

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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2015

☐ **OR**
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-35294

Starz

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

**8900 Liberty Circle
Englewood, Colorado**

(Address of principal executive offices)

20-8988475

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

80112

(Zip Code)

Registrant's telephone number, including area code: **(720) 852-7700**

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The number of outstanding shares of Starz's common stock as of September 30, 2015 was:

Series A	Series B
91,846,196	9,864,294

**STARZ
FORM 10-Q**

Table of Contents

	Part I	<u>Page</u>
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014 (Unaudited)	2
	Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2015 and 2014 (Unaudited)	3
	Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2015 and 2014 (Unaudited)	4
	Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 and 2014 (Unaudited)	5
	Condensed Consolidated Statement of Equity for the Nine Months Ended September 30, 2015 (Unaudited)	6
	Notes to Condensed Consolidated Financial Statements (Unaudited)	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	29
Item 4.	Controls and Procedures	29
	Part II	
Item 1.	Legal Proceedings	30
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	30
Item 6.	Exhibits	30

PART I

Item 1. Financial Statements

Starz and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited)

(in millions, except share and per share amounts)

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 17.0	\$ 13.4
Trade accounts receivable, net of allowances of \$27.2 and \$41.9	252.0	249.1
Program rights, net	347.0	303.5
Deferred income taxes	0.9	0.9
Other current assets	55.2	70.1
Total current assets	672.1	637.0
Program rights	306.1	311.3
Investment in films and television programs, net	290.8	319.5
Property and equipment, net of accumulated depreciation of \$136.2 and \$123.4	85.9	89.8
Deferred income taxes	22.6	—
Goodwill	131.8	131.8
Other assets, net (Note 8)	107.2	83.8
Total assets	\$ 1,616.5	\$ 1,573.2
Liabilities and Equity		
Current liabilities:		
Current portion of debt (Note 2)	\$ 5.5	\$ 5.3
Trade accounts payable	7.3	10.1
Accrued liabilities (Notes 5, 7 and 8)	205.5	327.4
Deferred revenue	9.1	7.4
Total current liabilities	227.4	350.2
Debt (Note 2)	1,162.7	1,174.2
Deferred income taxes	—	1.1
Other liabilities (Note 7)	5.4	7.9
Total liabilities	1,395.5	1,533.4
Stockholders' equity (Note 3):		
Preferred stock, \$.01 par value. Authorized 50,000,000 shares; no shares issued	—	—
Series A common stock, \$.01 par value. Authorized 2,000,000,000 shares; issued and outstanding 91,846,196 and 91,874,138 shares at September 30, 2015 and December 31, 2014, respectively	0.9	0.9
Series B common stock, \$.01 par value. Authorized 75,000,000 shares; issued and outstanding 9,864,294 and 9,872,524 shares at September 30, 2015 and December 31, 2014, respectively	0.1	0.1
Additional paid-in capital	—	24.0
Accumulated other comprehensive loss, net of taxes	(1.8)	(2.3)
Retained earnings	230.2	25.8
Total stockholders' equity	229.4	48.5
Noncontrolling interest in subsidiary	(8.4)	(8.7)
Total equity	221.0	39.8
Commitments and contingencies (Note 7)		
Total liabilities and equity	\$ 1,616.5	\$ 1,573.2

See accompanying notes to condensed consolidated financial statements.

