

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

BARBARA FREEDMAN,
Individually and On Behalf of All
Others Similarly Situated,

Plaintiff,

v.

JOHN C. MALONE, ROBERT
BENNETT, STARZ, GREGORY
MAFFEI, CHRIS ALBRECHT, IRVING
AZOFF, ANDREW T. HELLER,
SUSAN LYNE, JEFF SAGANSKY,
DAN SANCHEZ, CHARLES TANABE,
ROBERT WEISENTHAL, ORION
ARM ACQUISITION INC., and LIONS
GATE ENTERTAINMENT CORP.,

Defendants.

C.A. No.

**VERIFIED STOCKHOLDER
CLASS ACTION COMPLAINT**

Plaintiff Barbara Freedman (“Plaintiff”), by her attorneys, brings this Verified Stockholder Class Action Complaint (“Complaint”) on her own behalf and on behalf of all Series A common stock holders of Starz, a Delaware corporation (the “Company”), other than Defendants (as defined below) and their affiliates, against Starz’s board of directors (the “Board” or the “Director Defendants”) and certain other individuals and entities for breaching their respective fiduciary duties and/or aiding and abetting those breaches of fiduciary duty in connection with the sale of

the Company to Lions Gate Entertainment Corp. (“Lions Gate”) in a cash and stock transaction. The allegations in this Complaint are based upon Plaintiff’s personal knowledge as to herself, and upon information and belief and investigation of counsel as to all other allegations herein, as follows:

NATURE OF THE ACTION

1. This is a class action lawsuit brought on behalf of the stockholders of Starz Series A common stock for damages and other relief concerning the proposed acquisition of the Company pursuant to the terms of the Agreement and Plan of Merger (“Merger Agreement”) dated June 30, 2016 (the “Proposed Transaction”). The deal has been orchestrated by Defendant John C. Malone (“Malone”), the billionaire media titan and controller of the Liberty Global Media empire, who stands on both sides of the Proposed Transaction. He will receive lucrative benefits not available to Starz Series A minority stockholders.

2. Malone has a long history with Starz. Prior to 2013, Starz was part of Malone’s Liberty Global Media empire. In January 2013, Liberty Media Corporation (“Liberty”) announced a spin-off of Starz (the “Spin-Off”). As a result, Liberty and Starz became separate public companies each with stock trading on the NASDAQ.

3. In a February 2015 stock swap, the Malone-controlled Liberty swapped 4.5% of Starz stock for 3.4% of Lions Gate’s shares, and Malone was appointed to the Lions Gate Board of Directors. At the time, Starz CEO Chris

Albrecht (“Albrecht”) called the two companies “kissing cousins” as investors began to speculate that a larger deal between the two was inevitable. With the Proposed Transaction, the family patriarch – Malone – has forced a marriage between these “kissing cousins” that gives him value for his interest in Starz at the expense of the Starz minority stockholders and will give him substantial power and influence over the combined entity, while Starz’s minority shareholders will be left with unfair value and no voice in the combined entity.

4. On June 30, 2016, Lions Gate announced that it had agreed to acquire Starz, in the Proposed Transaction valued at \$4.4 billion including debt. This acquisition is complicated and involves a number of steps. First, each Lions Gate common share will be split (the “Reclassification”) into 0.5 shares of a newly issued class of voting shares (“LG Voting Stock”) and 0.5 shares of a newly issued class of non-voting shares (“LG Nonvoting Stock”). Then, Orion Arm Acquisition Inc., an indirect wholly-owned subsidiary of Lions Gate (“Orion Arm”), will merge with and into Starz, with Starz continuing as the surviving corporation and becoming an indirect wholly-owned subsidiary of Lions Gate (the “Merger”). In the Merger, Starz’s Series A shares will be converted into the right to receive \$18 per share in cash and 0.6784 of a share of LG Nonvoting Stock (the “Proposed Series A Consideration”) Starz’s Series B shares, of which Malone controls 89%, will be converted into the right to receive \$7.26 per share in cash, 0.6321 shares of LG

Voting Stock and 0.6321 shares of LG Nonvoting Stock (the “Proposed Series B Consideration”).

5. Based on the closing market price of Lions Gate shares on June 29, 2016 (\$20.94), the value of the Proposed Series A Consideration is \$32.21 per share, which represents a premium of only 14.0% to the closing price of Starz Series A shares that day, and the value of the Proposed Series B Consideration is \$33.73 per share, which represents a premium of 20.6% to the closing price of Starz Series B shares that day. This value disparity will increase post transaction as analytical studies have demonstrated that a company’s voting shares generally trade at a premium to the same company’s non-voting shares.

6. The Proposed Transaction is expected to close before the end of 2016. The approval of the Merger Agreement is contingent on: (a) approval by a majority of the voting power of Starz Series A and Series B shares voting together, (b) approval of the Reclassification by a two-thirds majority of Lions Gate common stock, and (c) approval of the issuance of new Lions Gate shares (both voting and non-voting) by a simple majority of Lions Gate shares.

