over the newly formed entity.

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Company Description

Liberty Media Corporation is a holding company with subsidiaries in the video and e-commerce, media, communications, and entertainment sectors, operating in North America, Europe, and Asia. The company, today, comprises three operating segments: the Interactive Group, the Starz Group, and the Capital Group. Liberty Media Corporation has assigned substantially all of the assets and liabilities of each aforementioned segment to individual tracking stocks, Liberty Interactive (LINTA, LINTB), Liberty Starz (LSTZA, LSTZB), and Liberty Capital (LCAPA, LCAPB), which replicate the performance of their assigned businesses. Exhibit 1 lists the consolidated subsidiaries and equity interests attributed to each tracking stock.

Exhibit 1 Liberty Media Corporation: Ownership Structure as of 9/30/10

Interactive Group	Starz Group	Capital Group
Subsidiaries	**Subsidiaries**	**Subsidiaries**
QVC, Inc.	Starz Entertainment, LLC	Atlanta Braves
Provide Commerce, Inc.	Starz Media, LLC	Leisure Arts, Inc.
BUYSEASONS	Liberty Sports Interactive, Inc.	TruePosition, Inc.
CommerceHub		WFRV and WJMN Television Station, Inc.
The Right Start		Zoombak LLC
Bodybuilding.com		MacNeil/Lehrer Productions
Backcountry.com, Inc.		
		Equity Investments
		SIRIUS XM Radio (40%)
Equity Investments		Live Nation (16%)
HSN, Inc. (32%)		Mobile Streams (16%)
Interval Leisure Group, Inc. (29%)		AOL, Inc. (3%)
Tree.com (25%)		Crown Media Holdings (3%)
Expedia, Inc. (24%)		Time Warner Inc. (3%)
IAC/InteractiveCorp (12%)		Time Warner Cable Inc. (2%)
Lockerz		Motorola, Inc. (2%)
		Sprint Nextel Corporation (2%)
		CenturyLink, Inc. (2%)
		Priceline.com, Inc. (1%)
		Viacom Inc. (1%)

Source: Company reports.

The proposed split-off will separate "Splitco," which is to comprise the Liberty Starz and Liberty Capital businesses, from the rest of Liberty Media, which will then be composed solely of Liberty Interactive. Immediately prior to the split-off, approximately $1.1 billion in principal exchangeable senior debt, as well as equity underlying that debt, including 21.18 million shares of TWX, 5.5 million shares of TWC, and 2 million shares of AOL, and an undetermined amount of cash, will be reattributed from the Capital Group to the Interactive Group. Under the current Liberty Media structure, the Interactive Group accounted for 87% of operating income through the first nine months of 2010, while the Capital Group, which derives the bulk of its value from its holdings of publicly traded securities, posted operating losses of $156 million. Exhibit 2 highlights the operating performance of each respective group during the nine months ended

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September 30, 2010, although it should be noted that Starz Media, which is listed in Exhibit 2 as being part of Liberty Capital, has since been reattributed to Liberty Starz.

Exhibit 2 Liberty Media Corporation: Segment Operating Performance, Nine Months Ended 3Q 2010
($ in millions)

	Revenue	% Total	Adjusted OIBDA	% Total	Operating Income	% Total
Interactive Group						
QVC	$5,286		$1,138		$737	
E-commerce businesses	$760		$56		$12	
Corporate and Other	---		($12)		($37)	
	$6,046	**80%**	**$1,182**	**84%**	**$712**	**87%**
Starz Group						
Starz Entertainment	$929		$305		$288	
Corporate and Other	$8		($10)		($23)	
	$937	**12%**	**$295**	**21%**	**$265**	**32%**
Capital Group						
Starz Media	$317		($67)		($71)	
Corporate and Other	$300		($10)		($85)	
	$617	**8%**	**($77)**	**-6%**	**($156)**	**-19%**
Consolidated Liberty Media	**$7,600**	**100%**	**$1,400**	**100%**	**$821**	**100%**

Source: Company reports, *Spin-Off Report* estimates.

Liberty Interactive

Liberty Interactive owns one of the world's leading multimedia retailers in subsidiary QVC, along with niche-market e-commerce companies such as Provide Commerce (i.e.,Proflowers.com, RedEnvelope); Backcountry.com (outdoor and sports apparel); Bodybuilding.com (nutrition and physical fitness); and BuySeasons (party supplies). In addition, Liberty Interactive holds equity interests in shopping and travel companies, including HSN, Inc. (NASDAQ: HSNI) and Expedia (NASDAQ: EXPE).

QVC's 24-hour home shopping channel is available in 98 million homes in the US and nearly 200 million homes worldwide, with programming featured in the United Kingdom, Germany, Japan, and Italy. Beyond its trademark television programming, QVC offers online and mobile destinations, including QVC.com, with six million unique visitors each month, and apps for download on Android, BlackBerry, iPhones, and iPads. Through the nine months ended September 30, 2010, higher unit sales of apparel, accessories, and home products contributed to 7.2% year-over-year revenue growth, while improved inventory management and reduced fixed costs led to a 10.6% increase in adjusted operating income before depreciation and amortization (OIBDA) (see Exhibit 3).

Liberty Interactive's e-commerce businesses have grown to represent 13% of revenues through the first nine months of 2010 versus just 5% during FY 2007. However, while e-commerce revenues increased 14.3% year-over-year, operating income and EBITDA declined 28.2% and 67.6%, respectively, due to reduced commission revenues, which are generated when customers sign up for third-party online discounts. These commission revenues have significantly higher

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margins than product sales. Despite these declines, consolidated OIBDA increased 7.9% through the first nine months of 2010.

