

LIONS GATE ENTERTAINMENT CORP /CN/

Form 10-Q

August 09, 2005

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

Form 10-Q

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

**For the quarterly period ended June 30, 2005
or**

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
AND EXCHANGE ACT OF 1934**

For the transition period from to .

Commission File No. 1-14880

Lions Gate Entertainment Corp.

(Exact name of registrant as specified in its charter)

British Columbia, Canada

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

*(I.R.S. Employer
Identification No.)*

555 Brooksbank Avenue

North Vancouver

British Columbia V7J 3S5

and

2700 Colorado Avenue, Suite 200

Santa Monica, California 90404

(Address of principal executive offices)

Registrant's telephone number, including area code:

(604) 983-5555

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 1, 2005, 101,875,620 shares of the registrant's no par value common stock were outstanding.

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FORWARD LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases you can identify forward-looking statements by terms such as may, intend, will, should, could, would, expects, believe, estimate, or the negative of these terms, and similar expressions intended to identify forward-looking statements.

These forward-looking statements reflect our current views with respect to future events and are based on assumptions and are subject to risks and uncertainties. Also, these forward-looking statements present our estimates and assumptions only as of the date of this report. Except for our ongoing obligation to disclose material information as required by federal securities laws, we do not intend to update you concerning any future revisions to any forward-looking statements to reflect events or circumstances occurring after the date of this report.

Factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include, but are not limited to, those risk factors found in our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 29, 2005, which is incorporated herein by reference.

Table of Contents**PART I****Item 1. Financial Statements.**

**LIONS GATE ENTERTAINMENT CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30, 2005	March 31, 2005
	(Unaudited)	(Note 2)
	(Amounts in thousands, except share amounts)	
ASSETS		
Cash and cash equivalents	\$ 138,272	\$ 112,839
Restricted cash	968	2,913
Accounts receivable, net of reserve for video returns of \$51,208 (March 31, 2005 \$58,449) and provision for doubtful accounts of \$6,133 (March 31, 2005 \$6,102)	102,439	150,019
Investment in films and television programs	365,595	367,376
Property and equipment	30,188	30,842
Goodwill	161,182	161,182
Other assets	31,417	29,458
	\$ 830,061	\$ 854,629
LIABILITIES		
Bank loans	\$	\$ 1,162
Accounts payable and accrued liabilities	139,605	134,200
Film obligations	144,188	130,770
Subordinated notes	385,000	390,000
Mortgages payable	18,109	18,640
Deferred revenue	48,286	62,459
Minority interests		259
	735,188	737,490
Commitments and Contingencies		
SHAREHOLDERS EQUITY		
Common shares, no par value, 500,000,000 shares authorized, 101,873,874 at June 30, 2005 and 101,843,708 at March 31, 2005 shares issued and outstanding	305,812	305,662
Series B preferred shares (10 shares issued and outstanding)		
Restricted common share units	2,099	
Unearned compensation	(2,099)	
Accumulated deficit	(205,045)	(183,226)
Accumulated other comprehensive loss	(5,894)	(5,297)

94,873

117,139

\$ 830,061

\$ 854,629

See accompanying notes.

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LIONS GATE ENTERTAINMENT CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004
	(Amounts in thousands, except per share amounts)	
Revenues	\$ 194,229	\$ 188,724
Expenses:		
Direct operating	100,264	80,810
Distribution and marketing	93,481	98,066
General and administration	17,329	17,127
Depreciation	748	675
Total expenses	211,822	196,678
Operating Loss	(17,593)	(7,954)
Other Expense (Income):		
Interest expense	4,884	5,461
Interest rate swaps mark-to-market	337	(2,060)
Interest income	(1,065)	(37)
Minority interests		(123)
Total other expenses, net	4,156	3,241
Loss Before Income Taxes	(21,749)	(11,195)
Income tax provision	(70)	(267)
Net Loss	\$ (21,819)	\$ (11,462)
Basic and Diluted Loss Per Common Share	\$ (0.21)	\$ (0.12)

See accompanying notes.

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LIONS GATE ENTERTAINMENT CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Shares		Restricted Common Share	Unearned Compensation	Accumulated Income Deficit	Accumulated Comprehensive Income (Loss)	Other Comprehensive Income (Loss)	Total
	Number	Amount	Number	Amount	Unit			
(Amounts in thousands, except share amounts)								
Balance at March 31, 2004	93,615,896	\$ 280,501	10	\$		\$ (203,507)	\$ (7,385)	\$ 69,609
Exercise of stock options	4,991,141	13,871						13,871
Exercise of warrants	3,220,867	10,842						10,842
Issuance to directors for services	15,804	137						137
Modification of stock options		311						311
Comprehensive income (loss):								
Net income						20,281	\$ 20,281	20,281
Foreign currency translation adjustments							2,374	2,374
Net unrealized loss on foreign exchange contracts							(286)	(286)
Comprehensive income							\$ 22,369	
Balance at March 31, 2005	101,843,708	\$ 305,662	10	\$		\$ (183,226)	\$ (5,297)	\$ 117,139
Exercise of stock options	23,916	61						61
Issuance to directors for services	6,250	62						62
Modification of stock options		27						27
Issuance of restricted share units						\$ 2,099	\$ (2,099)	
Comprehensive income (loss):								

Net loss					(21,819)	(21,819)		(21,819)
Foreign currency translation adjustments						(831)	(831)	(831)
Net unrealized gain on foreign exchange contracts						234	234	234
Comprehensive loss							\$ (22,416)	
Balance at June 30, 2005	101,873,874	\$ 305,812	10	\$	\$ 2,099	\$ (2,099)	\$ (205,045)	\$ (5,894) \$ 94,873

See accompanying notes.

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LIONS GATE ENTERTAINMENT CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004
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(Amounts in thousands)

Operating Activities:

Net loss	\$ (21,819)	\$ (11,462)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation of property and equipment	748	675
Amortization of deferred financing costs	898	838
Amortization of films and television programs	65,376	60,225
Amortization of intangible assets	548	548
Non-cash stock-based compensation	89	
Interest rate swaps mark-to-market	337	(2,060)
Minority interests		(123)
Changes in operating assets and liabilities:		
Decrease in restricted cash	1,945	
Accounts receivable, net	40,774	24,767
Increase in investment in films and television programs	(69,195)	(45,790)
Other assets	(140)	87
Accounts payable and accrued liabilities	9,114	(17,372)
Film obligations	15,247	22,412
Deferred revenue	(13,755)	6,662
Net Cash Flows Provided By Operating Activities	30,167	39,407

Investing Activities:

Cash received from sale of investment	2,011	
Purchases of property and equipment	(629)	(45)

Net Cash Flows Provided By (Used In) Investing Activities

	1,382	(45)
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Financing Activities:

Issuance of common shares	61	10,651
Financing fees		(346)
Repayment of subordinated notes	(5,000)	
Decrease in bank loans		(34,285)
Repayment of mortgages payable	(285)	(241)

Net Cash Flows Used In Financing Activities

	(5,224)	(24,221)
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Net Change In Cash And Cash Equivalents

	26,325	15,141
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Foreign Exchange Effects On Cash

	(892)	(171)
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Cash And Cash Equivalents Beginning Of Period

	112,839	7,089
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Cash And Cash Equivalents	End Of Period	\$	138,272	\$	22,059
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See accompanying notes.

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**LIONS GATE ENTERTAINMENT CORP.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

1. Nature of Operations

Lions Gate Entertainment Corp. (the Company or Lions Gate or we) is an integrated entertainment company engaged in the development, production and distribution of feature films, television series, television movies and mini-series, non-fiction programming and animated programming. As an independent distribution company, the Company also acquires distribution rights from a wide variety of studios, production companies and independent producers.

On December 15, 2003, the Company acquired Film Holdings Co., the parent company of Artisan Entertainment Inc. (Artisan) as described in note 8. The acquisition is included in the consolidated balance sheet and all operating results and cash flows have been included in the consolidated statements of operations and cash flows from the acquisition date.

2. Basis of Presentation and Use of Estimates

The accompanying unaudited condensed consolidated financial statements include the accounts of Lions Gate and all of its majority-owned and controlled subsidiaries and consolidated variable interest entities, with a provision for minority interests.

The condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) which conforms, in all material respects, with the accounting principles generally accepted in Canada (Canadian GAAP), except as described in note 15.

The unaudited condensed consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. or Canadian GAAP for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been reflected in these unaudited condensed consolidated financial statements. Operating results for the three months ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ended March 31, 2006. The balance sheet at March 31, 2005 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. The accompanying unaudited condensed consolidated financial statements should be read together with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended March 31, 2005.

Certain amounts presented for fiscal 2005 have been reclassified to conform to the fiscal 2006 presentation.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. The most significant estimates made by management in the preparation of the financial statements relate to ultimate revenue and costs for investment in films and television programs; estimates of sales returns, provision for doubtful accounts, fair value of assets and liabilities for allocation of the purchase price of companies acquired, income taxes and accruals for contingent liabilities; and impairment assessments for investment in films and television programs, property and equipment, goodwill and intangible assets. Actual results could differ from such estimates.

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**LIONS GATE ENTERTAINMENT CORP.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)**

Restricted Cash

Restricted cash represents an amount on deposit with a financial institution that is contractually designated for theatrical marketing expenses for a specific title. Refer to note 6 for the theatrical marketing obligation.

Recent Accounting Pronouncements

Statement of Financial Accounting Standards No. 123R. In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)). SFAS 123(R) revises SFAS No. 123 and eliminates the alternative to use the intrinsic method of accounting under APB No. 25. SFAS 123(R) requires all public companies accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments, to account for these types of transactions using a fair-value-based method. The Company currently accounts for share-based payments to employees using the intrinsic value method as set forth in APB No. 25 Accounting for Stock Issued to Employees. As such, the Company generally recognizes no compensation cost for employee stock options. SFAS No. 123(R) eliminates the alternative to use APB No. 25's intrinsic value method of accounting. Accordingly, the adoption of SFAS No. 123(R)'s fair value method will have an impact on our results of operations, although it will have no impact on our overall financial position. The impact of adoption of SFAS No. 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS No. 123(R) in prior periods, the impact would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net income (loss) and basic and diluted income (loss) per share in note 12. SFAS No. 123(R) permits companies to adopt its requirements using either a modified prospective method or a modified retrospective method. The Company has not yet determined which method it will utilize. The provisions of SFAS No. 123(R) are effective for financial statements with the first interim or annual reporting period beginning after June 15, 2005. However, the SEC announced on April 14, 2005 that it would provide for a phased-in implementation process for SFAS No. 123(R). As a result, the Company will not be required to apply SFAS No. 123(R) until the period beginning April 1, 2006.

3. Investment in Films and Television Programs

	June 30, 2005	March 31, 2005
(Amounts in thousands)		
Theatrical and Non-Theatrical Films		
Released, net of accumulated amortization	\$ 105,229	\$ 113,536
Acquired libraries, net of accumulated amortization	107,465	109,805
Completed and not released	19,649	12,083
In progress	43,401	42,581
In development	2,613	2,302
Product inventory	25,289	26,029
	303,646	306,336
Direct-to-Television Programs		
Released, net of accumulated amortization	24,069	21,098
In progress	37,094	39,221
In development	786	721

61,949	61,040
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\$ 365,595	\$ 367,376
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LIONS GATE ENTERTAINMENT CORP.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)

Acquired libraries of \$107.5 million at June 30, 2005 (March 31, 2005 \$109.8 million) include the Trimark library acquired October 2000 and the Artisan library acquired December 2003 (refer to note 8). The Trimark library is amortized over its expected revenue stream for a period of 20 years from the acquisition date. The remaining amortization period on the Trimark library at June 30, 2005 is 15.25 years on unamortized costs of \$21.8 million. The Artisan library includes titles released at least three years prior to the date of acquisition and is amortized over its expected revenue stream for a period of up to 20 years from the date of acquisition. The remaining amortization period on the Artisan library at June 30, 2005 is 18.5 years on unamortized costs of \$85.7 million.