7. The Proposed Transaction combines a movie studio -- Lions Gate -- and a growing cable channel -- Starz, which, in the words of Reuters Breakingviews, “has moved from an also-ran to a formidable play in just the last few years.” The Malone-orchestrated deal preys on Starz’s depressed stock price at a time when its

new original programming lineup is just beginning. Reuters Breakingviews summarized the deal as having “Malone’s fingerprints all over it” with a “complex structure, new governance-skewing nonvoting stock and more influence for Malone.” Reuters also concludes that “Starz shareholders should not be surprised at the modest premium of the offer” and that “[i]t is classic for Mr. Malone to wrap a smart deal in a complicated structure that is good for him.”

8. Malone has structured the deal in such a way that Liberty – which he dominates – will maintain in the combined entity voting power that is disproportional to its economic interest via a dual-class equity structure that strips Starz Series A stockholders of their voting power.

9. As described herein, the Proposed Transaction is rife with conflict and has been orchestrated for the sole benefit of Malone, his close affiliate, Defendant Robert “Dob” Bennett (“Bennett”), and Malone’s Liberty Global Media empire. Each member of the Starz Board – which unanimously approved the deal – is either conflicted by affiliation with Malone-related enterprises or was appointed to the Board by Liberty (i.e. Malone) at the time of the Spin-Off. As of March 31, 2016, Malone controls 48.1% of Starz voting power and 10.2% of Lions Gate voting power through various Liberty entities. Bennett, who owns 6.9% of the Starz Class B shares, controls 3.6% of Starz voting power. Lions Gate owns 26.3% of Starz Series

B shares as to which it shares dispositive and voting power (15% of Starz voting power) with Malone.

10. Lions Gate also entered into a Stock Exchange Agreement (the “Exchange Agreement”) with certain Starz stockholders, including Malone and Bennett (collectively, the “Exchange Stockholders”) who control approximately 69.9% of the total voting power of Starz Series B Common Stock. Combined with Starz Series B shares owned by Lions Gate, the Exchange Stockholders control 51.7% of the total voting power of Starz.

11. The Proposed Transaction is subject to entire fairness review.

12. If the Merger Agreement is terminated by either Lions Gate or Starz due to failed stockholder approvals, the Exchange Stockholders *will still be able to sell* their block of Starz Series B shares to Lions Gate for consideration consisting of \$7.26 in cash and 1.2642 newly issued shares of Lions Gate Common Stock. Furthermore, at the election Malone, or if Lions Gate does not receive the required stockholder approval to issue the new shares under the Reclassification, the Exchange Stockholders will instead receive per share consideration of \$36.30 in cash for each Starz Series B Common Share (the “Series B Alternate Consideration”), an amount 7.6% higher than the value of the Proposed Series B Consideration based on the closing market price of Lions Gate shares on June 29, 2016. This excess benefit is reserved strictly for the Exchange Stockholders, including Malone and Bennett.

13. Notably, Plaintiff and other Starz Series A stockholders *currently have voting rights associated with their shares*. However, once the Proposed Transaction is consummated, these shareholders will maintain equity ownership of the combined entity, *but will be stripped of all of their voting rights*.

14. As described below, the Merger Agreement also contains deal protection devices that, because of Malone's and Bennett's control, are simply window dressing. For example, under the Merger Agreement, Defendants agreed to: (a) a no solicitation covenant and (b) a termination fee of \$150 million under certain circumstances. These provisions preclude the fictive possibility that the Starz Board would investigate and pursue superior proposals and alternatives, including a sale of all or part of Starz.

15. Because of the Board's breaches of its fiduciary duties, Plaintiff and the Class (defined below) have been and will be damaged. Plaintiff and the Class will not only fail to receive fair value for their Starz shares, but they will also be stripped of any voting rights in the combined company.

16. Plaintiff and the other members of the Class are immediately threatened by the wrongs complained of herein, and lack an adequate remedy at law.

17. Plaintiff seeks relief from the Defendants – who are aided and abetted by Starz, Malone, Bennett, Lions Gate and Orion Arm – for inequitably and

unlawfully depriving Plaintiff and the Class of their rights to realize full and fair value for their Starz stock.

THE PARTIES

18. Plaintiff has been a Class A stockholder of Starz since February 1996 and has held shares and will continue to hold shares at all times relevant to this action.