Exhibit 3 Liberty Interactive: Historical Operating Performance
($ in millions)

	FY 2007	FY 2008	FY 2009	9 Mos. Ended 9/30/09	9 Mos. Ended 9/30/10	9/30/10 vs. 9/30/09
Revenue						
QVC	7,397	7,303	7,374	4,929	5,286	7.2%
% Total	*95%*	*90%*	*89%*	*88%*	*87%*	
E-commerce	405	776	931	665	760	14.3%
% Total	*5%*	*10%*	*11%*	*12%*	*13%*	
	$7,802	**$8,079**	**$8,305**	**$5,594**	**$6,046**	**8.1%**
Adjusted OIBDA						
QVC	1,652	1,502	1,565	1,029	1,138	10.6%
E-commerce	40	71	103	78	56	-28.2%
	$1,692	**$1,573**	**$1,668**	**$1,107**	**$1,194**	**7.9%**
Operating Income						
QVC	1,114	956	1,019	626	737	17.7%
E-commerce	16	(29)	49	37	12	-67.6%
	$1,130	**$927**	**$1,068**	**$663**	**$749**	**13.0%**

Note: Excludes Corporate and Other.
Source: Company reports, *Spin-Off Report* estimates.

As mall owners struggle to attract tenants, consumers looking for savings and convenience are increasingly spending their retail dollars online. According to ComScore's "State of the US Online Retail Economy in Q2 2010," e-commerce sales as a percentage of retail spending, "on an apples-to-apples basis," have nearly doubled, from 3.7% in the second quarter of 2004 to 7.1% in the second quarter of 2010, and are on pace to surpass $220 billion in FY 2010 ("retail spending" excludes food, beverages, motor vehicles & parts, gas stations, health and personal care stores). As shown in Exhibit 4, this fast-growing sector has both outperformed during strong economic times (exhibiting 23% year-over-year sales growth in the second quarter of 2007, versus 4% growth in overall retail & food services) and during the depths of the recession (declining only 3% on a year-over-year basis during the fourth quarter of 2008 versus an 8% drop in retail sales).

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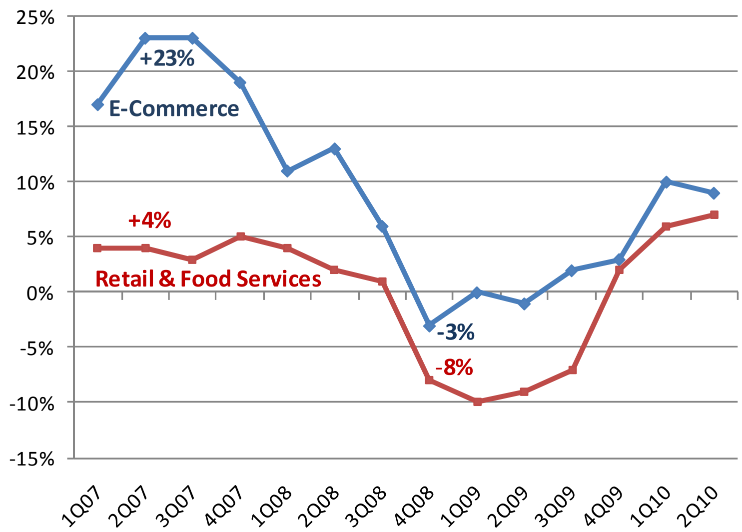
Exhibit 4 Quarterly E-Commerce vs. Retail & Food Services Sales Growth, Year-over-Year



Source: ComScore, U.S. Department of Commerce.
Note: Quarterly Retail & Food Services includes motor vehicles and parts dealers.

The outperformance of e-commerce sales relative to traditional retail is forecast to continue this holiday season, as The National Retail Federation forecasts that retail sales, excluding online purchases, will rise 2.3% to $447.1 billion during the upcoming holiday season, while ComScore projects that e-commerce sales will increase 7%-9%. This should contribute to QVC's top line, as 32% of the company's domestic revenues through the third quarter of 2010 ($1.125 billion) were generated through its online platform, an 18% increase relative to the same period in 2009. During the third quarter of 2010, revenue from QVC's online platform grew approximately 18% and accounted for 20% of the company's $1.8 billion in total revenues. During the twelve months ended June 30, 2010, Liberty Interactive's e-commerce businesses and QVC.com ranked fifth among the top ten publicly traded e-commerce companies in revenue generation. Including the company's 24% stake in Expedia and 32% stake in HSN, Inc., Liberty Interactive owns or has interests in three of the top ten e-commerce businesses in the US (see Exhibit 5).

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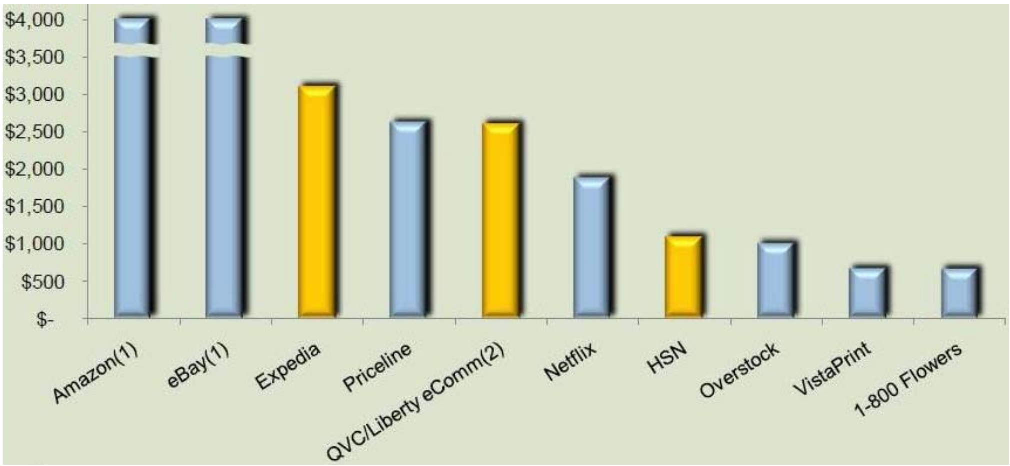
Exhibit 5 Top Ten E-Commerce Companies, by Revenue, as of 6/30/10
($ in millions)



Note: (1) Amazon and eBay revenues reduced to scale (actually $28.6 billion and $9.0 billion, respectively). (2) Includes QVC.com (US), Backcountry.com, BUYSEASONS, and Provide Commerce.
Source: Company reports.

The Interactive Group, adjusted for the separation, will have $6.6 billion in debt and $1.4 billion in cash. The company has budgeted $100 million for capital expenditures for the remainder of 2010, leaving a significant cash balance on hand for future investments or for potential repurchases of Liberty Interactive common stock.