The Company expects approximately 37% of completed films and television programs, net of accumulated amortization, will be amortized during the one-year period ending June 30, 2006. Additionally, the Company expects approximately 81% of completed and released films and television programs, net of accumulated amortization and excluding acquired libraries, will be amortized during the three year period ending June 30, 2008.

4. Other Assets

	June 30, 2005	March 31, 2005
(Amounts in thousands)		
Deferred financing costs, net	\$ 18,024	\$ 18,882
Prepaid expenses and other	7,412	8,148
Other investments	3,197	250
Intangible assets, net	2,784	2,178
	\$ 31,417	\$ 29,458

Deferred Financing Costs. Deferred financing costs primarily include costs incurred in connection with the credit facility (see note 5) and the issuance of the 4.875% Notes, the 2.9375% Notes and the 3.625% Notes (see note 7) and are deferred and amortized to interest expense.

Intangible Assets. Intangible assets acquired in connection with the purchase of Artisan of \$5.1 million represent distribution and personal service agreements and are amortized over a period of two to four years from the date of acquisition. Amortization expense of \$0.5 million amortization was recorded for the three months ended June 30, 2005 (2004 \$0.5 million). In June 2005, the Company acquired all of the publishing assets of a music publishing company, for a total purchase price of \$1.2 million in cash. The publishing rights are amortized over a three-year period from the date of acquisition. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for each of the succeeding years is \$1.6 million, \$0.7 million and \$0.5 million for the years ending June 30, 2006, 2007 and 2008, respectively.

Other Investments.

Maple Pictures Corp: On April 8, 2005, Lions Gate entered into library and output agreements with Maple Pictures Corp. (Maple Pictures), a Canadian corporation, for the distribution of Lions Gate s motion picture, television and home video product in Canada. As part of this transaction, Maple Pictures purchased a majority of the Company s interest in Christal Distribution, a number of production entities and other Lions Gate distribution assets in Canada. Maple Pictures was formed by two former Lions Gate executives and a third-party equity investor. Lions Gate also acquired a minority interest in Maple Pictures.

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**LIONS GATE ENTERTAINMENT CORP.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)**

As a result of these transactions with Maple Pictures, Lions Gate recorded an investment in Maple Pictures of \$2.2 million as of June 30, 2005 in other assets in the condensed consolidated balance sheet. The Company is accounting for the investment in Maple Pictures using the equity method.

Christal: At March 31, 2005, the Company had a 75% economic interest and a 30% voting interest in Christal Distribution (Christal), a film distributor and sub-distributor in Quebec, Canada. Through March 31, 2005 the Company was the primary beneficiary of Christal under FIN 46 and accordingly the Company consolidated Christal as at March 31, 2005. In connection with the Maple Pictures transaction discussed above, the Company sold the majority of its interest in Christal to Maple Pictures and the remainder of its interest was repurchased by Christal. As a result of the sale and repurchase of the interests, effective April 8, 2005, the Company no longer consolidated Christal and recorded amounts owing from Christal of \$0.5 million, net of amounts payable to Christal, as of June 30, 2005 in other assets in the condensed consolidated balance sheet.

5. Bank Loans

The Company entered into a \$350 million credit facility in December 2003 consisting of a \$200 million U.S. dollar-denominated revolving credit facility, a \$15 million Canadian dollar-denominated revolving credit facility and a \$135 million U.S. dollar-denominated term-loan. By December 31, 2004, the Company had repaid the term loan in full, thereby reducing the credit facility to \$215 million at March 31, 2005. Effective March 31, 2005, the credit facility was amended to eliminate the \$15 million Canadian dollar-denominated revolving credit facility and increase the U.S. dollar-denominated revolving credit facility by the same amount. At June 30, 2005, the Company had no borrowings (March 31, 2005 nil) under the credit facility. The credit facility expires December 31, 2008 and bears interest at 2.75% over the Adjusted LIBOR or 1.75% over the U.S. prime rate. The availability of funds under the credit facility is limited by the borrowing base, which is calculated on a monthly basis. The borrowing base assets at June 30, 2005 totaled \$388.6 million (March 31, 2005 \$405.1 million) and therefore the full \$215 million is available under the credit facility at June 30, 2005. The Company is required to pay a monthly commitment fee of 0.50% per annum on the total credit facility of \$215 million less the amount drawn. Right, title and interest in and to all personal property of Lions Gate Entertainment Corp. and Lions Gate Entertainment Inc., the Company's wholly-owned subsidiary, is being pledged as security for the credit facility. The credit facility is senior to the Company's film obligations, subordinated notes and mortgages payable. The credit facility restricts the Company from paying cash dividends on its common shares. The Company entered into a \$100 million interest rate swap at an interest rate of 3.08%, commencing January 2003 and ending September 2005. The swap is in effect as long as three month LIBOR is less than 5.0%. Fair market value of the interest rate swap at June 30, 2005 is negative \$0.1 million (March 31, 2005 negative \$0.1 million). Changes in the fair value representing a fair valuation loss on the interest rate swap during the three months ended June 30, 2005 amount to less than \$0.1 million (2004 gain of \$1.6 million) and are included in the condensed consolidated statements of operations.

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**LIONS GATE ENTERTAINMENT CORP.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)**

6. Film Obligations

	June 30, 2005	March 31, 2005
	(Amounts in thousands)	
Minimum guarantees	\$ 7,014	\$ 5,210
Minimum guarantees initially incurred for a term of more than one year	16,081	18,081
Participation and residual costs	104,866	95,650
Theatrical marketing	1,605	1,665
Film productions	14,622	10,164
	\$ 144,188	\$ 130,770

The Company expects approximately 63% of accrued participants' shares will be paid during the one-year period ending June 30, 2006.

Refer to note 2 for restricted cash contractually designated for the theatrical marketing obligation.

7. Subordinated Notes

3.625% Notes. In February 2005, Lions Gate Entertainment Inc. sold \$150.0 million of 3.625% Convertible Senior Subordinated Notes. In connection with this sale, Lions Gate Entertainment Inc. granted the initial purchasers of the 3.625% Notes an option to purchase up to an additional \$25.0 million of the 3.625% Notes for 13 days. The fair value of this option was not significant. The initial purchasers exercised this option in February 2005 and purchased an additional \$25 million of the 3.625% Notes. The Company received \$170.2 million of net proceeds after paying placement agents' fees from the sale of \$175.0 million of the 3.625% Notes. The Company also paid \$0.6 million of offering expenses incurred in connection with the 3.625% Notes. Interest on the 3.625% Notes is payable semi-annually on March 15 and September 15 commencing on September 15, 2005. After March 15, 2012, interest will be 3.125% per annum on the principal amount of the 3.625% Notes, payable semi-annually on March 15 and September 15 of each year. The 3.625% Notes mature on March 15, 2025. Lions Gate Entertainment Inc. may redeem all or a portion of the 3.625% Notes at its option on or after March 15, 2012 at 100% of their principal amount, together with accrued and unpaid interest through the date of redemption.

The holders may require Lions Gate Entertainment Inc. to repurchase the 3.625% Notes on March 15, 2012, 2015 and 2020 or upon a change in control at a price equal to 100% of the principal amount, together with accrued and unpaid interest through the date of repurchase. Under certain circumstances, if the holders require Lions Gate Entertainment Inc. to repurchase all or a portion of their notes upon a change in control, they will be entitled to receive a make whole premium. The amount of the make whole premium, if any, will be based on the price of the common shares of the Company on the effective date of the change in control. No make whole premium will be paid if the price of the common shares of the Company is less than \$10.35 per share or if the price of the common shares of the Company exceeds \$75.00 per share.

The 3.625% Notes are convertible, at the option of the holder, at any time before the close of business on or prior to the trading day immediately before the maturity date, if the notes have not been previously redeemed or repurchased, at a conversion rate of 70.0133 shares of the Company per \$1,000 principal amount of the 3.625% Notes, subject to adjustment in certain circumstances, which is equal to a conversion price of approximately \$14.28 per share. Upon conversion of the 3.625% Notes, the Company has the option to deliver, in lieu of common shares, cash or a combination of cash and common shares of the Company. The holder may convert the 3.625% Notes into

common shares of the Company prior to maturity if the notes have been called for redemption, a change in control occurs or certain corporate transactions occur. In addition, under certain

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**LIONS GATE ENTERTAINMENT CORP.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)**

circumstances, if the holder converts their notes upon a change in control they will be entitled to receive a make whole premium.

2.9375% Notes. In October 2004, Lions Gate Entertainment Inc. sold \$150.0 million of 2.9375% Convertible Senior Subordinated Notes. The Company received \$146.0 million of net proceeds after paying placement agents' fees from the sale of \$150.0 million of the 2.9375% Notes. The Company also paid \$0.7 million of offering expenses incurred in connection with the 2.9375% Notes. Interest on the 2.9375% Notes is payable semi-annually on April 15 and October 15 commencing on April 15, 2005 and the 2.9375% Notes mature on October 15, 2024. From October 15, 2009 to October 14, 2010, Lions Gate Entertainment Inc. may redeem the 2.9375% Notes at 100.839%; from October 15, 2010 to October 14, 2011, Lions Gate Entertainment Inc. may redeem the 2.9375% Notes at 100.420%; and thereafter at 100%.

The holders may require Lions Gate Entertainment Inc. to repurchase the 2.9375% Notes on October 15, 2011, 2014 and 2019 or upon a change in control at a price equal to 100% of the principal amount, together with accrued and unpaid interest through the date of repurchase. Under certain circumstances, if the holders require Lions Gate Entertainment Inc. to repurchase all or a portion of their notes upon a change in control, they will be entitled to receive a make whole premium. The amount of the make whole premium, if any, will be based on the price of the common shares of the Company on the effective date of the change in control. No make whole premium will be paid if the price of the common shares of the Company is less than \$8.79 per share or if the price of the common shares of the Company exceeds \$50.00 per share.

The holder may convert the 2.9375% Notes into common shares of the Company prior to maturity only if the price of the common shares of the Company issuable upon conversion of a note reaches a specified threshold over a specified period, the trading price of the notes falls below certain thresholds, the notes have been called for redemption, a change in control occurs or certain corporate transactions occur. In addition, under certain circumstances, if the holder converts their notes upon a change in control they will be entitled to receive a make whole premium. Before the close of business on or prior to the trading day immediately before the maturity date if the notes have not been previously redeemed or repurchased, the holder may convert the notes into common shares of the Company at a conversion rate of 86.9565 shares per \$1,000 principal amount of the 2.9375% Notes, subject to adjustment in certain circumstances, which is equal to a conversion price of approximately \$11.50 per share.

4.875% Notes. In December 2003, Lions Gate Entertainment Inc. sold \$60.0 million of 4.875% Convertible Senior Subordinated Notes. The Company received \$57.0 million of net proceeds after paying placement agents' fees from the sale of \$60.0 million of the 4.875% Notes. The Company also paid \$0.7 million of offering expenses incurred in connection with the 4.875% Notes. Interest on the 4.875% Notes is due semi-annually on June 15 and December 15 commencing on June 15, 2004 and the 4.875% Notes mature on December 15, 2010. Lions Gate Entertainment Inc. may redeem all or a portion of the 4.875% Notes at its option on or after December 15, 2006 at 100% of their principal amount, together with accrued and unpaid interest through the date of redemption; provided, however, that the 4.875% Notes will only be redeemable if the closing price of the Company's common shares equals or exceeds 175% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days ending on the day before the date of the notice of optional redemption.

The 4.875% Notes are convertible, at the option of the holder, at any time before the close of business on or prior to the trading day immediately before the maturity date if the notes have not been previously redeemed or repurchased at a conversion rate of 185.0944 shares of the Company per \$1,000 principal amount of the 4.875% Notes, subject to adjustment in certain circumstances, which is equal to a conversion price of approximately \$5.40 per share. Upon conversion of the 4.875% Notes, the Company has the option to deliver, in lieu of common shares, cash or a combination of cash and common shares of the Company. The holder may

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**LIONS GATE ENTERTAINMENT CORP.
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convert the 4.875% Notes into common shares of the Company prior to maturity if the notes have been called for redemption, a change in control occurs or certain corporate transactions occur.

