

cheap production. I mean, it's a \$2 million to \$3 million an episode product, so, with a fairly graphics component to it, not unlike the movie "300", if any of you saw that. So, it's definitely at the upper end of the cost structure.

Is that going to be consistent with what we do with others? Probably not, however I think that our view is that the investment we're going to make in originals will be well worth it.

E E e c Er - *Banc of America Securities-Merrill Lynch - Analyst*

Okay. Is there any impact on programming costs at Starz because of the recently announced acquisition of Marvel by Disney?

E - *Liberty Media - Senior VP*

We don't think so. We're not aware of any incremental content that will be flowing through Disney as a result of Marvel. So, I guess under the premise that there will not be any incremental titles coming out of Disney as a result of Marvel—

E E e c Er - *Banc of America Securities-Merrill Lynch - Analyst*

Well, not initially.

E - *Liberty Media - Senior VP*

—At this time.

E E e c Er - *Banc of America Securities-Merrill Lynch - Analyst*

Right.

E - *Liberty Media - Senior VP*

Not initially. But, it'll be tied specifically to incremental products. So, if in fact there's another title or two coming our way as a result of Marvel's entry into Disney, then, yes, it would—

E E e c Er - *Banc of America Securities-Merrill Lynch - Analyst*

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Right.

E - *Liberty Media - Senior VP*

—It would suggest that we—

E E e c Er - *Banc of America Securities-Merrill Lynch - Analyst*

And the same question with Disney's deal with DreamWorks, the live-action DreamWorks.

E - *Liberty Media - Senior VP*

—DreamWorks is a little more complicated. And ties to Paramount, so my understanding is Paramount's got an opportunity to basically take a title in advance. If they want to share it with us, they can if they want to. If they want it altogether, almost like a first right, they've got the opportunity to take it. So, we're not exactly sure yet how that's going to play, in terms of Paramount's interest or not. But, bottom line is we're not expecting material increase and programming costs as a result of the DreamWorks deal.

E E e c Er - *Banc of America Securities-Merrill Lynch - Analyst*

Okay. Can you talk about the current pricing environment for asset deals? Have the contracts that you recently negotiated generally been at a lower cost per film?

E - *Liberty Media - Senior VP*

Yeah. What our experience of late would suggest is that the programming deals that are being done today, the asset deals that are being done range from roughly 15% to 25% off of what was done going back to eight, 10 years ago, when we were doing asset deals. So, they are off. And that doesn't, quite honestly, serve our benefit in particular as we start loading in more original content. So, I think there's an offset there that will come into play.

E E e c Er - *Banc of America Securities-Merrill Lynch - Analyst*

In the second quarter, Starz had solid [RFO], but there was a little bit of a hit on the subscriber side. And I think several of the premium or pay TV channels saw that. What can you say about kind of third quarter trends, and do you think it's the economy? Do you think it's just there's a lot of movies in the market?

E - *Liberty Media - Senior VP*

I think it's a little bit of everything. I'll go back to my cable days. I think in the first half of the year the multi-channel video providers tend to institute rate increases.

E E e c Er - *Banc of America Securities-Merrill Lynch - Analyst*

Right.

E - *Liberty Media - Senior VP*

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All across the whole board, whether it's basic or premium, and so, with increased rates, it's particular in this environment, you find people that would work their way out of

premium services. So, I think it's bad. It's certainly the general economic environment. And it's the fact that Starz, in particular, didn't participate in any specific national marketing campaigns side-by-side with the distributors during the first half.

So, we saw some erosion, not significant. I think it was 3% at Starz and 1% at Encore. But, it's anyone's guess, quite honestly, as to how that plays out in Q3, and, in particular, in this economic environment.

E | E e c | Er - *Banc of America Securities-Merrill Lynch - Analyst*

I haven't said anything about third quarter, sorry. Okay. Rob Clasen's retiring at the end of this year.

E | - *Liberty Media - Senior VP*

Yeah.

E | E e c | Er - *Banc of America Securities-Merrill Lynch - Analyst*

Can you talk about the replacement process for him?

x | E | - *Liberty Media - Senior VP*

Once again, a search process has begun. We're going to miss Bob. He's done a great job with Starz, and I think that we will begin a search process here. The expectation is that we'll probably have somebody onboard somewhere [year-endish]. And it's our every expectation that Bob will stick around through that whole process. So, we're not expecting there to be any vacancy in that role.

And as I think you all well know, there's a great team there in place with Bill Myers and Glenn Curtis and that whole team, Chris McGurk who runs overture and the Starz Media side, so—

E | E e c | Er - *Banc of America Securities-Merrill Lynch - Analyst*

I think you said that Liberty Starz will have 538 million in cash.

E | - *Liberty Media - Senior VP*

—Yeah.

E | E e c | Er - *Banc of America Securities-Merrill Lynch - Analyst*

Is that what you just said? And there's also a decent amount of free cash flow. So, could you discuss, and it'll be [inaudible] right?

E | - *Liberty Media - Senior VP*

Yup.

E | E e c | Er - *Banc of America Securities-Merrill Lynch - Analyst*

So, could you discuss priorities for cash or buybacks?

x | E | - *Liberty Media - Senior VP*

I think we'd all like to know, right? I mean, that's kind of our task is to figure out how best to deploy that capital for strategic purposes, for value creation purposes. We would certainly entertain cash buybacks. We're not sure exactly how Liberty Starz will trade coming out of the shoots. There may be an opportunity there to shrink equity. But, we'll consider all of those opportunities. We don't have any specific strategy at this point targeted.

E | E e c | Er - *Banc of America Securities-Merrill Lynch - Analyst*

And what's the current thinking at Liberty about moving Starz Media into Liberty Starz?

x | E | - *Liberty Media - Senior VP*

At the moment, there isn't a plan to do so. I think we are spending a fair bit of time trying to determine what alternatives for Starz Media. We've had fun with Overture. It hasn't been a huge financial success, if you will, but we've come out with some fun titles, and there's some good ones coming out this fall that I think will raise some eyebrows, a George Clooney movie, a Jamie Fox movie.

So, we're excited about what's to come, but they are, Starz Entertainment and Starz Media, two completely different businesses. Starz Entertainment, a very predictable cash flow strain, which we would expect the public market to like; Starz Media, somewhat unpredictable, somewhat volatile, based on how successful their content is coming out the door.

E | E e c | Er - *Banc of America Securities-Merrill Lynch - Analyst*

If Starz Media were to be put into [inaudible], then do you think it'd be cash in or cash out?

x | E | - *Liberty Media - Senior VP*

It would totally depend on what any sort of restructuring of Starz Media might look like, and what the value might look like. So, as I said, we're considering several alternatives at the moment. We would probably rely on a third party for valuation purposes of Starz. So, we're considering several alternatives at the moment. We would probably rely on a third party for valuation purposes of Starz.

