



Lions Gate Entertainment Corp.

(Ticker: LGF)

Activist Investor: Icahn Capital

2 July 2009

CATALYST SUMMARY

In early 2006 Icahn Capital disclosed an investment in Lions Gate Entertainment Corp. On October 20, 2008 Icahn revealed a 9.17% ownership stake (10,762,387 shares at an original cost basis of \$8.02/share) and announced their belief that the shares were undervalued. In addition, Icahn publicized they had been in discussions with the Company’s CEO and Vice Chairman regarding possible board representation. Since then Icahn has steadily increased their ownership and currently owns 16.86% at an average cost of \$6.61/share.

On March 11, 2009 Icahn issued a press release announcing that discussions with Lions Gate about possibly having a number of their designees added to the board had been terminated because an agreement could not be reached on the terms of a standstill agreement.

On March 17 Mark Rachesky, a Principal with MHR Partners and Icahn’s former chief investment officer, changed his filing status with the SEC from “passive” investor to “active” investor and revealed he too has had conversations with the company regarding board representation. Rachesky currently owns 19.99% of Lions Gate’s stock.

Together, Icahn and Rachesky own 36.85%.

It’s still unclear what Icahn’s full intentions are with Lions Gate. Plenty have speculated that he believes the business is worth more sold (specifically their valuable film library – see our Value Analysis on page 2) but Icahn has publicly stated that he doesn’t advocate a sale of the company in this economic environment. Icahn has, however, chastised management for excessive SG&A expense and called the company’s recent acquisition of TV Guide Network and TVGuide.com as something that “borders on recklessness”.

Since Lions Gate is incorporated in Canada, Icahn is not bound by the same requirements most US companies have that force dissident investors to provide advanced notice of their intention to nominate director candidates for election to the board. Furthermore, Canadian law allows shareholders holding more than 5% of a company’s stock the ability to call a special meeting at any time for the purpose of removing/replacing board members.

As a result, we anticipate Icahn will formally seek board representation and publicly demand significant changes to the Company’s fundamental operating model before September. (Most Canadian-based companies must hold their annual meeting within 12 months of last year’s meeting. LGF held theirs Sept. 9, 2008) However, in the event of a change-in-control, the Company’s payment obligations under their short-term and long-term debt agreements could be accelerated by their lenders. As a result, we expect Icahn will not want to risk triggering these obligations and nominate a short slate of less than 6 candidates to the 12 person board.

Lions Gate, meanwhile, is not sitting idle. The Company has reportedly hired a few top advisors in the activist investing space as a proactive measure to defend itself against Icahn’s anticipated attack. Since the best defense is often a rising share price, at the very least, investors should soon hear more about how management intends to close the gap between today’s market value and what Icahn perceives as the Company’s intrinsic value.

ACTIVIST INVESTOR PROFILE

Icahn has a long and well-established track record as a corporate raider, dissident investor and share value generator. Recently, Icahn’s targets include: Amylin Pharmaceuticals (Icahn teamed up with Eastbourne Capital to successfully elect two new directors), Biogen (Icahn recently won two board seats), Enzon Pharmaceuticals (See our CIR report issued on June 10; ENZN agreed to nominate two Icahn directors on the Company’s slate), Yahoo! (Icahn settled for three board seats in 2008), Motorola (Icahn settled for two board seats in 2008), BEA Systems (Icahn purchased BEA shares and helped orchestrate a sale to Oracle), Time Warner (Time agreed to do a share buyback, spin-off the cable business and divest AOL; Icahn claims to have made \$300 million off of his investment.)

COMPANY PROFILE	
Previous Close:	5.61
52 -week Range:	3.65 – 10.97
Revenues(TTM):	1.47B
Market Cap:	644M
Enterprise Value:	1.1B
Net Cash:	-326M
EBITDA:	-134M
EV/EBITDA:	Negative
INVESTOR PROFILE	
Activist Investor:	Icahn Capital
Percent Outstanding:	16.86%
Cost Basis:	\$6.61
CAPITAL STRUCTURE	
Common Shares Outstanding	117,032,091
Preferred Shares:	None
Short Term Debt	148M
Long Term Debt	316M

COMPANY PROFILE

Lions Gate Entertainment (www.lionsgate.com) produces and distributes motion pictures, television programs, home entertainment, family entertainment, video-on demand, and digitally delivered content. Based in Vancouver, British Columbia, the company typically releases between 18 and 20 theater release motion pictures each year, but is scheduled to release 10 to 12 in 2010. This includes films developed and produced in-house, as well as those that are acquired. During the past 10 years, films distributed by Lion's Gate have earned 31 Academy Awards nominations, winning 7 awards. The company has a vast library of 8,000 movie titles, and 4,000 television episodes. In February, 2009, the company acquired the TV Guide Network for \$250 million from Macrovision Solutions Corp, but in May sold a 49% stake to One Equity Partners for \$123 million.