Promissory Note. On December 15, 2003, the Company assumed, as part of the purchase of Artisan, a \$5.0 million subordinated promissory note to Vialta, Inc (Promissory Note) issued by Artisan which bears interest at 7.5% per annum compounded quarterly. The Promissory Note matured and was paid during April 2005.

8. Acquisitions

On December 15, 2003, the Company completed its acquisition of Film Holdings Co., the parent company of Artisan, an independent distributor and producer of film and entertainment content, for a total purchase price of \$168.9 million consisting of \$160.0 million in cash and direct transaction costs of \$8.9 million. In addition, the Company assumed debt of \$59.9 million and other obligations (including accounts payable and accrued liabilities, film obligations and other advances) of \$144.0 million. Direct transaction costs are considered liabilities assumed in the acquisition, and as such, are included in the purchase price. Direct transaction costs include: amounts totaling \$3.9 million paid to lawyers, accountants and other consultants; involuntary termination benefits totaling \$4.9 million payable to certain Artisan employees terminated under a severance plan and various other amounts totaling \$0.1 million. At June 30, 2005 and March 31, 2005, the remaining liabilities under the severance plan were nil and \$0.2 million, respectively, and included in accounts payable and accrued liabilities in the condensed consolidated balance sheets.

The purchase price may be adjusted for the payment of additional consideration of up to \$7.5 million contingent upon the results of specified feature films. At June 30, 2005, the contingent consideration cannot be reasonably estimated. When the contingency is resolved and if additional consideration becomes payable, the consideration will be recognized as an additional cost of the purchase.

Severance and relocation costs incurred by Lions Gate, associated with the acquisition of Artisan, are not included in the purchase price and, as such, were recorded in the consolidated statement of operations for the year ended March 31, 2004. Severance and relocation costs of \$5.6 million included property lease abandonment costs of \$2.5 million, the write-off of capital assets no longer in use of \$2.1 million and severance of \$1.0 million. At June 30, 2005 and March 31, 2005, the remaining liabilities under the severance plan are nil. At June 30, 2005, the remaining liabilities for the property lease abandonment are \$1.7 million (March 31, 2005 \$1.7 million) and are included in accounts payable and accrued liabilities in the condensed consolidated balance sheets.

9. Direct Operating Expenses

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004
(Amounts in thousands)		
Amortization of films and television programs	\$ 65,376	\$ 60,225
Participation and residual expense	33,076	20,887
Amortization of acquired intangible assets	548	548
Other expenses	1,264	(850)
	\$ 100,264	\$ 80,810

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Other expenses include direct operating expenses related to the studio facility and provision for doubtful accounts. Other expenses for the three months ended June 30, 2004 include a reduction in the provision for doubtful accounts.

10. Comprehensive Loss

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004
(Amounts in thousands)		
Net loss	\$ (21,819)	\$ (11,462)
Less: Foreign currency translation adjustments	(831)	(1,153)
Less: Net unrealized gain (loss) on foreign exchange contracts	234	(645)
Comprehensive loss	\$ (22,416)	\$ (13,260)

11. Loss Per Share

The Company calculates earnings per share in accordance with SFAS No. 128, Earnings Per Share. Basic loss per share is calculated based on the weighted average common shares outstanding for the period. Diluted earnings per share includes the impact of the convertible senior subordinated notes, share purchase warrants, stock options and restricted share units, if dilutive.

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004
(Amounts in thousands, except per share amounts)		
Basic loss per common share is calculated as follows:		
Numerator:		
Net loss	\$ (21,819)	\$ (11,462)
Denominator:		
Weighted average common shares outstanding	101,852	94,921
Basic and diluted loss per common share	\$ (0.21)	\$ (0.12)

Basic loss per share is calculated using the weighted average number of common shares outstanding during the three months ended June 30, 2005 and 2004 of 101,852,000 shares and 94,921,000 shares, respectively. The exercise of common share equivalents including stock options, share purchase warrants, the conversion features of the 4.875% Notes, 2.9375% Notes and 3.625% Notes and restricted share units could potentially dilute income (loss) per share in the future, but were not reflected in diluted loss per share during the periods presented because to do so would be anti-dilutive. Under the if converted method of calculating diluted earnings per share, the share purchase options,

the restricted share units, the share purchase warrants and the convertible senior subordinated notes, if outstanding, were anti-dilutive in each of the periods presented and were not reflected in diluted loss per common share.

12. Accounting for Stock Based Compensation

The Company elected to use the intrinsic value method in accounting for stock based compensation set forth in APB No. 25, Accounting for Stock Issued to Employees. In accordance with SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of SFAS No. 123 the following disclosures are provided about the costs of stock-based compensation awards

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using the fair value method for companies that elect to use the intrinsic value method. See Recent Accounting Pronouncements for SFAS 123(R).

The weighted average estimated fair value of each stock option granted in the three months ended June 30, 2005 was \$3.61. No stock options were granted during the three months ended June 30, 2004. The total stock-based compensation expense for disclosure purposes for the three months ended June 30, 2005, based on the fair value of the stock options granted, was \$0.6 million (2004 \$0.2 million) and the fair value of stock option modifications was less than \$0.1 million (2004 nil).

For disclosure purposes the fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for stock options granted: a dividend yield of 0%, expected volatility of 33% (2004 30%), risk-free interest rate of 4.0% (2004 3.8%) and expected life of five years.

The following pro forma basic and diluted income (loss) per common share includes stock-based compensation expense for stock options issued and modified, as described above:

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004
(Amounts in thousands, except per share amounts)		
The resulting pro forma basic loss per common share is calculated as follows:		
Numerator:		
Net loss	\$ (21,819)	\$ (11,462)
Add: stock-based compensation expense calculated using intrinsic value method	27	
Less: stock-based compensation expense calculated using fair value method	(602)	(238)
Adjusted net loss	\$ (22,394)	\$ (11,700)
Denominator:		
Weighted average common shares outstanding	101,852	94,921
Adjusted basic and diluted loss per common share	\$ (0.22)	\$ (0.12)

On November 13, 2001, the Board of Directors of the Company resolved that 750,000 options, granted to certain officers of the Company to purchase common shares of the Company, be revised as stock appreciation rights (SARs) which entitle the holders to receive cash only and not common shares. The amount of cash received will be equal to the amount by which the trading price of common shares on the exercise notice date exceeds the SARs price of \$5.00 multiplied by the number of options exercised. Any twenty-day average trading price of common shares prior to the exercise notice date has to be \$6.00 or above in order for the officers to exercise their SARs. These SARs are not considered part of the Employees and Directors Equity Incentive Plan. The Company measures compensation expense as the amount by which the market value of common shares exceeds the SARs price. At June 30, 2005, the market price of common shares was \$10.26 (March 31, 2005 \$11.05; June 30, 2004 \$6.98) and the SARs had all vested. Due

to the reduction in the market price of its common shares, the Company recorded a reduction in stock-based compensation expense in the amount of \$0.6 million in general and administration expenses in the condensed consolidated statement of operations for the three months ended June 30, 2005 (June 30, 2004 expense of \$0.5 million). The expense is calculated by using the market price of common shares on June 30, 2005 less the SARs price, multiplied by the 750,000 SARs vested. At June 30, 2005, the Company has a stock-based compensation

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accrual in the amount of \$3.9 million (March 31, 2005 \$4.5 million) included in accounts payable and accrued liabilities on the condensed consolidated balance sheets relating to these SARs.

On February 2, 2004, an officer of the Company was granted 1,000,000 SARs, which entitle the officer to receive cash only, and not common shares. The amount of cash received will be equal to the amount by which the trading price of common shares on the exercise notice date exceeds the SARs price of \$5.20 multiplied by the number of SARs exercised. The SARs vest one quarter immediately on the award date and one quarter on each of the first, second and third anniversaries of the award date. These SARs are not considered part of the Employees and Directors Equity Incentive Plan. Applying FIN 28 Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans, the Company is accruing compensation expense over the service period, which is assumed to be the three year vesting period, using a graded approach and measures compensation cost as the amount by which the market value of common shares exceeds the SARs price times the SARs assumed to have vested under the graded approach. At June 30, 2005, the market price of common shares was \$10.26 (March 31, 2005 \$11.05; June 30, 2004 \$6.98). Due to the reduction in the market price of its common shares, the Company recorded a reduction in stock-based compensation expense in the amount of \$0.2 million in general and administration expenses in the condensed consolidated statement of operations for the three months ended June 30, 2005 (June 30, 2004 expense of \$0.8 million). During the year ended March 31, 2005 the officer exercised 150,000 of the vested SARs and the Company paid \$0.9 million. The total expense is calculated by using the market price of common shares on June 30, 2005 less the SARs price, multiplied by the remaining 793,032 SARs assumed to have vested less the 150,000 SARs exercised. At June 30, 2005, the Company has a stock-based compensation accrual in the amount of \$3.3 million (March 31, 2005 \$3.5 million) included in accounts payable and accrued liabilities on the condensed consolidated balance sheets relating to these SARs.

Effective June 27, 2005, the Company entered into restricted share unit agreements with certain employees and awarded 198,000 restricted common share units. Upon issuance of the restricted common share units, an unamortized compensation expense equivalent to the market value of the common shares on the date of grant was charged to shareholders equity as unearned compensation. This unearned compensation will be amortized over the three-year vesting period. The market value of the units granted was \$10.60 per unit on the date of grants. Compensation expense related to these restricted common share units was insignificant to our condensed consolidated statement of operations for the three months ended June 30, 2005.

13. Segment Information

SFAS No. 131 Disclosures About Segments of an Enterprise and Related Information requires the Company to make certain disclosures about each reportable segment. The Company's reportable segments are determined based on the distinct nature of their operations and each segment is a strategic business unit that offers different products and services and is managed separately. The Company evaluates performance of each segment using segment profit (loss) as defined below. The Company has three reportable business segments: Motion Pictures, Television and Studio Facilities.

Motion Pictures consists of the development and production of feature films; acquisition of North American and worldwide distribution rights; North American theatrical, home entertainment and television distribution of feature films produced and acquired and worldwide licensing of distribution rights to feature films produced and acquired.

Television consists of the development, production and worldwide distribution of television productions including television series, television movies and mini-series and non-fiction programming.

Studio Facilities consists of ownership and management of an eight-soundstage studio facility in Vancouver, Canada. Rental revenue is earned from soundstages, office and other equipment and services to

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tenants that produce or support the production of feature films, television series, movies and commercials. Tenancies vary from a few days to five years depending on the nature of the project and the tenant.

Segmented information by business unit is as follows:

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004
(Amounts in thousands)		
Segment revenues		
Motion Pictures	\$ 146,982	\$ 159,066
Television	45,858	28,647
Studio Facilities	1,389	1,011
	\$ 194,229	\$ 188,724
Segment profit (loss)		
Motion Pictures	\$ (9,220)	\$ (2,866)
Television	2,377	4,232
Studio Facilities	811	450
	\$ (6,032)	\$ 1,816

Segment profit (loss) is defined as segment revenue less segment direct operating, distribution and marketing, and general and administration expenses. The reconciliation of total segment profit (loss) to the Company's income (loss) before income taxes is as follows:

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004
(Amounts in thousands)		
Company's total segment profit (loss)	\$ (6,032)	\$ 1,816
Less:		
Corporate general and administration	(10,813)	(9,095)
Depreciation	(748)	(675)
Interest expense	(4,884)	(5,461)
Interest rate swaps mark-to-market	(337)	2,060
Interest income	1,065	37
Minority interests		123
	\$ (21,749)	\$ (11,195)

14. Commitments and Contingencies

The Company is from time to time involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company does not believe that adverse decisions in any such pending or threatened proceedings, or any amount which the Company might be required to pay by reason thereof, would have a material adverse effect on the financial condition or future results of the Company. The Company has provided an accrual for estimated losses under the above matters as of June 30, 2005, in accordance with FAS 5 Accounting for Contingencies .