Starz and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)
(in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue:				
Programming networks and other services	\$ 369.8	\$ 364.8	\$ 1,165.9	\$ 1,100.1
Home video net sales	34.3	43.4	106.6	138.2
Total revenue	404.1	408.2	1,272.5	1,238.3
Costs and expenses:				
Programming (including amortization) (Notes 4 and 7)	159.0	156.0	459.5	471.6
Production and acquisition (including amortization) (Note 5)	39.7	36.0	146.3	126.8
Home video cost of sales	9.2	18.9	29.6	41.6
Operating (Note 4)	15.2	13.7	40.9	40.4
Selling, general and administrative (Note 4)	74.4	81.4	227.1	227.4
Depreciation and amortization	4.8	4.9	14.3	14.9
Total costs and expenses	302.3	310.9	917.7	922.7
Operating income	101.8	97.3	354.8	315.6
Other income (expense):				
Interest expense, net of amounts capitalized (Note 2)	(11.5)	(11.4)	(34.0)	(34.7)
Other income (expense), net	(4.5)	(1.5)	(8.8)	10.0
Income before income taxes	85.8	84.4	312.0	290.9
Income tax expense (Note 6)	(26.3)	(28.6)	(103.4)	(99.3)
Net income	59.5	55.8	208.6	191.6
Net loss (income) attributable to noncontrolling interest	0.7	0.5	(0.4)	(0.3)
Net income attributable to stockholders	\$ 60.2	\$ 56.3	\$ 208.2	\$ 191.3
Basic net income per common share (Note 8)	\$ 0.59	\$ 0.54	\$ 2.06	\$ 1.79
Diluted net income per common share (Note 8)	\$ 0.56	\$ 0.51	\$ 1.95	\$ 1.69
Weighted average number of common shares outstanding (Note 8):				
Basic	101.3	104.7	101.3	106.6
Diluted	107.2	111.1	107.0	113.1

See accompanying notes to condensed consolidated financial statements.

Starz and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$ 59.5	\$ 55.8	\$ 208.6	\$ 191.6
Other comprehensive income (loss), net of taxes -				
Foreign currency translation adjustments from operations	0.1	—	0.7	(0.1)
Comprehensive income	59.6	55.8	209.3	191.5
Comprehensive loss (income) attributable to noncontrolling interest	0.6	0.5	(0.6)	(0.3)
Comprehensive income attributable to stockholders	<u>\$ 60.2</u>	<u>\$ 56.3</u>	<u>\$ 208.7</u>	<u>\$ 191.2</u>

See accompanying notes to condensed consolidated financial statements.

Starz and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(in millions)

	Nine Months Ended September 30,	
	2015	2014
Operating activities:		
Net income	\$ 208.6	\$ 191.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14.3	14.9
Amortization of program rights	426.8	438.4
Program rights payments	(350.2)	(348.0)
Amortization of investment in films and television programs	107.0	94.7
Investment in films and television programs	(285.0)	(267.4)
Stock compensation	24.5	22.9
Deferred income taxes	(15.3)	(15.1)
Other non-operating and non-cash items	(2.1)	(8.0)
Changes in assets and liabilities:		
Current and other assets	(1.1)	32.5
Payables and other liabilities	(39.0)	(49.3)
Net cash provided by operating activities	88.5	107.2
Investing activities:		
Purchases of property and equipment	(9.4)	(5.9)
Investment in and advances to equity investee	(3.8)	—
Cash received from equity investee	—	10.7
Net cash provided by (used in) investing activities	(13.2)	4.8
Financing activities:		
Borrowings of debt	769.0	366.5
Payments of debt	(779.9)	(234.6)
Debt issuance costs	(5.0)	—
Exercise of stock options	11.8	4.5
Minimum withholding of taxes related to stock compensation	(18.5)	(10.9)
Excess tax benefit from stock compensation	15.6	9.0
Repurchases of common stock	(64.7)	(226.6)
Net cash used in financing activities	(71.7)	(92.1)
Net increase in cash and cash equivalents	3.6	19.9
Cash and cash equivalents:		
Beginning of period	13.4	25.7
End of period	\$ 17.0	\$ 45.6

See accompanying notes to condensed consolidated financial statements.