Splitco Capital
The operating results of the Capital Group comprise two subsidiaries: the Atlanta National League Baseball Club, Inc. (the Atlanta Braves), which generates revenues from ticket sales, concessions, and broadcasting rights, and TruePosition, which licenses and sells technology designed to locate wireless devices. This segment also includes a revenue-sharing agreement with CNBC, which is included in "Corporate and Other" and which, historically, included the Starz Media assets. The majority of the Capital Group's net asset value, however, consists of equity stakes in publicly listed media, telecommunications, and entertainment companies, including a significant preferred equity stake in Sirius XM Radio Inc. (convertible into 40% fully diluted equity), Live Nation (16%), AOL (3%), Time Warner Inc. (3%), Time Warner Cable (2%), Motorola (2%), and Viacom (1%), among others.

As shown in Exhibit 6, this segment has historically posted negative operating results, although recent events have drastically changed the outlook for this business. As mentioned earlier, Starz Media has undergone changes designed to stem its operating losses and has been reattributed out of the Capital Group and into the Starz Group. Further, in June 2010, TruePosition completed delivery of a product upgrade to AT&T, allowing the company to realize deferred revenue and costs of $641 million and $202 million, respectively, which will be amortized over the next three and a half years. As a result, TruePosition recognized $52 million in deferred revenues and $18 million in deferred expenses during the third quarter, contributing to a $34 million increase in adjusted OIBDA for the period. Given TruePosition's improved outlook and the reassignment of

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Starz Media, it would appear that the company's historical operating results vastly understate the Capital Group's potential operating performance.

Exhibit 6 Splitco Capital: Historical Operating Results
($ in millions)

Capital Group	FY 2007	FY 2008	FY 2009	9 Mos. Ended 9/30/09	9 Mos. Ended 9/30/10	9/30/10 vs. 9/30/09
Revenue						
Starz Media	254	321	364	248	317	*27.8%*
Atlanta Braves	159	204	206			
TruePosition	17	21	32	247	300	*21.5%*
Corporate and other	55	68	47			
	485	**614**	**649**	**495**	**617**	***24.6%***
Adjusted OIBDA						
Starz Media	(143)	(189)	(93)	(49)	(67)	*-36.7%*
Atlanta Braves	38	16	8			
TruePosition	(98)	(113)	(77)	(50)	(10)	*-80.0%*
Corporate and other	(7)	(11)	(13)			
	(210)	**(297)**	**(175)**	**(99)**	**(77)**	***22.2%***
Operating Income (Loss)						
Starz Media	(342)	(395)	(100)	(56)	(71)	*-26.8%*
Atlanta Braves	4	(34)	(40)			
TruePosition	(103)	(119)	(84)	(110)	(85)	*-22.7%*
Corporate and other	(65)	(103)	(39)			
	(506)	**(651)**	**(263)**	**(166)**	**(156)**	***6.0%***

Note: TruePosition and the Atlanta Braves are included in "Corporate and Other" for the nine months ended 9/30/09 and 9/30/10.
Source: Company reports, *Spin-Off Report* estimates.

Sirius XM is one of the largest subscription-based media businesses in the US, with 20.1 million subscribers forecast by the end of 2010. Through the second quarter, the company had 19.5 million subscribers, second only to Comcast. Offering more than 130 channels of commercial-free music, news, and talk, the company expects to generate approximately $3.1 billion in revenues this year (for a 90% share of the subscription radio market), $600 million in adjusted EBITDA, representing 30% year-over-year growth, and $150 million in free cash flow. In 2010, approximately 60% of new cars sold in the US will be outfitted with satellite radios, versus 21% in 2006. As the domestic auto recovery takes shape, with light vehicle sales projected to rise for the first time since 2003, Sirius estimates that by 2015, roughly 75 million factory-enabled vehicles will be on the road, versus approximately 30 million today, thus driving future growth. Industry estimates currently call for compounded annual unit growth in light vehicle sales ("OEM Sales") of nearly 8% through 2015. Sirius's OEM gross additions ("Adds"), which have outpaced OEM sales in recent years as the percentage of factory-enabled vehicles increased, are expected to grow at an even faster rate (see Exhibit 7).

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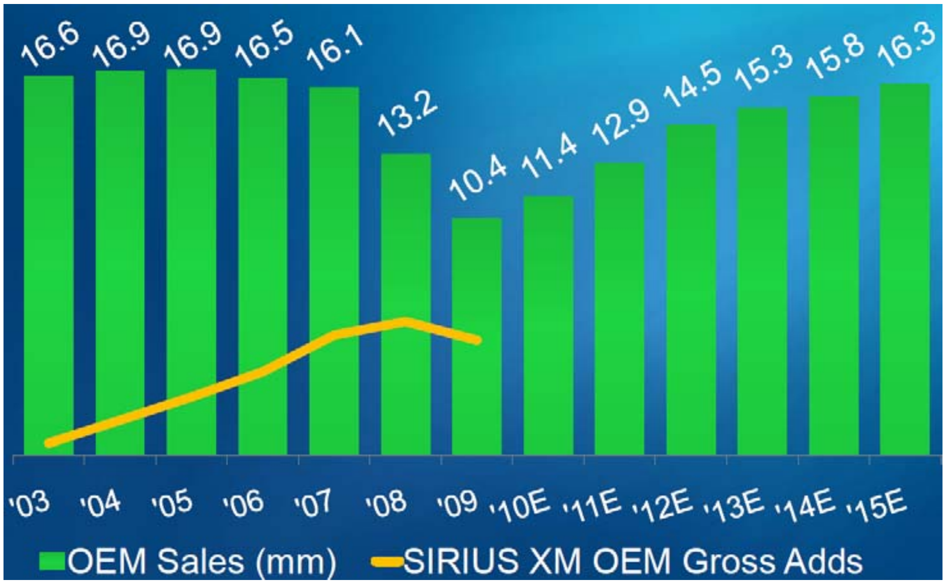
Exhibit 7 OEM Sales and Sirius XM Gross Subscriber Additions
($ in millions)



Source: Company reports.

