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

FORM 10-Q

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

For the quarterly period ended June 30, 2011

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 333-171201

LIBERTY CAPSTARZ, INC.

(Exact name of Registrant as specified in its charter)

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

20-8988475
(I.R.S. Employer
Identification No.)

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

80112
(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of August 11, 2011, Liberty CapStarz, Inc. is an indirect wholly-owned subsidiary of Liberty Media Corporation.

LIBERTY CAPSTARZ, INC.
Condensed Combined Balance Sheets

(unaudited)

	June 30, 2011	December 31, 2010
	amounts in millions	
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 2,102	2,090
Trade and other receivables, net	282	257
Program rights	471	411
Short term marketable securities	324	509
Restricted cash (note 10)	701	53
Receivable from Liberty	26	85
Other current assets	42	137
Total current assets	<u>3,948</u>	<u>3,542</u>
Investments in available-for-sale securities and other cost investments, including \$1,148 million and \$1,219 million pledged as collateral for share borrowing arrangements (note 6)	2,983	4,550
Investments in affiliates, accounted for using the equity method (note 7)	460	91
Property and equipment, at cost	511	520
Accumulated depreciation	(280)	(273)
	<u>231</u>	<u>247</u>
Intangible assets not subject to amortization (note 9)	486	485
Intangible assets subject to amortization, net (note 9)	143	164
Program rights	342	323
Deferred costs	244	345
Deferred tax assets	192	371
Other assets, at cost, net of accumulated amortization	198	674
Total assets	<u>\$ 9,227</u>	<u>10,792</u>

(continued)

LIBERTY CAPSTARZ, INC.
Condensed Combined Balance Sheets (Continued)

(unaudited)

	<u>June 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
<u>amounts in millions</u>		
<i>Liabilities and Equity</i>		
Current liabilities:		
Accounts payable	\$ 16	21
Accrued liabilities	282	243
Financial instruments (note 8)	1,166	1,222
Current portion of debt (note 10)	754	37
Deferred income tax liabilities	712	712
Deferred revenue	105	240
Other current liabilities	40	36
Total current liabilities	<u>3,075</u>	<u>2,511</u>
Long-term debt, including \$— million and \$1,283 million measured at fair value (note 10)	38	2,101
Deferred revenue	535	846
Other liabilities	294	308
Total liabilities	<u>3,942</u>	<u>5,766</u>
Parent's Investment		
Parent's investment	3,977	4,117
Accumulated other comprehensive earnings, net of taxes	38	54
Retained earnings	1,275	855
Total Parent's investment	<u>5,290</u>	<u>5,026</u>
Noncontrolling interests in equity of subsidiaries	(5)	—
Total Parent's investment	<u>5,285</u>	<u>5,026</u>
Commitments and contingencies (note 11)		
Total liabilities and parent's investment	<u>\$ 9,227</u>	<u>10,792</u>

See accompanying notes to condensed combined financial statements.

LIBERTY CAPSTARZ, INC.

Condensed Combined Statements Of Operations

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	amounts in millions, except per share amounts			
Revenue:				
Communications and programming services	\$ 538	511	1,511	984
	<u>538</u>	<u>511</u>	<u>1,511</u>	<u>984</u>
Operating costs and expenses:				
Operating	332	368	725	638
Selling, general and administrative, including stock-based compensation (note 3)	92	105	199	265
Legal settlement	—	—	(7)	—
Depreciation and amortization	20	25	41	46
	<u>444</u>	<u>498</u>	<u>958</u>	<u>949</u>
Operating income	<u>94</u>	<u>13</u>	<u>553</u>	<u>35</u>
Other income (expense):				
Interest expense	(3)	(11)	(10)	(34)
Liberty interest income (expense)		(1)	—	3
Share of earnings (loss) of affiliates, net (note 7)	(22)	3	(50)	(11)
Realized and unrealized gains (losses) on financial instruments, net (note 8)	54	(88)	176	54
Gains (losses) on dispositions, net	—	25	(2)	24
Other, net	26	23	51	43
	<u>55</u>	<u>(49)</u>	<u>165</u>	<u>79</u>
Earnings (loss) from continuing operations before income taxes	149	(36)	718	114
Income tax (expense) benefit	(61)	12	(298)	(59)
Net earnings (loss)	<u>88</u>	<u>(24)</u>	<u>420</u>	<u>55</u>
Less net loss attributable to the noncontrolling interests	(1)	(3)	—	(3)
Net earnings (loss) attributable to Liberty CapStarz stockholders	<u>\$ 89</u>	<u>(21)</u>	<u>420</u>	<u>58</u>
Net earnings (loss) attributable to Liberty CapStarz stockholders:				
Liberty CapStarz Capital common stock	\$ 22	(82)	301	(60)
Liberty CapStarz Starz common stock	67	61	119	118
	<u>\$ 89</u>	<u>(21)</u>	<u>420</u>	<u>58</u>

(continued)

LIBERTY CAPSTARZ, INC.

Condensed Combined Statements Of Operations (Continued)

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
amounts in millions, except per share amounts				
ProForma basic net earnings (loss) attributable to Liberty CapStarz stockholders per common share (note 4):				
Series A and Series B Liberty CapStarz Capital common stock	\$ 0.27	(.86)	3.72	(.63)
Series A and Series B Liberty CapStarz Starz common stock	\$ 1.31	1.22	2.33	2.36
ProForma diluted net earnings (loss) attributable to Liberty CapStarz stockholders per common share (note 4):				
Series A and Series B Liberty CapStarz Capital common stock	\$ 0.27	(.86)	3.63	(.63)
Series A and Series B Liberty CapStarz Starz common stock	\$ 1.26	1.20	2.25	2.31

See accompanying notes to condensed combined financial statements.

LIBERTY CAPSTARZ, INC.

Condensed Combined Statements Of Comprehensive Earnings (Loss)

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	amounts in millions			
Net earnings (loss)	\$ 88	(24)	420	55
Other comprehensive earnings (loss), net of taxes:				
Unrealized holding losses arising during the period	(3)	(61)	(27)	(31)
Recognition of previously unrealized (gains) losses on available-for-sale securities, net	8	(13)	2	(13)
Reattribution of other comprehensive earnings from Liberty	—	—	—	30
Other	6	—	7	—
Other comprehensive earnings (loss)	11	(74)	(18)	(14)
Comprehensive earnings (loss)	99	(98)	402	41
Less comprehensive earnings attributable to the noncontrolling interests	(1)	(3)	—	(3)
Comprehensive earnings (loss) attributable to Liberty CapStarz stockholders	\$ 100	(95)	402	44
Comprehensive earnings (loss) attributable to Liberty CapStarz stockholders:				
Liberty Capital common stock	\$ 34	(156)	289	(74)
Liberty Starz common stock	66	61	113	118
	\$ 100	(95)	402	44

See accompanying notes to condensed combined financial statements.

LIBERTY CAPSTARZ, INC.

Condensed Combined Statements Of Cash Flows

(unaudited)

	Six months ended	
	June 30,	
	2011	2010
	amounts in millions	
Cash flows from operating activities:		
Net earnings	\$ 420	55
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	41	46
Amortization of program rights	295	287
Stock-based compensation	21	23
Cash payments for stock-based compensation	(9)	(29)
Noncash interest expense	1	1
Share of loss of affiliates, net	50	11
Realized and unrealized gains on financial instruments, net	(176)	(54)
Losses (gains) on disposition of assets, net	2	(24)
Tax allocation to Liberty	(96)	(99)
Tax payment from Liberty	138	190
Deferred income tax expense	217	40
Other noncash charges (credits), net	(328)	81
Changes in operating assets and liabilities		
Current and other assets	(510)	(440)
Payables and other liabilities	212	243
Net cash provided by operating activities	278	331
Cash flows from investing activities:		
Cash proceeds from dispositions	—	59
Proceeds from settlement of financial instruments, net	—	750
Investments in and loans to cost and equity investees	(82)	(257)
Repayment of loan by Liberty	—	316
Repayment of loans by cost and equity investees	189	98
Capital expended for property and equipment	(6)	(6)
Net sales (purchases) of short term investments	189	(307)
Net increase in restricted cash	(145)	(31)
Reattribution of Liberty cash	(264)	(807)
Other investing activities, net	(1)	6
Net cash used by investing activities	(120)	(179)
Cash flows from financing activities:		
Borrowings of debt	1	88
Repayments of debt	(58)	(975)
Repurchases of Liberty common stock	(96)	(326)
Other financing activities, net	7	116
Net cash used by financing activities	(146)	(1,097)
Net increase (decrease) in cash and cash equivalents	12	(945)
Cash and cash equivalents at beginning of period	2,090	3,951
Cash and cash equivalents at end of period	\$ 2,102	3,006

See accompanying notes to condensed combined financial statements.

LIBERTY CAPSTARZ, INC.

Condensed Combined Statement Of Parent's Investment

(unaudited)

Six months ended June 30, 2011

	Parent's Investment			Noncontrolling interest in equity of subsidiaries	Total equity
	Parent's Investment	Accumulated other comprehensive earnings	Retained earnings		
	amounts in millions				
Balance at January 1, 2011	\$ 4,117	54	855	—	5,026
Net earnings	—	—	420	—	420
Other comprehensive loss	—	(18)	—	—	(18)
Stock compensation	8	—	—	—	8
Issuance of common stock upon exercise of stock options	6	—	—	—	6
Series A Liberty Capital stock repurchases	(96)	—	—	—	(96)
Sale of noncontrolling interest, net of tax impacts	(103)	—	—	(5)	(108)
Other	45	2	—	—	47
Balance at June 30, 2011	<u>3,977</u>	<u>38</u>	<u>1,275</u>	<u>(5)</u>	<u>5,285</u>

See accompanying notes to condensed combined financial statements.

LIBERTY CAPSTARZ, INC.

Notes to Condensed Combined Financial Statements

June 30, 2011
(unaudited)

(1) Basis of Presentation

The accompanying combined financial statements of Liberty CapStarz, Inc. (formerly named Liberty Splitco, Inc.) and its controlled subsidiaries (collectively, "Liberty CapStarz" or the "Company" unless the context otherwise requires) represent a combination of the historical financial information of certain video programming and other media related assets and businesses of Liberty Media Corporation ("Liberty" or "Liberty Media"). Liberty CapStarz is currently an indirect, wholly owned subsidiary of Liberty. Liberty's capital structure utilizes three tracking stocks: the Liberty Interactive ("Liberty Interactive") common stock, Liberty Starz ("Liberty Starz") common stock and Liberty Capital ("Liberty Capital") common stock.

During the second quarter of 2010, Liberty announced that its board of directors authorized its management to proceed with a plan to separate its Liberty Capital and Liberty Starz tracking stock groups from its Liberty Interactive tracking stock group (the "proposed Split-Off"). The proposed Split-Off is to be effected by means of a redemption of all of the Liberty Capital common stock and the Liberty Starz common stock in exchange for all of the common stock of Liberty CapStarz which will hold all of the assets and businesses of the current Liberty Capital and Liberty Starz tracking stock groups. In contemplation of the proposed Split-off, the Company filed with the Securities and Exchange Commission a registration statement on Form S-4 that became effective during the second quarter of 2011. By virtue of the registration statement having gone effective, the Company was required to file periodic statements for each quarterly period, in advance of the proposed Split-off and the contribution of certain assets and businesses to Liberty CapStarz which is to occur immediately prior to the proposed Split-Off.

Liberty CapStarz will continue to utilize a tracking stock capital structure similar to Liberty Media's, with two tracking stock groups: one tracking assets that are currently attributed to the Liberty Capital group ("Capital Group") and the other tracking assets that are currently attributed to the Liberty Starz group ("Starz Group"). Liberty CapStarz will hold all the assets and be subject to all the liabilities attributed to the Liberty Capital and Liberty Starz tracking stock groups at the time of the proposed Split-Off. In the redemption, holders of Liberty Capital common stock will receive shares of Liberty CapStarz Capital common stock and holders of Liberty Starz common stock will receive shares of Liberty CapStarz Starz common stock, in each case on a one-for-one basis. After the redemption, Liberty CapStarz and Liberty will be separate public companies.

Therefore, these financial statements have been presented using the historical presentation of the Liberty attributed information as a basis for the combined financial statements. Previous transactions of the Liberty Capital and Liberty Starz tracking stock groups have been reflected as transactions of Liberty CapStarz (the combined entity) and the Liberty Interactive group has been treated as Liberty for purposes of these combined financial statements. Previous transactions between either the Liberty Starz group or the Liberty Capital group with the Liberty Interactive group, including all reattributions, have been reflected at historical cost on a prospective basis (i.e., treated as book value transfers rather than retroactive as-if poolings). All significant intercompany accounts and transactions have been eliminated in the combined financial statements.

The proposed Split-Off is intended to be tax-free to stockholders of Liberty, and its completion is subject to various conditions including the continued validity of an IRS private letter ruling that was issued to Liberty in connection with the proposed Split-Off, the opinions of tax counsel and required

LIBERTY CAPSTARZ, INC.

Notes to Condensed Combined Financial Statements (Continued)

governmental approvals. On May 23, 2011 the proposed Split-Off was approved by the requisite vote of Liberty stockholders.

On August 6, 2010, Liberty announced that it had filed suit in the Delaware Court of Chancery against the trustee under the indenture governing the public indebtedness issued by Liberty's subsidiary, Liberty Media, LLC. The lawsuit was filed in response to allegations made by a law firm purporting to represent a holder with a large position in this public indebtedness. The lawsuit seeks a declaratory judgment by the court that the proposed Split-Off will not constitute a disposition of "all or substantially all" of the assets of Liberty Media, LLC, as those terms are used in the indenture, as well as related injunctive relief. During the second quarter of 2011, Liberty received a favorable ruling in its case against the trustee which was subsequently appealed. Liberty Media requested an expedition of the appeal and a hearing has been set for mid-September. Resolution of the subject matter of this lawsuit, through a non-appealable judgment, is a condition to Liberty completing the proposed Split-Off. Subject to the satisfaction of the conditions described above, Liberty intends to complete the proposed Split-Off in the third quarter of 2011.

Liberty CapStarz, through its ownership of interests in subsidiaries and other companies, is primarily engaged in the media, communications and entertainment industries primarily in North America.

The accompanying interim unaudited condensed combined financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for such periods have been included. The results of operations for any interim period are not necessarily indicative of results for the full year. These condensed combined financial statements should be read in conjunction with the combined financial statements and notes thereto of Liberty CapStarz for the year ended December 31, 2010 which are included in Annex B to Liberty CapStarz's Form S-4 registration statement filed with the Securities and Exchange Commission on April 18, 2011.

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

Liberty CapStarz holds investments that are accounted for using the equity method. Liberty CapStarz does not control the decision making process or business management practices of these affiliates. Accordingly, Liberty CapStarz relies on management of these affiliates to provide it with accurate financial information prepared in accordance with GAAP that the Company uses in the application of the equity method. In addition, Liberty CapStarz 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 CapStarz's condensed combined financial statements.

LIBERTY CAPSTARZ, INC.