Starz and Subsidiaries

Condensed Consolidated Statement of Equity

Nine Months Ended September 30, 2015

(Unaudited)

(in millions)

	Stockholders' Equity							
	Preferred Stock	Series A	Series B	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Noncontrolling Interest	Total Equity
Balance at December 31, 2014	\$ —	\$ 0.9	\$ 0.1	\$ 24.0	\$ (2.3)	\$ 25.8	\$ (8.7)	\$ 39.8
Net income	—	—	—	—	—	208.2	0.4	208.6
Other comprehensive income	—	—	—	—	0.5	—	0.2	0.7
Stock compensation	—	—	—	28.0	—	—	(0.3)	27.7
Stock issued upon exercise of stock options	—	—	—	11.8	—	—	—	11.8
Minimum withholding of taxes related to stock compensation	—	—	—	(18.5)	—	—	—	(18.5)
Excess tax benefit from stock compensation	—	—	—	15.6	—	—	—	15.6
Repurchases of common stock	—	—	—	(60.9)	—	(3.8)	—	(64.7)
Balance at September 30, 2015	\$ —	\$ 0.9	\$ 0.1	\$ —	\$ (1.8)	\$ 230.2	\$ (8.4)	\$ 221.0

See accompanying notes to condensed consolidated financial statements.

Starz and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2015

Note 1 - Basis of Presentation and Description of Business

Presentation

Starz, through its wholly-owned subsidiary Starz, LLC, provides premium subscription video programming to United States (“U.S.”) multichannel video programming distributors (“MVPDs”), including cable operators, satellite television providers and telecommunications companies. Starz also develops, produces and acquires entertainment content and distributes this content to consumers in the U.S. and throughout the world. The accompanying condensed consolidated financial statements include the accounts of Starz and its majority-owned and controlled subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for such periods have been included. The results of operations for any interim period are not necessarily indicative of results for the full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in Starz’s Annual Report on Form 10-K for the year ended December 31, 2014.

Business

Starz’s business operations are conducted by its wholly-owned subsidiaries Starz, LLC, Starz Entertainment, LLC (“Starz Entertainment”), Film Roman, LLC (“Film Roman”) and certain other immaterial subsidiaries, and its majority-owned (75%) subsidiary Starz Media Group, LLC (“Starz Media”). In October 2015, Starz, LLC acquired the 25% interest in Starz Media owned by The Weinstein Company LLC (“Weinstein”). Starz is managed by and organized around the following operating segments:

Starz Networks

Starz Networks’ flagship premium networks are STARZ and ENCORE. STARZ exhibits first-run hit movies and original series. ENCORE airs first-run movies, classic contemporary movies and original series. Starz Networks’ third network, MOVIEPLEX, offers a variety of art house, independent films and classic movie library content. STARZ and ENCORE, along with MOVIEPLEX, air across 17 linear networks complemented by on-demand and online services. Starz Networks’ premium networks are offered by MVPDs to their subscribers either on a fixed monthly price as part of a programming tier or package or on an a la carte basis.

Starz Distribution

Starz Distribution includes Starz’s Anchor Bay Entertainment, Starz Digital and Starz Worldwide Distribution businesses.

Anchor Bay Entertainment

Anchor Bay Entertainment sells or rents DVDs (standard definition and Blu-ray™) under the ANCHOR BAY brand, in the U.S., Canada and other international territories to the extent it has home entertainment rights to such content in international territories. Anchor Bay Entertainment acquires and licenses various titles from third parties and also develops and produces certain of its content. Certain of the titles acquired by Anchor Bay Entertainment air on Starz Networks’ STARZ and ENCORE networks. Anchor Bay Entertainment also distributes Starz Networks’ original series and Weinstein’s titles. Each of these titles are sold to and distributed by regional and national retailers and other distributors, including Amazon, Best Buy, Ingram Entertainment, Netflix, Redbox, Target and Wal-Mart.

Starz Digital

Starz Digital is the global digital and on-demand licensing arm of Starz and distributes content on pay-per-view, video-on-demand, subscription video-on-demand (“SVOD”), ad-supported video-on-demand (“AVOD”), electronic sell-through and other digital formats for Starz’s owned content, including Starz Networks’ original series, Weinstein’s titles and content licensed from third-parties in the U.S. and throughout the world to the extent it has rights to such content in international territories. Certain of the titles acquired by Starz Digital air on Starz Networks’ STARZ and ENCORE networks. Starz Digital receives fees for its content from a wide array of partners and distributors ranging from traditional MVPDs to online and mobile distributors.