Historically, the Capital Group has offset operating losses through dividends earned on equity investments as well as gains on dispositions, which are accounted for as "Other Income." From 2007 to 2009, the company generated $468 million in dividend interest income and $866 million in income from dispositions, which led to positive cash from operations of $350 million over this time period (despite cash from operations of negative $90 million in 2008). The Capital Group hedges its exposure to certain investments through the use of derivative instruments, including equity collars, or put options, which are currently reflected on the balance sheet as a financial liability of $1,148 million.

The Capital Group, as a tracking stock, has persistently traded at a discount to net asset value, although the company has taken advantage of this discount by enacting a significant stock repurchase program. Since Liberty Capital was recapitalized in March 2008, the company has repurchased 47.3 million shares, or 36.6% of the outstanding shares, for $1.07 billion (through October 29, 2010), with approximately $300 million of these repurchases occurring during the third quarter of 2010.

After accounting for the reattribution of the 3.25% exchangeable notes, equity, and cash, the Capital Group will have approximately $1.1 billion in cash on the balance sheet, which the company plans to put toward future share buybacks (with $530 million in remaining repurchases authorized) and additional equity investments. Splitco Capital does not intend to pay cash dividends, and additional capital may be raised by divesting certain non-core holdings.

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Splitco Starz

The Splitco Starz Group is mainly composed of Starz Entertainment, which operates sixteen premium movie channels, a video-on-demand service, and several online offerings, which are distributed through a host of cable, satellite, telephone, and Internet providers. During the six months ended June 30, 2010, Starz Entertainment derived 55.7% of revenues from Comcast (NASDAQ: CMCSA), DIRECTV (NASDAQ: DTV), and Dish Network (NASDAQ: DISH), the company's three largest customers, each of which contributed at least 10% toward overall revenues. Feature properties include the first-run movie channel Starz, Inc. (which consists of five multiplex stations), the first-run and classic film channel Encore (which consists of six multiplex stations), the MoviePlex, IndiePlex, and RetroPlex film channels, and on-demand and online programming. Customers can purchase monthly subscriptions to Starz and Encore on an à la carte basis, or, for approximately $13 a month, in combination as a "Starz SuperPak," or in a bundle with other premium movie channels.

Starz Entertainment generates approximately two-thirds of revenues through a subscription-based model, charging distributors licensing fees based on total subscribers ("consignment agreements"). The company also enters into fixed-rate agreements with certain distributors, irrespective of total subscribers, which are subject to contracted price increases. Starz Entertainment has been successful in expanding its subscriber base, a key revenue driver, with viewership increasing from 42.8 million subscribers in 2006 to 49.4 million through September 30, 2010. The company recently signed new multi-year, multi-carriage affiliation agreements with Dish Network and Comcast, ensuring approximately 38 million customers continued access to Starz programming.

Featuring more than 1,000 motion pictures per month, the company's most significant expense is film licensing, which represented 91% of operating expenses in 2009. Starz Entertainment acquires from motion picture distributors the exclusive rights to broadcast films, usually ten to twelve months after their release in theatres. The company recently extended licensing contracts with The Walt Disney Co. through 2015 and with Sony Pictures Entertainment through 2016, and has approximately $1 billion in total scheduled payment commitments due to distributors over the next five years.

As shown in Exhibit 8, the company's subscriber base has been stable in 2010, rebounding from the slight declines experienced during 2009. Total subscriber growth for the most recent quarter was nearly 3%, which contributed to 5% revenue growth. Operating income grew 11.5% during this period, due primarily to lower stock-based compensation expenses, although the company also credits the rising number of consignment deals and reduced programming expenses with driving margin expansion. Adjusted OIBDA, which does not reflect stock-based compensation expenses, declined slightly despite the increased operating income, as operating expenses, excluding stock-based compensation, increased slightly.

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Exhibit 8 Splitco Starz: Historical Operating Performance
($ in millions)

Starz Entertainment	3Q09	4Q09	1Q10	2Q10	3Q10	3Q10 vs. 3Q09
Revenue	301	300	305	308	316	*5.0%*
Adjusted OIBDA	93	78	106	107	92	*-1.1%*
Operating Income	78	65	99	102	87	*11.5%*
Subscription Units - Starz	17.3	16.9	17.1	17.3	17.4	*0.6%*
Sequential Growth - %	*-1.1%*	*-2.3%*	*1.2%*	*1.2%*	*0.6%*	
Subscription Units - Encore	30.7	30.6	31.1	31.9	32.0	*4.2%*
Sequential Growth - %	*-2.5%*	*-0.3%*	*1.6%*	*2.6%*	*0.3%*	
Total Subscription Units	48.0	47.5	48.2	49.2	49.4	*2.9%*

Source: Company reports, *Spin-Off Report* estimates.

Starz Entertainment has systematically lowered programming costs by expanding into original programming, which has a lower cost per title than first-run movie exhibitions. As a result, from 2007 to 2009, adjusted OIBDA expanded at a 20.6% compound annual rate, whereas revenues expanded only 5.8% annually. Starz CEO Chris Albrecht recently announced that the company will more than double its original programming lineup from 25 hours to between 50 and 60 hours next year, with 2011 originals to include *Spartacus: Blood and Sand*, *Camelot*, and *Torchwood*, a move that has the potential to further boost margins. Before beginning his tenure at Starz in December 2009, Mr. Albrecht spent nearly two decades at HBO, where as Chairman and CEO, he oversaw popular series such as *The Sopranos*, *Sex and the City*, and *Six Feet Under*.

Effective September 30, 2010, the Starz Group also includes Starz Media, LLC, which was reattributed from the Capital Group along with $15 million in cash. Through the first nine months of 2010, Starz Media posted operating losses of $71 million, which includes impairment charges of $42 million in the second quarter. In an effort to reduce expenses at the underperforming Starz Media, in July 2010 Liberty Media Corp. shuttered production at Overture Films, transferring marketing and distribution functions for the studio's remaining three films to Relativity Media. Further, in October 2010, animation studio Film Roman was sold for an undisclosed sum.