19. Defendant Starz is a corporation duly organized and existing under the laws of the state of Delaware, with its principal executive offices located at 8900 Liberty Circle, Englewood, CO 80112. Through its subsidiaries, Starz operates as a worldwide media and entertainment company. The Company, through its Starz Networks and Starz Distribution segments, provides premium subscription video programming to cable operators, satellite television providers, telecommunications companies, and online video providers. Starz also develops, produces, acquires, and distributes entertainment content. The Company's flagship networks, STARZ and ENCORE, are available for subscription in approximately 113 million households in the United States. Starz serves 55.8 million subscribers. The Company also operates a movie company called Movieplex and it distributes DVDs under the Anchor Bay brand. Shares of Starz Series A and Series B common stock trade under symbols "STRZA" and "STRZB", respectively, on the NASDAQ.

20. Defendant Malone is the Chairman of Liberty Media Corporation and Liberty Interactive Corporation. He also sits on the Board of Directors and holds

substantial financial interests in Lions Gate, Charter Communications, Inc., Discovery Communications, Inc., Expedia, Inc. and Liberty Broadband Corp. Malone has also been a Director of Liberty TripAdvisor Holdings, Inc., Sirius XM Radio, Live Nation Entertainment, Inc. (where he was also interim chairman of the board from 2010-2011), DIRECTV, IAC/InteractiveCorp and Discovery Holding Co., among others. As of March 31, 2016, Malone controlled 48.1% of total Starz voting power and 10.2% of Lions Gate through various entities tied to Liberty. Malone bears a fiduciary responsibility to Starz stockholders because he has effective control of the Company through his substantial voting power of Starz common stock.

21. Defendant Bennett is the former President/CEO of Liberty Media Corp. and is currently the principal in an investment firm, Hilltop Investments. Bennett is currently on the board of Liberty Media and other companies in which Malone has a controlling and/or significant interest. According to Starz's proxy statement, Bennett as a beneficial owner of 678,015 Series B shares, representing total Starz voting power of 3.6%. Together, Defendants Malone and Bennett control approximately 69.9% of the total voting power of Starz Series B Common Stock.

22. Defendant Gregory Maffei is Chairman of the Starz Board of Directors and has been a member of the board and its Executive Committee since 2013. Maffei is also the President and CEO of Liberty, Liberty Interactive Corporation and Liberty Broadband Corporation and Chairman, President and CEO of Liberty TripAdvisor

Holdings, Inc. Maffei is long-time lieutenant and right-hand man of Malone. Maffei is Chairman of the Board of Live Nation Entertainment, Inc. (“Live Nation”); Liberty owns 34.3% of Live Nation’s stock. Maffei received compensation valued at \$334,000 for serving as chairman of Live Nation’s board in 2015. Maffei received total compensation from Liberty of approximately \$3.6 million, \$41.6 million and \$12.1 million in 2013, 2014 and 2015, respectively. Malone effectively controls his employment and continued compensation.

23. Defendant Chris Albrecht is the CEO of Starz and a member of the Board and its Executive Committee. Albrecht was appointed to the Board by Liberty at the time of the Spin-Off. During the same week the Proposed Transaction was announced, Albrecht signed a new contract with the Company, extending his employment through 2020, and also became President of Starz. Along with this promotion, Albrecht received a raise, increasing his annual base salary from \$1.25 million to \$1.5 million. Albrecht is the former CEO of HBO and was a long-time executive at Time Warner. Albrecht received total compensation from Starz of approximately \$30.5 million, \$2.5 million and \$2.4 million in 2013, 2014 and 2015, respectively. Malone effectively controls his employment and continued compensation.

24. Defendant Irving Azoff has been a member of the Board and the Nominating and Governance Committee since 2013. Defendant Azoff was appointed to the Board by Liberty at the time of the Spin-Off. Azoff was the CEO of

Ticketmaster Entertainment, Inc. until it was acquired by Live Nation Entertainment in 2010.

25. Defendant Andrew T. Heller has been a member of the Board since 2013. He has been on the Audit Committee since 2013 and the Chair of the Nominating and Governance Committee since 2014. Heller is a former HBO and Time Warner Cable executive who worked alongside Albrecht in those positions. Heller was appointed to the Board by Liberty at the time of the Spin-Off.

26. Defendant Susan Lyne has been a member of the Board since 2013. She is also a member of the Nominating and Governance Committee and the Chair of the Compensation Committee. Defendant Lyne was appointed to the Board by Liberty at the time of the Spin-Off.

27. Defendant Jeff Sagansky has been a member of the Board since 2013. He is also a member of the Audit and Compensation Committees of the Board. Defendant Sagansky was appointed to the Board by Liberty at the time of the Spin-Off. Sagansky is a former Director of Lions Gate.

28. Defendant Dan Sanchez has been a member of the Board since 2013. Defendant Sanchez, who is Malone's nephew, was appointed to the Board by Liberty at the time of the Spin-Off.

29. Defendant Charles Tanabe has been a member of the Board since 2013. He was appointed to the Board by Liberty at the time of the Spin-Off. He has served

as an Executive Vice President and the General Counsel of Malone-controlled Liberty Media Corporation and Liberty Interactive Corporation. The amount and configuration of his compensation from Liberty Media, which is controlled by Malone, is not a matter of public record.