Starz Worldwide Distribution

Starz Worldwide Distribution is the global television licensing arm of Starz and distributes movies, television series, documentaries, children’s programming and other video content. Starz Worldwide Distribution exploits Starz’s owned content, including Starz Networks’ original series, and content for which it has licensed rights on free or pay television in the U.S. and throughout the world on free or pay television and other media to the extent it has rights to such content in international territories. Starz Worldwide Distribution receives fees for its content primarily from various U.S. and international programming networks.

Starz Animation

Film Roman develops and produces two-dimensional animated content on a for-hire basis for various third party entertainment companies. In October 2015, Starz, LLC sold 100% of its wholly-owned subsidiary Film Roman, which makes up 100% of the Starz Animation operating segment.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Starz considers amortization of program rights, the development of the remaining unrecognized revenue estimates (also known as “Ultimate Revenue”) associated with released films, the assessment of investment in films and television programs for impairment, the fair value of goodwill and any related impairment, valuation allowances associated with deferred income taxes and allowances for sales returns to be its most significant estimates. Actual results may differ from those estimates.

Prior Period Reclassifications

Certain prior period amounts have been reclassified for comparability with the 2015 presentation.

Note 2 - Debt

Debt consisted of the following (*in millions*):

	September 30, 2015	December 31, 2014
2015 Credit Agreement (a)	\$ 425.0	\$ —
2011 Credit Agreement (b)	—	432.0
Senior Notes, including premium of \$2.1 and \$2.5 (c)	677.1	677.5
Capital leases (d)	66.1	70.0
Total debt	1,168.2	1,179.5
Less current portion of debt	(5.5)	(5.3)
Debt	\$ 1,162.7	\$ 1,174.2

- (a) On April 20, 2015, Starz, LLC entered into a credit agreement (“2015 Credit Agreement”) that provides for \$1,000.0 million in revolving loans with a \$50.0 million sub-limit for stand-by letters of credit. Net proceeds from the 2015 Credit Agreement were used to repay and terminate the 2011 Credit Agreement (as defined below). Borrowings under the 2015 Credit Agreement may be prepaid at any time and from time to time without penalty.

Starz and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2015

other than customary breakage costs. Any amounts prepaid on the 2015 Credit Agreement may be reborrowed. The 2015 Credit Agreement is scheduled to mature on April 20, 2020. As of September 30, 2015, Starz, LLC had \$575.0 million of borrowing capacity under the 2015 Credit Agreement.

Interest on each loan under the 2015 Credit Agreement is payable at either an alternate base rate or LIBOR at Starz, LLC's election. Borrowings that are alternate base rate loans bear interest at a per annum rate equal to the alternate base rate plus a margin that varies between 0.50% and 1.25% depending on the consolidated leverage ratio of Starz, LLC, as defined in the 2015 Credit Agreement. The alternate base rate is the highest of (a) the Prime Rate, (b) the Federal Funds Effective Rate plus ½ of 1% or (c) LIBOR for a one-month interest period plus 1%. Borrowings that are LIBOR loans bear interest at a per annum rate equal to the applicable LIBOR plus a margin that varies between 1.50% and 2.25% depending on the consolidated leverage ratio of Starz, LLC. The 2015 Credit Agreement requires Starz, LLC to pay a commitment fee on any unused portion. The commitment fee varies between 0.25% and 0.40%, depending on the consolidated leverage ratio of Starz, LLC.

As of September 30, 2015, the following borrowings and related LIBOR or alternate base rate interest rates were outstanding under the 2015 Credit Agreement (*dollars in millions*):

LIBOR or alternate base rate period:	Interest Rate	Loan Amount
September 2015 to October 2015	1.9543%	\$ 95.0
September 2015 to October 2015	1.9564%	301.0
September 2015 and forward	4.0000%	29.0
		<u>\$ 425.0</u>

The 2015 Credit Agreement contains certain covenants that include restrictions on, among others, incurring additional debt, paying dividends, entering into liens or guarantees, or making certain distributions, investments and other restricted payments. In addition, Starz, LLC must comply with certain financial covenants, including a consolidated leverage ratio, as defined in the 2015 Credit Agreement. As of September 30, 2015, Starz, LLC was in compliance with all covenants under the 2015 Credit Agreement.