The transaction involving the Starz Group and the Capital Group included the extinguishment of a $54.9 million payable owed by the Capital Group to the Starz Group, while $53.7 million in Capital Group bank debt, interest rate swaps, and shutdown costs associated with Overture Films was attributed to the Starz Group (Liberty Starz's balance sheet includes the Starz Media assets and liabilities). The remaining Starz Media businesses comprise Overture Films' 16-film library; Anchor Bay Entertainment (a DVD distribution company); Proprietary Productions (which owns a library of forty-two films and television series); and production house Toronto Animation Studio. Management has stated that the financial impact of the reattributed and transformed Starz Media should prove immaterial to the Starz Group.

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With approximately $1 billion in cash and $99 million in debt, the Starz Group has sufficient liquidity to invest in its original programming initiative, continue to repurchase shares ($447 million in buybacks are authorized), or invest in additional businesses. The company's management has reaffirmed 2010 guidance of 3%-4% revenue growth and 5%-10% adjusted OIBDA growth, although the latter is expected to come in at the lower end of the range.

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Valuation Analysis

The split-off transaction proposed by Liberty Media Corporation can be viewed as an effort to eliminate the tracking stock discount that exists at Liberty Interactive by making this equity an asset-backed stock. Further, the separation of Liberty Interactive should simplify (somewhat) the structure of Splitco, which will now comprise only Splitco Starz and Splitco Capital. This should serve to lower the discount to fair value at which both tracking stocks currently trade. A compelling investment thesis can be made for all of the entities involved in this transaction, and Liberty Interactive, Splitco Capital, and Splitco Starz are all recommended for purchase based on their current discounts to fair value.

Liberty Interactive

The operations of Liberty Interactive are composed primarily of QVC, although a significant portion of Liberty Interactive's valuation is derived from its equity holdings in such companies as HSN, Inc., Interval Leisure Group, Inc., Tree.com, Expedia, Inc., and IAC/InteractiveCorp, as well as from the assets being attributed to Liberty Interactive from Liberty Capital as part of the separation, which include equity stakes in Time Warner Inc. and Time Warner Cable. Based on current market prices, these equity holdings are estimated to be worth $4 billion, as shown in Exhibit 9.

Exhibit 9 Liberty Interactive: Current Market Value of Equity Holdings
($ in millions)

	Ticker	% Ownership	Est. Shares Owned (millions)	Price (11/29/10)	Market Value
Listed Investments					
HSN, Inc.	HSNI	32%	18.5	$28.28	523
Interval Leisure Group, Inc.	IILG	29%	16.6	$16.57	274
Tree.com (Lending Tree)	TREE	25%	2.7	$7.52	20
Expedia, Inc.	EXPE	24%	66.5	$26.78	1,781
IAC/InteractiveCorp	IACI	12%	12.0	$28.39	342
Time Warner Inc.	TWX	2%	21.2	$29.90	633
Time Warner Cable Inc.	TWC	1.5%	5.5	$61.57	339
AOL	AOL	2%	2.0	$24.20	48
Total					**$3,960**

Source: Company reports, *The Spin-Off Report* estimates.

Interestingly, Liberty Interactive gets little credit for these investments in its valuation, as the company's QVC business comes close to justifying Liberty Interactive's entire valuation. When looking at EBITDA and sales, which do not benefit from the company's equity investments and are, therefore, representative of the company's QVC and smaller e-commerce businesses, Liberty Interactive trades at only a slight premium to peers on an EV/EBITDA basis and at a significant discount to peers on a price-to-sales basis, although this is justified given the company's forecast net income margin for 2011 (see Exhibit 10).

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Exhibit 10 Liberty Interactive: Comparable Company Valuations
(Excluding Available-For-Sale Securities and Other Equity Interests)
($ in millions)

	Liberty Interactive (NASDAQ: LINTA)	Home Shopping Network (NASDAQ: HSNI)	eBay (NASDAQ: EBAY)	IAC/InterActiveCorp (NASDAQ: IACI)	Amazon.com (NASDAQ: AMZN)
Share Price, as of 11/29/10	$15.76	$28.28	$30.23	$28.39	$179.49
FD Shares Out. (mn.)	598.3	57.8	1,303.7	100.4	448.8
Market Capitalization	9,429.3	1,633.3	39,412.0	2,849.9	80,561.7
Net Debt	5,351.0	74.7	(5,362.5)	(1,277.6)	(5,721.0)
Enterprise Value	14,780.3	1,708.0	34,049.5	1,572.3	74,840.7
2010E EBITDA	1,697	233	3,249	259	2,276
EV/EBITDA	8.7x	7.3x	10.5x	6.1x	32.9x
Average, ex. LINTA and AMZN	*8.0x*				
2011E EBITDA	1,854	270	3,604	299	3,056
EV/EBITDA	8.0x	6.3x	9.4x	5.3x	24.5x
Average, ex. LINTA and AMZN	*7.0x*				
2010E Sales	8,854	2,973	9,137	1,639	34,134
P/S	1.1x	0.5x	4.3x	1.7x	2.4x
Average, ex. LINTA and AMZN	*2.2x*				
2011E Sales	9,466	3,163	10,197	1,809	43,667
Price/2011E Sales	1.0x	0.5x	3.9x	1.6x	1.8x
Average, ex. LINTA and AMZN	*2.0x*				
2011E Net Income	431	120	2,484	137	1,595
Net Income Margin	*4.9%*	*4.0%*	*27.2%*	*8.4%*	*4.7%*
Average, ex. LINTA and AMZN	*13.2%*				

Source: Company reports, Thomson ONE.

The EV/EBITDA calculation shown in Exhibit 10 does not include the company's available-for-sale securities and does not give credit to the value of the investments shown in Exhibit 9. If one were to subtract the value of these investments from the company's net debt figure, the QVC business would be found to be trading at only 5.8x the consensus EBITDA estimate for 2011, which is an 8% discount to Home Shopping Network.

These comparable valuations understate the value of the company's free cash flow generation, however. As shown in Exhibit 11, Liberty Interactive has already generated $690 million in free cash flow through the first nine months of 2010, excluding the net income contribution from Expedia. If one were to value this free cash flow at a target yield of 7.5% (a multiple of just over 13x), one arrives at the company's current market capitalization.

This business is highly seasonal, however, with a large percentage of earnings coming in the fourth quarter. If one were to annualize year-to-date results on terms consistent with the company's 2009 results – i.e., results through the first nine months account for just under 50% of the company's full-year performance – one finds that the company's free cash flow, valued at only a conservative 10% yield (a 10x multiple), warrants a market capitalization that is 10% higher than where the company currently trades. Again, it should be noted that this valuation does not include the company's $4 billion in other investments.