Notes to Condensed Combined Financial Statements (Continued)

In September 2009, the Financial Accounting Standards Boards amended the Accounting Standards Codification ("ASC") as summarized in Accounting Standards Update ("ASU") 2009-14, *Software (Topic 985): Certain Revenue Arrangements That Include Software Elements*, and ASU 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements*. As summarized in ASU 2009-14, ASC Topic 985 has been amended to remove from the scope of industry specific revenue accounting guidance for software and software related transactions, tangible products containing software components and non-software components that function together to deliver the product's essential functionality. As summarized in ASU 2009-13, ASC Topic 605 has been amended (1) to provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) to require an entity to allocate revenue in an arrangement using estimated selling prices of deliverables if a vendor does not have vendor-specific objective evidence or third-party evidence of selling price; and (3) to eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method. The accounting changes summarized in ASU 2009-14 and ASU 2009-13 are effective for fiscal years beginning on or after June 15, 2010, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application.

The Company adopted the revenue guidance on a prospective basis as of January 1, 2011. There was no financial statement impact on that date as a result of the adoption of the new accounting guidance. In the first quarter of 2011 TruePosition, a consolidated subsidiary of the Company, entered into an amended contract with AT&T (one of TruePosition's largest customers) that materially changed the terms of the existing contract. The transition provisions of the new accounting guidance require that when a contract is materially modified it is subject to the new accounting requirements. This resulted in the Company recognizing revenue for all the delivered elements meeting the separation criteria, previously deferred under the previous accounting guidance. TruePosition recognized approximately \$538 million of revenue and \$167 million of deferred cost associated with the delivered elements as of the modification date. Previously, TruePosition did not have Vendor Specific Objective Evidence for the undelivered specified upgrade, which changed the timing of revenue recognition for the entire arrangement. Under the new guidance TruePosition utilized the estimated selling price to determine what portion of the overall consideration to allocate to the delivered and undelivered elements.

(2) 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 CapStarz will have two tracking stocks—Liberty CapStarz Starz common stock and Liberty CapStarz Capital common stock, which are intended to track and reflect the economic performance of the Starz Group and Capital Group, respectively. While the Starz Group and the Capital 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.

LIBERTY CAPSTARZ, INC.

Notes to Condensed Combined Financial Statements (Continued)

On February 25, 2010, Liberty announced that its board of directors had resolved to effect the following changes in attribution between the Liberty Capital Group and the Liberty Interactive Group, effective immediately (the "February Reattribution"):

- the change in attribution from the Liberty Interactive Group to the Liberty Capital Group of Liberty's 14.6% ownership interest in Live Nation Entertainment, Inc.;
- the change in attribution from the Liberty Capital Group to the Liberty Interactive Group of the following debt securities:
 - \$469 million in principal amount of 4% Exchangeable Senior Debentures due 2029 (the "2029 Exchangeables");
 - \$460 million in principal amount of 3.75% Exchangeable Senior Debentures due 2030 (the "2030 Exchangeables"); and
 - \$492 million in principal amount of 3.5% Exchangeable Senior Debentures due 2031 (the "2031 Exchangeables", and together with the 2029 Exchangeables and the 2030 Exchangeables, the "Exchangeable Notes");
- the change in attribution from the Liberty Capital Group to the Liberty Interactive Group of approximately \$830 million in net taxable income to be recognized ratably in tax years 2014 through 2018 as a result of the cancellation in April 2009 of \$400 million in principal amount of 2029 Exchangeables and \$350 million in principal amount of 2030 Exchangeables; and
- the change in attribution from the Liberty Capital Group to the Liberty Interactive Group of \$807 million in cash.

On September 16, 2010, Liberty's board of directors approved a change in attribution of Liberty Media's interest in Starz Media, LLC along with \$15 million in cash from its Liberty Capital Group to its Liberty Starz Group, effective September 30, 2010 (the "Starz Media Reattribution"). As a result of the Starz Media Reattribution, an intergroup payable of approximately \$54.9 million owed by Liberty's Capital Group to its Liberty Starz Group was extinguished, and the Liberty Starz Group became attributed with approximately \$53.7 million in bank debt, interest rate swaps and any shutdown costs associated with the winding down of the Overture Films business. Notwithstanding the Starz Media Reattribution, the board determined that certain tax benefits relating to the operation of the Starz Media, LLC business by Liberty's Capital Group that may be realized from any future sale or other disposition of that business by Liberty's Starz Group will remain attributed to its Liberty Capital Group.

On February 9, 2011, Liberty's board approved a change in attribution of \$1,138 million of the 3.125% Exchangeable Senior Debentures due 2023, the stock into which such debt is exchangeable (approximately 22 million shares of Time Warner, Inc., 5 million shares of Time Warner Cable Inc. and 2 million shares of AOL, Inc. with an aggregate carrying value of \$1,215 million) and cash of \$264 million from the Liberty Capital Group to the Liberty Interactive Group (the "TWX Reattribution").

Liberty CapStarz has reflected these reattributions prospectively in the unaudited attributed financial information. See Exhibit 99.1 to this Quarterly Report on Form 10-Q for unaudited attributed financial information for Liberty CapStarz's tracking stock groups.

The term "Starz Group" does not represent a separate legal entity, rather it represents those businesses, assets and liabilities which Liberty CapStarz has attributed to that group. The Starz Group

LIBERTY CAPSTARZ, INC.

Notes to Condensed Combined Financial Statements (Continued)

focuses primarily on video programming and development, acquisition and distribution of content and is comprised primarily of Starz, LLC ("Starz") and \$1,035 million (as of June 30, 2011) of cash, including subsidiary cash. The Starz Group will also include such other businesses, assets and liabilities that Liberty CapStarz's board of directors may in the future determine to attribute to the Starz Group, including such other businesses as Liberty CapStarz may acquire for the Starz Group.

The term "Capital Group" also does not represent a separate legal entity, rather it represents all of Liberty CapStarz's businesses, assets and liabilities other than those which have been attributed to the Starz Group. The assets and businesses attributed to the Capital Group include Liberty CapStarz's subsidiaries: Atlanta National League Baseball Club, Inc. ("ANLBC") and TruePosition, Inc. ("TruePosition"); and its interests in Sirius XM Radio Inc. ("SIRIUS XM"), Time Warner Inc., Time Warner Cable Inc., Sprint Nextel Corporation and Live Nation Entertainment, Inc. ("Live Nation"). In addition, Liberty CapStarz has attributed \$1,067 million of cash, including subsidiary cash, and \$750 million principal amount (as of June 30, 2011) of other parent debt to the Capital Group. The Capital Group will also include such other businesses, assets and liabilities that Liberty's board of directors may in the future determine to attribute to the Capital Group, including such other businesses and assets as Liberty CapStarz may acquire for the Capital Group.

(3) Stock-Based Compensation

Liberty Media has granted, and the Company will grant, to certain of its directors, employees and employees of its subsidiaries options and stock appreciation rights ("SARs") to purchase shares of its common stock (collectively, "Awards"). The cost of employee services received in exchange for an Award of equity instruments (such as stock options and restricted stock) is measured 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 cost of employee services received in exchange for an Award of liability instruments (such as stock appreciation rights that will be settled in cash) is measured based on the current fair value of the Award, and remeasures the fair value of the Award at each reporting date.

In connection with the proposed Split-Off, awards with respect to Liberty Media's Series A and Series B Liberty Starz and Liberty Capital common stock will be converted to awards with respect to Liberty CapStarz's Series A and Series B Liberty CapStarz Starz and Liberty CapStarz Capital common stock pursuant to Liberty CapStarz's transitional stock adjustment plan. Therefore, the activity associated with options of Liberty Starz and Capital have been reflected as options of Liberty CapStarz in the combined financial statements.

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

Three months ended:	
June 30, 2011	\$ 10
June 30, 2010	\$ 6
Six months ended:	
June 30, 2011	\$ 21
June 30, 2010	\$ 23

In the six months ended June 30, 2011, Liberty granted, primarily to Starz employees, 484,000 options to purchase shares of Series A Liberty Starz common stock. Such options had a weighted

LIBERTY CAPSTARZ, INC.

Notes to Condensed Combined Financial Statements (Continued)

average grant-date fair value of \$21.40 per share. These options vest quarterly over the 4 year vesting period.

Liberty Media has calculated, and the Company will calculate, the grant-date fair value for all of its equity classified awards and any subsequent remeasurement of its liability classified awards using the Black-Scholes Model. The Company estimates the expected term of the Awards based on historical exercise and forfeiture data. The volatility used in the calculation for Awards is based on the historical volatility of Liberty's 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.

Liberty—Outstanding Awards

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

	Series A			
	Liberty Capital	WAEP	Liberty Starz	WAEP
numbers of options in thousands				
Outstanding at January 1, 2011	4,996	\$ 19.38	3,217	\$ 46.15
Granted	—	\$ —	484	\$ 72.95
Exercised	(562)	\$ 9.83	(146)	\$ 30.90
Forfeited/Cancelled/Exchanged	—	\$ —	(6)	\$ 56.30
Outstanding at June 30, 2011	<u>4,434</u>	<u>\$ 20.59</u>	<u>3,549</u>	<u>\$ 50.41</u>
Exercisable at June 30, 2011	<u>1,272</u>	<u>\$ 10.79</u>	<u>621</u>	<u>\$ 33.40</u>

The following table provides additional information about outstanding options to purchase Liberty common stock at June 30, 2011.

	No. of outstanding options (000's)	WAEP of outstanding options	Weighted average remaining life	Aggregate intrinsic value (000's)	No. of exercisable options (000's)	WAEP of exercisable options	Aggregate intrinsic value (000's)
Series A Capital	4,434	\$ 20.59	5.8 years	\$ 288,916	1,272	\$ 10.79	\$ 95,314
Series A Starz	3,549	\$ 50.41	6.0 years	\$ 91,128	621	\$ 33.40	\$ 26,017
Series B Starz	36	\$ 26.71	3.9 years	\$ 1,846	36	\$ 26.71	\$ 1,846

As of June 30, 2011, the total unrecognized compensation cost related to unvested Liberty equity awards was approximately \$74 million. Such amount will be recognized in the Company's condensed combined statements of operations over a weighted average period of approximately 2.8 years.

(4) Unaudited ProForma Earnings Attributable to Liberty CapStarz, Inc. Stockholders Per Common Share

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

LIBERTY CAPSTARZ, INC.

Notes to Condensed Combined Financial Statements (Continued)

Series A and Series B Liberty Capital Common Stock

The basic and diluted EPS calculation is based on the following weighted average outstanding shares of Liberty Capital common stock, on an as if converted basis assuming a ratio of 1 to 1 for the proposed Split-Off. Excluded from diluted EPS for the six months ended June 30, 2011 are less than a million potential common shares because their inclusion would be anti-dilutive.

	Liberty Capital Common Stock			
	Three months ended June 30, 2011	Six months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2010
	numbers of shares in millions			
Basic EPS	81	81	95	95
Stock options	2	2	—	—
Diluted EPS	83	83	95	95

Series A and Series B Liberty Starz Common Stock

The basic and diluted EPS calculation is based on the following weighted average outstanding shares of Liberty Starz common stock, on an as if converted basis assuming a ratio of 1 to 1 for the proposed Split-Off. Excluded from diluted EPS for the six months ended June 30, 2011 are less than a million potential common shares because their inclusion would be anti-dilutive.

	Liberty Starz Common Stock			
	Three months ended June 30, 2011	Six months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2010
	numbers of shares in millions			
Basic EPS	51	51	50	50
Stock options	2	2	1	1
Diluted EPS	53	53	51	51

(5) Assets and Liabilities Measured at Fair Value

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

LIBERTY CAPSTARZ, INC.

Notes to Condensed Combined Financial Statements (Continued)

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

<u>Description</u>	<u>Total</u>	<u>Fair Value Measurements at June 30, 2011</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
		amounts in millions		
Short term marketable securities	\$ 324	324	—	—
Available-for-sale securities	\$ 2,974	2,783	191	—
Financial instruments	\$ 1,166	1,148	18	—
Debt	\$ —	—	—	—

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

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

All marketable equity and debt securities held by the Company are classified as available-for-sale ("AFS") and are carried at fair value 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"). The Company 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 are reflected in the Company'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, the Company has elected the fair value option for those of its AFS securities which it considers to be non-strategic ("Non-strategic Securities"). Accordingly, changes in the fair value of Non-strategic Securities, as determined by quoted market prices, are reported in realized and unrealized gains (losses) on financial instruments in the accompanying condensed combined statements of operations. The total value of the Non-strategic Securities aggregated \$2,552 million as of June 30, 2011.

LIBERTY CAPSTARZ, INC.

Notes to Condensed Combined Financial Statements (Continued)

Investments in AFS securities, including Non-strategic Securities, and other cost investments are summarized as follows:

	<u>June 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
	<u>amounts in millions</u>	
Capital Group		
Time Warner Inc.(1)(2)	\$ 453	1,101
Time Warner Cable Inc.(1)(2)	244	567
Sprint Nextel Corporation ("Sprint")(1)	248	301
Motorola Solutions(1)(3)	341	471
Motorola Mobility(1)(3)	143	—
Viacom, Inc.	387	301
Live Nation(4)	25	389
Century Link, Inc.(1)	148	248
Priceline(1)	267	208
Other AFS equity securities(1)(2)	43	100
SIRIUS XM debt securities	389	384
Other AFS debt securities	222	404
Other cost investments and related receivables	8	9
Total attributed to the Capital Group	<u>2,918</u>	<u>4,483</u>
Starz Group		
Other	65	67
Total attributed to the Starz Group	<u>65</u>	<u>67</u>
Combined Liberty CapStarz	<u>\$ 2,983</u>	<u>4,550</u>

- (1) Includes shares pledged as collateral for share borrowing arrangements. See note 8.
- (2) As discussed in note 2, certain of these securities were reattributed from the Capital Group to the Interactive Group in the first quarter of 2011.
- (3) Effective January 4, 2011 Motorola, Inc. separated Motorola Mobility Holdings, Inc. in a 1 for 8 stock distribution. Motorola, Inc. simultaneously completed a 1 for 7 reverse stock split and was renamed Motorola Solutions, Inc.
- (4) In June 2011, the Company acquired an additional 5.5 million shares of Live Nation for \$58 million. The additional ownership requires the Company to account for the investment as an equity method affiliate. For additional discussion see note 7. Liberty continues to hold debt securities in Live Nation which are included in available-for-sale securities.

LIBERTY CAPSTARZ, INC.

Notes to Condensed Combined Financial Statements (Continued)

Unrealized Holding Gains and Losses

Unrealized holding gains and losses related to investments in AFS securities are summarized below.

	June 30, 2011		December 31, 2010	
	Equity securities	Debt securities	Equity securities	Debt securities
	amounts in millions			
Gross unrealized holding gains	\$ 2	66	32	66
Gross unrealized holding losses(1)	\$ —	—	—	—

(1) The Company does not currently have any gross unrealized losses that have been in such position for greater than a year.

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

The Company has various investments accounted for using the equity method. The following table includes the Company's carrying amount and percentage ownership of the more significant investments in affiliates at June 30, 2011 and the carrying amount at December 31, 2010:

	June 30, 2011		December 31, 2010	
	Percentage ownership	Market Value	Carrying amount	Carrying amount
	dollar amounts in millions			
Capital Group				
SIRIUS XM	40%	\$ 5,665	\$ —	5
Live Nation(a)	21%	\$ 449	371	—
Other	various	N/A	89	86
			\$ 460	91

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	amounts in millions			
Capital Group				
SIRIUS XM	\$ (1)	8	(8)	—
Live Nation(a)	(22)	—	(45)	—
Other	1	(5)	3	(11)
	\$ (22)	3	(50)	(11)

(a) During June 2011, Liberty acquired an additional 5.5 million shares of Live Nation which increased our ownership percentage above 20% of the outstanding voting shares. Due to the presumption that an entity with an ownership percentage greater than 20% has significant influence and no other factors would rebut that presumption, the Company is accounting for the investment as an equity method affiliate. The Company has elected to record its share of earnings (loss) for Live Nation on a three-month lag due to timeliness considerations. Increases in ownership which result in a change to the equity method of

LIBERTY CAPSTARZ, INC.

