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Lions Gate Denies Bankruptcy Claim

Carl Icahn, the billionaire investor who is trying to buy out Lions Gate Entertainment Group, says that the company may be on the verge of bankruptcy. This allegation was vehemently denied by the movie studio who emphasized that they had a “strong balance sheet and ample cash” to carry out their operations and that they were in the process of negotiating with creditors to avert a potential cash default.

Icahn who owns almost 19% of the movie company that produced well-known movies like ‘Saw’ and ‘Mad Men’, accused Lions Gate of overspending. He has also made a \$7 per share offer for a controlling stake in the mid-sized Hollywood studio.

Any shareholder who owns more than 20% of Lions Gate could trigger a technical default. This is in accordance to the movie company’s \$340 million credit facility agreement. Icahn has received tenders for another 3.7% of the company’s shares. In addition on Thursday, billionaire shareholder and Dallas Mavericks owner Mark Cuban, who owns a 5.4% stake in the company, said he will likely tender to Icahn.

According to an open letter Icahn had recently written to the Lions Gate board, if they fail to find alternative funding or persuade lenders to waive defaults, it “may find it necessary to pursue a voluntary bankruptcy filing.” In the letter, Icahn goes on to say, “As one of the largest – and, I believe, soon to be the largest – shareholder of Lions Gate, I am extremely concerned about this possible eventuality and I would imagine that other shareholders are similarly afraid of having their equity wiped out.”

The company in its reply to Icahn’s letter, claimed that they are actively in discussions with creditors to seek a waiver or amendment to its credit facilities to prevent a default and are confident they will be successful in obtaining what they seek in the near future if necessary.

There has also been conflicting claims from both parties. Icahn claimed that he offered a bridge financing facility to Lions Gate to enable it to refinance its debt but the movie studio ignored it. On the other hand, Lions Gate denied ever coming across such an offer and stated that it would “welcome the opportunity to review the actual terms of a proposed bridge facility.”

With regards to Icahn's \$7 per share offer, Lions Gate's stand is that it was too low. Icahn has been a Lions Gate shareholder since 2006 and has often been critical of its management seeing that the value of its stock has fallen from \$12 in 2007 to around \$7 today.

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