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Exhibit 11 Liberty Interactive: Free Cash Flow Valuation
($ in millions)

	First Nine Months			
	2009	2010	2009	2010E
Cash from Operations	699	951	1,087	1,427
Less: Capital Expenditures	(132)	(176)	(208)	(264)
Less: Net Income Contribution from Expedia	(47)	(85)	(72)	(128)
Free Cash Flow from QVC and Other	**520**	**690**	**807**	**1,035**
Target Free Cash Flow Yield		7.5%		10%
Implied Fair Value		9,200		10,350
Current Market Capitalization		9,429		9,429
Upside Potential		*-2%*		*10%*

Source: Company reports, *The Spin-Off Report* estimates.

In this context, Liberty Interactive's current valuation reflects a 10% discount for the company's wholly owned QVC and other e-commerce businesses, while investors receive equity holdings valued at $4 billion for free. Giving full value to the company's other investments, shares of Liberty Interactive would be valued at over $22 per share, implying nearly 50% appreciation potential from the current price. Because of this, LINTA shares are recommended for purchase.

The separation of Splitco from Liberty Interactive should give investors more visibility into the company's free cash flow and eliminates the potential for this cash to be distributed to Liberty's other entities. When one combines this with the fact the Liberty Interactive will become an asset-backed stock, therefore erasing any tracking-stock discount currently attached to LINTA/B shares, one can see that the proposed split-off could unlock significant latent value within this entity.

Splitco Capital

As shown in Exhibit 12, Splitco Capital has a market capitalization of $4.9 billion and an enterprise value of $4.6 billion. This valuation reflects a significant discount to the current market valuations of its publicly traded investments, while giving no value to its private businesses such as the Atlanta Braves or TruePosition, Inc., thus creating an attractive opportunity for investors.

Exhibit 12 Splitco Capital: Current Market Capitalization and Enterprise Value
($ in millions)

Share Price (11/29/10)	$58.14
Class A/B Shares Outstanding (millions)	84.6
Market Capitalization	**4,916**
Net Debt	(322)
Enterprise Value	**4,594**

Source: Company reports, *The Spin-Off Report* estimates.

This entity's market capitalization of $4.9 billion reflects a 30% discount to its net cash of $322 million plus publicly traded investments, shown in Exhibit 13, which have a current valuation of

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$6.7 billion. It should be noted that Splitco Capital will have total net liabilities, excluding its available-for-sales securities (but including the hedges on these investments), of $1.1 billion. If all of these net liabilities are counted against the value of these investments, this entity is still left with a valuation of $5.6 billion, which is roughly 14% higher than its current market capitalization. It can therefore be argued that Splitco Capital's market capitalization is fully justified based solely on the net value of its investments, giving investors its privately held businesses for free.

Exhibit 13 Splitco Capital: Valuations of Publicly Traded Investments
($ in millions)

	Ticker	% Ownership	Est. Shares Owned (millions)	Price (11/29/10)	Market Value
Listed Investments					
SIRIUS XM	SIRI	40%	2,587.0	$1.40	3,622
Time Warner Inc.	TWX	1%	12.6	$29.90	377
Time Warner Cable Inc.	TWC	0.5%	1.6	$61.57	99
Motorola, Inc.	MOT	2%	47.0	$7.77	365
Sprint Nextel Corporation	S	2%	59.7	$3.92	234
CenturyLink, Inc.	CTL	2%	6.1	$42.90	260
Viacom Inc.	VIA	1%	5.5	$43.30	239
Live Nation	LYV	16%	27.4	$10.73	294
Priceline.com, Inc.	PCLN	1%	0.5	$404.66	199
Mobile Streams	MOS-LN	16%	5.8	$24.28	141
AOL, Inc.	AOL	1%	1.2	$24.18	29
Crown Media Holdings	CRWN	3%	10.8	$2.63	28
SIRIUS XM Debt Securities					422
Other Available-for-Sale Debt Securities					433
					$6,743

Source: Company reports.

These other businesses, which are believed to be worth approximately $1 billion, include the Atlanta Braves (which the company purchased for $400 million in 2007, with the franchise currently estimated to be worth approximately $450 million), TruePosition (which, as mentioned earlier, has begun to recognize significant deferred revenues related to a recent product delivery), and other media assets. When adding the $1 billion in private investments to the value of the publicly traded investments, less net liabilities, of $5.6 billion, Splitco Capital currently trades at over a 30% discount to fair value, which is estimated to be approximately $77 per share.

Part of the company's discount stems from concerns that Splitco Capital could be subject to significant capital gains taxes should it monetize its investment in SIRIUS XM, in which it has a very low cost basis. Liberty's management has proven to be adept at avoiding these types of tax consequences, however, and it is reasonable to assume that a split-off/merger of the SIRIUS XM stake, similar to what the company recently did with its ownership in DIRECTV (NASDAQ: DTV), could be a tax-efficient way of realizing the value of this investment. Still, even if the company were to incur capital gains taxes on this investment, this is more than reflected in the company's share price.

It should also be noted that shares of Splitco Capital will continue to be a tracking stock and, therefore, may continue to trade at a discount to fair value. Should this be the case, one can expect Splitco Capital to continue to take advantage of this discount by repurchasing its shares,

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thus creating value for shareholders. It should be noted that since March 2008 the company has shrunk its total number of shares outstanding by 34%.

Because of the significant discount to our fair value estimate of $77 per share, Splitco Capital is recommended for purchase. This investment recommendation, however, does not reflect a view of the future share price performance of its publicly traded investments, which is beyond the scope of this report. Instead, this recommendation is based solely on the fact that one can gain exposure to these assets at a significant discount to fair value. Although the company has entered into hedges for certain of these investments, these hedges are currently limited to a portion of the Time Warner, Time Warner Cable, Sprint, Motorola, and CenturyLink equity stakes; i.e. the company has not hedged its position in SIRIUS XM. Because of this, investors should consider hedging this investment with short positions in SIRIUS XM. For those investors who are comfortable with the long-term investment prospects of SIRIUS XM, Splitco Capital can be considered a way of gaining exposure to this equity at a significant discount.