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15. Reconciliation to Canadian GAAP

The condensed consolidated financial statements of the Company have been prepared in accordance with U.S. GAAP. The material differences between the accounting policies used by the Company under U.S. GAAP and Canadian GAAP are disclosed below in accordance with the provisions of the Securities and Exchange Commission (SEC) and the National Instrument adopted by certain securities authorities in Canada.

Under Canadian GAAP, the net loss and loss per share figures for the three months ended June 30, 2005 and 2004, and the shareholders equity as at June 30, 2005 and March 31, 2005 are as follows:

	Net Loss		Shareholders Equity	
	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	June 30, 2005	March 31, 2005
(Amounts in thousands, except per share amounts)				
As reported under U.S. GAAP	\$ (21,819)	\$ (11,462)	\$ 94,873	\$ 117,139
Adjustment for interest rate swaps(a)	(158)	(158)	2,167	2,325
Accounting for business combinations(b)			1,145	1,145
Accounting for income taxes(c)			(1,900)	(1,900)
Accounting for stock-based compensation(g)	(575)	(238)		
Adjustment for accretion on subordinated notes(d)	(3,158)	(618)	(9,582)	(6,424)
Adjustment for amortization of subordinated notes issue costs(d)	227	36	709	482
Adjustment for amortization and write-off of deferred bank loan financing costs(e)		84		
Reclassification of conversion feature of subordinated notes outside shareholders equity(d)			74,854	74,854
Other comprehensive income (loss) (net of tax of nil)(f)			(538)	(304)
Net Loss/ Shareholders Equity under Canadian GAAP	\$ (25,483)	\$ (12,356)	\$ 161,728	\$ 187,317

**Basic and Diluted Loss per
Common Share under
Canadian GAAP**

\$	(0.25)	\$	(0.13)
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Reconciliation of movement in Shareholders' Equity under Canadian GAAP:

	June 30, 2005	March 31, 2005
	(Amounts in thousands)	
Balance at beginning of the year	\$ 187,317	\$ 86,827
Increase in common shares	123	24,850
Increase in contributed surplus(d)(g)	602	60,842
Net loss under Canadian GAAP	(25,483)	12,424
Adjustment to cumulative translation adjustments account(f)	(831)	2,374
Balance at end of the period	\$ 161,728	\$ 187,317

(a) Interest Rate Swaps Mark-to-Market

Under U.S. GAAP, the interest swaps do not meet the criteria of effective hedges and therefore the fair valuation loss of less than \$0.1 million for the three months ended June 30, 2005 (2004 gain of \$1.6 million) on the Company's interest swap and fair valuation loss of \$0.3 million for the three months ended June 30, 2005 (2004 gain of \$0.5 million) on a subsidiary company's interest swap are recorded in the condensed consolidated statement of operations.

Under Canadian GAAP, until April 1, 2004, the interest rate swaps were determined to be effective hedges under Canadian Institute of Chartered Accountants (CICA) Section 3860, Financial Instruments Disclosure and Presentation, and no fair valuation adjustments were recorded. In December 2001, the CICA released Accounting Guideline (AcG-13), Hedging Relationships, to be applied by companies for periods beginning on or after July 1, 2003. The standard establishes criteria to identify, designate, document and determine the effectiveness of hedging relationships, for the purpose of applying hedge accounting and provides guidance on the discontinuance of hedge accounting. Under Canadian GAAP the Company has adopted AcG-13 effective April 1, 2004 and determined the interest rate swaps do not meet the criteria of effective hedges and therefore the fair valuation loss of less than \$0.1 million for the three months ended June 30, 2005 (2004 gain of \$1.6 million) on the Company's interest swap and fair valuation loss of \$0.3 million for the three months ended June 30, 2005 (2004 gain of \$0.5 million) on a subsidiary company's interest swap are recorded in the condensed consolidated statement of operations, which is consistent with U.S. GAAP.

The transitional provisions of AcG-13 provide that when an entity terminates its designation of a hedging relationship or a hedging relationship ceases to be effective, hedge accounting is not applied to gains, losses, revenues or expenses arising subsequently. However, the hedge accounting applied to the hedging relationship in prior periods is not reversed. Any gains, losses, revenues or expenses deferred previously as a result of applying hedge accounting continue to be carried forward for subsequent recognition in income in the same period as the corresponding gains, losses, revenues or expenses associated with the hedged item. Accordingly, under Canadian GAAP at April 1, 2004 the Company recorded the fair values of the interest rate swaps totaling \$3.0 million on the consolidated balance sheet and recorded the off-setting entry to deferred assets which is being amortized straight-line to interest expense over the terms of the interest rate swaps. This results in an additional interest expense in the three months ended June 30, 2005 of \$0.2 million (2004 \$0.2 million).

(b) Accounting for Business Combinations

Under U.S. GAAP, costs related to the acquiring company must be expensed as incurred. Under Canadian GAAP, prior to January 1, 2001, costs related to restructuring activities of an acquiring company

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were considered in the purchase price allocation. In fiscal 2001, the Company included \$1.4 million of such costs in the purchase price for an acquired company under Canadian GAAP. The amount is presented net of income taxes of \$0.3 million.

(c) Accounting for Income Taxes

SFAS 109 requires deferred tax assets and liabilities be recognized for temporary differences, other than non-deductible goodwill, arising in a business combination. In the year ended March 31, 2000, under U.S. GAAP, goodwill was increased to reflect the additional deferred tax liability resulting from temporary differences arising on the acquisition of Lions Gate Studios in fiscal 1999. Under Canadian GAAP, the Company recorded a charge to retained earnings when the deferred tax liability was established upon adoption of the applicable accounting standard in 2001; accordingly, there is a difference in the carrying amount of goodwill arising in the business combination of \$1.9 million as at June 30, 2005 (March 31, 2005 \$1.9 million).

(d) Reclassification of Conversion Feature of Subordinated Notes, Accretion on Subordinated Notes and Amortization of Subordinated Notes Issue Costs

Under U.S. GAAP, the conversion feature of the 4.875% Notes, as explained in note 7, is not accounted for separately. Under Canadian GAAP, the conversion feature of the 4.875% Notes is valued at \$16.3 million, net of placement agents fees and offering expenses of \$1.0 million and, accordingly, shareholders equity is increased by \$16.3 million. Under U.S. GAAP the principal amount and the carrying amount of the 4.875% Notes are the same and therefore no accretion is required whereas, under Canadian GAAP, the difference between the principal amount of \$60.0 million and the original net carrying amount of \$42.7 million is being accreted on a straight-line basis over seven years as a charge to interest. Under U.S. GAAP all of the placement agents fees and offering expenses are capitalized and amortized over seven years as a charge to interest expense whereas, under Canadian GAAP, the placement agents fees and offering expenses have been allocated to the conversion feature and to debt. The portion allocated to debt is being amortized on a straight-line basis over seven years as a charge to interest expense.

Under U.S. GAAP, the conversion feature of the 2.9375% Notes, as explained in note 7, is not accounted for separately. Under Canadian GAAP, the conversion feature of the 2.9375% Notes is valued at \$25.7 million, net of placement agents fees and offering expenses of \$0.8 million and, accordingly, shareholders equity is increased by \$25.7 million. Under U.S. GAAP the principal amount and the carrying amount of 2.9375% Notes are the same and therefore no accretion is required whereas, under Canadian GAAP, the difference between the principal amount of \$150.0 million and the original net carrying amount of \$123.5 million is being accreted on a straight-line basis over five years, the time to the first potential redemption date by the Company, as a charge to interest. Under U.S. GAAP all of the placement agents fees and offering expenses are capitalized and amortized through the earliest redemption date of seven years as a charge to interest expense whereas, under Canadian GAAP, the placement agents fees and offering expenses have been allocated to the conversion feature and to debt. The portion allocated to debt is being amortized on a straight-line basis through the scheduled maturity date of twenty years as a charge to interest expense.

Under U.S. GAAP, the conversion feature of the 3.625% Notes, as explained in note 7, is not accounted for separately. Under Canadian GAAP, the conversion feature of the 3.625% Notes is valued at \$32.9 million, net of placement agents fees and offering expenses of \$1.0 million and, accordingly, shareholders equity is increased by \$32.9 million. Under U.S. GAAP the principal amount and the carrying amount of 3.625% Notes are the same and therefore no accretion is required whereas, under Canadian GAAP, the difference between the principal amount of \$175.0 million and the original net carrying amount of \$141.1 million is being accreted on a straight-line basis over seven years, the time to the first potential redemption date by the Company, as a charge to interest. Under U.S. GAAP all of the placement agents fees and offering expenses are capitalized and amortized through the earliest redemption date of seven years as a charge to interest expense whereas,

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under Canadian GAAP, the placement agents' fees and offering expenses have been allocated to the conversion feature and to debt. The portion allocated to debt is being amortized on a straight-line basis through the scheduled maturity date of twenty years as a charge to interest expense.

(e) Accounting for Amortization and Write-Off of Deferred Bank Loan Financing Costs

Under U.S. GAAP, deferred financing costs in the amount of \$4.3 million allocated to the Company's term loan was being amortized using the effective interest method over the term of the loan as a charge to interest expense whereas, under Canadian GAAP, the same amount was being amortized on a straight-line basis over the term of the loan. On December 31, 2004, the Company repaid its term loan and wrote off the deferred financing costs related to the term loan.

(f) Comprehensive Income (Loss)

Comprehensive loss consists of net income (loss) and other gains and losses affecting shareholders' equity that, under U.S. GAAP are excluded from the determination of net income (loss). Under U.S. GAAP, comprehensive income (loss) includes cumulative translation adjustments and unrealized gains (losses) on foreign exchange contracts, net of income taxes of nil. Under Canadian GAAP, cumulative translation adjustments are included as a separate component of shareholders' equity and unrealized gains (losses) on foreign exchange contracts are not recorded.

(g) Accounting for Stock Based Compensation

In December 2003, the Canadian Institute of Chartered Accountants (CICA) amended Section 3870 to require companies to account for stock options using the fair value based method for fiscal years beginning on or after January 1, 2004. In accordance with the transitional alternatives permitted under amended Section 3870, the Company retroactively adopted the fair value based method of accounting for stock options and accordingly, the years ended March 31, 2004 and March 31, 2003 have been restated. The impact of this change for the three-months ended June 30, 2005 was to decrease net income and increase contributed surplus by \$0.6 million (2004 \$0.2 million) and to increase basic loss per share by \$0.01, respectively (2004 nil).

In accordance with CICA Section 3870, the following disclosures are provided about the costs of stock-based compensation awards using the fair value method. The weighted average estimated fair value of each stock option granted in the three months ended June 30, 2005 was \$3.61. No stock options were granted during the three months ended June 30, 2004. The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for stock options granted during the three months ended June 30, 2005: a dividend yield of 0%, expected volatility of 33% (2004 30%), risk-free interest rate of 4.0% (2004 3.8%) and expected life of five years (2004 five years).

16. Consolidating Financial Information

In December 2003, the Company sold \$60.0 million of the 4.875% Notes, through its wholly owned U.S. subsidiary Lions Gate Entertainment Inc. (the Issuer). The 4.875% Notes, by their terms, are fully and unconditionally guaranteed by the Company. On April 2, 2004, the Company filed a registration statement on Form S-3 to register the resale of the 4.875% Notes and common shares issuable on conversion of the 4.875% Notes. On April 29, 2004, the registration statement was declared effective by the Securities and Exchange Commission (SEC).

In October 2004, the Company sold \$150.0 million of the 2.9375% Notes, through the Issuer. The 2.9375% Notes, by their terms, are fully and unconditionally guaranteed by the Company. On February 4, 2005, the Company filed a registration statement on Form S-3 to register the resale of the 2.9375% Notes and

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common shares issuable on conversion of the 2.9375% Notes. On March 3, 2005, the registration statement was declared effective by the SEC.

In February 2005, the Company sold \$175.0 million of the 3.625% Notes, through the Issuer. The 3.625% Notes, by their terms, are fully and unconditionally guaranteed by the Company. On March 29, 2005, and as amended April 6, 2005, the Company filed a registration statement on Form S-3 to register the resale of the 3.625% Notes and common shares issuable on conversion of the 3.625% Notes. On April 13, 2005, the registration statement was declared effective by the SEC.