HEDGE FUND SOLUTIONS' VALUE ANALYSIS (IRRESPECTIVE OF THE ACTIVIST'S INVOLVEMENT)

Lions Gate operates in the highly competitive and often treacherous world of film, that is dominated by major studios such as Walt Disney, Warner Bros., Sony Pictures, and Universal, to name a few. The Company also competes with independent production companies such as DreamWorks, and MGM. The film business is also highly capital intensive, and film studios bear a great deal of risk in their pursuit of success, driven primarily by the whims of consumers.

The Company's recent results bear out the difficult environment facing entertainment companies during the current recession. While 2009 revenue rose 7.7% to 1.47 billion, the company lost \$163 million, or \$1.40 per share, versus a loss of \$74 million (-\$.62) in 2008. The Motion Pictures segment generates most of company revenue- 84% in 2008- and a \$70.7 million operating loss. While the Television Production segment generated just 15% of 2008 revenue, it did so with an operating profit of \$6 million for the year.

As of 3/31/2009, Lions Gate had \$138 million in cash (which does not reflect the later sale of 49% of TV Guide Network for \$123 million). Assuming that the proceeds from the TV Guide sale are included, the company has approximately \$2.25 per share in cash. The company also has \$587 million in debt on the books. Of total debt, \$316 million is in the form of two Convertible Senior Subordinated Notes, a 2.9375% issue (\$150 million) maturing in 2024, and a 3.625% issue (\$166 million) maturing in 2025. Both issues are puttable by the holder on certain dates (beginning in 2011 for the 2.9375% issue, and 2012 for 3.625% issue) or upon a change in control (see the 10K for more details). The remaining debt was primarily a credit facility at 2.25% over "adjusted libor".

Not surprisingly, Lions Gate currently has a negative book value, and the assets are dominated by investments in films and television (on the books at \$702 million, or \$6 per share), and intangibles (goodwill of \$379 million, other intangibles of \$78.9 million). Clearly, Lions Gate is an asset play, the primary asset being the company's catalogue of 8,000 movies, and 4,000 television programs. With a current estimated enterprise value (EV) of \$968 million, the EV per owned title is approximately \$81,000, a calculation which if nothing else, is an interesting way to view the current value the market is placing on the company's major assets. As a means of value comparison, in March 2006 George Soros acquired DreamWorks' 59-title film library for \$900 million (high quality titles include Gladiator and American Beauty) and in 2004 MGM sold their 4,000 title library (along with their production business) for \$4.8 billion. While not all of Lions Gate's titles may have significant value, the catalogue does include the following major hits: Dirty Dancing, Reservoir Dogs, Terminator 2, Basic Instinct, Total Recall, The Blair Witch Project, the Saw franchise, Crash, Monster's Ball.

IMPORTANT DISCLOSURE INFORMATION

Jonathan Heller and Damien Park do not hold any positions in the company mentioned in this report.

Hedge Fund Solutions, LLC and/or its affiliates (the "Firm") may have a consulting relationship with the Company or Investment Firms (the "Companies") featured in this report. Readers should not make any investment decision without first conducting their own thorough due diligence. The information contained in this report is not a complete analysis of every material fact with respect to the company, industry, or security and is not an offer or solicitation to buy or sell any security. Although opinions and estimates expressed in this report reflect the current judgment of the Firm, the information upon which such opinions and estimates are based is not necessarily updated on a regular basis nor can the Firm be, in any way, considered liable for the future investment performance of any securities or strategies discussed. In addition, opinions are subject to change without notice. The Firm from time to time may perform consulting services for companies mentioned in this report and may occasionally possess material, nonpublic information regarding such companies. This information is not used in the preparation of this report. Facts and other information contained in this report have been obtained from the public sources considered reliable but are not guaranteed in any way.

The Firm may actively trade in the securities of the Companies for its own account. At any time, the Firm, funds it manages and/or its employees or their family members may have a long or short position in registered or non-registered securities or in options on any such security of any company mentioned in this report.