Splitco Starz

Unlike Liberty Interactive and Splitco Capital, the valuation analysis for Splitco Starz does not include ancillary investments. In this manner, Splitco Starz is relatively transparent, although it trades at a considerable discount to comparable companies and at a relatively low multiple of free cash flow. Possible explanations for this include the fact that Splitco Starz is a tracking stock and that, as a company under the Liberty umbrella, it had the potential to be subject to such transactions as the recent reattribution of Starz Media. Although both of these concerns persist, the cash flow generation and balance sheet potential of Splitco Starz cannot be denied.

As shown in Exhibit 14, Splitco Starz has $916 million in net cash, which possibly contributes to the fact that the company trades at nearly a 40% discount to the peer group average on an EV/2011E EBITDA basis. The company's valuation on a price-to-earnings basis is more in line with peers, suggesting that Splitco Starz may not be getting credit for its cash, which amounts to nearly $18 per share. By simply valuing Starz using an EV/EBITDA at the low end of the comparable company range, or 6.5x, one arrives at a fair value of nearly $75 per share, which amounts to 20% upside from current levels.

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Exhibit 14 Splitco Starz: Comparable Company Valuations
($ in millions)

	Splitco Starz (NASDAQ: LSTZA/B)	Time Warner, Inc. (NYSE: TWX)	DreamWorks Animation (NASDAQ: DWA)	Viacom (NYSE: VIA)	Discovery Communications (NASDAQ: DISCA)
Share Price, as of 11/29/10	**$62.34**	$29.90	$30.85	$43.30	$41.44
FD Shares Out. (mn.)	51.6	1,109.3	84.3	608.2	427.0
Market Capitalization (current)	3,218.8	33,168.0	2,599.4	26,333.1	17,694.9
Net Debt (Cash)	(916.0)	10,897.0	(169.6)	6,105.0	2,609.0
Enterprise Value	2,302.8	44,065.0	2,429.8	32,438.1	20,303.9
2010E EBITDA	411	6,292	239	3,922	1,575
EV/EBITDA	5.6x	7.0x	10.2x	8.3x	12.9x
Average, ex. Starz	*9.6x*				
2011E EBITDA	440	6,768	286	4,224	1,787
EV/EBITDA	5.2x	6.5x	8.5x	7.7x	11.4x
Average, ex. Starz	*8.5x*				
2010E EPS	$4.14	$2.35	$1.90	$3.30	$1.76
Price/2010E Earnings	15.1x	12.7x	16.2x	13.1x	23.5x
Average, ex. Starz	16.4x				
2011E EPS	$4.49	$2.62	$2.23	$3.76	$2.10
Price/2011E Earnings	13.9x	11.4x	13.8x	11.5x	19.7x
Average, ex. Starz	14.1x				
2009 Net Income	213	2,468	151	1,655	552
Net Income Margin	17.7%	9.6%	20.8%	12.5%	15.7%
ROE	10.4%	7.4%	13.1%	19.0%	8.9%
Average, ex. Starz	*12.1%*				

Source: Company reports, Thomson ONE.

The company's free cash flow in recent periods supports this valuation, although questions linger regarding what impact the Starz Media reattribution will have on this entity's earnings. Management has stated that Starz Media's recent restructuring has curbed losses and that the impact this business will have on Splitco Starz's financial results will be insignificant. If true, the upside to Splitco Starz's valuation could approach 40%, although some upside still remains even in the event that Starz Media continues to lose money.

This is shown in Exhibit 15, which highlights that Splitco Starz earned $198 million in cash from operations through the first nine months of 2010, while capital expenditures totaled only $2 million. This does not include the recently attributed Starz Media, however, which posted operating losses of $71 million over this same period. If one tax-effects these losses at 35%, it is estimated that Starz Media would have had a negative impact on free cash flow of $46 million during the first nine months of 2010. If one annualizes these results and attaches a target free cash flow yield of 8% (a 12.5x multiple) to this forecast, one arrives at a fair value estimate of $2.4 billion versus the company's current market capitalization, minus net cash, of $2.3 billion.

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Exhibit 15 Splitco Starz: Free Cash Flow Valuation
($ in millions)

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	First Nine Months 2009	First Nine Months 2010	2009	2010E	Assuming No Impact from Starz Media 2010E
Cash from Operations	(24)	198	256	257	257
Less: Capital Expenditures	(6)	(2)	(10)	(3)	(3)
Estimated Impact of Starz Media	(36)	(46)	(65)	(60)	0
Estimated Free Cash Flow	**(66)**	**150**	**181**	**194**	**254**
Target Free Cash Flow Yield				8.0%	8.0%
Implied Fair Value				2,430	3,180
Current Market Capitalization - Net Cash				2,303	2,303
Upside Potential				*6%*	*38%*

Source: Company reports, *The Spin-Off Report* estimates.

The upside, however, can be seen under a scenario in which the impact of Starz Media on Splitco Starz's results is indeed, as management has stated, not material. In such a forecast, the company's free cash flow would amount to over $250 million, which would equate to a market capitalization of $3.2 billion (using the same 8% target yield) and imply nearly 40% upside to the company's current share price. Given the long-term contracts associated with the revenue stream of this business, a target yield of 8% could be considered appropriate, if not conservative. This stability also speaks to the company's balance sheet potential, which could serve to greatly enhance shareholder returns.

Current consensus forecasts call for Splitco Starz to generate EBITDA of $440 million in 2011. If one were to assume that the company could assume net debt equal to 2.5x 2011E EBITDA, this business could raise $1.1 billion in debt to supplement its current net cash position of $916 million, for total available cash of over $2 billion. This equates to over 60% of the company's current market capitalization, thus giving Splitco Starz the potential to either significantly shrink the outstanding shares of the company and increase its return on equity or to return significant capital to shareholders via dividends. When one combines this balance sheet potential with a conservative valuation for the current operations – which, at 6.5x 2011E EBITDA, implies a fair value of $75 per share – Splitco Starz can be seen to be an attractive investment opportunity and is, therefore, recommended for purchase.