Notes to Condensed Combined Financial Statements (Continued)

accounting generally require retroactive recognition of an investment's share of earnings (loss) in prior periods. Due to the relative insignificance of our share of losses for Live Nation in previous periods, both quantitatively and qualitatively, the Company has recorded such amounts in the current year. Approximately \$12 million of the losses recorded for the six months ended June 30, 2011 relate to the prior year.

Sirius XM Radio Inc.

Based on the Company's voting rights and its conclusion that the SIRIUS XM Preferred Stock is in-substance common stock, the Company accounts for its investment in the SIRIUS XM Preferred Stock using the equity method of accounting. The Company has elected to record its share of earnings (loss) for SIRIUS XM on a three-month lag due to timeliness considerations.

Summarized unaudited financial information for SIRIUS XM is as follows:

SIRIUS XM Consolidated Balance Sheet

	March 31, 2011	December 31, 2010
	amounts in millions	
Current assets	\$ 879	992
Property and equipment, net	1,744	1,761
Intangible assets	2,617	2,633
Goodwill	1,835	1,835
Other assets	154	162
Total assets	<u>\$ 7,229</u>	<u>7,383</u>
Current liabilities	\$ 2,212	2,350
Deferred income taxes	923	915
Long-term debt	2,666	2,696
Other liabilities	1,129	1,214
Stockholders' equity	299	208
Total liabilities and equity	<u>\$ 7,229</u>	<u>7,383</u>

LIBERTY CAPSTARZ, INC.

Notes to Condensed Combined Financial Statements (Continued)

SIRIUS XM Consolidated Statement of Operations

	Three months ended	
	March 31,	
	2011	2010
	amounts in millions	
Revenue	\$ 724	664
Costs of services	(271)	(261)
Selling, general and administrative expenses	(221)	(208)
Restructuring, impairments and related costs	—	—
Depreciation and amortization	(68)	(70)
Operating income	164	125
Interest expense	(78)	(78)
Loss on extinguishment of debt	(6)	(2)
Other income (loss), net	—	(2)
Income tax expense	(2)	(1)
Net income attributable to SIRIUS XM stockholders	\$ 78	42

As of June 30, 2011, the SIRIUS XM Preferred Stock had a market value of \$5,665 million based on the value of the common stock into which it is convertible.

(8) Financial Instruments

Borrowed Shares

From time to time and in connection with certain of its derivative instruments, the Company borrows shares of the underlying securities from a counterparty and delivers these borrowed shares in settlement of maturing derivative positions. In these transactions, a similar number of shares that are owned by the Company have been posted as collateral with the counterparty. These share borrowing arrangements can be terminated at any time at the Company's option by delivering shares to the counterparty. The counterparty can terminate these arrangements at any time. The liability under these share borrowing arrangements is marked to market each reporting period with changes in value recorded in unrealized gains or losses in the combined statement of operations. The shares posted as collateral under these arrangements are marked to market each reporting period with changes in value recorded as unrealized gains or losses in the combined statement of operations.

LIBERTY CAPSTARZ, INC.

Notes to Condensed Combined Financial Statements (Continued)

The Company's financial instruments are summarized as follows:

<u>Type of financial instrument</u>	<u>June 30, 2011</u>	<u>December 31, 2010</u>
	amounts in millions	
Liabilities		
Borrowed shares(1)	\$ 1,148	1,219
Other	18	11
	1,166	1,230
Less current portion	(1,166)	(1,222)
	<u>\$ —</u>	<u>8</u>

- (1) The market values of borrowed shares are as follows:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
	amounts in millions	
Time Warner	\$ 110	97
Time Warner Cable	59	50
Sprint(a)	147	221
Motorola Solutions(b)	341	471
Motorola Mobility(b)	143	—
CenturyLink(a)	76	165
Priceline	267	208
Other	5	7
	<u>\$ 1,148</u>	<u>1,219</u>

- (a) In January 2011, the Company unwound a portion of the borrowed share position with respect to approximately 25 million Sprint shares and 2 million CenturyLink shares through the delivery of such shares to the counterparty. The asset associated with these AFS securities (\$115 million and \$74 million, respectively) was retired as well as the liability (\$115 million and \$74 million, respectively) associated with those borrowed share positions.
- (b) As discussed in note 6, Motorola Inc. separated into two companies effective January 4, 2011 through a stock distribution and reverse stock split.

LIBERTY CAPSTARZ, INC.

Notes to Condensed Combined Financial Statements (Continued)

Realized and Unrealized Gains (Losses) on Financial Instruments

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	amounts in millions			
Non-strategic Securities(1)	\$ 85	(179)	385	30
Exchangeable senior debentures	1	32	(85)	(6)
Equity collars	—	(4)	—	(2)
Borrowed shares(1)	(23)	64	(118)	61
Other	(9)	(1)	(6)	(29)
	<u>\$ 54</u>	<u>(88)</u>	<u>176</u>	<u>54</u>

- (1) The unrealized gains (losses) on Non-strategic Securities for the for the three and six months ended June 30, 2011 include gains of \$23 million and \$118 million and for the three and six months ended June 30, 2010 include losses of \$64 million and \$61 million, respectively, related to securities pledged as collateral under the share borrowing arrangements.

(9) Intangible Assets

Goodwill

Changes in the carrying amount of goodwill are as follows:

	Starz, LLC	ANLBC	TruePosition	Other	Total
	amounts in millions				
Balance at January 1, 2011	\$ 132	180	6	14	332
Other	—	—	—	1	1
Balance at June 30, 2011	<u>\$ 132</u>	<u>180</u>	<u>6</u>	<u>15</u>	<u>333</u>

Other significant intangible assets not subject to amortization include Franchise Rights (\$143 million) owned by ANLBC and other intangibles (\$10 million) as of January 1, 2011 and June 30, 2011.

Intangible Assets Subject to Amortization

Amortization expense for intangible assets with finite useful lives was \$22 million and \$24 million for the six months ended June 30, 2011 and 2010, respectively. Based on its amortizable intangible assets as of June 30, 2011, the Company expects that amortization expense will be as follows for the next five years (amounts in millions):

Remainder of 2011	\$ 10
2012	\$ 19
2013	\$ 16
2014	\$ 12
2015	\$ 10

LIBERTY CAPSTARZ, INC.

Notes to Condensed Combined Financial Statements (Continued)

(10) Long-Term Debt

Debt is summarized as follows:

	Outstanding principal June 30, 2011	Carrying value	
		June 30, 2011	December 31, 2010
amounts in millions			
Capital Group			
Exchangeable senior debentures			
3.125% Exchangeable Senior Debentures due 2023	\$ —	—	1,283
Bank Facility	<u>750</u>	<u>750</u>	<u>750</u>
Total attributed Capital Group debt	<u>750</u>	<u>750</u>	<u>2,033</u>
Starz Group			
Subsidiary debt	42	42	105
Total attributed Starz Group debt	<u>42</u>	<u>42</u>	<u>105</u>
Total combined Liberty CapStarz debt	<u>\$ 792</u>	<u>792</u>	<u>2,138</u>
Less current maturities		(754)	(37)
Total long-term debt		<u>\$ 38</u>	<u>2,101</u>

Exchangeable Senior Debentures

As discussed in note 2, in the first quarter of 2011 the Board of Directors of Liberty reattributed the 3.125% Exchangeable Senior Debentures from the Liberty Capital Group to the Liberty Interactive Group which was reflected on a prospective basis.

Bank Facility

The outstanding balance represents borrowings from a financial institution to be invested by the Company in a portfolio of selected debt and mezzanine-level instruments of companies in the telecommunications, media and technology sectors. The outstanding principal matures in March 2012. Due to the investment restrictions contained in the agreements related to these borrowings and the maturity date of the related borrowings, the uninvested cash balance of \$638 million is included in restricted cash in the accompanying condensed combined balance sheet at June 30, 2011. The restricted cash and AFS debt investments associated with these borrowings are available to satisfy the obligations at maturity.

Subsidiary Debt

Subsidiary debt at June 30, 2011 is comprised of capitalized satellite transponder lease obligations and bank debt of certain subsidiaries.

Fair Value of Debt

Due to its variable rate nature, the Company believes that the carrying amount of its debt approximated fair value at June 30, 2011.

LIBERTY CAPSTARZ, INC.

Notes to Condensed Combined Financial Statements (Continued)

(11) Commitments and Contingencies

Film Rights

Starz, a wholly-owned subsidiary of the Company, provides premium video programming distributed by cable operators, direct-to-home satellite providers, telephone companies, other distributors and the Internet throughout the United States. Starz has entered into agreements with a number of motion picture producers which obligate Starz to pay fees ("Programming Fees") for the rights to exhibit certain films that are released by these producers. The unpaid balance of Programming Fees for films that were available for exhibition by Starz at June 30, 2011 is reflected as a liability, in other liabilities, in the accompanying condensed combined balance sheet. The balance due as of June 30, 2011 is payable as follows: \$90 million in 2011 and \$3 million in 2012.

Starz has also contracted to pay Programming Fees for films that have been released theatrically, but are not available for exhibition by Starz until some future date. These amounts have not been accrued at June 30, 2011. Starz is obligated to pay Programming Fees for all qualifying films that are released theatrically in the United States by studios owned by The Walt Disney Company ("Disney") through 2015 and all qualifying films that are released theatrically in the United States by studios owned by Sony through 2016. Films are generally available to Starz Entertainment for exhibition 9-12 months after their theatrical release. The Programming Fees to be paid by Starz are based on the quantity and the domestic theatrical exhibition receipts of qualifying films. As these films have not yet been released in theatres, Starz is unable to estimate the amounts to be paid under these output agreements. However, such amounts are expected to be significant.

In addition, Starz has agreed to pay Sony Pictures Entertainment ("Sony") a total of \$142.5 million in three remaining annual installments of \$47.5 million with the next installment due at the beginning of 2012. In December 2008, Starz entered into a new agreement with Sony requiring \$120 million in three equal annual installments beginning in 2015. Starz's estimate of amounts payable for rights to future programming (that have been released), including the Disney and Sony agreements, is as follows: \$168 million in 2011; \$351 million in 2012; \$82 million in 2013; \$67 million in 2014; \$55 million in 2015 and \$90 million thereafter.

Guarantees

The Company guarantees Starz's obligations under certain of its studio output agreements. At June 30, 2011, the Company's guarantees for obligations for films released by such date aggregated \$629 million. While the guarantee amount for films not yet released is not determinable, such amount is expected to be significant. As noted above, Starz has recognized the liability for a portion of its obligations under the output agreements. As this represents a direct commitment of Starz, a consolidated subsidiary of the Company, the Company has not recorded a separate indirect liability for its guarantee of these obligations.

In connection with agreements for the sale of assets by the Company or its subsidiaries, the Company may retain liabilities that relate to events occurring prior to its sale, such as tax, environmental, litigation and employment matters. The Company generally indemnifies the purchaser in the event that a third party asserts a claim against the purchaser that relates to a liability retained by the Company. These types of indemnification obligations may extend for a number of years. The Company is 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, the Company has not made any significant indemnification

LIBERTY CAPSTARZ, INC.

Notes to Condensed Combined Financial Statements (Continued)

payments under such agreements and no amount has been accrued in the accompanying condensed combined financial statements with respect to these indemnification guarantees.

Employment Contracts

The Atlanta Braves and certain of their players and coaches have entered into long-term employment contracts whereby such individuals' compensation is guaranteed. Amounts due under guaranteed contracts as of June 30, 2011 aggregated \$176 million, which is payable as follows: \$58 million in 2011, \$72 million in 2012 and \$20 million in 2013 and \$13 million in 2014 and \$13 million thereafter. In addition to the foregoing amounts, certain players and coaches may earn incentive compensation under the terms of their employment contracts.

Operating Leases

The Company and its subsidiaries lease business offices, have entered into satellite transponder lease agreements and use certain equipment under lease arrangements.

Litigation

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

(12) Information About Liberty's Operating Segments

The Company, through its ownership interests in subsidiaries and other companies, is primarily engaged in the media, communications and entertainment industries. The Company has attributed each of its businesses to one of two groups: the Liberty CapStarz Starz Group and the Liberty CapStarz Capital Group. Each of the businesses in the tracking stock groups is separately managed. The Company identifies its reportable segments as (A) those consolidated subsidiaries that represent 10% or more of its consolidated annual revenue, annual pre-tax earnings or total assets and (B) those equity method affiliates whose share of earnings represent 10% or more of the Company's annual pre-tax earnings. The segment presentation for prior periods has been conformed to the current period segment presentation.

The Company evaluates performance and makes decisions about allocating resources to its operating segments based on financial measures such as revenue, Adjusted OIBDA and gross margin. In addition, the Company reviews nonfinancial measures such as subscriber growth and penetration.

The Company defines Adjusted OIBDA as revenue less cost of sales, operating expenses, and selling, general and administrative expenses (excluding stock-based compensation). The Company 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

LIBERTY CAPSTARZ, INC.

Notes to Condensed Combined Financial Statements (Continued)

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. The Company generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current prices.

As discussed in Note 2, effective September 30, 2010, the Company's board of directors approved a change in attribution of Starz Media from the Capital Group to the Starz Group to better align the remaining businesses of Starz Media with the legacy Starz Entertainment business to form a combined Starz entity that we refer to as Starz, LLC. The Starz Media Reattribution did not have any impact on the combined results of the Company and was reflected on a prospective basis for tracking stock purposes. This change in attribution of Starz Media changed how these entities are reviewed and operated from the Company's combined view point and thus gives rise to a new presentation for segment reporting purposes for both the current and prior year periods.

Prior to its reattribution the biggest driver of the Starz Media business unit was its theatrical production business which is no longer being operated except for the exploitation of its existing film library in home video, non-pay television and other ancillary markets. As a result, we do not expect the effect of the remaining Starz Media businesses in future periods to materially change Starz, LLC's operations prospectively. Based on this lack of comparability and the importance of maintaining the integrity of the historical tracking stock results we have included a segment reclassification adjustment for both the Starz Group and the Capital Group in order to reconcile to the historical attributed results for each group.

For the six months ended June 30, 2011, the Company has identified the following businesses as its reportable segments:

- Starz, LLC—consolidated subsidiary attributed to the Starz Group that provides premium networks distributed by cable operators, direct-to-home satellite providers, telephone companies and other distributors in the United States and develops, produces and acquires entertainment content and distributes such content to consumers in a wide variety of formats in the United States and throughout the world.
- ANLBC—consolidated subsidiary attributed to the Capital Group that owns and operates the Atlanta Braves Major League Baseball franchise.
- TruePosition, Inc.—consolidated subsidiary attributed to the Capital Group that develops and markets technology for locating wireless phones and other wireless devices enabling wireless carriers, application providers and other enterprises to provide E-911 services domestically and other location-based services to mobile users both domestically and worldwide.

The Company's reportable 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 policies.

LIBERTY CAPSTARZ, INC.