- (b) On November 16, 2011, Starz, LLC entered into a credit agreement ("2011 Credit Agreement") that provided for \$1,000.0 million of revolving loans and a \$50.0 million sub-limit for standby letters of credit with a maturity date of November 16, 2016. On April 20, 2015, Starz, LLC repaid and terminated the 2011 Credit Agreement using borrowings under the 2015 Credit Agreement.
- (c) Starz, LLC and Starz Finance Corp., a wholly-owned subsidiary, co-issued \$675.0 million aggregate principal amount of 5.0% senior notes due September 15, 2019 ("Senior Notes"). The Senior Notes bear interest at a rate of 5.0% payable semi-annually on September 15 and March 15 of each year and are guaranteed by Starz Entertainment.

The Senior Notes contain certain covenants that include restrictions on, among others, incurring additional debt, paying dividends, entering into liens and guarantees, or making certain distributions, investments and other restricted payments. As of September 30, 2015, Starz, LLC was in compliance with all covenants under the Senior Notes.

- (d) On January 11, 2013, Starz, LLC entered into a commercial lease for its headquarters building. The term of the lease is ten years, with four successive five-year renewal periods at the option of Starz, LLC. Starz, LLC recorded a capital lease in connection with this lease agreement with an imputed annual interest rate of 6.4%.

Starz Entertainment has entered into capital lease agreements for its transponder capacity. The agreements expire during 2018 to 2021 and have imputed annual interest rates ranging from 5.5% to 7.0%.

At September 30, 2015, the fair value of the Senior Notes was \$680.0 million which was based upon quoted prices in active markets. Starz believes the fair value of the 2015 Credit Agreement approximates its carrying value as of September 30, 2015 due to its variable rate nature and Starz's stable credit spread.

Starz and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2015

Amounts totaling \$1.6 million, \$1.2 million, \$4.9 million and \$3.0 million of interest expense have been capitalized as investment in films and television programs during the three months ended September 30, 2015 and 2014 and the nine months ended September 30, 2015 and 2014, respectively.

Note 3 - Stockholders' Equity

Preferred Stock

Preferred stock is issuable, from time to time, with such designations, preferences and relative participating, optional or other rights, qualifications, limitations or restrictions thereof, as shall be stated and expressed in a resolution or resolutions providing for the issue of such preferred stock adopted by Starz's board of directors. As of September 30, 2015, no shares of preferred stock were issued.

Common Stock

Series A common stock has one vote per share and Series B common stock has ten votes per share. Each share of the Series B common stock is exchangeable at the option of the holder for one share of Series A common stock. The Series A and Series B common stock participate on an equal basis with respect to dividends and distributions.

As of September 30, 2015, there were 13.0 million shares of Series A common stock reserved for issuance under the exercise privileges of outstanding stock options. In addition to the Series A and Series B common stock, there are 2.0 billion shares of Series C common stock authorized for issuance.

Purchases of Common Stock

The Starz board of directors has authorized a total of \$800.0 million since January 2013 to repurchase Starz common stock. Starz used \$64.7 million of cash, including fees, to buy back 1.7 million shares of common stock under the share repurchase program during the nine months ended September 30, 2015. There was \$117.6 million remaining under the share repurchase program as of September 30, 2015.

Note 4 – Stock Options and Restricted Stock

Starz has granted to certain of its employees and directors, stock options to purchase Series A common stock, restricted shares of Series A common stock and restricted stock units pursuant to certain incentive plans.