30. Defendant Robert S. Weisenthal has been a member of the Board since 2013. He was appointed to the Board by Liberty at the time of the Spin-Off. He is the Chair of the Audit Committee and a member of the Compensation Committee. Weisenthal also previously served as a Managing Director and head of Credit Suisse First Boston's Entertainment and Digital Media practices. Credit Suisse served as a financial advisor to Lions Gate for the Proposed Transaction. Weisenthal currently serves on the Board of Directors at TripAdvisor, Inc., a publicly-traded company in which Malone controls a majority of the voting power.

31. Defendants named in paragraphs 22-30 are collectively referred to herein as the "Director Defendants" or the "Board."

32. Defendant Lions Gate is a Canadian corporation headquartered at 2700 Colorado Avenue, Santa Monica, California 90404. Lions Gate engages in motion picture production and distribution, television programming and syndication, home entertainment, branded channel platforms, interactive ventures and games, and location-based entertainment worldwide. The company operates through two

segments – Motion Pictures and Television Production. Lions Gate trades on the New York Stock Exchange under the symbol “LGF.”

33. Defendant Orion Arm is a Delaware corporation and an indirect wholly-owned subsidiary of Lions Gate. Defendants caused Orion Arm to be formed on or about June 10, 2016 for purposes of effecting the Proposed Transaction.

CLASS ACTION ALLEGATIONS

34. Plaintiff brings this action on behalf of herself and a class, consisting of all common stockholders of Starz Series A shares or their successors in interest, who are being and will be harmed by Defendants’ actions described in this Complaint (the “Class”). Excluded from the Class are Defendants herein and any person, firm, trust, corporation, or other entity related to or affiliated with any of the Defendants.

35. This action is properly maintainable as a class action because:

(a) The Class is so numerous that joinder of all members is impracticable. According to the Company’s most recent 10-Q filed with the United States Securities and Exchange Commission (“SEC”) on April 28, 2016, there were over 88 million shares of Starz Series A common stock issued and outstanding as of March 31, 2016, of which approximately 95% appear to be held by Class members. There are likely tens of thousands of

unaffiliated beneficial holders of Starz Series A common stock throughout the United States.

(b) There are questions of law and fact that are common to the Class, including, *inter alia*, the following:

(i) whether Defendants have engaged, or are continuing to act, in a manner calculated to benefit Malone, Bennett and Lions Gate at the expense of Starz unaffiliated Series A stockholders; and

(ii) whether Defendants breached their fiduciary duties to Plaintiff and the Class, or aided and abetted such breaches of fiduciary duty.

(c) Plaintiff is committed to prosecuting this action and has retained competent counsel experienced in litigation of this nature. Plaintiff's claims are typical of the claims of the other members of the Class and Plaintiff has the same interests as the other members of the Class. Accordingly, Plaintiff is an adequate representative of the Class and will fairly and adequately protect the interests of the Class.

(d) The prosecution of separate actions by individual members of the Class would create the risk of inconsistent or varying adjudications with respect to individual members of the Class, which would establish

incompatible standards of conduct for Defendants, or adjudications with respect to individual members of the Class which would, as a practical matter, be dispositive of the interests of the other members not parties to the adjudications or substantially impair or impede their ability to protect their interests.

(e) Defendants have acted, or refused to act, on grounds generally applicable to, and causing injury to, the Class and, therefore, preliminary and final injunctive relief on behalf of the Class as a whole is appropriate.

SUBSTANTIVE ALLEGATIONS

Background

36. Starz is the largest independent television company in the world with 87 shows on 42 networks in the United States. The Company has 16,000 film and television titles in its library, and 30 channels delivered to 33 countries. Starz spun off from Liberty Media Corporation, a company where Malone serves as Chairman of the Board, in January 2013. Malone controls 48.1% of Starz voting power. Bennett controls 3.6% of Starz voting power.

37. Lions Gate is a motion picture and television company with a presence in motion picture production and distribution, television programming and syndication, home entertainment, international distribution and sales, branded channel platforms, interactive ventures and games, and location-based entertainment.

38. Malone's interest in combining Starz and Lions Gate began in early 2015, when he exchanged a 4.5% stake in Starz for 3.4% of Lions Gate's shares while joining the Lions Gate board of directors. At that time and afterwards, many industry analysts concluded this was the start of Malone's attempt to combine the two companies. The New York Times noted that the deal was "orchestrated by Mr. Malone, a savvy deal maker constantly tinkering with the makeup of his empire." Michael J. de la Merced, *John Malone Takes a Stake and a Board Seat at*

Lionsgate, NY Times (Feb. 11, 2015). “The transaction raises the prospects of a bigger one between the two companies down the line....” *Id.*

39. In June 2015, Malone told reporters on the sidelines of the annual meeting of his investment holding companies that “Lions Gate could buy Starz and potentially other free radicals in the industry.” Shalini Ramachandran and Ben Fritz, *Cable Titan Eyes Consolidation --- In Face of Web’s Threat, Liberty’s Malone Envisions Mergers between Studios and Channels*, The Wall Street Journal (June 5, 2015).