Notes to Condensed Combined Financial Statements (Continued)

Performance Measures

	Six months ended June 30,			
	2011		2010	
	Revenue	Adjusted OIBDA	Revenue	Adjusted OIBDA
	amounts in millions			
Starz Group				
Starz, LLC	\$ 794	249	841	152
Corporate and other	1	(6)	5	(7)
Adjustment for tracking stock purposes(1)	—	—	(228)	61
	<u>795</u>	<u>243</u>	<u>618</u>	<u>206</u>
Capital Group				
ANLBC	95	(8)	91	(5)
TruePosition	587	373	26	(28)
Corporate and other	34	—	21	(8)
Adjustment for tracking stock purposes(1)	—	—	228	(61)
	<u>716</u>	<u>365</u>	<u>366</u>	<u>(102)</u>
Combined Liberty CapStarz	<u>\$ 1,511</u>	<u>608</u>	<u>984</u>	<u>104</u>

	Three months ended June 30,			
	2011		2010	
	Revenue	Adjusted OIBDA	Revenue	Adjusted OIBDA
	amounts in millions			
Starz Group				
Starz, LLC	\$ 403	118	392	53
Corporate and other	—	(1)	3	(4)
Adjustment for tracking stock purposes(1)	—	—	(84)	54
	<u>403</u>	<u>117</u>	<u>311</u>	<u>103</u>
Capital Group				
ANLBC	91	8	88	10
TruePosition	27	3	21	(9)
Corporate and other	17	(4)	7	(6)
Adjustment for tracking stock purposes(1)	—	—	84	(54)
	<u>135</u>	<u>7</u>	<u>200</u>	<u>(59)</u>
Combined Liberty CapStarz	<u>\$ 538</u>	<u>124</u>	<u>511</u>	<u>44</u>

- (1) As discussed above due to the change in segments the prior periods have been changed to reflect the current segment presentation. The adjustment is necessary to align the tracking stock subtotals to the Unaudited Attributed Financial Information for tracking stock groups found in Exhibit 99.1, wherein this change in attribution has been reflected prospectively.

LIBERTY CAPSTARZ, INC.

Notes to Condensed Combined Financial Statements (Continued)

Other Information

	June 30, 2011		
	Total assets	Investments in affiliates	Capital expenditures
	amounts in millions		
Starz Group			
Starz, LLC	\$ 1,941	—	2
Corporate and other	846	—	—
	<u>2,787</u>	<u>—</u>	<u>2</u>
Capital Group			
ANLBC	588	31	1
TruePosition	351	—	2
Corporate and other	5,576	429	1
	<u>6,515</u>	<u>460</u>	<u>4</u>
Inter-group eliminations	(75)	—	—
Combined Liberty CapStarz	<u>\$ 9,227</u>	<u>460</u>	<u>6</u>

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	amounts in millions			
Combined segment Adjusted OIBDA	\$ 124	44	608	104
Stock-based compensation	(10)	(6)	(21)	(23)
Gain on legal settlement	—	—	7	—
Depreciation and amortization	(20)	(25)	(41)	(46)
Interest expense	(3)	(11)	(10)	(34)
Liberty interest income (expense)	—	(1)	—	3
Share of earnings of affiliates, net	(22)	3	(50)	(11)
Realized and unrealized gains (losses) on financial instruments, net	54	(88)	176	54
Gains (losses) on dispositions, net	—	25	(2)	24
Other, net	26	23	51	43
Earnings from continuing operations before income taxes	<u>\$ 149</u>	<u>(36)</u>	<u>718</u>	<u>114</u>

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

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

- customer demand for our products and services and our ability to adapt to changes in demand;
- competitor responses to our products and services, and the products and services of the entities in which we have interests;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- uncertainties associated with product and service development and market acceptance, including the development and provision of programming for new television and telecommunications technologies;
- 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, vendors and joint venturers;
- general economic and business conditions and industry trends including the current economic downturn;
- consumer spending levels, including the availability and amount of individual consumer debt;
- disruption in the production of theatrical films or television programs due to strikes by unions representing writers, directors or actors;
- continued consolidation of the broadband distribution and movie studio industries;
- increased digital TV penetration and the impact on channel positioning of our networks;
- rapid technological changes;
- capital spending for the acquisition and/or development of telecommunications networks and services;

- the regulatory and competitive environment of the industries in which we, and the entities in which we have interests, operate;
- threatened terrorist attacks and ongoing military action in the Middle East and other parts of the world; and
- fluctuations in foreign currency exchange rates and political unrest in international markets.

For additional risk factors, please see the Risk Factors section of Liberty CapStarz, Inc.'s Form S-4 registration statement relating to the proposed Split-Off (as defined below), filed with the Securities and Exchange Commission on April 18, 2011 (the "Registration Statement"). These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Quarterly Report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

The following discussion and analysis provides information concerning our results of operations and financial condition. This discussion should be read in conjunction with our accompanying condensed combined financial statements and the notes thereto and our audited combined financial statements for the year ended December 31, 2010 in the Registration Statement.

Explanatory Note

Liberty CapStarz is currently an indirect, wholly owned subsidiary of Liberty. Liberty's capital structure utilizes three tracking stocks: the Liberty Interactive ("Liberty Interactive") common stock, Liberty Starz ("Liberty Starz") common stock and Liberty Capital ("Liberty Capital") common stock. During the second quarter of 2010, Liberty announced that its board of directors authorized its management to proceed with a plan to separate its Liberty Capital and Liberty Starz tracking stock groups from its Liberty Interactive tracking stock group (the "proposed Split-Off"). The proposed Split-Off is to be effected by means of a redemption of all of the Liberty Capital common stock and the Liberty Starz common stock in exchange for all of the common stock of Liberty CapStarz which will hold all of the assets, liabilities and businesses currently attributed to the Liberty Capital and Liberty Starz tracking stock groups. In contemplation of the proposed Split-Off, the Company filed with the Securities and Exchange Commission a registration statement on Form S-4 that became effective during the second quarter of 2011. By virtue of the registration statement having gone effective, the Company is required to file periodic statements for each quarterly period, in advance of the proposed Split-Off and the contribution of certain assets and businesses to Liberty CapStarz which is to occur immediately prior to the proposed Split-Off. See footnote (1) to our condensed combined financial statements included herein.

Overview

We own controlling and non-controlling interests in a broad range of media, communications and entertainment companies. Our more significant operating subsidiaries, which are also our principal reportable segments, are Starz, Atlanta National League Baseball Club, Inc., ("ANLBC") and TruePosition, Inc. ("TruePosition"). Starz provides premium networks distributed by cable operators, direct-to-home satellite providers, telephone companies and other distributors in the United States and develops, produces and acquires entertainment content and distributes such content to consumers in a wide variety of formats. ANLBC owns the Atlanta Braves, a major league baseball club, as well as certain of the Atlanta Braves' minor league clubs. TruePosition provides equipment and technology that deliver location-based services to wireless users.

Our "Corporate and Other" category includes our other combined subsidiaries and corporate expenses.

In addition to the foregoing businesses, we hold ownership interests in Sirius XM Radio, Inc. ("SIRIUS XM") and Live Nation Entertainment, Inc., which we account for as equity method investment; and we continue to maintain investments and related financial instruments in public companies such as Time Warner, Time Warner Cable and Sprint Nextel Corporation, which are accounted for at their respective fair market values and are included in corporate and other.

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 CapStarz will have two tracking stocks—Liberty CapStarz Starz common stock and Liberty CapStarz Capital common stock, which are intended to track and reflect the economic performance of the Starz Group and Capital Group, respectively. While the Starz Group and the Capital 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.

On February 9, 2011, Liberty's board of directors approved the change in attribution of (i) approximately \$1.138 billion principal amount of Liberty Media LLC's 3.125% Exchangeable Senior Debentures due 2023 (the "TWX Exchangeable Notes"), (ii) 21,785,130 shares of Time Warner Inc. common stock, 5,468,254 shares of Time Warner Cable Inc. common stock and 1,980,425 shares of AOL, Inc. common stock, which collectively represent the basket of securities into which the TWX Exchangeable Notes are exchangeable and (iii) \$263.8 million in cash from the Liberty Capital Group to the Liberty Interactive Group, effective immediately (the "TWX Reattribution"). The TWX Reattribution had no effect on the assets and liabilities attributed to the Liberty Starz Group, nor did it effect any change to the obligor of the TWX Exchangeable Notes, which remains Liberty Media LLC.

The Company has made changes in the attribution of certain assets, liabilities and businesses between the Groups in prior periods, as discussed in previous financial statements filed with the Securities and Exchange Commission and in the Notes to Condensed Financial Statements included in this Quarterly Report on Form 10-Q.

The Company has reflected these reattributions prospectively in the unaudited attributed financial information. See Exhibit 99.1 to this Quarterly Report on Form 10-Q for unaudited attributed financial information for our tracking stock groups.

The proposed Split-Off will be effected by the redemption of all the outstanding shares of Liberty Capital tracking stock and Liberty Starz tracking stock in exchange for shares in Liberty CapStarz. Liberty CapStarz will hold all the assets and be subject to all the liabilities attributed to the Liberty Capital and Liberty Starz tracking stock groups. The common stock of Liberty CapStarz will be divided into two tracking stock groups, one tracking assets that are currently attributed to the Liberty Capital group ("Capital Group") and the other tracking assets that are currently attributed to the Liberty Starz group ("Starz Group"). In the redemption, holders of Liberty Capital tracking stock will receive shares of Capital tracking stock and holders of Liberty Starz tracking stock will receive shares of Liberty CapStarz Starz tracking stock. After the redemption, Liberty CapStarz and Liberty will be separate public companies.

The proposed Split-Off is intended to be tax-free to stockholders of Liberty and its completion will be subject to various conditions including the continued validity of an IRS private letter ruling that was issued to Liberty in connection with the proposed split-off, the opinions of tax counsel and required governmental approvals. On May 23, 2011, the proposed Split-Off was approved by the requisite vote of Liberty stockholders. In August 2010, Liberty filed suit in the Delaware Court of Chancery against the trustee under the indenture governing the public indebtedness issued by Liberty's subsidiary, Liberty Media LLC. The lawsuit was filed in response to allegations made by a law firm purporting to represent a holder with a large position in this public indebtedness. The lawsuit seeks a declaratory judgment by the court that the proposed split-off will not constitute a disposition of "all or substantially all" of the assets of Liberty Media LLC, as those terms are used in the indenture, as well as related injunctive relief. During the second quarter of 2011, Liberty received a favorable ruling in its case against the trustee which was subsequently appealed. Resolution of the subject matter of this lawsuit, through a final non-appealable judgment, is a condition to Liberty completing the proposed split-off. Subject to the satisfaction of the conditions described above, Liberty intends to complete the proposed split-off in the third quarter of 2011.

The term "Starz Group" does not represent a separate legal entity, rather it represents those businesses, assets and liabilities which Liberty has attributed to that group. The Starz Group focuses primarily on video programming and is comprised primarily of Starz, LLC ("Starz") and \$1,035 million (as of June 30, 2011) of cash, including subsidiary cash. The Starz Group will also include such other businesses, assets and liabilities that the Company's board of directors may in the future determine to attribute to the Starz Group, including such other businesses as Liberty may acquire for the Starz Group.

Similarly, the term "Capital Group" also does not represent a separate legal entity, rather it represents all of Liberty's businesses, assets and liabilities other than those which have been attributed to the Starz Group. The assets and businesses attributed to the Capital Group include the Company's subsidiaries: ANLBC and TruePosition; and its interests in SIRIUS XM, Time Warner Inc., Time Warner Cable Inc., Sprint Nextel Corporation and Live Nation Entertainment, Inc. ("Live Nation"). In addition, the Company has attributed \$1,067 million of cash, including subsidiary cash, and \$750 million principal amount (as of June 30, 2011) of its exchangeable senior debentures and other parent debt to the Capital Group. The Capital Group will also include such other businesses, assets and liabilities that the Company's board of directors may in the future determine to attribute to the Capital Group, including such other businesses and assets as the Company may acquire for the Capital Group.

Results of Operations—Combined

General. We provide in the tables below information regarding our Combined Operating Results and Other Income and Expense, as well as information regarding the contribution to those items from our reportable segments categorized by tracking stock group. The "corporate and other" category for each tracking stock group consists of those assets or businesses which do not qualify as a separate reportable segment. For a more detailed discussion and analysis of the financial results of the principal reporting segments of each tracking stock group, see "Results of Operations—Tracking Stock Groups" below. As discussed more fully in Management's Discussion and Analysis for the Starz Group the Starz Media Reattribution impacted the presentation for the Starz Group and Capital Group due to the change in attribution of the legacy Starz Media businesses to the Starz Group as of September 30, 2010. The results for Starz Media remain in the Capital Group for the six months ended June 30, 2010, during this period those businesses were attributed to that group, and are included in the Starz Group for the six months ended June 30, 2011 in the results of Starz, LLC (the combined entity).

Combined Operating Results

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	amounts in millions			
Revenue				
Starz Group				
Starz, LLC	\$ 403	308	794	613
Corporate and other	—	3	1	5
	<u>403</u>	<u>311</u>	<u>795</u>	<u>618</u>
Capital Group				
Starz Media	—	84	—	228
ANLBC	91	88	95	91
TruePosition	27	21	587	26
Corporate and other	17	7	34	21
	<u>135</u>	<u>200</u>	<u>716</u>	<u>366</u>
Combined Liberty CapStarz	<u>\$ 538</u>	<u>511</u>	<u>1,511</u>	<u>984</u>
Adjusted OIBDA				
Starz Group				
Starz, LLC	\$ 118	107	249	213
Corporate and other	(1)	(4)	(6)	(7)
	<u>117</u>	<u>103</u>	<u>243</u>	<u>206</u>
Capital Group				
Starz Media	—	(54)	—	(61)
ANLBC	8	10	(8)	(5)
TruePosition	3	(9)	373	(28)
Corporate and other	(4)	(6)	—	(8)
	<u>7</u>	<u>(59)</u>	<u>365</u>	<u>(102)</u>
Combined Liberty CapStarz	<u>\$ 124</u>	<u>44</u>	<u>608</u>	<u>104</u>
Operating Income (Loss)				
Starz Group				
Starz, LLC	\$ 112	102	236	201
Corporate and other	(4)	(6)	(12)	(13)
	<u>108</u>	<u>96</u>	<u>224</u>	<u>188</u>
Capital Group				
Starz Media	—	(55)	—	(64)
ANLBC	(5)	(4)	(31)	(31)
TruePosition	—	(11)	375	(33)
Corporate and other	(9)	(13)	(15)	(25)
	<u>(14)</u>	<u>(83)</u>	<u>329</u>	<u>(153)</u>
Combined Liberty CapStarz	<u>\$ 94</u>	<u>13</u>	<u>553</u>	<u>35</u>

Revenue. Our consolidated revenue increased \$27 million and \$527 million for the three and six month periods ended June 30, 2011, as compared to the corresponding prior year periods. The three month increase was due to small revenue increases at each of our subsidiaries. The six month increase is due primarily to a one time recognition of previously deferred revenues at TruePosition. See Management's Discussion and Analysis for each of our tracking stock groups below for a more complete discussion of the results of operations of certain of our subsidiaries.