Stock compensation expense, by expense category, consisted of the following *(in millions)*:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Programming costs	\$ 0.6	\$ 0.5	\$ 1.9	\$ 1.5
Operating expenses	—	0.1	0.2	0.2
Selling, general and administrative expenses	7.5	7.0	22.4	21.2
Total stock compensation expense	<u>\$ 8.1</u>	<u>\$ 7.6</u>	<u>\$ 24.5</u>	<u>\$ 22.9</u>

As of September 30, 2015, the total unrecognized compensation cost related to unvested stock options, restricted stock and restricted stock units was approximately \$47.8 million. Such amount will be recognized in Starz's condensed consolidated statements of operations over a weighted average period of approximately 2.08 years.

Starz and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2015

The following table presents the number and weighted average exercise price (“WAEP”) of stock options to purchase Starz common stock:

	Options	WAEP
Outstanding at December 31, 2014	16,431,666	\$ 17.42
Granted	61,288	\$ 35.23
Exercised	(3,033,665)	\$ 14.12
Forfeited	(466,647)	\$ 22.15
Expired/canceled	—	\$ —
Outstanding at September 30, 2015	<u>12,992,642</u>	<u>\$ 18.11</u>
Exercisable at September 30, 2015	<u>5,861,286</u>	<u>\$ 14.04</u>

At September 30, 2015, the weighted-average remaining contractual term of outstanding options was 5.2 years and exercisable options was 4.0 years. At September 30, 2015, the aggregate intrinsic value of the outstanding options was \$249.8 million and the exercisable options was \$136.6 million.

The following table presents the number and weighted-average grant date fair value of restricted stock grants:

	Restricted Stock	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2014	708,658	\$ 21.01
Granted	29,421	\$ 39.29
Vested	(78,417)	\$ 17.64
Forfeited	(20,607)	\$ 27.24
Outstanding at September 30, 2015	<u>639,055</u>	<u>\$ 22.07</u>

In 2015, Starz granted certain employees restricted stock units that will vest based upon the actual, cumulative Adjusted OIBDA (as defined in Note 9) achieved by Starz during a three year performance period beginning on January 1, 2015 and ending on December 31, 2017 (“Performance Period”), compared to a target cumulative Adjusted OIBDA during the Performance Period specified by the Starz compensation committee. Potential vesting of the restricted stock units ranges from a threshold of 50% of the target award if Starz’s actual three-year cumulative Adjusted OIBDA equals 90% of the targeted amount, to a maximum of 200% of the target award if Starz’s actual three-year cumulative Adjusted OIBDA equals or exceeds 120% of the targeted amount. Results between threshold, target and maximum will be interpolated on a straight line basis. Each restricted stock unit provides the right to receive, in those specified circumstances, one share of Starz Series A common stock. Based upon the target for the Performance Period, the number of restricted stock units representing the threshold, target and maximum were 53,535 units, 107,070 units and 214,140 units, respectively (which are not reflected in the table above).

At September 30, 2015, 2.0 million outstanding stock options and 0.2 million restricted shares were held by Liberty Media Corporation employees as a result of the January 2013 spin-off of Liberty Spinco, Inc. (currently known as Liberty Media Corporation), our then wholly-owned subsidiary.

Note 5 – Related Party Transactions

In December 2010, Anchor Bay Entertainment entered into a five-year license agreement with Weinstein for the distribution of certain of Weinstein's theatrical releases on DVD and digital formats. Effective in December 2014, Anchor Bay Entertainment extended, through April 2020, its license agreement with Weinstein. As mentioned in Note 1, Starz, LLC acquired Weinstein's 25% interest in Starz Media during October 2015. Accordingly, Weinstein will not be considered a related party for periods following the acquisition.

Anchor Bay Entertainment earns a fee for the distribution of such theatrical titles. Starz recognized expense of \$18.2 million, \$12.3 million, \$71.3 million and \$66.6 million, which is included in production and acquisition costs in the accompanying condensed consolidated statements of operations, for Weinstein's share of the net proceeds under the license agreement, for the three months ended September 30, 2015 and 2014 and the nine months ended September 30, 2015 and 2014, respectively. Cash paid to Weinstein for investment in films and television programs totaled \$85.1 million and \$82.0 million for the nine months ended September 30, 2015 and 2014, respectively. Amounts due to Weinstein totaled none and \$59.6 million, which are included in accrued liabilities in the accompanying condensed consolidated balance sheets, at September 30, 2015 and December 31, 2014, respectively.