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Conclusion

For Liberty Interactive, the split-off transaction should erase the tracking stock discount that is currently attached to its shares, while increasing the transparency of the company's QVC and e-commerce operations. The entity has significant investments in publicly traded securities, which, when combined with conservative valuations for its wholly owned businesses, leads to a fair value estimate of $22 per share and share price appreciation potential of over 40%. Because of this, shares of Liberty Interactive are recommended for purchase prior to the transaction.

Shares of Splitco Capital and Splitco Starz are likewise attractive, although investors should note that, because shares of both entities will continue to be tracking stocks, the split-off transaction may not be as significant a catalyst as in the case of Liberty Interactive. Still, the investment thesis for both Splitco companies is compelling and worthy of investment.

Splitco Capital trades at nearly a 15% discount to the value of its publicly traded investments alone, less net liabilities. When one adds the value of its privately held businesses, the resulting fair value estimate of $77 per share equates to over 30% share price appreciation potential from current levels. Splitco Starz currently trades at a 20% discount to its fair value estimate of $75 per share, which is based on a conservative valuation of 6.5x 2011E EBITDA, although a valuation based on free cash flow supports a higher projected share price. Although both Splitco Capital and Splitco Starz will continue to be tracking stocks and, therefore, will likely trade at a discount to fair value, management has historically taken advantage of this discount by repurchasing a significant number of shares. Both entities will have the cash on hand to continue this practice, with the balance sheet capacity at Liberty Starz, in particular, likely to prove a significant driver of shareholder value going forward. Based on their significant discounts to fair value, shares of both Splitco Capital and Splitco Starz are recommended for purchase.

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Exhibit 16 Liberty Interactive: Pro Forma Balance Sheet
($ in millions)

	As of 9/30/10	Split-Off Reattribution	Pro Forma
ASSETS			
Current assets:			
Cash and cash equivalents	935	432	1,367
Trade and other receivables, net	517	---	517
Inventory, net	1,109	---	1,109
Program rights	---	---	---
Current deferred tax assets	---	---	---
Other current assets	84	---	84
	2,645	432	3,077
Investments in AFS	336	1,003	1,339
Investments in affiliates	933	---	933
Property and equipment, net	1,042	---	1,042
Goodwill	5,901	---	5,901
Trademarks	2,492	---	2,492
Other non-amortizable intangibles	---	---	---
Intangible assets	2,593	---	2,593
Other assets	87	---	87
Total assets	**16,029**	**1,435**	**17,464**
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	585	---	585
Accrued liabilities	631	---	631
Intergroup payable (receivable)	(15)	---	(15)
Financial instruments	99	47	146
Current portion of debt	443	16	459
Current deferred tax liabilities	104	---	104
Other current liabilities	140	---	140
	1,987	63	2,050
Long-term debt	4,972	1,178	6,150
Deferred income tax liabilities	2,726	166	2,892
Other liabilities	283	68	351
Total liabilities	**9,968**	**1,475**	**11,443**
Equity/Attributed net assets	5,952	(40)	5,912
Noncontrolling interests	109	---	109
Total liabilities and equity	**16,029**	**1,435**	**17,464**

Source: Company reports.

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Exhibit 17 Splitco Capital: Pro Forma Balance Sheet

($ in millions)

Attributed Balance Sheet	*As Adjusted* FY 2009	As of 9/30/10	Split-Off Reattribution	Pro Forma
ASSETS				
Cash and cash equivalents	3,157	1,581	(432)	1,149
Trade and other receivables, net	77	51	---	51
Financial Instruments	752	---	---	---
Receivable from Liberty	194	---	---	---
Other current assets	101	462	---	462
	4,281	2,094	(432)	1,662
Investments in available-for-sale securities	3,355	4,193	(1,003)	3,190
Investments in affiliates	135	94	---	94
Property and equipment, net	166	144	---	144
Goodwill	368	200	---	200
Other non-amortizable intangibles	---	153	---	153
Intangible assets subject to amortization, net	185	149	---	149
Deferred Costs	432	---	---	---
Other assets, at cost, net of accumulated amortization	645	854	---	854
Total assets	**$9,567**	**$7,881**	($1,435)	**$6,446**
LIABILITIES AND EQUITY				
Accounts payable	13	9	---	9
Accrued liabilities	153	51	---	51
Intergroup payable		49	---	49
Financial instruments	859	1,148	(63)	1,085
Current portion of debt	1,265	---	---	---
Current deferred tax liabilities	1,530	1,189	(166)	1,023
Other current liabilities	36	249	---	249
	3,856	2,695	(229)	2,466
Long-term debt	2,388	2,005	(1,178)	827
Deferred income tax liabilities	730	22	---	22
Deferred revenue	1,034	---	---	---
Other liabilities	284	1,143	(68)	1,075
Total liabilities	**$8,292**	**$5,865**	($1,475)	**$4,390**
Equity/Attributed net assets	1,275	2,016	40	2,056
Total liabilities and equity	**$9,567**	**$7,881**	($1,435)	**$6,446**

Source: Company reports.

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Exhibit 18 Splitco Starz: Pro Forma Balance Sheet
($ in millions)

Attributed Balance Sheet	FY 2009	As of 9/30/10
ASSETS		
Cash and cash equivalents	794	1,015
Trade and other receivables, net	191	230
Program rights	469	504
Current deferred tax assets	88	61
Receivable from Liberty	238	---
Other current assets	2	189
Assets of discontinued operations—current	---	---
	1,782	1,999
Investments in available-for-sale securities	31	1
Property and equipment, net	109	109
Goodwill	---	132
Trademarks	---	---
Intangible assets not subject to amortization	135	---
Intangible assets	2	21
Program Rights	327	---
Other assets	50	474
Total assets	**2,436**	**2,736**
LIABILITIES AND EQUITY		
Accounts payable	7	8
Accrued liabilities	116	261
Intergroup payable (receivable)	---	(34)
Financial instruments	---	4
Current portion of debt	4	34
Other current liabilities	165	160
	292	433
Long-term debt	44	65
Deferred income tax liabilities	6	9
Other liabilities	54	50
Total liabilities	**396**	**557**
Equity/Attributed net assets	2,040	2,179
Total liabilities and equity	**2,436**	**2,736**

Source: Company reports.

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