Adjusted OIBDA. We define Adjusted OIBDA as revenue less cost of sales, operating expenses and selling, general and administrative ("SG&A") expenses (excluding stock compensation). Our chief operating decision maker and management team use this measure of performance in conjunction with other measures to evaluate our businesses and make decisions about allocating resources among our businesses. We believe this is an important indicator of the operational strength and performance of our businesses, including each business's ability to service debt and fund capital expenditures. In addition, this measure allows us to view operating results, perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. This measure of performance excludes such costs as depreciation and amortization, stock-based compensation, separately reported litigation settlements and restructuring and impairment charges that are included in the measurement of operating income pursuant to GAAP. Accordingly, Adjusted OIBDA should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. See note 12 to the accompanying condensed combined financial statements for a reconciliation of Adjusted OIBDA to Earnings (loss) from continuing operations before income taxes.

Combined Adjusted OIBDA increased \$80 million and \$504 million for the three and six months ended June 30, 2011 as compared to the corresponding prior year periods. The three month increase was primarily driven by the improved results from the legacy Starz Media businesses which contributed \$54 million in Adjusted OIBDA losses in the prior year period and Adjusted OIBDA income of \$6 million in the current year three month period. The six month increase is due to the net impact of a one time recognition of previously deferred revenues and costs at TruePosition and the increased results for Starz, LLC. See Management's Discussion and Analysis for each of our tracking stock groups 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 \$21 million and \$23 million of stock compensation expense for the six months ended June 30, 2011 and 2010, respectively. The decrease in stock compensation expense in 2011 relates primarily to our liability classified awards due to a less significant increase in our stock prices in the current period as compared to the prior period offset slightly by additional grants in the current year which increased amortization of stock compensation. As of June 30, 2011, the total unrecognized compensation cost related to invested Liberty equity awards was approximately \$74 million. Such amount will be recognized in our combined statements of operations over a weighted average period of approximately 2.8 years.

Operating income. Our combined operating income increased \$81 million and \$518 million for the three and six months ended June 30, 2011 as compared to the corresponding prior year periods. The increases are primarily the result of increases for TruePosition and the improved results for combined Starz, LLC.

Other Income and Expense

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	amounts in millions			
Interest expense				
Starz Group	\$ (2)	(1)	(3)	(1)
Capital Group	(1)	(10)	(7)	(33)
Combined Liberty CapStarz	\$ (3)	(11)	(10)	(34)
Share of earnings (losses) of affiliates				
Starz Group	\$ —	—	—	—
Capital Group	(22)	3	(50)	(11)
Combined Liberty CapStarz	\$ (22)	3	(50)	(11)
Realized and unrealized gains (losses) on financial instruments, net				
Starz Group	\$ —	—	1	(1)
Capital Group	54	(88)	175	55
Combined Liberty CapStarz	\$ 54	(88)	176	54
Gains (losses) on dispositions, net				
Starz Group	\$ —	—	(2)	—
Capital Group	—	25	—	24
Combined Liberty CapStarz	\$ —	25	(2)	24
Other, net				
Starz Group	\$ 2	—	2	—
Capital Group	24	23	49	43
Combined Liberty CapStarz	\$ 26	23	51	43

Interest expense. Combined interest expense decreased \$8 million and \$14 million for the three and six months ended June 30, 2011 as compared to the corresponding prior year periods. The overall decreases in interest expense related to a lower average debt balance throughout the periods, as compared to the corresponding prior year periods. The lower average debt balance is primarily due to the change in attribution of certain parent debt to the Interactive Group.

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	amounts in millions			
Capital Group				
Sirius	\$ (1)	8	(8)	—
Live Nation	(22)	—	(45)	—
Other	1	(5)	3	(11)
	\$ (22)	3	(50)	(11)

During June 2011, Liberty acquired an additional 5.5 million shares of Live Nation which increased our ownership percentage above 20% of the outstanding voting shares. Due to the presumption that an entity with an ownership percentage greater than 20% has significant influence and no other factors would rebut that presumption, the Company is accounting for the investment as an equity method affiliate. The Company has elected to record its share of earnings (loss) for Live Nation on a three-month lag due to timeliness considerations. Increases in ownership which result in a change to the equity method of accounting generally require retroactive recognition of an investment's share of earnings (loss) in prior periods. Due to the relative insignificance of our share of losses for Live Nation in previous periods, both quantitatively and qualitatively, the Company has recorded such amounts in the current year. Approximately \$12 million of the losses recorded for the six months ended June 30, 2011 relate to the prior year.

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	amounts in millions			
Non-strategic Securities	\$ 85	(179)	385	30
Exchangeable senior debentures	1	32	(85)	(6)
Equity collars(1)	—	(4)	—	(2)
Borrowed shares(1)	(23)	64	(118)	61
Other derivatives	(9)	(1)	(6)	(29)
	<u>\$ 54</u>	<u>(88)</u>	<u>176</u>	<u>54</u>

(1) Changes in fair value are due primarily to changes in the market prices of the underlying marketable securities.

Gains (losses) on dispositions. Gains on dispositions in 2010 related to gains associated with the repayment of certain SIRIUS XM debt securities.

Income taxes. Our effective tax rate for the six months ended June 30, 2011 is 42% which is greater than the U.S. federal income tax rate of 35% primarily due to the impact of state taxes. Additionally, the net direct tax impacts of \$110 million arising from the sale of a 25% noncontrolling interest in a consolidated subsidiary was recorded as a reduction to equity in accordance with relevant accounting guidance for noncontrolling interests. The tax attributes relating to the remaining 75% of equity of this consolidated subsidiary have not been reflected in our deferred taxes.

Net earnings. We had net earnings of \$420 million and \$58 million for the six months ended June 30, 2011 and 2010, respectively. The change in net earnings was the result of the above-described fluctuations in our revenue, expenses and other gains and losses.

Material Changes in Financial Condition

While the Starz Group and the Capital Group are not separate legal entities and the assets and liabilities attributed to each group remain assets and liabilities of our combined company, we manage the liquidity and financial resources of each group separately. Keeping in mind that assets of one group may be used to satisfy liabilities of one of the other groups, the following discussion assumes, consistent with management expectations, that future liquidity needs of each group will be funded by the financial resources attributed to each respective group.

As of June 30, 2011 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 for each group to the extent the identified asset or transaction has been attributed to such group: available cash balances, cash generated by the operating activities of our privately-owned subsidiaries (to the extent such cash exceeds the working capital needs of the subsidiaries and is not otherwise restricted), proceeds from asset sales, monetization of our public investment portfolio (including derivatives), debt and equity issuances, and dividend and interest receipts.

Standard & Poor's Ratings Services and Moody's Investors Services put our corporate ratings on credit watch with developing implications and possible downgrade, respectively, following Liberty's announcement of the proposed split-off in June of 2010. During the second quarter of 2011 Standard & Poor's Rating Services placed Liberty's rating on Credit Watch positive with a likely upgrade to BB with a stable outlook upon the completion of the proposed split-off. In the event we need to obtain external debt financing, prior to the proposed split-off, such ratings could hurt our ability to obtain financing and could increase the cost of any financing we are able to obtain.

Combined Liberty CapStarz. As of June 30, 2011 the Company had a cash balance of \$2,102 million along with additional sources of liquidity of \$324 million in short term marketable securities and \$1,258 million of unpledged Non-strategic AFS securities. To the extent the Company recognizes any taxable gains from the sale of assets, including in the settlement of derivative instruments, we may incur tax expense and be required to make tax payments, thereby reducing any cash proceeds. Further, our operating businesses have provided, on average, more than \$250 million in annual operating cash flow over the prior three years and we do not anticipate any significant reductions in that amount in future years, with the exception of the impacts to operating cash flow from the proposed split-off.

The projected uses of Liberty CapStarz cash are the costs to service outstanding debt, continued capital improvement spending and the potential buyback of common stock under the approved share buyback programs. We also may be required to make net payments of income tax liabilities to settle items under discussion with tax authorities. Additionally, we may make investments in existing or new businesses. In May 2011, we made a proposal to acquire a 70% equity ownership interest in Barnes & Noble Inc. for \$17 per share in cash. The proposal is subject to various conditions, including satisfactory financing and the participation of founding chairman Leonard Riggio, both in terms of his continuing equity ownership and his continuing role in management. If this transaction is consummated, we expect that our cash contribution toward the purchase price, depending on the amount of financing that can be obtained, will be in the range of \$500 million.

Starz Group. During the six months ended June 30, 2011, the Starz Group's primary uses of cash were \$77 million related to investments in original programming and other entertainment content and \$57 million for payments on outstanding debt. The uses of cash were funded by cash on hand and cash from operations. As of June 30, 2011, the Starz Group had a cash balance of \$1,035 million.

The projected uses of Starz Group cash in 2011 include continued investment in original programming and other entertainment content. In addition, we may make additional repurchases of Liberty Starz common stock and additional investments in existing or new businesses and attribute such investments to the Starz Group. We expect that we will be able to use a combination of cash on hand and cash from operations to fund Starz Group cash needs in 2011.

Capital Group. During the six months ended June 30, 2011, the Capital Group's primary uses of cash were \$264 million of cash reattributed to the Interactive Group related to the TWX Reattribution, purchases of \$134 million in short term marketable securities and \$96 million for repurchases of

Liberty Capital common stock. The uses of cash were funded by cash on hand and cash from operations.

The projected uses of Capital Group cash for the remainder of 2011 are not expected to be significant. We note the attributed outstanding debt of \$750 million is due in March of 2012. Restricted cash of \$638 million (at June 30, 2011) and a basket of AFS debt securities are available to satisfy that obligation at maturity. We also may be required to make net payments of income tax liabilities to settle items under discussion with tax authorities. We may make additional repurchases of Liberty Capital common stock and additional investments in existing or new businesses. In May 2011, we made a proposal to acquire a 70% equity ownership interest in Barnes & Noble Inc. for \$17 per share in cash. The proposal is subject to various conditions, including satisfactory financing and the participation of founding chairman Leonard Riggio, both in terms of his continuing equity ownership and his continuing role in management. If this transaction is consummated, we expect that our cash contribution toward the purchase price, depending on the amount of financing that can be obtained, will be in the range of \$500 million.

We expect that the Capital Group's investing and financing activities will be funded with a combination of cash on hand, net tax payments from the Interactive Group and the Starz Group and dispositions of non-strategic assets. At June 30, 2011, the Capital Group's sources of liquidity include \$1,067 million in cash, \$192 million in short term marketable securities and \$1,194 million of unpledged non-strategic AFS securities. To the extent the Capital Group recognizes any taxable gains from the sale of assets, including in the settlement of derivative instruments, we may incur current tax expense and be required to make tax payments, thereby reducing any cash proceeds attributable to the Capital Group.

Results of Operations—Tracking Stock Groups

Starz Group

The Starz Group is primarily comprised of our subsidiary Starz and \$1,035 million of cash, including subsidiary cash.

The following discussion and analysis provides information concerning the attributed results of operations of the Starz Group. This discussion should be read in conjunction with (1) our condensed combined financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q and (2) the Unaudited Attributed Financial Information for Tracking Stock Groups filed as Exhibit 99.1 to this Quarterly Report on Form 10-Q.

Results of Operations

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
amounts in millions				
Revenue				
Starz, LLC	\$ 403	308	794	613
Corporate and other	—	3	1	5
	<u>\$ 403</u>	<u>311</u>	<u>795</u>	<u>618</u>
Adjusted OIBDA				
Starz, LLC	\$ 118	107	249	213
Corporate and other	(1)	(4)	(6)	(7)
	<u>\$ 117</u>	<u>103</u>	<u>243</u>	<u>206</u>
Operating Income (Loss)				
Starz, LLC	\$ 112	102	236	201
Corporate and other	(4)	(6)	(12)	(13)
	<u>\$ 108</u>	<u>96</u>	<u>224</u>	<u>188</u>

Starz, LLC. Starz provides premium networks distributed by cable operators, direct-to-home satellite providers, telephone companies and other distributors in the United States and develops, produces and acquires entertainment content and distributes such content to consumers in the United States and throughout the world. Additionally, as of September 30, 2010, Starz includes the remaining operations of Starz Media. Starz is managed based on the following lines of business: Starz Channels (legacy Starz Entertainment business, excluding ancillary revenue and expenses related to original programming) and Home Video, Television, Digital Media and Animation (legacy Starz Media businesses). We believe, with the decisions that have been made surrounding the legacy Starz Media businesses, the prospective results of Starz will be largely driven by the results of Starz Channels.

A large portion of Starz's revenue is derived from the delivery of movies and original programming content to consumers through the Starz Channels' distribution partners. Some of Starz's affiliation agreements with its distribution partners provide for payments to Starz based on the number of subscribers that receive the Starz Channels' services ("consignment agreements"). Starz also has fixed-rate affiliation agreements with certain of its distribution partners. Pursuant to these agreements, the distribution partners pay an agreed-upon rate regardless of the number of subscribers. The agreed-upon rate may be increased annually to the extent the contract provides for an increase. The affiliation agreements expire in 2011 through 2018. During the quarter ended June 30, 2011, approximately 54% of the Starz Channels' revenue was generated by its three largest customers, Comcast, DIRECTV and Dish Network, each of which individually generated 10% or more of the Starz Channels' revenue for such period.

Starz's operating results are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	amounts in millions			
Revenue	\$ 403	383	794	829
Operating expenses	(233)	(270)	(428)	(506)
SG&A expenses	(52)	(65)	(117)	(175)
Adjusted OIBDA	118	48	249	148
Stock-based compensation	(2)	1	(3)	(3)
Depreciation and amortization	(4)	(6)	(10)	(11)
Operating income	\$ 112	43	236	134

As discussed above, the results for Starz for the three and six months ended June 30, 2011 include the legacy Starz Entertainment business operations and the legacy Starz Media business operations, due to the Starz Media Reattribution (effective as of September 30, 2010). For discussion purposes, the historical results for the Starz Media legacy businesses have been combined with the historical results of the Starz Entertainment legacy businesses, including the impacts of intercompany eliminations, for the three and six months ended June 30, 2010.

Starz's revenue increased \$20 million and decreased \$35 million for the three and six months ended June 30, 2011, respectively, as compared to the corresponding prior year periods. Revenue for the three months increased as a result of an \$8 million increase due to higher effective rate for the Starz Channels' services, \$6 million due to growth in the average number of subscriptions and \$3 million in additional ancillary revenue related to international television distribution rights and home video for Starz original content. The remaining increase was primarily attributable to the home video performance of "The Kings Speech" distributed for The Weinstein Company in the current period which was partially offset by no theatrical releases of films in 2011. The decrease in revenue for the six months ended June 30, 2011 as compared to the prior year was primarily attributable to no theatrical films released in 2011 as compared to two in 2010 and a decrease in the number of theatrical films released on home video. The overall decrease was partially offset by revenue growth resulting from a \$10 million increase due to higher effective rate for the Starz Channels' services, \$14 million due to growth in the average number of subscriptions and \$14 million in additional ancillary revenue related to international television distribution rights and home video for Starz original content.

Starz, Encore, and the Encore thematic multiplex channels ("EMP") are the primary drivers of Starz's revenue. Starz average subscriptions increased 9.7% and 9.0% for the three and six months ended June 30, 2011 compared to the corresponding period of 2010 and EMP average subscriptions increased 4.7% and 5.6% for the three and six months ended June 30, 2011 compared to the corresponding period of 2010. The impact on revenue due to subscription increases is affected by the relative percentages of increases under consignment agreements and fixed-rate agreements. In this regard, as of June 30, 2011 subscriptions under fixed-rate agreements were 28.5 million while subscriptions under consignment agreements were 23.4 million. As of June 30, 2010, subscriptions under fixed-rate affiliation agreements were 26.6 million while subscriptions under consignment agreements were 22.7 million.