The following tables present condensed consolidating financial information as of June 30, 2005 and March 31, 2005 and for the three months ended June 30, 2005 and 2004 for (1) the Company, on a stand-alone basis, (2) the Issuer, on a stand-alone basis, (3) the non-guarantor subsidiaries of the Company (including the subsidiaries of the Issuer) on a combined basis (collectively, the Other Subsidiaries) and (4) the Company on a consolidated basis.

As of June 30, 2005

	Lions Gate Entertainment Corp.	Lions Gate Entertainment Inc.	Other Subsidiaries	Consolidating Adjustments	Lions Gate Consolidated
(Amounts in thousands)					
BALANCE SHEET					
ASSETS					
Cash and cash equivalents	\$ 4,004	\$ 19,603	\$ 114,665	\$	\$ 138,272
Restricted cash			968		968
Accounts receivable, net	34		102,405		102,439
Investment in films and television programs			365,595		365,595
Property and equipment		3,174	27,014		30,188
Goodwill			161,182		161,182
Other assets	77	19,215	12,125		31,417
Investment in subsidiaries	220,334	273,515		(493,849)	
Deferred income taxes	1,896		(1,896)		
	\$ 226,345	\$ 315,507	\$ 782,058	\$ (493,849)	\$ 830,061
LIABILITIES AND SHAREHOLDERS EQUITY (DEFICIENCY)					
Accounts payable and accrued liabilities	\$ 192	\$ 19,726	\$ 119,687	\$	\$ 139,605
Film obligations			144,188		144,188
Subordinated notes		385,000			385,000
Mortgages payable			18,109		18,109
Deferred revenue			48,286		48,286
Intercompany payables (receivables)	(130,990)	(51,540)	198,090	(15,560)	
Intercompany equity	262,270	93,217	306,513	(662,000)	

Shareholders equity (deficiency)	94,873	(130,896)	(52,815)	183,711	94,873
	\$ 226,345	\$ 315,507	\$ 782,058	\$ (493,849)	\$ 830,061

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Three Months Ended June 30, 2005

	Lions Gate Entertainment Corp.	Lions Gate Entertainment Inc.	Other Subsidiaries	Consolidating Adjustments	Lions Gate Consolidated
(Amounts in thousands)					
STATEMENT OF OPERATIONS					
Revenues	\$ 172	\$	\$ 194,201	\$ (144)	\$ 194,229
Expenses:					
Direct operating			100,264		100,264
Distribution and marketing			93,481		93,481
General and administration	351	10,432	6,690	(144)	17,329
Depreciation		26	722		748
Total expenses	351	10,458	201,157	(144)	211,822
Operating Loss	(179)	(10,458)	(6,956)		(17,593)
Other Expenses (Income):					
Interest expense	17	4,564	303		4,884
Interest rate swaps mark-to-market		19	318		337
Interest income		(1,065)			(1,065)
Total other expenses	17	3,518	621		4,156
Loss Before Equity Interests and Income Taxes	(196)	(13,976)	(7,577)		(21,749)
Equity interests	21,623	8,955		(30,578)	
Income (Loss) Before Income Taxes	(21,819)	(22,931)	(7,577)	30,578	(21,749)
Income tax provision			(70)		(70)
Net Income (Loss)	\$ (21,819)	\$ (22,931)	\$ (7,647)	\$ 30,578	\$ (21,819)

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**LIONS GATE ENTERTAINMENT CORP.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)**

Three Months Ended June 30, 2005

	Lions Gate Entertainment Corp.	Lions Gate Entertainment Inc.	Other Subsidiaries	Consolidating Adjustments	Lions Gate Consolidated
(Amounts in thousands)					
STATEMENT OF CASH FLOWS					
Net cash flows provided by (used in) operating activities					
	\$ 3,916	\$ (85,958)	\$ 112,209	\$	\$ 30,167
Investing activities:					
Cash received from sale of investment			2,011		2,011
Purchases of property and equipment		(758)	129		(629)
Net cash flows provided by (used in) investing activities		(758)	2,140		1,382
Financing activities:					
Issuance of common shares	61				61
Repayment of subordinated notes			(5,000)		(5,000)
Repayment of mortgages payable			(285)		(285)
Net cash flows provided by (used in) financing activities	61		(5,285)		(5,224)
Net change in cash and cash equivalents	3,977	(86,716)	109,064		26,325
Foreign exchange effect on cash	(916)	(37)	61		(892)
Cash and cash equivalents beginning of period	943	106,356	5,540		112,839
Cash and cash equivalents end of period	\$ 4,004	\$ 19,603	\$ 114,665	\$	\$ 138,272

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**LIONS GATE ENTERTAINMENT CORP.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)**

Three Months Ended June 30, 2005

	Lions Gate Entertainment Corp.	Lions Gate Entertainment Inc.	Other Subsidiaries	Consolidating Adjustments	Lions Gate Consolidated
(Amounts in thousands)					
RECONCILIATION OF NET INCOME (LOSS) TO CANADIAN GAAP					
As reported under U.S. GAAP	\$ (21,819)	\$ (22,931)	\$ (7,647)	\$ 30,578	\$ (21,819)
Interest rate swaps mark-to-market	(158)	(123)	(35)	158	(158)
Accounting for stock-based compensation	(575)				(575)
Adjustment for accretion on subordinated notes	(3,158)	(3,158)		3,158	(3,158)
Adjustment for amortization of subordinated notes issue costs	227	227		(227)	227
Net income (loss) under Canadian GAAP	\$ (25,483)	\$ (25,985)	\$ (7,682)	\$ 33,667	\$ (25,483)

As of June 30, 2005

	Lions Gate Entertainment Corp.	Lions Gate Entertainment Inc.	Other Subsidiaries	Consolidating Adjustments	Lions Gate Consolidated
(Amounts in thousands)					
RECONCILIATION OF SHAREHOLDERS EQUITY (DEFICIENCY) TO CANADIAN GAAP					
As reported under U.S. GAAP	\$ 94,873	\$ (130,896)	\$ (52,815)	\$ 183,711	\$ 94,873
Interest rate swaps mark-to-market	2,167	1,682	485	(2,167)	2,167
Accounting for business combinations	1,145		1,145	(1,145)	1,145
Accounting for income taxes	(1,900)		(1,900)	1,900	(1,900)

Adjustment for accretion on subordinated notes	(9,582)	(9,582)		9,582	(9,582)
Adjustment for amortization of subordinated notes issue costs	709	709		(709)	709
Reclassification of conversion feature of subordinated notes outside shareholders equity	74,854				74,854
Other comprehensive income (loss)	(538)	(538)	(538)	1,076	(538)
Shareholders equity (deficiency) under Canadian GAAP	\$ 161,728	\$ (138,625)	\$ (53,623)	\$ 192,248	\$ 161,728

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**LIONS GATE ENTERTAINMENT CORP.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)**

As of March 31, 2005

	Lions Gate Entertainment Corp.	Lions Gate Entertainment Inc.	Other Subsidiaries	Consolidating Adjustments	Lions Gate Consolidated
(Amounts in thousands)					
BALANCE SHEET					
ASSETS					
Cash and cash equivalents	\$ 943	\$ 106,356	\$ 5,540	\$	\$ 112,839
Restricted cash			2,913		2,913
Accounts receivable, net	35	69	149,915		150,019
Investment in films and television programs			367,376		367,376
Property and equipment		2,544	28,298		30,842
Goodwill			161,182		161,182
Other assets	92	19,517	9,849		29,458
Investment in subsidiaries	250,701	291,206		(541,907)	
Deferred income taxes	1,896		(1,896)		
	\$ 253,667	\$ 419,692	\$ 723,177	\$ (541,907)	\$ 854,629
LIABILITIES AND SHAREHOLDERS EQUITY (DEFICIENCY)					
Bank loans	\$	\$	\$ 1,162	\$	\$ 1,162
Accounts payable and accrued liabilities	143	21,074	112,983		134,200
Film obligations			130,770		130,770
Subordinated notes		385,000	5,000		390,000
Mortgages payable			18,640		18,640
Deferred revenue			62,459		62,459
Minority interests			259		259
Intercompany payables (receivables)	(134,932)	19,623	130,887	(15,578)	
Intercompany equity	262,269	93,217	306,515	(662,001)	
Shareholders' equity (deficiency)	126,187	(99,222)	(45,498)	135,672	117,139
	\$ 253,667	\$ 419,692	\$ 723,177	\$ (541,907)	\$ 854,629

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**LIONS GATE ENTERTAINMENT CORP.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)**

As of March 31, 2005

	Lions Gate Entertainment Corp.	Lions Gate Entertainment Inc.	Other Subsidiaries	Consolidating Adjustments	Lions Gate Consolidated
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(Amounts in thousands)

**RECONCILIATION OF
SHAREHOLDERS
EQUITY
(DEFICIENCY) TO
CANADIAN GAAP**

As reported under

U.S. GAAP	\$ 126,187	\$ (99,222)	\$ (45,498)	\$ 135,672	\$ 117,139
Interest rate swaps mark-to-market	2,325	1,840	485	(2,325)	2,325
Accounting for business combinations	1,145	1,145	1,145	(2,290)	1,145
Accounting for income taxes	(1,900)		(1,900)	1,900	(1,900)
Adjustment for accretion on subordinated notes	(6,424)	(6,424)		6,424	(6,424)
Adjustment for amortization of subordinated note issue costs	482	482		(482)	482
Reclassification of conversion feature of subordinated notes to shareholders equity	74,854				74,854
Other comprehensive loss	(304)	(304)	(304)	608	(304)
Shareholders equity (deficiency) under Canadian GAAP	\$ 196,365	\$ (102,483)	\$ (46,072)	\$ 139,507	\$ 187,317

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**LIONS GATE ENTERTAINMENT CORP.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)**

Three Months Ended June 30, 2004

	Lions Gate Entertainment Corp.	Lions Gate Entertainment Inc.	Other Subsidiaries	Consolidating Adjustments	Lions Gate Consolidated
(Amounts in thousands)					
STATEMENT OF OPERATIONS					
Revenues	\$ 120	\$	\$ 188,751	\$ (147)	\$ 188,724
Expenses:					
Direct operating			80,810		80,810
Distribution and marketing			98,066		98,066
General and administration	1,467	7,628	8,179	(147)	17,127
Depreciation	11	31	633		675
Total expenses	1,478	7,659	187,688	(147)	196,678
Operating Income (Loss)	(1,358)	(7,659)	1,063		(7,954)
Other Expenses (Income):					
Interest expense	21	4,899	541		5,461
Interest income			(37)		(37)
Interest rate swaps mark-to-market		(1,591)	(469)		(2,060)
Minority interests			(123)		(123)
Total other expenses (income)	21	3,308	(88)		3,241
Income (Loss) Before Equity Interests and Income Taxes	(1,379)	(10,967)	1,151		(11,195)
Equity interests	(10,083)	(113)		10,196	
Income (Loss) Before Income Taxes	(11,462)	(11,080)	1,151	10,196	(11,195)
Income tax provision		(241)	(26)		(267)
Net Income (Loss)	\$ (11,462)	\$ (11,321)	\$ 1,125	\$ 10,196	\$ (11,462)

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**LIONS GATE ENTERTAINMENT CORP.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)**

Three Months Ended June 30, 2004

	Lions Gate Entertainment Corp.	Lions Gate Entertainment Inc.	Other Subsidiaries	Consolidating Adjustments	Lions Gate Consolidated
(Amounts in thousands)					
STATEMENT OF CASH FLOWS					
Net cash flows provided by (used in) operating activities	\$ (3,513)	\$ 35,184	\$ 7,736	\$	\$ 39,407
Investing activities:					
Purchases of property and equipment		(45)			(45)
Net cash flows used in investing activities		(45)			(45)
Financing activities:					
Issuance of common stock	10,651				10,651
Financing fees paid		(346)			(346)
Increase (decrease) in bank loans		(34,700)	415		(34,285)
Decrease in mortgages payable			(241)		(241)
Net cash flows provided by (used in) financing activities	10,651	(35,046)	174		(24,221)
Net change in cash and cash equivalents	7,138	93	7,910		15,141
Foreign exchange effect on cash	(3,778)	(84)	3,691		(171)
Cash and cash equivalents beginning of period	1,005	(9)	6,093		7,089
Cash and cash equivalents end of period	\$ 4,365	\$	\$ 17,694	\$	\$ 22,059