No Advice or Solicitation

Hedge Fund Solutions, LLC is not an investment, legal, or tax advisor, and none of the information available through the Firm is intended to provide tax, legal or investment advice. Nothing provided through this report, our website or our blogs <http://activistinvesting.blogspot.com/> and <http://stocksbelownav.blogspot.com/> constitutes a solicitation by Hedge Fund Solutions of the purchase or sale of securities.

Hedge Fund Solutions, LLC

40 West Evergreen Avenue · Suite 101 · Philadelphia, PA · 19118 · Tel 215.325.0514 · research@hedgerelations.com

Page 2 of 3

CATALYST INVESTMENT RESEARCH™

Combining Shareholder Activism & Deep Value Company Analysis

PRINCIPALS



Damien Park, President & CEO

Mr. Park is an expert on shareholder activism. He regularly advises boards of directors, CEOs and institutional investors on these issues and has been a featured commentator on *RealMoney.com* discussing activist investments.

Damien is often quoted in publications like *The Wall Street Journal*, *BusinessWeek*, *CFO Magazine*, *The Deal*, *CNN Money*, *The New York Times*, *The Nikkei* and *Newsweek Japan*.

In addition, Damien is the chairman of the largest activist investing conference in the world and manages *The Official Activist Investing Blog*.

dpark@hedgerelations.com



Jonathan Heller, Partner

Mr. Heller, CFA, is an expert on value investing. He is a Partner at Hedge Fund Solutions, the President of KEJ Financial Advisors and a featured commentator on *RealMoney.com* discussing deep value investments.

Previously, Jon was with SEI Investments after spending 17 years at Bloomberg Financial Markets in various roles which included the management of Bloomberg's Equity Fundamental Research Department and Bloomberg's Equity Data Research Department. Jon was also a senior markets editor of Bloomberg's Publishing Group, a writer for Bloomberg Personal Finance Magazine, and an associate editor and contributor for Bloomberg Markets Magazine.

In addition, Jon manages the blog *Cheap Stocks: Below Net Current Asset Value, Real Estate and other Value Strategies*.

jheller@hedgerelations.com

“The Catalyst Investment Research report not only finds where the hidden gems are buried but also brings along the excavation equipment to help dig up the value.”

- Ron Orol, Author

Extreme Value Hedging: How Activist Hedge Funds are Taking on the World

OVERVIEW

This professional grade research is dedicated to uncovering undervalued publicly traded companies that could have the potential to generate outsized returns due to an activist investor's involvement.

FEATURES & BENEFITS

Our research team analyzes EVERY active investment disclosure with the SEC and determines the most compelling catalyst investment opportunity for further examination. The research focuses on companies with extraordinary value potential where activist investors have taken sizeable investment positions and are pressing management to unlock hidden pockets of value.

PORTFOLIO PERFORMANCE

Catalyst Investment Research Portfolio				
Company	Research Issue Date	Issue Date Share Price	Current Price	Gain
TIER	4-Mar	5.01	8.03	60.3%
AVGN	24-Mar	1.13	1.29	14.2%
CTO	8-Apr	29.03	36.65	26.2%
TECUA	24-Apr	7.60	9.64	26.8%
CHE	8-May	40.56	39.16	-3.5%
PPCO	27-May	2.11	2.76	30.8%
ENZN	10-Jun	7.62	8.04	5.5%
				22.9%

“Damien and Jon deliver a very compelling research product. Nobody does a better job of analyzing solid companies with a very real and quantifiable catalyst for value improvement. I’m a subscriber and highly recommend it to others.”

- Timothy Brog
Locksmith Capital Management

FREQUENCY & COST; ADDITIONAL BENEFITS

For an annual subscription price of \$1,000 members will receive a minimum of 24 company-specific *Catalyst Investment Research™* reports as frequently as two times per month. In addition, subscribers are entitled to receive the following:

- Hedge Fund Solutions' weekly *Catalyst Equity Research Report™* at no added cost. An in-depth weekly research report, emailed every Monday afternoon, featuring all of the companies where activist investors have taken substantial positions over the past week.
- Featured articles and white papers on shareholder activism from leading experts.
- Special discounts to conferences & seminars on activist investing and value investing.

Become a Subscriber!

Email research@hedgerelations.com for payment options

Hedge Fund Solutions, LLC

40 West Evergreen Avenue · Suite 101 · Philadelphia, PA · 19118 · Tel 215.325.0514 · research@hedgerelations.com