Operating expenses decreased by \$37 million and \$78 million for the three and six months ended June 30, 2011 as compared to the corresponding prior year periods. Approximately \$48 million and \$91 million of such decrease, respectively, was the result of lower production and acquisition costs, lower home video costs and no theatrical releases in the current period. These operating expense decreases were partially offset by increases, related to the Starz Channels, of 4.7% and 1.7% for the

three and six months ended June 30, 2011 as compared to the corresponding prior year periods. Programming expenses are Starz's primary operating expense and totaled approximately \$164 million and \$312 million for the three and six months ended June 30, 2011 and \$156 million and \$307 million for the three and six months ended June 30, 2010. We expect that programming costs related to original programming will continue to increase in the future as Starz continues to invest in original content.

Starz's SG&A expenses decreased by \$13 million and \$58 million for the three and six months ended June 30, 2011 as compared to the corresponding prior year periods. The primary driver in decreased SG&A expenses as compared to the prior year periods was the decisions made regarding the theatrical film business. This decrease was partially offset by increased advertising expenses related to original programming content and increased personnel costs.

Starz's Adjusted OIBDA increased \$70 million and \$101 million for the three and six months ended June 30, 2011 as compared to the corresponding prior year periods. The increase in Adjusted OIBDA was a combination of improved results by the Starz Channels business and the decisions made regarding the theatrical films business in the prior year. As discussed above, the elimination of theatrical film releases and fewer theatrical home video releases resulted in less revenue which was more than offset by no spending in the current period on marketing and advertising associated with the theatrical releases of such productions, lower production and acquisition costs and lower home video costs.

Capital Group

The Capital Group is comprised of our subsidiaries, assets and liabilities not attributed to the Interactive Group or the Starz Group, including controlling interests in ANLBC and TruePosition as well as minority investments in Sirius XM, Time Warner Inc., Time Warner Cable Inc., Sprint, Live Nation and other public and private companies. In addition, we have attributed \$1,067 million of cash, including subsidiary cash, and \$750 million principal amount (as of June 30, 2011) of our parent debt to the Capital Group.

The following discussion and analysis provides information concerning the attributed results of operations of the Capital Group. This discussion should be read in conjunction with (1) our condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q and (2) the Unaudited Attributed Financial Information for Tracking Stock Groups filed as Exhibit 99.1 to this Quarterly Report on Form 10-Q.

Results of Operations

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	amounts in millions			
Revenue				
Starz Media	\$ —	84	—	228
ANLBC	91	88	95	91
TruePosition	27	21	587	26
Corporate and other	17	7	34	21
	<u>\$ 135</u>	<u>200</u>	<u>716</u>	<u>366</u>
Adjusted OIBDA				
Starz Media	\$ —	(54)	—	(61)
ANLBC	8	10	(8)	(5)
TruePosition	3	(9)	373	(28)
Corporate and other	(4)	(6)	—	(8)
	<u>\$ 7</u>	<u>(59)</u>	<u>365</u>	<u>(102)</u>
Operating Income (Loss)				
Starz Media	\$ —	(55)	—	(64)
ANLBC	(5)	(4)	(31)	(31)
TruePosition	—	(11)	375	(33)
Corporate and other	(9)	(13)	(15)	(25)
	<u>\$ (14)</u>	<u>(83)</u>	<u>329</u>	<u>(153)</u>

Revenue. The Capital Group's combined revenue decreased \$65 million and increased \$350 million for the three and six months ended June 30, 2011 as compared to the corresponding prior year periods. The three month decrease is due to the reattribution of Starz Media to the Starz Group in the prior year offset slightly by slight increases in revenue at the other subsidiaries. The six month increase in revenue is due to the impact of a one-time recognition of previously deferred revenue at TruePosition partially offset by the Starz Media reattribution whereas the results of Starz Media are now reflected in the results of the Liberty Starz Group. In the first quarter of 2011 TruePosition amended and extended its agreement with AT&T under which TruePosition sells hardware, licenses software and provides ongoing technical and software support to AT&T which are used in the provision of E-911 services domestically. Under new revenue recognition guidance, which we adopted prospectively on January 1, 2011, the amendment is a material modification, requiring elements under the agreement that meet the separation criteria and have been delivered to be recognized as of the modification date. TruePosition recognized approximately \$538 million of revenue as of the modification date and \$167 million of associated deferred costs. The revenue under the previous contract had been deferred as Vendor Specific Objective Evidence for undelivered items (specified upgrades committed to in November 2006) did not exist.

Adjusted OIBDA and Operating Income (Loss). The Capital Group's Adjusted OIBDA increased \$66 million and \$467 million and Operating Income (Loss) increased \$69 million and \$482 million, respectively, for the six months ended June 30, 2010 as compared to the corresponding prior year period. The increases are primarily due to the one-time recognition of previously deferred revenue and costs from TruePosition, discussed previously, and the Starz Media reattribution.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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

We are exposed to changes in interest rates primarily as a result of our borrowing and investment activities, which include investments in fixed and floating rate debt instruments and borrowings used to maintain liquidity and to fund business operations. The nature and amount of our long-term and short-term debt are expected to vary as a result of future requirements, market conditions and other factors. We manage our exposure to interest rates by maintaining what we believe is an appropriate mix of fixed and variable rate debt. We believe this best protects us from interest rate risk. We have achieved this mix by (i) issuing fixed rate debt that we believe has a low stated interest rate and significant term to maturity, (ii) issuing variable rate debt with appropriate maturities and interest rates and (iii) entering into interest rate swap arrangements when we deem appropriate. As of June 30, 2011, our debt is comprised of the following amounts:

	<u>Variable rate debt</u>		<u>Fixed rate debt</u>	
	<u>Principal amount</u>	<u>Weighted avg interest rate</u>	<u>Principal amount</u>	<u>Weighted avg interest rate</u>
	dollar amounts in millions			
Capital Group	\$ 750	0.4%	\$	N/A
Starz Group	\$	N/A	\$ 42	5.5%

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

At June 30, 2011, the fair value of our non-strategic AFS equity securities was \$2,552 million. Had the market price of such securities been 10% lower at June 30, 2011, the aggregate value of such securities would have been \$255 million lower. Such decrease would be partially offset by an increase in the value of our derivatives related to such AFS securities. Our exchangeable senior debentures are also subject to market risk. Because we mark these instruments to fair value each reporting date, increases in the stock price of the respective underlying security generally result in higher liabilities and unrealized losses in our statement of operations. Additionally, our stock in SIRIUS XM and Live Nation (two of our equity method affiliates) are publicly traded securities which 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.

Item 4. 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, principal accounting officer and principal financial officer (the "Executives"), of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Executives concluded that the Company's disclosure controls and

procedures were effective as of June 30, 2011 to provide reasonable assurance that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in the Company's internal control over financial reporting that occurred during the six months ended June 30, 2011 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

PART II—OTHER INFORMATION**Item 1. Legal Proceedings**

On August 6, 2010, Liberty and its subsidiary Liberty Media LLC filed a Verified Complaint for Injunctive Relief and Declaratory Judgment in the Delaware Court of Chancery against The Bank of New York Mellon Trust Company ("BNY"), in BNY's capacity as trustee under the indenture dated July 7, 1999 (as amended and supplemented, the "Indenture") governing Liberty Media LLC's public indebtedness. Liberty filed a verified amended complaint on September 3, 2010 and a verified second amended complaint on October 1, 2010. The second amended complaint requested a declaratory judgment by the court that the previously announced plan to split-off the businesses, assets and liabilities currently attributed to the Liberty Capital and Liberty Starz tracking stock groups will not constitute a disposition of all or substantially all of the assets of Liberty Media LLC under the Indenture and that, therefore, no "Event of Default" will arise as a result of Liberty Media LLC remaining the obligor under the Indenture following the proposed split-off. The second amended complaint further requested that the court enjoin BNY, those acting in concert with it, and each holder of securities whose interests are represented by BNY under the Indenture from declaring an "Event of Default" in connection with the split-off or taking action to accelerate the repayment of indebtedness under the securities. BNY filed a motion to dismiss the complaint, contending that the Delaware Court of Chancery does not have subject matter jurisdiction over the dispute and that it should be litigated in a different court in Delaware. BNY also sought to dismiss based on the theory that there is not a case or controversy for a court to resolve. The motion to dismiss was denied. On April 29, 2011 the Delaware Court of Chancery ruled in Liberty's favor in its case against BNY. The judgment was subsequently appealed by BNY on June 6, 2011. Liberty requested an expedited appeal and a hearing has been set for mid-September 2011.

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

None.

Item 6. Exhibits

(a) Exhibits

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

31.1	Rule 13a-14(a)/15d-14(a) Certification*
31.2	Rule 13a-14(a)/15d-14(a) Certification*
31.3	Rule 13a-14(a)/15d-14(a) Certification*
32	Section 1350 Certification**
99.1	Attributed Financial Information for Tracking Stock Groups*
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 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 CAPSTARZ, INC.

Date: August 11, 2011

By: /s/ GREGORY B. MAFFEI

Gregory B. Maffei
President and Chief Executive Officer

Date: August 11, 2011

By: /s/ DAVID J.A. FLOWERS

David J.A. Flowers
Senior Vice President and Treasurer
(Principal Financial Officer)

Date: August 11, 2011

By: /s/ CHRISTOPHER W. SHEAN

Christopher W. Shean
Senior Vice President and Controller
(Principal Accounting Officer)

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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31.2	Rule 13a-14(a)/15d-14(a) Certification*
31.3	Rule 13a-14(a)/15d-14(a) Certification*
32	Section 1350 Certification**
99.1	Attributed Financial Information for Tracking Stock Groups*
101.INS	XBRL Instance Document**
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101.CAL	XBRL Taxonomy Calculation Linkbase Document**
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* Filed herewith

** Furnished herewith

QuickLinks

[LIBERTY CAPSTARZ, INC. Condensed Combined Balance Sheets \(unaudited\)](#)

[LIBERTY CAPSTARZ, INC. Condensed Combined Balance Sheets \(Continued\) \(unaudited\)](#)

[LIBERTY CAPSTARZ, INC. Condensed Combined Statements Of Operations \(unaudited\)](#)

[LIBERTY CAPSTARZ, INC. Condensed Combined Statements Of Comprehensive Earnings \(Loss\) \(unaudited\)](#)

[LIBERTY CAPSTARZ, INC. Condensed Combined Statements Of Cash Flows \(unaudited\)](#)

[LIBERTY CAPSTARZ, INC. Condensed Combined Statement Of Parent's Investment \(unaudited\) Six months ended June 30, 2011](#)

[LIBERTY CAPSTARZ, INC. Notes to Condensed Combined Financial Statements](#)

[Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations](#)

[Item 3. Quantitative and Qualitative Disclosures about Market Risk.](#)

[Item 4. Controls and Procedures.](#)

[LIBERTY CAPSTARZ, INC.](#)

[Item 1. Legal Proceedings](#)

[Item 2. Unregistered Sales of Equity Securities and Use of Proceeds](#)

[Item 6. Exhibits](#)

[SIGNATURES](#)

[EXHIBIT INDEX](#)

CERTIFICATION

I, Gregory B. Maffei, certify that:

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

Date: August 11, 2011

/s/ GREGORY B. MAFFEI

Gregory B. Maffei
Chief Executive Officer and President

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[EXHIBIT 31.1](#)

CERTIFICATION

I, David J.A. Flowers, certify that:

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

Date: August 11, 2011

/s/ DAVID J.A. FLOWERS

David J.A. Flowers
Senior Vice President and Treasurer

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[EXHIBIT 31.2](#)

CERTIFICATION

I, Christopher W. Shean, certify that:

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

Date: August 11, 2011

/s/ CHRISTOPHER W. SHEAN

Christopher W. Shean
Senior Vice President and Controller

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[EXHIBIT 31.3](#)

[CERTIFICATION](#)

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 CapStarz, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the period ended June 30, 2011 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated:	<u>August 11, 2011</u>	<u>/s/ GREGORY B. MAFFEI</u> Gregory B. Maffei Chief Executive Officer and President
Dated:	<u>August 11, 2011</u>	<u>/s/ DAVID J.A. FLOWERS</u> David J.A. Flowers Senior Vice President and Treasurer (Principal Financial Officer)
Dated:	<u>August 11, 2011</u>	<u>/s/ CHRISTOPHER W. SHEAN</u> Christopher W. Shean Senior Vice President and Controller (Principal Accounting Officer)

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

QuickLinks

[Exhibit 32](#)

[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\)](#)

Attributed Financial Information for Tracking Stock Groups

Our Liberty CapStarz Starz common stock is intended to reflect the separate performance of our Starz Group which primarily includes our wholly-owned subsidiary Starz, LLC. Our Liberty CapStarz Capital common stock is intended to reflect the separate performance of our Capital Group which is comprised of all of our assets and businesses not attributed to the Starz Group.

The following tables present our assets and liabilities as of June 30, 2011 and our revenue, expenses and cash flows as of and for the three and six months ended June 30, 2011 and 2010. The tables further present our assets, liabilities, revenue, expenses and cash flows that are attributed to the Starz Group and the Capital Group, respectively. The financial information should be read in conjunction with our unaudited condensed combined financial statements for the six months ended June 30, 2011 included in this Quarterly Report on Form 10-Q.

Notwithstanding the following attribution of assets, liabilities, revenue, expenses and cash flows to the Starz Group and the Capital 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 CapStarz Starz common stock and Liberty CapStarz Capital 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 CapStarz Starz common stock and Liberty CapStarz Capital common stock does not affect the rights of our creditors or creditors of our subsidiaries.

SUMMARY ATTRIBUTED FINANCIAL DATA

Starz Group

	<u>June 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
	<u>amounts in millions</u>	
Summary balance sheet data:		
Current assets	\$ 1,965	1,746
Total assets	\$ 2,787	2,539
Long-term debt, including current portion	\$ 42	68
Attributed net assets	\$ 2,374	2,246

	<u>Three months ended</u> <u>June 30,</u>		<u>Six months ended</u> <u>June 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	<u>amounts in millions</u>			
Summary operations data:				
Revenue	\$ 403	311	795	618
Operating expenses	(234)	(172)	(429)	(337)
Selling, general and administrative expenses(1)	(56)	(39)	(132)	(84)
Depreciation and amortization	(5)	(4)	(10)	(9)
Operating income	<u>108</u>	<u>96</u>	<u>224</u>	<u>188</u>
Other expense, net	—	(1)	(2)	—
Income tax expense	(41)	(34)	(102)	(70)
Net earnings	<u>67</u>	<u>61</u>	<u>120</u>	<u>118</u>
Less net earnings attributable to noncontrolling interests	—	—	1	—
Net earnings attributable to Liberty CapStarz stockholders	<u>\$ 67</u>	<u>61</u>	<u>119</u>	<u>118</u>

- (1) Includes stock-based compensation of \$4 million and \$3 million for the three months ended June 30, 2011 and 2010, respectively, and \$9 million and \$9 million for the six months ended June 30, 2011 and 2010, respectively.