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**LIONS GATE ENTERTAINMENT CORP.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (Continued)**

Three Months Ended June 30, 2004

	Lions Gate Entertainment Corp.	Lions Gate Entertainment Inc.	Other Subsidiaries	Consolidating Adjustments	Lions Gate Consolidated
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(Amounts in thousands)

**RECONCILIATION OF
NET INCOME (LOSS) TO
CANADIAN GAAP**

As reported under

U.S. GAAP	\$ (11,462)	\$ (11,321)	\$ 1,125	\$ 10,196	\$ (11,462)
Interest rate swaps mark-to-market	(158)	(123)	(35)	158	(158)
Accounting for stock-based compensation	(238)				(238)
Adjustment for accretion on subordinated notes	(618)	(618)		618	(618)
Adjustment for amortization of subordinated notes issue costs	36	36		(36)	36
Adjustment for amortization of debt financing costs	84	84		(84)	84
Net income (loss) under Canadian GAAP	\$ (12,356)	\$ (11,942)	\$ 1,090	\$ 10,852	\$ (12,356)

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

Overview

We are a diversified independent producer and distributor of motion pictures, television programming, home entertainment, family entertainment and video-on-demand content. We release approximately 15 to 18 motion pictures theatrically per year. Our theatrical releases include films we produce in-house and films we acquire from third parties. We also have produced approximately 122 hours of television programming on average each of the last three fiscal years. Our disciplined approach to production, acquisition, and distribution is designed to maximize our profit by balancing our financial risks against the probability of commercial success of each project. We currently distribute our library of approximately 6,200 motion picture titles and 1,800 television episodes and programs directly to retailers, video rental stores, and pay and free television channels and indirectly to international markets through third parties. We also own a minority interest in CinemaNow, Inc., or CinemaNow, an internet video-on-demand provider, and own and operate a film and television production studio in Vancouver, British Columbia. Effective April 2005, we also own a minority interest in Maple Pictures, a Canadian film and television distributor based in Toronto, Canada.

Our revenues are derived from the following business segments:

Motion Pictures, which includes Theatrical, Home Entertainment, Television and International Distribution.

Theatrical revenues are derived from the domestic theatrical release of motion pictures in North America. Home entertainment revenues are derived from the sale of video and DVD releases of our own productions and acquired films, including theatrical releases and direct-to-video releases. Television revenues are primarily derived from the licensing of our productions and acquired films to the domestic cable, free and pay television markets.

International revenues are derived from the licensing of our productions and acquired films to international markets on a territory-by-territory basis.

Television, which includes the licensing to domestic and international markets of one-hour drama series, television movies and mini-series and non-fiction programming.

Studio Facilities, which includes Lions Gate Studios and the leased facility Eagle Creek Studios, which derive revenue from rental of sound stages, production offices, construction mills, storage facilities and lighting equipment to film and television producers.

Our primary operating expenses include the following:

Direct Operating Expenses, which include amortization of production or acquisition costs, participation and residual expenses.

Distribution and Marketing Expenses, which primarily include the costs of theatrical prints and advertising and of video and DVD duplication and marketing.

General and Administration Expenses, which include salaries and other overhead.

Recent Developments

Maple Pictures Corp. On April 8, 2005, we entered into library and output agreements with Maple Pictures, a Canadian corporation, for the distribution of Lions Gate's motion picture, television and home video product in Canada. As part of this transaction, Maple Pictures purchased a majority of our interest in Christal Distribution, a number of production entities and other Lions Gate distribution assets in Canada. Maple Pictures was formed by two former Lions Gate executives and a third-party equity investor. We also acquired a minority interest in Maple Pictures. As a result of these transactions with Maple Pictures, Lions Gate recorded an investment in Maple Pictures of \$2.2 million as of June 30, 2005 in other assets in the condensed consolidated balance sheet.

Our remaining interest in Christal Distribution was repurchased by Christal Distribution. As a result of the sale and repurchase of our interests, effective April 8, 2005, we no longer consolidated Christal Distributions, previously consolidated as a variable interest entity under FIN 46 and \$0.5 million owing from

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Christal Distributions, net of amounts payable, was recorded, as of June 30, 2005 in other assets in the condensed consolidated balance sheet.

CRITICAL ACCOUNTING POLICIES

The application of the following accounting policies, which are important to our financial position and results of operations, requires significant judgments and estimates on the part of management. For a summary of all of our accounting policies, including the accounting policies discussed below, see note 2 to our audited consolidated financial statements.

Generally Accepted Accounting Principles. Our consolidated financial statements have been prepared in accordance with U.S. GAAP which conforms, in all material respects, with Canadian GAAP, except as described in the notes to the condensed consolidated financial statements.

On March 29, 2004, the new British Columbia Business Corporations Act came into force, which allows the Company to prepare its financial statements either under Canadian or U.S. GAAP. The Company elected to prepare financial statements under U.S. GAAP commencing April 1, 2004. Prior to April 1, 2004, the Company's consolidated financial statements were prepared under Canadian GAAP. Amounts presented in prior years in the consolidated financial statements have been converted to U.S. GAAP. The Company must disclose and quantify material differences with Canadian GAAP in its interim and annual financial statements through March 31, 2006.

Accounting for Films and Television Programs. In June 2000, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 00-2 Accounting by Producers or Distributors of Films (SoP 00-2). SoP 00-2 establishes accounting standards for producers or distributors of films, including changes in revenue recognition, capitalization and amortization of costs of acquiring films and television programs and accounting for exploitation costs, including advertising and marketing expenses.

We capitalize costs of production and acquisition, including financing costs and production overhead, to investment in films and television programs. These costs are amortized to direct operating expenses in accordance with SoP 00-2. These costs are stated at the lower of unamortized films or television program costs or estimated fair value. These costs for an individual film or television program are amortized and participation and residual costs are accrued in the proportion that current year's revenues bear to management's estimates of the ultimate revenue at the beginning of the year expected to be recognized from exploitation, exhibition or sale of such film or television program over a period not to exceed ten years from the date of initial release. For previously released film or television programs acquired as part of a library, ultimate revenue includes estimates over a period not to exceed twenty years from the date of acquisition. Management regularly reviews and revises when necessary, its ultimate revenue and cost estimates, which may result in a change in the rate of amortization of film costs and participations and residuals and/or write-down of all or a portion of the unamortized costs of the film or television program to its estimated fair value. No assurance can be given that unfavorable changes to revenue and cost estimates will not occur, which may result in significant write-downs affecting our results of operations and financial condition.

Revenue Recognition. Revenue from the sale or licensing of films and television programs is recognized upon meeting all recognition requirements of SoP 00-2. Revenue from the theatrical release of feature films is recognized at the time of exhibition based on the Company's participation in box office receipts. Revenue from the sale of videocassettes and digital video disks (DVDs) in the retail market, net of an allowance for estimated returns and other allowances, is recognized on the later of receipt by the customer or street date (when it is available for sale by the customer). Under revenue sharing arrangements, rental revenue is recognized when the Company is entitled to receipts and such receipts are determinable. Revenues from television licensing are recognized when the feature film or television program is available to the licensee for telecast. For television licenses that include separate availability windows during the license period, revenue is allocated over the windows . Revenue from sales to international territories are recognized when access to

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the feature film or television program has been granted or delivery has occurred, as required under the sales contract, and the right to exploit the feature film or television program has commenced. For multiple media rights contracts with a fee for a single film or television program where the contract provides for media holdbacks, the fee is allocated to the various media based on management's assessment of the relative fair value of the rights to exploit each media and is recognized as each holdback is released. For multiple-title contracts with a fee, the fee is allocated on a title-by-title basis, based on management's assessment of the relative fair value of each title.

Rental revenue from short-term operating leases of studio facilities is recognized over the term of the lease.

Cash payments received are recorded as deferred revenue until all the conditions of revenue recognition have been met. Long-term, non-interest bearing receivables are discounted to present value.

Reserves. Revenues are recorded net of estimated returns and other allowances. We estimate reserves for video returns in the condensed consolidated financial statements based on previous returns and our estimated expected future returns related to current period sales on a title-by-title basis in each of the video businesses. There may be differences between actual returns and our historical experience. We estimate provisions for accounts receivable based on historical experience and relevant facts and information regarding the collectability of the accounts receivable.

Income Taxes. The Company is subject to income taxes in the United States, and in several states and foreign jurisdictions in which we operate. We account for income taxes according to Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS 109). SFAS 109 requires the recognition of deferred tax assets, net of applicable reserves, related to net operating loss carryforwards and certain temporary differences. The standard requires recognition of a future tax benefit to the extent that realization of such benefit is more likely than not or a valuation allowance is applied.

Goodwill. On April 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142,

Goodwill and Other Intangible Assets. Goodwill is reviewed annually for impairment within each fiscal year or between the annual tests if an event occurs or circumstances change that indicate it is more-likely-than-not that the fair value of a reporting unit is less than its carrying value. The Company performs its annual impairment test as of December 31 in each fiscal year. The Company performed its annual impairment test on its goodwill as of December 31, 2004. No goodwill impairment was identified in any of the Company's reporting units. Determining the fair value of reporting units requires various assumptions and estimates.

Business Acquisitions. The Company accounts for its business acquisitions as a purchase, whereby the purchase price is allocated to the assets acquired and liabilities assumed based on their estimated fair value. The excess of the purchase price over estimated fair value of the net identifiable assets is allocated to goodwill. Determining the fair value of assets and liabilities requires various assumptions and estimates.

Recent Accounting Pronouncements

Statement of Financial Accounting Standards No. 123R. In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)). SFAS 123(R) revises SFAS No. 123 and eliminates the alternative to use the intrinsic method of accounting under APB No. 25. SFAS 123(R) requires all public companies accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments, to account for these types of transactions using a fair-value-based method. The Company currently accounts for share-based payments to employees using the intrinsic value method as set forth in APB No. 25 *Accounting for Stock Issued to Employees*. As such, the Company generally recognizes no compensation cost for employee stock options. SFAS No. 123(R) eliminates the alternative to use APB No. 25's intrinsic value method of accounting. Accordingly, the adoption of SFAS No. 123(R)'s fair value method will have an impact on our results of operations, although it will have no impact on our overall

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financial position. The impact of adoption of SFAS No. 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS No. 123(R) in prior periods, the impact would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net income (loss) and basic and diluted income (loss) per share in note 12 in the notes to the condensed consolidated financial statements. SFAS No. 123(R) permits companies to adopt its requirements using either a modified prospective method or a modified retrospective method. The Company has not yet determined which method it will utilize. The provisions of SFAS No. 123(R) are effective for financial statements with the first interim or annual reporting period beginning after June 15, 2005. However, the SEC announced on April 14, 2005 that it would provide for a phased-in implementation process for SFAS No. 123(R). As a result, the Company will not be required to apply SFAS No. 123(R) until the period beginning April 1, 2006.

Results of Operations***Three Months Ended June 30, 2005 Compared to Three Months Ended June 30, 2004***

Consolidated revenues this quarter of \$194.2 million increased \$5.5 million, or 2.9%, compared to \$188.7 million in the prior year's quarter.