40. In November 2015, Lions Gate reached a deal in principle for Discovery Communications and Liberty Global — both which have Malone as their largest shareholder — to each take a 3.4% stake in Lions Gate for \$195 million in cash. The LA Times reported that “[e]arlier this year, Malone acquired a minority stake in Lionsgate through a stock swap with the premium cable service Starz, which Malone also backs. Last summer, Malone hinted that a future tie-up between Starz and Lionsgate was possible. Sources have said that those two companies have held merger talks but the rich valuations of both firms has [*sic*] complicated the deal making.” Meg James and Ryan Faughnder, *Lionsgate sells 6.8% stake to John Malone’s Liberty Global and Discovery*, LA Times (Nov. 10, 2015). “As part of Tuesday’s deal, Discovery Chief Executive David Zaslav and Liberty Global Chief Executive Mike Fries will join Lions Gate’s board of directors.” *Id.*

41. The Wall Street Journal reported that these moves indicated that “Mr. Malone wants a bigger piece of Lions Gate. That has fueled investor speculation he is preparing to advance his vision of consolidating smaller content owners, much as he has done with cable providers through his investment in Charter Communications. This could come in the form of a deal between Lions Gate and premium channel Starz in which he also has a stake.” *Heard on the Street*, The Wall Street Journal (Nov. 11, 2015).

The Announcement of the Proposed Transaction

42. On June 30, 2016, Starz and Lions Gate issued a joint press release announcing that Lions Gate would acquire Starz for a combination of cash and stock totaling \$4.4 billion including debt. Under the terms of the Proposed Transaction, Lions Gate will implement the Reclassification which will be followed by the Merger.

43. Based on the closing prices of Lions Gate and Starz Series A and Series B shares on the day prior to the announcement of the Proposed Transaction, the Proposed Series A Consideration represents a premium of 14.0%, and the Proposed Series B Consideration represents a premium of 20.6%. The ultimate consideration paid to Starz shareholders, however, will be dependent upon how shares of LG Voting Shares and LG Nonvoting Shares trade after the Reclassification. Analytical studies have demonstrated that a company’s voting shares generally trade at a

premium to the same company's non-voting shares. Therefore, the Proposed Series B Consideration – which includes LG Voting Shares and benefits Malone – will likely have an even greater premium in comparison to the Proposed Series A Consideration – which does not include LG Voting Shares. Thus, the dual-class voting structure of the combined entity under the Merger Agreement will further benefit Malone, Bennett and Voting Shares while devaluing the economic stakes of Starz' Series A minority stockholders.

44. After the announcement, many analysts concluded that the deal was unlikely to add value to either Starz or Lions Gate, but that it would be very beneficial to Malone. For example, the Wall Street Journal wrote that this combination was unlikely to solve either company's problems, but it did help to realize Malone's "dream for a roll-up of a number of smaller media companies":

While access to Lions Gate's content could help Starz boost ratings and affiliate fees in the long term, it may not immediately help the company's bargaining position with pay-TV providers. Starz's deal with Walt Disney is ending, with content expected to roll off next year. And its move to launch a standalone streaming service in April could prompt backlash from pay-TV providers in coming affiliate-renewal deals. Starz's deal with AT&T's DirecTV, up for renewal this year, will be the first test of its staying power.

For Lions Gate, one of the key advantages of being a pure-play content company has been the ability to sell its output to the highest bidder. Anchoring itself to one network, particularly a struggling one like Starz, could prevent it from selling to other networks or streaming services such as Netflix. Lions Gate has also been struggling financially due to poor theatrical performance. Its shares have fallen 36% since the beginning of the year.

Granted, Lions Gate isn't paying too dearly for Starz, which traded above the purchase price earlier this year. The deal values the network at 8.6 times 2017 estimates for earnings before interest, taxes, depreciation and amortization versus 7.3 times for AMC Networks and 8.9 times for HBO owner Time Warner. This could also be the beginning of Mr. Malone's dream for a roll-up of a number of smaller media companies, such as AMC or Discovery Communications, which Mr. Malone also controls, into one. But that remains a dream.

For investors, combining the two companies may not solve the problems that Lions Gate and Starz face alone.

Miriam Gottfried, *Lions Gate's Latest Deal May Be Starz-Crossed*, The Wall Street Journal (June 30, 2016).

45. The New York Times pointed out another benefit for Malone -- the deal would give him and one of his fellow Lions Gate board members, Mark Rachesky ("Rachesky"), the Chair of that company's board, a "near-controlling [voting] block wielding more than one-third of the votes with barely more than one-quarter of all shares" in Lions Gate:

Lionsgate plans to create a new class of nonvoting shares. That is what the regular owners of Starz will get along with their cash. Holders of supervoting Starz shares, like Mr. Malone, will receive less cash, but half of their Lionsgate shares will carry voting rights.