SUMMARY ATTRIBUTED FINANCIAL DATA

Capital Group

	<u>June 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
	amounts in millions	
Summary balance sheet data:		
Current assets	\$ 2,007	1,721
Investments in available-for-sale securities and other cost investments	\$ 2,918	4,483
Total assets	\$ 6,515	8,189
Long-term debt, including current portion	\$ 750	2,033
Attributed net assets	\$ 2,916	2,780

	<u>Three months ended</u> <u>June 30,</u>		<u>Six months ended</u> <u>June 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	amounts in millions			
Summary operations data:				
Revenue	\$ 135	200	716	366
Operating expenses	(98)	(196)	(296)	(301)
Selling, general and administrative expenses(1)	(36)	(66)	(67)	(181)
Legal settlement	—	—	7	—
Depreciation and amortization	(15)	(21)	(31)	(37)
Operating income (loss)	(14)	(83)	329	(153)
Interest expense	(1)	(10)	(7)	(33)
Share of losses of affiliates, net (note 3)	(22)	—	(50)	—
Realized and unrealized gains (losses) on financial instruments, net	54	(88)	175	55
Other income, net	24	50	49	57
Income tax (expense) benefit	(20)	46	(196)	11
Net earnings (loss)	21	(85)	300	(63)
Less net earnings attributable to noncontrolling interests	(1)	(3)	(1)	(3)
Net earnings (loss) attributable to Liberty CapStarz stockholders	\$ 22	(82)	301	(60)

- (1) Includes stock-based compensation of \$6 million and \$3 million for the three months ended June 30, 2011 and 2010, respectively, and \$12 million and \$14 million for the six months ended June 30, 2011 and 2010, respectively.

BALANCE SHEET INFORMATION
June 30, 2011
(unaudited)

	Attributed (note 1)			Combined Liberty CapStarz
	Starz Group	Capital Group	Inter-group eliminations	
	amounts in millions			
<i>Assets</i>				
Current assets:				
Cash and cash equivalents	\$ 1,035	1,067	—	2,102
Trade and other receivables, net	223	59	—	282
Program rights	471	—	—	471
Short term marketable securities	132	192	—	324
Restricted cash	39	662	—	701
Receivable from Liberty	26	—	—	26
Other current assets	39	27	(24)	42
Total current assets	<u>1,965</u>	<u>2,007</u>	<u>(24)</u>	<u>3,948</u>
Investments in available-for-sale securities and other cost investments (note 2)	65	2,918	—	2,983
Investments in affiliates, accounted for using the equity method (note 3)	—	460	—	460
Property and equipment, net	99	132	—	231
Intangible assets not subject to amortization	132	354	—	486
Intangible assets subject to amortization, net	17	126	—	143
Program rights	342	—	—	342
Deferred costs	—	244	—	244
Deferred tax assets	—	243	(51)	192
Other assets, at cost, net of accumulated amortization	167	31	—	198
Total assets	<u>\$ 2,787</u>	<u>6,515</u>	<u>(75)</u>	<u>9,227</u>
<i>Liabilities and Equity</i>				
Current liabilities:				
Accounts payable	\$ 6	10	—	16
Accrued liabilities	240	42	—	282
Financial instruments	—	1,166	—	1,166
Current portion of debt (note 4)	4	750	—	754
Current deferred tax liabilities	—	736	(24)	712
Deferred revenue	24	81	—	105
Other current liabilities	9	31	—	40
Total current liabilities	<u>283</u>	<u>2,816</u>	<u>(24)</u>	<u>3,075</u>
Long-term debt (note 4)	38	—	—	38
Deferred income tax liabilities	51	—	(51)	—
Deferred revenue	—	535	—	535
Other liabilities	45	249	—	294
Total liabilities	<u>417</u>	<u>3,600</u>	<u>(75)</u>	<u>3,942</u>
Equity/Attributed net assets	2,374	2,916	—	5,290
Noncontrolling interests in equity of subsidiaries	(4)	(1)	—	(5)
Total liabilities and equity	<u>\$ 2,787</u>	<u>6,515</u>	<u>(75)</u>	<u>9,227</u>

STATEMENT OF OPERATIONS AND COMPREHENSIVE EARNINGS (LOSS) INFORMATION
Three months ended June 30, 2011
(unaudited)

	Attributed (note 1)		Combined Liberty CapStarz
	Starz Group	Capital Group	
	amounts in millions		
Revenue:			
Communications and programming services	\$ 403	135	538
	<u>403</u>	<u>135</u>	<u>538</u>
Operating costs and expenses:			
Operating	234	98	332
Selling, general and administrative, including stock-based compensation (note 5)	56	36	92
Depreciation and amortization	5	15	20
	<u>295</u>	<u>149</u>	<u>444</u>
Operating income	108	(14)	94
Other income (expense):			
Interest expense	(2)	(1)	(3)
Share of losses of affiliates, net (note 3)	—	(22)	(22)
Realized and unrealized gains on financial instruments, net	—	54	54
Other, net	2	24	26
	<u>—</u>	<u>55</u>	<u>55</u>
Earnings before income taxes	108	41	149
Income tax expense			
	(41)	(20)	(61)
Net earnings	<u>67</u>	<u>21</u>	<u>88</u>
Less net losses attributable to noncontrolling interests	—	(1)	(1)
Net earnings attributable to Liberty CapStarz stockholders	\$ 67	22	89
Net earnings	<u>\$ 67</u>	<u>21</u>	<u>88</u>
Other comprehensive earnings (loss), net of taxes:			
Foreign currency translation adjustments	—	2	2
Unrealized holding losses arising during the period	—	(3)	(3)
Recognition of previously unrealized (gains) losses on available-for-sale securities, net	(1)	9	8
Share of other comprehensive earnings of equity affiliates	—	4	4
Other comprehensive earnings (loss)	<u>(1)</u>	<u>12</u>	<u>11</u>
Comprehensive earnings	66	33	99
Less comprehensive losses attributable to the noncontrolling interests	—	(1)	(1)
Comprehensive earnings attributable to Liberty CapStarz stockholders	<u>\$ 66</u>	<u>34</u>	<u>100</u>

STATEMENT OF OPERATIONS AND COMPREHENSIVE EARNINGS (LOSS) INFORMATION
Three months ended June 30, 2010
(unaudited)

	<u>Attributed (note 1)</u>		<u>Combined Liberty CapStarz</u>
	<u>Starz Group</u>	<u>Capital Group</u>	
	amounts in millions		
Revenue:			
Communications and programming services	\$ 311	200	511
	<u>311</u>	<u>200</u>	<u>511</u>
Operating costs and expenses:			
Operating	172	196	368
Selling, general and administrative, including stock-based compensation (note 5)	39	66	105
Depreciation and amortization	4	21	25
	<u>215</u>	<u>283</u>	<u>498</u>
Operating income (loss)	96	(83)	13
Other income (expense):			
Interest expense	(1)	(10)	(11)
Intergroup interest expense	—	(1)	(1)
Share of earnings of affiliates, net (note 3)	—	3	3
Realized and unrealized losses on financial instruments, net	—	(88)	(88)
Gains on dispositions, net	—	25	25
Other, net	—	23	23
	<u>(1)</u>	<u>(48)</u>	<u>(49)</u>
Earnings (loss) before income taxes	95	(131)	(36)
Income tax (expense) benefit	(34)	46	12
Net earnings (loss)	61	(85)	(24)
Less net loss attributable to the noncontrolling interests	—	(3)	(3)
Net earnings (loss) attributable to Liberty CapStarz stockholders	\$ 61	(82)	(21)
Net earnings (loss)	<u>\$ 61</u>	<u>(85)</u>	<u>(24)</u>
Other comprehensive loss, net of taxes:			
Unrealized holding losses arising during the period	—	(61)	(61)
Recognition of previously unrealized gains on available-for-sale securities, net	—	(13)	(13)
Other comprehensive loss	—	(74)	(74)
Comprehensive earnings (loss)	61	(159)	(98)
Less comprehensive loss attributable to the noncontrolling interests	—	(3)	(3)
Comprehensive earnings (loss) attributable to Liberty CapStarz stockholders	<u>\$ 61</u>	<u>(156)</u>	<u>(95)</u>

STATEMENT OF OPERATIONS AND COMPREHENSIVE EARNINGS INFORMATION
Six months ended June 30, 2011
(unaudited)

	Attributed (note 1)		Combined Liberty CapStarz
	Starz Group	Capital Group	
	amounts in millions		
Revenue:			
Communications and programming services	\$ 795	716	1,511
	<u>795</u>	<u>716</u>	<u>1,511</u>
Operating costs and expenses:			
Operating	429	296	725
Selling, general and administrative including stock-based compensation (notes 1 and 5)	132	67	199
Legal Settlement	—	(7)	(7)
Depreciation and amortization	10	31	41
	<u>571</u>	<u>387</u>	<u>958</u>
Operating income	224	329	553
Other income (expense):			
Interest expense	(3)	(7)	(10)
Share of losses of affiliates, net	—	(50)	(50)
Realized and unrealized gains on financial instruments, net	1	175	176
Losses on dispositions, net	(2)	—	(2)
Other, net	2	49	51
	<u>(2)</u>	<u>167</u>	<u>165</u>
Earnings before income taxes	222	496	718
Income tax expense (note 6)			
Net earnings	120	300	420
Less net earnings (loss) attributable to the noncontrolling interests	1	(1)	—
Net earnings (loss) attributable to Liberty CapStarz stockholders	<u>\$ 119</u>	<u>301</u>	<u>420</u>
Net earnings	<u>\$ 120</u>	<u>300</u>	<u>420</u>
Other comprehensive loss, net of taxes:			
Foreign currency translation adjustments	—	2	2
Unrealized holding gains (loss) arising during the period	—	(27)	(27)
Recognition of previously unrealized gains on available-for-sale securities, net	(7)	9	2
Share of other comprehensive loss of equity affiliates	—	4	4
Other	1	—	1
Other comprehensive loss	<u>(6)</u>	<u>(12)</u>	<u>(18)</u>
Comprehensive earnings	114	288	402
Less comprehensive earnings (loss) attributable to the noncontrolling interests	1	(1)	—
Comprehensive earnings (loss) attributable to Liberty CapStarz stockholders	<u>\$ 113</u>	<u>289</u>	<u>402</u>

STATEMENT OF OPERATIONS AND COMPREHENSIVE EARNINGS INFORMATION
Six months ended June 30, 2010
(unaudited)

	<u>Attributed (note 1)</u>		Combined Liberty CapStarz
	<u>Starz Group</u>	<u>Capital Group</u>	
	amounts in millions		
Revenue:			
Communications and programming services	\$ 618	366	984
	<u>618</u>	<u>366</u>	<u>984</u>
Operating costs and expenses:			
Operating	337	301	638
Selling, general and administrative including stock-based compensation (notes 1 and 5)	84	181	265
Depreciation and amortization	9	37	46
	<u>430</u>	<u>519</u>	<u>949</u>
Operating income (loss)	188	(153)	35
Other income (expense):			
Interest expense	(1)	(33)	(34)
Intergroup interest income	2	1	3
Share of losses of affiliates, net	—	(11)	(11)
Realized and unrealized gains (losses) on financial instruments, net	(1)	55	54
Gains on dispositions, net	—	24	24
Other, net	—	43	43
	<u>—</u>	<u>79</u>	<u>79</u>
Earnings (loss) before income taxes	188	(74)	114
Income tax (expense) benefit (note 6)	(70)	11	(59)
Net earnings (loss)	118	(63)	55
Less net loss attributable to the noncontrolling interests	—	(3)	(3)
Net earnings (loss) attributable to Liberty CapStarz stockholders	\$ 118	(60)	58
Net earnings (loss)	<u>\$ 118</u>	<u>(63)</u>	<u>55</u>
Other comprehensive earnings (loss), net of taxes:			
Unrealized holding gains (loss) arising during the period	—	(31)	(31)
Recognition of previously unrealized gains on available-for-sale securities, net	—	(13)	(13)
Reattribution of other comprehensive income between tracking stocks	—	30	30
Other comprehensive loss	—	(14)	(14)
Comprehensive earnings (loss)	118	(77)	41
Less comprehensive loss attributable to the noncontrolling interests	—	(3)	(3)
Comprehensive earnings (loss) attributable to Liberty CapStarz stockholders	<u>\$ 118</u>	<u>(74)</u>	<u>44</u>

STATEMENT OF CASH FLOWS INFORMATION
Six months ended June 30, 2011
(unaudited)

	Attributed (note 1)		Combined Liberty CapStarz
	Starz Group	Capital Group	
	amounts in millions		
Cash flows from operating activities:			
Net earnings	\$ 120	300	420
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	10	31	41
Amortization of program rights	295	—	295
Stock-based compensation	9	12	21
Cash payments for stock based compensation	(6)	(3)	(9)
Noncash interest expense (income)	2	(1)	1
Share of losses of affiliates, net	—	50	50
Realized and unrealized losses on financial instruments, net	(1)	(175)	(176)
Losses on disposition of assets, net	2	—	2
Intergroup tax allocation	60	(156)	(96)
Intergroup tax payments	(4)	142	138
Deferred income tax expense	37	180	217
Other noncash charges (credits), net	55	(383)	(328)
Changes in operating assets and liabilities			
Current and other assets	(468)	(42)	(510)
Payables and other current liabilities	70	142	212
Net cash provided by operating activities	181	97	278
Cash flows from investing activities:			
Investments in and loans to cost and equity investees	—	(82)	(82)
Repayment of loan by cost and equity investees	—	189	189
Capital expended for property and equipment	(2)	(4)	(6)
Net sales of short term investments	46	143	189
Net increase in restricted cash	(11)	(134)	(145)
Reattribution of cash	—	(264)	(264)
Other investing activities, net	(1)	—	(1)
Net cash provided (used) by investing activities	32	(152)	(120)
Cash flows from financing activities:			
Borrowings of debt	1	—	1
Repayments of debt	(57)	(1)	(58)
Repurchases of Liberty common stock	—	(96)	(96)
Other financing activities, net	—	7	7
Net cash used by financing activities	(56)	(90)	(146)
Net increase (decrease) in cash and cash equivalents	157	(145)	12
Cash and cash equivalents at beginning of period	878	1,212	2,090
Cash and cash equivalents at end period	\$ 1,035	1,067	2,102

STATEMENT OF CASH FLOWS INFORMATION
Six months ended June 30, 2010
(unaudited)

	Attributed (note 1)		Combined Liberty CapStarz
	Starz Group	Capital Group	
	amounts in millions		
Cash flows from operating activities:			
Net earnings	\$ 118	(63)	55
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	9	37	46
Amortization of program rights	287	—	287
Stock-based compensation	9	14	23
Cash payments for stock based compensation	(29)	—	(29)
Noncash interest expense	—	1	1
Share of losses of affiliates, net	—	11	11
Realized and unrealized gains (losses) on financial instruments, net	1	(55)	(54)
Gains on disposition of assets, net	—	(24)	(24)
Intergroup tax allocation	57	(156)	(99)
Intergroup tax payments	17	173	190
Deferred income tax expense	12	28	40
Other noncash charges, net	12	69	81
Changes in operating assets and liabilities			
Current and other assets	(359)	(81)	(440)
Payables and other current liabilities	70	173	243
Net cash provided by operating activities	204	127	331
Cash flows from investing activities:			
Cash proceeds from dispositions	29	30	59
Proceeds (payments) related to settlement of financial instruments	—	750	750
Investments in and loans to cost and equity investees	—	(257)	(257)
Repayment of loan by Liberty	158	158	316
Repayment of loan by equity investee	—	98	98
Capital expended for property and equipment	(1)	(5)	(6)
Net purchases of short term investments	(137)	(170)	(307)
Net (increase) decrease in restricted cash	(20)	(11)	(31)
Reattribution of cash	—	(807)	(807)
Other investing activities, net	—	6	6
Net cash provided (used) by investing activities	29	(208)	(179)
Cash flows from financing activities:			
Borrowings of debt	—	88	88
Repayments of debt	(2)	(973)	(975)
Repurchases of Liberty common stock	(40)	(286)	(326)
Other financing activities, net	(39)	155	116
Net cash provided (used) by financing activities	(81)	(1,016)	(1,097)
Net increase (decrease) in cash and cash equivalents	152	(1,097)	(945)
Cash and cash equivalents at beginning of period	794	3,157	3,951
Cash and cash equivalents at end period	<u>\$ 946</u>	<u>2,060</u>	<u>3,006</u>

Notes to Attributed Financial Information

(unaudited)

- (1) The Starz Group consists primarily of our subsidiary Starz, LLC and approximately \$1,044 million of cash, including subsidiary cash. Accordingly, the accompanying attributed financial information for the Starz Group includes these investments and the assets, liabilities, revenue, expenses and cash flows of that consolidated subsidiaries.