Motion pictures revenue of \$147.0 million this quarter decreased \$12.1 million, or 7.6%, compared to \$159.1 million in the prior year's quarter. Theatrical revenue included in motion picture revenue of \$22.3 million this quarter decreased \$13.8 million, or 38.2%, compared to \$36.1 million in the prior year's quarter. Significant theatrical releases this quarter included *Crash*, *High Tension*, *Rize* and *State Property 2*. Significant theatrical releases in the prior year's quarter included *Fahrenheit 9/11*, *The Punisher* and *Godsend*. Video revenue included in motion picture revenue of \$97.4 million this quarter increased \$22.0 million, or 29.2%, compared to \$75.4 million in the prior year's quarter. Significant video releases this quarter included *Diary of a Mad Black Woman*, *Alone In the Dark*, *Beyond the Sea* and the *Tyler Perry Plays*. Previously released titles such as *Saw*, *Final Cut* and *Open Water* also continued to generate video revenues in the quarter. Significant video releases in the prior year's quarter included *The Cooler*, *Girl With a Pearl Earring*, *Saved By the Bell* and *Step Into Liquid*. International revenue included in motion picture revenue of \$10.0 million this quarter decreased \$30.7 million, or 75.4%, compared to \$40.7 million in the prior year's quarter. Significant international sales this quarter include *Hotel Rwanda*. Significant international sales in the prior year's quarter included *Punisher*, *Godsend* and *The Prince and Me*. Television revenue included in motion picture revenue of \$16.3 million this quarter increased \$9.4 million, or 136.2%, compared to \$6.9 million in the prior year's quarter. Significant television license fees this quarter included *Open Water*.

Television production revenue of \$45.9 million this quarter increased by \$17.3 million, or 60.5%, from \$28.6 million in the prior year's quarter. This quarter, 25 hours of one-hour drama series and 7 half-hours of half-hour drama series were delivered contributing revenue of \$42.9 million and international and other revenue on one-hour drama series was \$1.7 million. This quarter, revenue contributed from television movies, video releases of television product and non-fiction programming totaled \$1.3 million. In the prior year's quarter, 9 hours of one-hour drama series and mini-series were delivered for revenue of \$11.9 million and international and other revenue on one-hour drama series was \$8.1 million, television movies contributed revenue of \$6.2 million, video releases of television product contributed \$1.5 million and non-fiction programming contributed revenue of \$1.3 million. Domestic deliveries of one-hour drama series this quarter included *The Cut*, *Wildfire*, *Missing* and *The Dead Zone* and of half-hour drama series included *Weeds*. Domestic deliveries in the prior year's quarter included the one-hour drama series *The Dead Zone* and the mini-series *5 Days to Midnight*.

Studio facilities revenue of \$1.4 million this quarter increased \$0.4 million, or 40%, compared to \$1.0 million in the prior year's quarter due primarily to an increase in occupancy rates this quarter compared to the prior year's quarter.

Direct operating expenses primarily include amortization of film and television production or acquisition costs, participation and residual expenses. Direct operating expenses of \$100.3 million for the quarter were 51.6% of revenue, compared to direct operating expenses of \$80.8 million, which were 42.8% of revenue in the

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prior year's quarter. Direct operating expenses as a percentage of revenue for the motion pictures and television segments increased due to the margins on the mix of titles released during the quarter. The television segment in particular generated significant series revenue associated with higher direct operating expenses as a percentage of revenue.

Distribution and marketing expenses of \$93.5 million decreased \$4.6 million, or 4.7%, compared to \$98.1 million in the prior year's quarter. Theatrical prints and advertising (P&A) this quarter of \$50.0 million decreased \$4.9 million, or 8.9%, compared to \$54.9 million in the prior year's quarter. Theatrical P&A this quarter included significant expenditures on the release of titles such as *Crash*, *High Tension* and *Rize*. Theatrical P&A in the prior year's quarter included significant expenditures on the release of titles such as *Godsend*, *The Punisher* and *Fahrenheit 9/11*. Video distribution and marketing costs on motion picture and television product this quarter of \$40.3 million decreased \$1.4 million, or 3.4%, compared to \$41.7 million in the prior year's quarter. Video expenditure this quarter included significant expenditure on the release of titles such as *Diary of a Mad Black Woman*, *Alone In the Dark*, *Beyond the Sea* and the *Tyler Perry Plays*. Video expenditure in the prior year's quarter included significant expenditure on the release of titles such as *The Cooler*, *Girl With a Pearl Earring*, *Saved By the Bell* and *Step Into Liquid*.

General and administration expenses of \$17.3 million this quarter increased \$0.2 million, or 1.2%, compared to \$17.1 million in the prior year's quarter. The increase was primarily due to an increase in professional fees offset by a decrease in salaries and benefits. Professional fees increased primarily due to fees associated with the documentation, assessment and testing of our internal controls as required by Section 404 of the Sarbanes Oxley Act and due to the fees associated with our fiscal year end audit services. Salaries and benefits decreased as the prior year's quarter included stock-price bonuses due under employment contracts and stock-based compensation expense related to share appreciation rights, whereas in the current quarter a recovery of the stock-based compensation expense is recorded. In the current quarter, \$1.1 million of production overhead was capitalized compared to \$0.6 million in the prior year's quarter.

Depreciation and amortization of \$0.7 million this quarter increased \$0.2 million, or 40.0%, from \$0.5 million in the prior year's quarter.

Interest expense of \$4.9 million this quarter decreased \$0.6 million, or 10.9%, from \$5.5 million in the prior year's quarter primarily due to a decrease in interest and amortization of deferred financing fees on the credit facility, offset by an increase in interest and amortization of deferred financing fees on the subordinated notes. The credit facility had a nil balance during the three months ended June 30, 2005 resulting in a decrease in interest on the credit facility. During the three months ended December 31, 2004, deferred financing fees on the term loan portion of the credit facility were written off resulting in a decrease in amortization of deferred financing fees. The three months ended June 30, 2005 includes interest and amortization on the 4.875% Notes issued December 2003, the 2.9375% Notes issued October 2004 and the 3.625% Notes issued February 2005, whereas the three months ended June 30, 2004 includes interest and amortization on the 4.875% Notes only.

Interest rate swaps do not meet the criteria of effective hedges and therefore a fair valuation loss of \$0.3 million was recorded this quarter and a fair valuation gain of \$2.1 million was recorded in the prior year's quarter.

This quarter included interest income of \$1.1 million, compared to an insignificant amount of interest income in the prior year's quarter. Interest income this quarter was earned on the cash balance held during the three months ended June 30, 2005.

Net loss for the three months ended June 30, 2005 was \$21.8 million, or loss per share of \$0.21 on 101.9 million weighted average shares outstanding. This compares to net loss for the three months ended June 30, 2004 of \$11.5 million or loss per share of \$0.12 on 94.9 million weighted average common shares outstanding.

EBITDA

EBITDA, defined as earnings before interest, interest rate swaps mark-to-market, income tax provision, depreciation and minority interests of negative \$16.8 million for the three months ended June 30, 2005

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increased \$9.5 million, or 130.1%, compared to negative EBITDA \$7.3 million for the three months ended June 30, 2004.

EBITDA is a non-GAAP financial measure. Management believes EBITDA to be a meaningful indicator of our performance that provides useful information to investors regarding our financial condition and results of operations. Presentation of EBITDA is consistent with our past practice, and EBITDA is a non-GAAP financial measure commonly used in the entertainment industry and by financial analysts and others who follow the industry to measure operating performance. While management considers EBITDA to be an important measure of comparative operating performance, it should be considered in addition to, but not as a substitute for, net income and other measures of financial performance reported in accordance with GAAP. EBITDA does not reflect cash available to fund cash requirements. Not all companies calculate EBITDA in the same manner and the measure as presented may not be comparable to similarly-titled measures presented by other companies.

The following table reconciles EBITDA to net loss:

	Three Months Ended June 30,	
	2005	2004
	(Amounts in thousands)	
EBITDA, as defined	\$ (16,845)	\$ (7,279)
Depreciation	(748)	(675)
Interest expense	(4,884)	(5,461)
Interest rate swaps mark-to-market	(337)	2,060
Interest income	1,065	37
Minority interests		123
Income tax provision	(70)	(267)
Net loss	\$ (21,819)	\$ (11,462)

Refer to note 15 of the condensed consolidated financial statements for reconciliation of net income (loss) reported under U.S. GAAP to net income (loss) reported under Canadian GAAP.

Liquidity and Capital Resources

Our liquidity and capital resources are provided principally through cash generated from operations, issuance of subordinated notes and a credit facility with JP Morgan.

Issuance of Convertible Senior Subordinated Notes. In December 2003, Lions Gate Entertainment Inc. sold \$60.0 million of 4.875% Notes that mature on December 15, 2010. We received \$57.0 million of net proceeds, after paying placement agents' fees. Offering expenses were \$0.7 million. The 4.875% Notes are convertible, at the option of the holder, at any time before the close of business on the business day immediately preceding the maturity date of the 4.875% Notes, unless previously redeemed, into common shares of the Company at a conversion rate of 185.0944 shares per \$1,000 principal amount of the 4.875% Notes, which is equal to a conversion price of approximately \$5.40 per share. Lions Gate Entertainment Inc. may redeem the 4.875% Notes at its option on or after December 15, 2006 at 100% of their principal amount plus accrued and unpaid interest if the closing price of our common shares exceeds 175% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days ending on the trading day before the date of notice of redemption.

In October 2004, Lions Gate Entertainment Inc. sold the 2.9375% Notes that mature on October 15, 2024. We received \$146.0 million of net proceeds after paying placement agents' fees. Offering expenses were \$0.5 million. The 2.9375% Notes are convertible at the option of the holder, at any time prior to maturity, upon satisfaction of certain conversion contingencies, into common shares of the Company at a conversion rate of 86.9565 shares per \$1,000

principal amount of the 2.9375% Notes, which is equal to a conversion price of approximately \$11.50 per share, subject to adjustment upon certain events. From October 15, 2009 to

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October 14, 2010, Lions Gate Entertainment Inc. may redeem the 2.9375% Notes at 100.839%; from October 15, 2010 to October 14, 2011, Lions Gate Entertainment Inc. may redeem the 2.9375% Notes at 100.420%; and thereafter at 100%.

In February 2005, Lions Gate Entertainment Inc. sold the 3.625% Notes that mature on March 15, 2025. We received \$170.2 million of net proceeds after paying placement agents' fees. Offering expenses were approximately \$0.6 million. The 3.625% Notes are convertible at the option of the holder, at any time prior to maturity into common shares of the Company at a conversion rate of 70.0133 shares per \$1,000 principal amount of the 3.625% Notes, which is equal to a conversion price of approximately \$14.28 per share, subject to adjustment upon certain events. Lions Gate Entertainment Inc. may redeem the 3.625% Notes at its option on or after March 15, 2012 at 100% of their principal amount plus accrued and unpaid interest.

Credit Facility. The Company entered into a \$350 million credit facility in December 2003 consisting of a \$200 million U.S. dollar-denominated revolving credit facility, a \$15 million Canadian dollar-denominated revolving credit facility and a \$135 million U.S. dollar-denominated term-loan. By December 31, 2004, the Company had repaid the term loan in full, thereby reducing the credit facility to \$215 million. Effective March 31, 2005, the credit facility was amended to eliminate the \$15 million Canadian dollar-denominated revolving credit facility and increase the U.S. dollar-denominated revolving credit facility by the same amount. At June 30, 2005, the Company had no borrowings (March 31, 2005 - nil) under the credit facility. The credit facility expires December 31, 2008 and bears interest at 2.75% over the Adjusted LIBOR or the Canadian Bankers Acceptance rate, or 1.75% over the U.S. or Canadian prime rates. The availability of funds under the credit facility is limited by the borrowing base, which is calculated on a monthly basis. The borrowing base assets at June 30, 2005 totaled \$388.6 million (March 31, 2005 \$405.1 million) and therefore the full \$215 million is available under the credit facility at June 30, 2005. The Company is required to pay a monthly commitment fee of 0.50% per annum on the total credit facility of \$215 million less the amount drawn. Right, title and interest in and to all personal property of Lions Gate Entertainment Corp. and Lions Gate Entertainment Inc. is being pledged as security for the credit facility. The credit facility is senior to the Company's film obligations, subordinated notes and mortgages payable. The credit facility restricts the Company from paying cash dividends on its common shares. The Company entered into a \$100 million interest rate swap at an interest rate of 3.08%, commencing January 2003 and ending September 2005. The swap is in effect as long as three month LIBOR is less than 5.0%. Fair market value of the interest rate swap at June 30, 2005 is \$0.1 million (March 31, 2005 - \$0.1 million). Changes in the fair value representing a fair valuation loss on the interest rate swap during the three months ended June 30, 2005 amount to less than \$0.1 million (2004 - gain of \$1.6 million) and are included in the condensed consolidated statements of operations.