This helps to explain why Mr. Malone and other central figures look set to land on their feet. Lionsgate's chairman, Mark Rachesky, owns just over 20 percent of the company. His shareholding will be diluted by the acquisition, but his voting interest will decline only slightly because nonvoting shares will go disproportionately to others.

By Breakingviews's reckoning, if you combine Mr. Rachesky's interest in Lionsgate with Mr. Malone's and those of Liberty Global and Discovery Communications, there will be a near-controlling block

wielding more than one-third of the votes with barely more than one-quarter of all shares. It is classic for Mr. Malone to wrap a smart deal in a complicated structure that is good for him.

Jennifer Saba and Richard Beales, *Lionsgate's Deal for Starz Bears Malone's Hallmarks*, NY Times (June 30, 2016).

46. Finally, Deadline reported that despite all of the complexity and uncertainty, one thing was certain – John Malone would profit: “With all of these uncertainties, is there anything on which you can depend? Well, there’s this. Whatever happens will work out well for Malone.” David Lieberman, *Does Lionsgate's Deal With Starz Make Sense? Yes, For John Malone*, Deadline (July 1, 2016).

The Proposed Transaction is Rife with Conflicts

47. The Proposed Transaction is rife with conflicts and has been orchestrated for the benefit of Defendants Malone and Bennett, and Malone’s Liberty Global Media empire. Malone controls 48.1% of Starz voting power and 10.2% of Lions Gate voting power through various Liberty-controlled entities. Lions Gate owns 26.3% of Starz Series B shares for which it shares dispositive and voting power with Malone. Consequently, the acquired and acquiring entities stand on both sides of the Proposed Transaction.

48. Each member of the Starz Board – which unanimously approved the deal – is either conflicted with Malone-related enterprises or was appointed to the

board by the Malone-controlled Liberty at the time of the Spin-Offs as set forth in paragraphs 22-30 above.

49. Pursuant to the Proposed Transaction, Lions Gate entered into the Exchange Agreement described in paragraph 10 above.

50. The Merger Agreement's termination provisions described in paragraph 12 above favor Malone and Bennett. At the sole direction of Malone, or in the event that Lions Gate stockholders do not approve the issuance of new shares under the Reclassification, Malone and Bennett will still be allowed to cash out of their Starz Series B shares for excess consideration while Plaintiff and other Starz Series A minority stockholders receive nothing.

51. Malone's control over the Starz Board enables him and Bennett – the Exchange Shareholders – to force Starz to accept the Proposed Transaction without securing approval from a supermajority of Starz stockholders. Starz's Certificate of Incorporation has a supermajority voting requirement for any “merger or consolidation of this Corporation with or into any other corporation....” If that provision applied here, Starz would require “at least 66 2/3% of the total voting power of the then outstanding Voting Securities entitled to vote thereon” to approve this transaction. There is an exception to this supermajority requirement, however, where “at least 75% of the members of the Board of Directors then in office have approved [it].” Here, since Malone controls the Starz Board, he was able to ensure

that a simple majority vote is all that will be necessary to approve the Proposed Transaction. Thus, Malone was able to engineer a stockholder vote where the 51.7% of the vote that he and Bennett control is, by itself, enough to approve the Proposed Transaction, thereby making it a *fait accompli*. Malone's control of the Board, thus, is a further mechanism through which he is able to control the stockholder vote.

52. Because the Exchange Shareholders control a majority of the voting power of Starz, the Exchange Agreement allows for the deal to proceed regardless of the outcome of the vote by the unaffiliated Starz Series A stockholders.

53. Notably, Starz Series A stockholders currently have voting rights associated with their shares. Once the Proposed Transaction is consummated, these shareholders will maintain equity ownership of the combined entity, *but will be stripped of their valuable voting rights*. In contrast, while the economic interest of Lions Gate Chairman Rachesky, who owns 20.5% of Lions Gate shares outstanding, will be diluted by the acquisition, his voting power in the combined entity will decline only slightly, and Malone's voting interest will significantly increase, further entrenching his power as illustrated in the graphic below:

What happens to control of Lions Gate shares if it buys Starz?			
	Total m	Voting m	Non-voting m
Existing shares are split into voting/non-voting ...	147.2	73.6	73.6
New shares are issued to Starz A holders ...	60.1	0.0	60.1
New shares are issued to Starz B holders ...	<u>12.5</u>	<u>6.2</u>	<u>6.2</u>
So this is the count for the enlarged Lions Gate	219.8	79.8	139.9
John Malone owns 3.4% of Lions Gate shares ...	5.0	2.5	2.5
He'll get a few more in exchange for Starz A shares ...	1.5	0.0	1.5
And a lot more in exchange for Starz B shares ...	<u>11.1</u>	<u>5.5</u>	<u>5.5</u>
So he'll end up with this many altogether	17.6	8.0	9.6
The chairman and two friendly firms own more ...	<u>40.2</u>	<u>20.1</u>	<u>20.1</u>
Add Malone, and the block will hold this many ...	57.8	28.1	29.7
... With these ownership and voting stakes	26%	35%	