The Starz Group focuses primarily on video programming. Accordingly, we expect that businesses we may acquire in the future that we believe are complementary to this strategy will also be attributed to the Starz Group.

The Capital Group consists of all of our businesses not included in the Starz Group, including our consolidated subsidiaries Atlanta National League Baseball Club, Inc. and TruePosition, Inc. and certain cost and equity investments. Accordingly, the accompanying attributed financial information for the Capital Group includes these investments and the assets, liabilities, revenue, expenses and cash flows of these consolidated subsidiaries. In addition, we have attributed to the Capital Group all of our notes and debentures (and related interest expense) that have not been attributed to the Starz Group. See note 4 below for the debt obligations attributed to the Capital Group. In addition, we have allocated certain corporate general and administrative expenses among the Starz Group and the Capital Group as described in note 5 below.

On February 25, 2010, Liberty Media Corporation ("Liberty" or "Liberty Media") announced that its board of directors had resolved to effect the following changes in attribution between the Liberty Capital Group and the Liberty Interactive Group, effective immediately (the "February Reattribution"):

- the change in attribution from the Liberty Interactive Group to the Liberty Capital Group of Liberty's 14.6% ownership interest in Live Nation Entertainment, Inc.;
- the change in attribution from the Liberty Capital Group to the Liberty Interactive Group of the following debt securities:
 - \$469 million in principal amount of 4% Exchangeable Senior Debentures due 2029 (the "2029 Exchangeables");
 - \$460 million in principal amount of 3.75% Exchangeable Senior Debentures due 2030 (the "2030 Exchangeables"); and
 - \$492 million in principal amount of 3.5% Exchangeable Senior Debentures due 2031 (the "2031 Exchangeables", and together with the 2029 Exchangeables and the 2030 Exchangeables, the "Exchangeable Notes");
- the change in attribution from the Liberty Capital Group to the Liberty Interactive Group of approximately \$830 million in net taxable income to be recognized ratably in tax years 2014 through 2018 as a result of the cancellation in April 2009 of \$400 million in principal amount of 2029 Exchangeables and \$350 million in principal amount of 2030 Exchangeables; and
- the change in attribution from the Liberty Capital Group to the Liberty Interactive Group of \$807 million in cash.

Notes to Attributed Financial Information (Continued)

The Liberty Media board determined that the February Reattribution would enable the Liberty Interactive Group to obtain long-term debt financing on better terms than would have been available to it in the capital markets at that time and improve the liquidity of the Liberty Interactive Group. In addition, the Liberty Interactive Group's generation of meaningful taxable income would better position it to utilize more directly and efficiently the tax benefits associated with the Exchangeable Notes. Previously, the Interactive Group was using these tax benefits, which were then attributed to the Liberty Capital Group, and compensating the Liberty Capital Group for such use. Lastly, the Liberty Media board believed that Liberty Media's equity interests in Live Nation Entertainment should be reattributed to the Liberty Capital Group in order to position it to take advantage of potential synergies associated with the Liberty Capital Group's interests in Sirius XM Radio.

In establishing the terms of the February Reattribution, the Liberty Media board reviewed, among other things, (i) a range of estimated values for the Exchangeable Notes (between \$482 million and \$526 million), which took into account the trading prices of the Exchangeable Notes and their unique tax attributes, among other things, and (ii) the estimated value of Liberty Media's equity interests in Live Nation Entertainment (approximately \$298 million), which was based on the \$12 per share offer price in Liberty Media's tender offer for additional shares of Live Nation during February 2010. Consistent with Liberty Media's Management and Allocation Policies, the Liberty Media board determined that the exchange of assets and liabilities between the two groups in the February Reattribution was completed on a fair value basis.

The February Reattribution has been reflected prospectively. This change in attribution had no effect on the balance sheet and results of operations attributed to the Starz Group.

On September 16, 2010, Liberty Media's board of directors approved a change in attribution of Liberty Media's interest in Starz Media, LLC along with \$15 million in cash from the Liberty Capital Group to the Liberty Starz Group, effective September 30, 2010 (the "Starz Media Reattribution"). As a result of the Starz Media Reattribution, an intergroup payable of approximately \$54.9 million owed by the Liberty Capital Group to the Liberty Starz Group has been extinguished, and its Starz Group has become attributed with approximately \$53.7 million in bank debt, interest rate swaps and any shutdown costs associated with the winding down of the Overture Films business. Notwithstanding the Starz Media Reattribution, the board determined that certain tax benefits relating to the operation of the Starz Media, LLC business by the Liberty Capital Group that may be realized from any future sale or other disposition of that business by the Liberty Starz Group will remain attributed to the Liberty Capital Group.

The Starz Media Reattribution enabled the Liberty Starz Group to acquire the complementary Starz Media business. Starz Entertainment had been engaging in mutually beneficial content distribution and programming arrangements with Starz Media, and it was inefficient for these arrangements to be treated as inter-group transactions. Accordingly, the Liberty Media board reattributed Starz Media, and its related debt, from the Liberty Capital Group to the Liberty Starz Group. This also enabled the Liberty Capital Group to repay indebtedness it owed to the Liberty Starz Group without using any of its cash reserves.

In establishing the terms of the Starz Media Reattribution, the Liberty Media board considered, among other things, (i) a range of estimated values for the Starz Media assets (between \$95 million and \$122 million), (ii) the \$53.7 million in Starz Media liabilities to be assumed and (iii) the \$54.9 million payable owed by the Liberty Capital Group to the Liberty Starz Group. Consistent with Liberty Media's Management and Allocation Policies, the Liberty Media board

Notes to Attributed Financial Information (Continued)

determined that the exchange of assets and liabilities between the two groups in the Starz Reattribution was completed on a fair value basis.

The Starz Media Reattribution has been reflected prospectively.

On February 9, 2011, Liberty Media's Board of Directors approved the change in attribution of (i) approximately \$1.138 billion principal amount of Liberty Media LLC's 3.125% Exchangeable Senior Debentures due 2023 (the "TWX Exchangeable Notes"), (ii) 21,785,130 shares of Time Warner Inc. common stock, 5,468,254 shares of Time Warner Cable Inc. common stock and 1,980,425 shares of AOL, Inc. common stock, which collectively represent the basket of securities into which the TWX Exchangeable Notes are exchangeable (the "Basket Securities") and (iii) \$263.8 million in cash from the Liberty Capital Group to the Liberty Interactive Group, effective immediately (the "TWX Reattribution"). The TWX Reattribution had no effect on the assets and liabilities attributed to the Liberty Starz Group, nor did it effect any change to the obligor of the TWX Exchangeable Notes, which remains Liberty Media LLC.

The Liberty Media board determined to effect the TWX Reattribution in light of the proposed split-off, to eliminate ambiguity regarding the terms of this reattribution and to better align the TWX Exchangeable Notes with the tracking stock group that has the strongest cashflow generation. The reattribution of the TWX Exchangeable Notes was necessary to complete the pending proposed split-off of Liberty's Liberty Capital and Liberty Starz tracking stock groups from its Liberty Interactive tracking stock group (the "proposed Split-Off") because the obligor thereunder, Liberty Media LLC, will remain with Liberty Media following that split-off. The Liberty Media board believed that waiting to complete this reattribution until an unknowable time when the conditions to the split-off would be satisfied was creating confusion in the marketplace over the terms of the pending reattribution, including the amount of cash to be reattributed. In addition, and irrespective of the split-off, the Liberty Media board believes the Liberty Interactive Group is best positioned to fulfill the obligations under the Exchangeable Notes given its strong cash flow and solid credit position. Accordingly, the Liberty Media board decided to complete the TWX Reattribution at its February 9, 2011 board meeting.

In establishing the terms of the TWX Reattribution, the Liberty Media board reviewed, among other things, (i) the principal amount of the TWX Exchangeable Notes, (ii) a range of values for tax liabilities associated with the delivery of the Basket Securities (between \$162 million and \$168 million), (iii) a range of values in payment for the risk that the Basket Securities are worth less than the face amount of the TWX Exchangeable Notes at the first date on which the TWX Exchangeable Notes can be redeemed, which is March 30, 2013 (between \$36 million to \$55 million), and (iv) the estimated value of the Basket Securities, using closing market prices on February 8, 2011 (\$1.2 billion in the aggregate).

Any businesses that we may acquire in the future that are not attributed to the Starz Group will be attributed to the Capital Group.

While we believe the allocation methodology described above is reasonable and fair to each group, we may elect to change the allocation methodology in the future. In the event we elect to transfer assets or businesses from one group to the other, such transfer would be made on a fair value basis and would be accounted for as a short-term loan unless our board of directors determines to account for it as a long-term loan or through an inter-group interest.

Notes to Attributed Financial Information (Continued)

(2) Investments in available-for-sale securities, including non-strategic securities, and other cost investments are summarized as follows:

	<u>June 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
	<u>amounts in millions</u>	
Capital Group		
Time Warner Inc.(1)(2)	\$ 453	1,101
Time Warner Cable Inc.(1)(2)	244	567
Sprint Nextel Corporation ("Sprint")(1)	248	301
Motorola Solutions(1)(3)	341	471
Motorola Mobility(1)(3)	143	—
Viacom, Inc.	387	301
Live Nation(4)	25	389
Century Link, Inc.(1)	148	248
Priceline(1)	267	208
Other AFS equity securities(1)(2)	43	100
SIRIUS XM debt securities	389	384
Other AFS debt securities	222	404
Other cost investments and related receivables	8	9
Total attributed to the Capital Group	<u>2,918</u>	<u>4,483</u>
Starz Group		
Other	65	67
Total attributed to the Starz Group	<u>65</u>	<u>67</u>
Combined Liberty CapStarz	<u>\$ 2,983</u>	<u>4,550</u>

(1) Includes shares pledged as collateral for share borrowing arrangements. See note 8.

(2) As discussed in note 2, certain of these securities were reattributed from the Capital Group to the Interactive Group in the first quarter of 2011.

(3) Effective January 4, 2011 Motorola, Inc. separated Motorola Mobility Holdings, Inc. in a 1 for 8 stock distribution. Motorola Inc. simultaneously completed a 1 for 7 reverse stock split and was renamed Motorola Solutions, Inc.

(4) In June 2011 the Company acquired an additional 5.5 million shares of Live Nation for \$58 million. The additional ownership requires the Company to account for the investment as an equity method affiliate. For additional discussion see footnote 7. Liberty continues to hold debt securities in Live Nation which are included in available-for-sale securities.

Notes to Attributed Financial Information (Continued)

(3) The following table presents information regarding certain equity method investments:

	June 30, 2011			Share of earnings (losses)			
	Percentage ownership	Carrying value	Market value	Three months ended June 30,		Six months Ended June 30,	
				2011	2010	2011	2010
dollar amounts in millions							
Capital Group							
Sirius(a)	40%	\$ —	\$ 5,665	\$ (1)	\$ 8	(8)	—
Live Nation(b)	21%	\$ 371	\$ 449	\$ (22)	\$ —	(45)	—

- (a) As of June 30, 2011, the Sirius Preferred Stock had a market value of \$5,665 million based on the value of the common stock into which it is convertible.
- (b) During June 2011, Liberty acquired an additional 5.5 million shares of Live Nation which increased our ownership percentage above 20% of the outstanding voting shares. Due to the presumption that an entity with an ownership percentage greater than 20% has significant influence and no other factors would rebut that presumption, the Company is accounting for the investment as an equity method affiliate. The Company has elected to record its share of earnings (loss) for Live Nation on a three-month lag due to timeliness considerations. Increases in ownership which result in a change to the equity method of accounting generally require retroactive recognition of an investment's share of earnings (loss) in prior periods. Due to the relative insignificance of our share of losses for Live Nation in previous periods, both quantitatively and qualitatively, the Company has recorded such amounts in the current year. Approximately \$12 million of the losses recorded for the six months ended June 30, 2011 relate to the prior year.

(4) Debt attributed to the Liberty CapStarz Starz Group and the Liberty CapStarz Capital Group is comprised of the following:

	June 30, 2011	
	Outstanding principal	Carrying value
amounts in millions		
Capital Group		
Liberty bank facility	\$ 750	750
Total attributed Capital Group debt	750	750
Starz Group		
Subsidiary debt	42	42
Total attributed Starz Group debt	42	42
Total debt	\$ 792	792

(5) Cash and stock-based compensation expense for our corporate employees has been allocated among the Starz Group and the Capital Group based on the estimated percentage of time spent providing services for each group. Historically these items have been allocated to the Liberty Interactive Group based on the same methodology and based on the services agreement, which will be entered into between Liberty and Liberty CapStarz in connection with the proposed Split-Off, will continue to be allocated on a similar basis upon the completion of the proposed Split-Off.

Notes to Attributed Financial Information (Continued)

Other general and administrative expenses are 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 Capital Group to the Liberty Interactive Group and the Starz Group, including stock-based compensation, are as follows:

	Six months ended June 30,	
	2011	2010
Liberty Interactive Group	\$ 31	21
Starz Group	\$ 10	9

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 Starz Group and the Capital 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.
- (7) The Liberty CapStarz Starz common stock and the Liberty CapStarz Capital common stock have voting and conversion rights under our amended charter. Following is a summary of those rights. Holders of Series A common stock of each group are 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, will be 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 vote as a single class. In certain limited circumstances, the board may elect to seek the approval of only the holders of common stock related to our Starz Group or our Capital Group.

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 one of our other groups.

QuickLinks

[Exhibit 99.1](#)

[BALANCE SHEET INFORMATION June 30, 2011 \(unaudited\)](#)

[STATEMENT OF OPERATIONS AND COMPREHENSIVE EARNINGS \(LOSS\) INFORMATION Three months ended June 30, 2011 \(unaudited\)](#)

[STATEMENT OF OPERATIONS AND COMPREHENSIVE EARNINGS INFORMATION Six months ended June 30, 2011 \(unaudited\)](#)

[STATEMENT OF CASH FLOWS INFORMATION Six months ended June 30, 2011 \(unaudited\)](#)

[STATEMENT OF CASH FLOWS INFORMATION Six months ended June 30, 2010 \(unaudited\)](#)

[Notes to Attributed Financial Information \(unaudited\)](#)