Filmed Entertainment Backlog. Backlog represents the amount of future revenue not yet recorded from executed contracts for the licensing of films and television product for television exhibition and in international markets. Backlog at June 30, 2005 and March 31, 2005 is \$138.5 million and \$100.3 million, respectively. The increase in backlog is primarily due to contracts entered into on titles such as *Saw*, *Diary of a Mad Black Woman*, *Missing* and *Wildfire* during the three months ended June 30, 2005.

Cash Flows Provided by Operating Activities. Cash flows provided by operating activities in the three months ended June 30, 2005 were \$30.2 million compared to cash flows provided by operating activities in the three months ended June 30, 2004 of \$39.4 million. The decrease in cash flows provided by operating activities resulted from an increase in net loss this quarter, an increase in investment in films and television programs expenditure, a decrease in cash received from deferred revenue, offset by an increase in accounts payable and accrued liabilities and an increase in cash provided by the collection of accounts receivables in the current quarter.

Cash Flows Provided by/ Used in Investing Activities. Cash flows provided by investing activities of \$1.4 million for the three months ended June 30, 2005 included cash received from the sale of our investment in Christal Distribution to Maple Pictures Corp. of \$2.0 million, less \$0.6 million for purchases of property and equipment. Cash flows used in investing activities in the three months ended June 30, 2004 consisted of purchases of property and equipment and were not significant.

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Cash Flows Used in Financing Activities. Cash flows used in financing activities in the three months ended June 30, 2005 of \$5.2 million were primarily for repayment of a promissory note. Cash flows used in financing activities of \$24.2 million in the three months ended June 30, 2004 were primarily due to the repayment of bank loans of \$34.3 million, offset by the issuance of common stock mainly for the exercise of warrants of \$10.7 million.

Anticipated Cash Requirements. The nature of our business is such that significant initial expenditures are required to produce, acquire, distribute and market films and television programs, while revenues from these films and television programs are earned over an extended period of time after their completion or acquisition. We believe that cash flow from operations, cash on hand, credit facility availability, tax shelter and production financing available will be adequate to meet known operational cash requirements for the foreseeable future, including the funding of future film and television production, film rights acquisitions and theatrical and video release schedules. We monitor our cash flow liquidity, availability, fixed charge coverage, capital base, film spending and leverage ratios with the long-term goal of maintaining our creditworthiness.

Our current financing strategy is to fund operations and to leverage investment in films and television programs through our cash flow from operations, our credit facility, single-purpose production financing, government incentive programs and distribution commitments. In addition, we may acquire businesses or assets, including individual films or libraries, that are complementary to our business. Any such transaction could be financed through our cash flow from operations, credit facilities, equity or debt financing.

Future annual repayments on debt and other financing obligations, initially incurred for a term of more than one year, as of June 30, 2005 are as follows:

	Year Ended March 31,						Total
	2006	2007	2008	2009	2010	Thereafter	
	(Amounts in thousands)						
Bank loans	\$	\$	\$	\$	\$	\$	\$
Film obligations - Minimum guarantees initially incurred for a term of more than one year	24	3,620	12,437				16,081
Film obligations - Film productions	2,609	7,933		4,080			14,622
Subordinated notes						385,000	385,000
Mortgages payable	2,401	897	1,656	13,155			18,109
	\$ 5,034	\$ 12,450	\$ 14,093	\$ 17,235	\$	\$ 385,000	\$ 433,812

Principal debt and other financing obligation repayments due during the nine months ending March 31, 2006 of \$5.0 million consists of \$2.4 million of mortgages on the studio facility and \$2.6 million owed to film production entities on delivery of titles. Principal repayments due are expected to be paid through cash generated from operations or from the available borrowing capacity from our revolving credit facility with JP Morgan.

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Future commitments under contractual obligations by expected maturity date as of June 30, 2005 are as follows:

	Year Ended March 31,						Total
	2006	2007	2008	2009	2010	Thereafter	
	(Amounts in thousands)						
Operating leases	\$ 1,727	\$ 1,999	\$ 2,042	\$ 454	\$ 42	\$	\$ 6,264
Employment and consulting contracts	10,672	7,643	2,122				20,437
Purchase obligations	52,744	12,325	1,100	5,095			71,264
Distribution and marketing commitments	25,205	20,000					45,205
	\$ 90,348	\$ 41,967	\$ 5,264	\$ 5,549	\$ 42	\$	\$ 143,170

Purchase obligations relate to the purchase of film rights for future delivery, future film production and development obligations. Amounts due during the nine months ending March 31, 2006 of \$90.3 million are expected to be paid through cash generated from operations or from the available borrowing capacity from our revolving credit facility with JP Morgan.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.**Currency and Interest Rate Risk Management**

Market risks relating to our operations result primarily from changes in interest rates and changes in foreign currency exchange rates. Our exposure to interest rate risk results from the financial debt instruments that arise from transactions entered into during the normal course of business. As part of our overall risk management program, we evaluate and manage our exposure to changes in interest rates and currency exchange risks on an ongoing basis. Hedges and derivative financial instruments will be used in the future in order to manage our interest rate and currency exposure. We have no intention of entering into financial derivative contracts, other than to hedge a specific financial risk.

Currency Rate Risk. We incur certain operating and production costs in foreign currencies and are subject to market risks resulting from fluctuations in foreign currency exchange rates. Our principal currency exposure is between Canadian and U.S. dollars. The Company enters into forward foreign exchange contracts to hedge foreign currency exposures on future production expenses denominated in Canadian dollars. As of June 30, 2005, we had outstanding contracts to sell US\$11.6 million in exchange for CDN\$14.9 million over a period of fourteen weeks at a weighted average exchange rate of CDN\$1.2889. Changes in the fair value representing an unrealized fair value gain on foreign exchange contracts outstanding during the three months ended June 30, 2005 amounted to \$0.2 million and are included in accumulated other comprehensive income (loss), a separate component of shareholders' equity. During the three months ended June 30, 2005, we completed foreign exchange contracts denominated in Canadian dollars. The net losses resulting from the completed contracts were \$0.2 million. These contracts are entered into with a major financial institution as counterparty. We are exposed to credit loss in the event of nonperformance by the counterparty, which is limited to the cost of replacing the contracts, at current market rates. We do not require collateral or other security to support these contracts.

Interest Rate Risk. Our principal risk with respect to our debt and other financing obligations is interest rate risk, to the extent not mitigated by interest rate swaps. We currently have minimal exposure to cash flow risk due to changes in market interest rates related to our outstanding debt and other financing obligations. Our credit facility has a nil balance at June 30, 2005 and any future balance up to \$100 million will be mitigated by interest rate swaps. Other financing obligations subject to variable interest rates include \$14.6 million owed to film production entities on delivery of titles.

The Company entered into a \$100 million interest rate swap at an interest rate of 3.08%, commencing January 2003 and ending September 2005. The swap is in effect as long as three month LIBOR is less than

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5.0%. Fair value of the interest rate swap at June 30, 2005 is \$0.1 million (March 31, 2005 \$0.1 million). Changes in the fair value representing a fair valuation loss on the interest rate swap during the three months ended June 30, 2005 amount to less than \$0.1 million (2004 gain of \$1.6 million) and are included in the condensed consolidated statements of operations. This contract is entered into with a major financial institution as counterparty. The Company is exposed to credit loss in the event of nonperformance by the counterparty, which is limited to the cost of replacing the contract, at current market rates. The Company does not require collateral or other security to support this contract.

A subsidiary of the Company entered into a CDN\$20 million interest rate swap at a fixed interest rate of 5.62%, commencing September 2003 and ending September 2008. The subsidiary entered into the interest rate swap as a condition of its loan which states the interest rates under the facility are to be fixed either by way of a fixed rate term loan or by way of an interest rate swap. During the three months ended June 30, 2005, the subsidiary recorded interest expense of \$0.3 million (2004 \$0.3 million), including amounts incurred under the interest rate swap, that approximates the amount they would have paid if they had entered into a fixed rate loan agreement. Fair value of the interest rate swap at June 30, 2005 is negative \$0.7 million (March 31, 2005 negative \$0.3 million). Change in the fair value representing a fair valuation loss on the interest rate swap for the three months ended June 30, 2005 amount to \$0.3 million (2004 gain of \$0.5 million) and is included in the condensed consolidated statements of operations. This contract is entered into with a major financial institution as counterparty. The subsidiary is exposed to credit loss in the event of nonperformance by the counterparty, which is limited to the cost of replacing the contract, at current market rates.

The table below presents repayments and related weighted average interest rates for our interest-bearing debt and other obligations as of June 30, 2005.

	Year Ended March 31,						
	2006	2007	2008	2009	2010	Thereafter	Total
	(Amounts in thousands)						
Film obligations							
Film productions:							
Variable(1)	\$ 2,609	\$ 7,933	\$	\$ 4,080	\$	\$	\$ 14,622
Subordinated notes:							
Fixed(2)						60,000	60,000
Fixed(3)						150,000	150,000
Fixed(4)						175,000	175,000
Mortgages payable:							
Fixed(5)	2,401	897	1,656	13,155			18,109
	\$ 5,010	\$ 8,830	\$ 1,656	\$ 17,235	\$	\$ 385,000	\$ 417,731

(1) Amounts owed to film production entities on delivery of titles. The film production entities incurred average variable interest rates at June 30, 2005 of U.S. prime minus 1.76%.

(2) 4.875% Notes with fixed interest rate equal to 4.875%.

(3) 2.9375% Notes with fixed interest rate equal to 2.9375%.

(4) 3.625% Notes with fixed interest rate equal to 3.625%.

(5) Mortgages payable on the studio facility. Fixed interest rate equal to 5.62% to 7.51%.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The term disclosure controls and procedures is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Exchange Act). These rules refer to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time

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periods. As of June 30, 2005, the end of the period covered by this report, the Company carried out an evaluation under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that such controls and procedures were not effective because we are still in the process of remediating the material weaknesses described below.

As previously disclosed in our Annual Report on Form 10-K for 2005, management identified material weaknesses in internal controls over financial reporting related to the following areas:

Calculating participations expense and related liabilities for financial reporting purposes

Calculating amortization of investment in film and television programs

Monitoring certain charges billed to us by our outsourced home entertainment distribution service provider

Financial statement close process

Notwithstanding these material weaknesses, there were no restatements of any previously issued financial statements of the Company as a result of these identified control deficiencies.

Changes in Internal Control over Financial Reporting

As disclosed in our Annual Report on Form 10K for 2005, the Company has implemented an action plan to remediate the material weaknesses described above. During the quarter we continued to add accounting resources, implemented review procedures, and continued to improve our processes and controls. Management intends to further implement its action plan, remediate these material weaknesses and improve our processes and control procedures.

No other changes to internal control over financial reporting have come to our management's attention during the three months ended June 30, 2005 that have materially adversely affected, or are reasonably likely to materially adversely affect the Company's internal control over financial reporting.

PART II

Item 1. *Legal Proceedings*

None.

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

None.

Item 3. *Defaults Upon Senior Securities*

None.

Item 4. *Submission of Matters to a Vote of Security Holders*

None.

Item 5. *Other Information*

On August 8, 2005 the Board of Directors: (1) granted 12,500 restricted share units to each of Harald Ludwig and Hardwick Simmons, both of whom joined the Board on June 30, 2005 and each of whom is a non-employee director; (2) granted 37,500 common shares to Harry Sloan our former Chairman; and (3) cancelled options to purchase 150,000 common shares previously granted to Harry Sloan.

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Item 6. Exhibits

Exhibits filed for Lions Gate through the filing of this Form 10-Q.

Exhibit Number	Description of Documents
10.6	Director Compensation Summary.
31.1	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of CEO and CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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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.

LIONS GATE ENTERTAINMENT CORP.

By: /s/ James Keegan

Name: James Keegan

Title: Chief Financial Officer

Date: August 9, 2005