Source: Thomson Reuters Eikon, company filings
Richard Beales, Jennifer Saba, June 30, 2016

54. Additionally, Malone, Bennett and Albrecht will benefit from the Proposed Transaction in ways not shared by unaffiliated Starz Series A stockholders. At Malone's sole discretion, Malone and Bennett can elect to receive the Series B Alternate Consideration which is all-cash and 7.6% more than the Proposed Series B Consideration. Further, Defendant Chris Albrecht, CEO of Starz, signed a renewed employment agreement with Starz just one week prior to the announcement of the Proposed Transaction, and will maintain lucrative employment, including additional leadership roles in the combined company, through at least 2020.

Deal-Protection Devices

55. Even if the Proposed Transaction was not *a fait accompli* due to Malone's control over Starz, the Merger Agreement also contains preclusive deal protection devices that are not contemplated to benefit the Company or its stockholders, but are simply window dressing on the deal. For example, the Merger Agreement contains a no-solicitation covenant limiting the already conflicted board from actively seeking out a superior proposal. Section 5.2(a) of the Merger Agreement furthermore requires the Company to terminate any existing negotiations and/or confidentiality agreements that may lead to an alternative transaction.

56. Section 5.2(b) of the Merger Agreement states that the Company may only enter discussions or furnish any nonpublic Company information to another suitor seeking an alternative transaction if the Board of Directors of the Company – with its many ties to Malone – determines that the alternative proposal is likely to lead to a superior company proposal.

57. Section 5.2(d) of the Merger Agreement states that the Board of Directors of the Company may not change their recommendation to approve the Merger Agreement or approve any alternative proposal that would require it to terminate the Merger Agreement. The Board of Directors may only terminate the Merger Agreement if *all* of the following conditions are met:

- a. in the case of a Superior Company Proposal, such Superior Company Proposal has been made and has not been withdrawn and continues to be a Superior Company Proposal;
- b. the Company Stockholder Approval has not been obtained;
- c. the Board of Directors of the Company has determined in good faith that the failure to make an adverse recommendation change to terminate the Merger Agreement would reasonably be expected to constitute a breach of its fiduciary duties;
- d. the company has provided to Lions Gate four business days prior written notice indicating it has received a superior proposal; and
- e. the Company has complied with Section 5.2 of the Merger Agreement in all material respects.

58. The Merger Agreement also contains a termination fee of \$150 million whereby Starz will pay Lions Gate if (a) Starz terminates the agreement in order to pursue a superior transaction, (b) Lions Gate terminates the agreement because the Starz board changes its recommendation in favor of the transaction, (c) Lions Gate terminates the agreement because Starz materially breaches the no-solicitation

covenant, or (d) an alternative transaction proposal is made to Starz and the Merger agreement is terminated.

59. In connection with the Merger Agreement, Lions Gate, Starz and certain stockholders of Lions Gate entered into a series of voting agreements (the “Lions Gate Voting Agreements”) vowing to vote their shares in favor of the transactions contemplated in the Merger Agreement. The stockholders who entered into the Lions Gate Voting Agreements are Liberty Global, Discovery Lightning Investments, Malone and various investments funds related to Lions Gate Chairman Mark Rachesky. The total number of Lions Gate shares locked up in the Lions Gate Voting Agreements is 45,178,711 representing 30.7% of total Lions Gate shares outstanding. Furthermore, under the Lions Gate Voting Agreements, Lions Gate agreed to indemnify the applicable Lions Gate stockholders for losses relating to or arising out of the Lions Gate Voting Agreements, the Merger Agreement and the Exchange Agreement and, in the case of funds related to Rachesky, to pay up to \$1.6 million in reasonable out-of-pocket expenses.

60. In connection with the Merger Agreement, Lions Gate and Starz also entered into a voting agreement with LG Leopard Canada LP (“LGLC”), an indirect wholly owned subsidiary of Lions Gate, Malone and Bennett (the “Starz Voting Agreement”) who together hold 51.7% of the voting power of Starz stock. Under this agreement, the three Starz stockholders agreed to vote in favor of the Merger

Agreement. The stockholders also agreed to vote against any alternative proposal that might be made. Furthermore, under the Starz Voting Agreement, Lions Gate agreed to pay up to \$1.6 million in reasonable out-of-pocket expenses of the three stockholders for losses relating to or arising out of the Starz Voting Agreement, the Merger Agreement and the Exchange Agreement.