Note 6 - Income Taxes

The income tax provision for the three months ended September 30, 2015 and 2014 and the nine months ended September 30, 2015 and 2014 was calculated by estimating Starz's annual effective tax rate and then applying the effective tax rate to income before income taxes for the period, plus or minus the tax effects of items that relate discretely to the period, if any. Our effective tax rate was 31%, 34%, 33% and 34% for the three months ended September 30, 2015 and 2014 and the nine months ended September 30, 2015 and 2014, respectively. For the three months ended September 30, 2015 and 2014 and the nine months ended September 30, 2015 and 2014, income tax expense differs from the amounts computed by applying the U.S. federal income tax rate of 35% primarily due to Internal Revenue Code Section 199, which allows U.S. taxpayers a deduction for qualified domestic production activities, which was partially offset by state and local taxes.

Note 7 - Commitments and Contingencies

Programming Rights

Starz has an exclusive multi-year output licensing agreement for qualifying films that are released theatrically in the U.S. by Sony Pictures Entertainment Inc. ("Sony") through 2021. The agreement provides Starz with exclusive pay TV rights to exhibit qualifying theatrically released films under the Sony, Columbia Pictures, Screen Gems, Sony Pictures Classics and TriStar labels. Theatrically released films produced by Sony Pictures Animation are not licensed to Starz under the Sony agreement. In addition, Starz has an exclusive licensing agreement for qualifying films that are released theatrically in the U.S. by Walt Disney Company ("Disney") through 2015. The agreement provides Starz with exclusive pay TV rights to exhibit qualifying theatrically released live-action and animated feature films under the Disney, Touchstone, Pixar and Marvel labels. Theatrically released films produced by DreamWorks and released by Disney are not licensed to Starz under the Disney agreement. The programming fees to be paid to Sony and Disney are based on the quantity and domestic theatrical exhibition receipts of qualifying films. Starz has also entered into agreements with a number of other motion picture producers and is obligated to pay fees for the rights to exhibit certain films that are released by these producers.

The unpaid balance for program rights related to films that were available for exhibition at September 30, 2015 is reflected in accrued liabilities and in other liabilities in the accompanying condensed consolidated balance sheets. As of September 30, 2015, such liabilities aggregated approximately \$54.5 million and are payable as follows: \$43.5 million in 2015, \$10.7 million in 2016 and \$0.3 million in 2017.

The estimated amounts payable under programming license agreements related to films that are not available for exhibition until some future date, including the rights to exhibit films that have been released theatrically under the Sony and Disney agreements, which have not been accrued as of September 30, 2015, are as follows: \$6.5 million in 2015; \$260.2 million in 2016; \$115.0 million in 2017; \$104.6 million in 2018; \$89.8 million in 2019 and \$166.9 million thereafter.

Starz is also obligated to pay fees for films that have not yet been released in theaters by Sony and Disney. Starz is unable to estimate the amounts to be paid under these agreements for films that have not yet been released; however, such amounts are expected to be significant.

Starz and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2015

Total amortization of program rights was \$145.7 million, \$144.8 million, \$426.8 million and \$438.4 million for the three months ended September 30, 2015 and 2014 and the nine months ended September 30, 2015 and 2014, respectively. These amounts are included in programming costs in the accompanying condensed consolidated statements of operations.

Legal Proceedings

In the normal course of business, Starz is subject to lawsuits and other claims. While it is not possible to predict the outcome of these matters, it is the opinion of management, based upon consultation with legal counsel, that the ultimate disposition of known proceedings will not have a material adverse impact on Starz's consolidated financial position, results of operations or liquidity.