COUNT I

(Breaches of Fiduciary Duties Against Malone, Bennett and the Director Defendants)

61. Plaintiff incorporates by reference and re-alleges each and every allegation contained above as though fully set forth herein

62. By reason of the Director Defendants' positions with the Company as officers and/or directors, they are in a fiduciary relationship with Plaintiff and the other unaffiliated Series A stockholders of Starz and owe them, as well as the Company, duties of care and loyalty.

63. By reason of Defendants Malone's and Bennett's positions as controlling stockholders of Starz, they are in a fiduciary relationship with Plaintiff and the other unaffiliated Series A stockholders of Starz and owe them, as well as the Company, duties of care and loyalty.

64. By the acts, transactions and courses of conduct alleged herein, Malone, Bennett and the Director Defendants acted as part of a common scheme and plan to

benefit Malone, Bennett and Lions Gate while depriving Plaintiff and other members of the Class of the fair value and voting power of their investment in Starz.

65. Malone, Bennett and the Director Defendants dominate and control the business and corporate affairs of Starz and are in possession of private corporate information concerning Starz's assets, business, and future prospects. Thus, there exists an imbalance and disparity of knowledge and economic power between the Company and the unaffiliated shareholders of Starz, which makes it inherently unfair for Malone, Bennett and/or the Director Defendants to advance their own interests while not serving the best interests of the members of the Class.

66. By reason of the foregoing acts, practices, and course of conduct, Malone, Bennett and the Director Defendants have failed to exercise due care, loyalty, good faith and diligence in carrying out the fiduciary obligations they owe to Plaintiff and the other members of the Class.

67. As a result of the actions of Malone, Bennett and the Director Defendants, Plaintiff and the Class will suffer irreparable injury in that: (i) they have not and will not receive fair value for their investment in Starz; and (ii) they will be stripped of their voting rights.

68. Plaintiff and the members of the Class have no adequate remedy at law.

COUNT II

(Aiding and Abetting the Breaches of Fiduciary Duty Against Malone, Bennett, Lions Gate and Orion Arm)

69. Plaintiff incorporates by reference and re-alleges each and every allegation contained above as though fully set forth herein.

70. As described above, as members of the Board of Starz, the Director Defendants owed Starz Series A stockholders fiduciary duties of care and loyalty. Similarly, as controlling stockholders of Starz, Malone and Bennett owed Starz Series A stockholders fiduciary duties of care and loyalty.

71. As described above, Malone and Bennett (as controlling stockholders) and the Director Defendants (as Board members) breached the fiduciary duties they owed to unaffiliated Starz Class A stockholders with regard to the Merger Agreement and Proposed Transaction.

72. Lions Gate and Orion Arm aided and abetted the Director Defendants' breaches of their fiduciary duties as Starz Board members, and Malone's and Bennett's breaches of their fiduciary duties as controlling stockholders. To the extent they were not fiduciaries to Plaintiff and the Class, Malone and Bennett aided and abetted the Director Defendants' breaches of their fiduciary duties as Starz Board members.

73. As described above, Malone, Bennett, Lions Gate and Orion Arm participated in and received special treatment via the structure of the Merger

Agreement and Proposed Transaction. Lions Gate and Orion Arm were aware through their affiliations with Malone, Bennett and the Director Defendants, of the breaches of fiduciary duties by Malone, Bennett and the Director Defendants and knowingly assisted them. Malone and Bennett were aware of the breaches of fiduciary duty by the Director Defendants and knowingly assisted them.

74. As a direct and proximate result of Lions Gate's, Orion Arm's, Malone's and Bennett's knowing participation in the breaches of fiduciary duties, unaffiliated Starz Series A stockholders have suffered and will continue to suffer the injury summarized above.

75. As a result of the misconduct alleged herein, Malone, Bennett, Lions Gate and Orion Arm are liable to Starz Series A stockholders as aiders and abettors of the primary breaches of fiduciary duties identified above.

76. Plaintiff and members of the Class have no adequate remedy at law.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for judgment and relief as follows:

A. Declaring that this action is properly maintainable as a class action and certifying Plaintiff as the class representative;

B. Declaring that Defendants' conduct has been in breach of the fiduciary duties owed by Malone, Bennett and the Director Defendants to Starz and its Series A unaffiliated stockholders;

C. Rescinding, to the extent implemented, the Proposed Transaction or any of the terms thereof, or granting Plaintiff and the Class rescissory damages;

D. Directing Malone, Bennett and the Director Defendants to account to Plaintiff and the Class for all damages suffered as a result of their actions with respect to the Proposed Transaction;

E. Awarding Plaintiff the costs and disbursements of this action, including reasonable attorneys' fees and experts' fees; and

F. Granting such other and further relief as this Court may deem just and proper.

DATED: July 19, 2016

**ROSENTHAL, MONHAI &
GODDESS, P.A.**

/s/ Norman M. Monhait

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