Note 8 – Other Information

Accrued Liabilities

Accrued liabilities consisted of the following (*in millions*):

	September 30, 2015	December 31, 2014
Royalties, residuals and participations	\$ 72.8	\$ 74.6
Program rights payable	52.3	89.0
Advertising and marketing	30.0	41.1
Payroll and related costs	22.3	27.5
Participations payable to Weinstein	—	59.6
Other	28.1	35.6
	<u>\$ 205.5</u>	<u>\$ 327.4</u>

Supplemental Disclosure of Cash Flow Information

The following table presents the supplemental disclosure of cash flow information (*in millions*):

	Nine Months Ended September 30, 2015	2014
Cash paid for interest, net of amounts capitalized	\$ 40.6	\$ 41.3
Cash paid for income taxes	<u>\$ 92.6</u>	<u>\$ 76.9</u>

Net Income Attributable to Common Stockholders

Basic net income per common share (“EPS”) is computed by dividing net income attributable to stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS presents the dilutive effect on a per share basis of potential common shares as if they had been converted at the beginning of the periods presented. The following is a reconciliation between basic and diluted weighted average shares outstanding (*in millions*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Basic weighted average shares outstanding	101.3	104.7	101.3	106.6
Effect of dilution:				
Stock options	5.2	5.3	5.0	5.4
Restricted shares	0.6	1.1	0.6	1.1
Restricted stock units	0.1	—	0.1	—
Diluted weighted average shares outstanding	107.2	111.1	107.0	113.1

For the three months ended September 30, 2015 and 2014 and the nine months ended September 30, 2015 and 2014, approximately none, none, 0.4 million shares and none, respectively, have been excluded from the diluted weighted average shares outstanding since the shares would have been anti-dilutive.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09 *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 replaces the majority of all U.S. GAAP guidance that currently exists on revenue recognition with a single model to be applied to all contracts with customers. The core principle of ASU 2014-09 is that “an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” For a public entity, ASU 2014-09 is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is permitted, but not before annual periods beginning after December 15, 2016. An entity must apply ASU 2014-09 using either the full retrospective approach, by restating all years presented, or the cumulative effect at the date of adoption approach. Starz is currently assessing the impact that these changes will have on its consolidated financial statements, and therefore is unable to quantify such impact or determine the method of adoption.

In April 2015, the FASB issued ASU 2015-03 *Interest-Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in ASU 2015-03. For a public entity, ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted for financial statements that have not been previously issued. In August 2015, the FASB issued ASU 2015-15 *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*. The guidance in ASU 2015-03 does not address the presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. ASU 2015-15 states that given the absence of authoritative literature, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the debt issuance costs over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. As of September 30, 2015, Starz had \$12.7 million of debt issuance costs which are included in other assets, net in the accompanying condensed consolidated balance sheets. Starz plans to adopt the new guidance effective December 31, 2015. Other than the reclassification of debt issuance costs from other assets, net to debt in the consolidated balance sheets, Starz does not expect this guidance to have a material impact on its consolidated financial statements.

Starz and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2015

Note 9 – Information about Operating Segments

Starz is primarily engaged in video programming and development, production, acquisition and distribution of entertainment content. Starz evaluates performance and makes decisions about allocating resources to its operating segments based on financial measures such as Adjusted OIBDA. Adjusted OIBDA is defined as revenue less programming costs, production and acquisition costs, home video cost of sales, operating expenses and selling, general and administrative expenses, but excluding all stock compensation expense. Starz's chief operating decision maker uses this measure of performance in conjunction with other measures to evaluate the operating segments' performance and make decisions about allocating resources among the operating segments. Starz believes Adjusted OIBDA is an important indicator of the operational strength and performance of its operating segments, including each operating segment's ability to assist Starz in servicing its debt and to fund investments in films and television programs. In addition, this measure allows management to view operating results and perform analytical comparisons and benchmarking between operating segments and identify strategies to improve performance. This measure of performance excludes stock compensation and depreciation and amortization that are included in the measurement of operating income pursuant to GAAP. The primary material limitations associated with the use of Adjusted OIBDA as compared to GAAP results are (i) it may not be comparable to similarly titled measures used by other companies in Starz's industry, and (ii) it excludes financial information that some may consider important in evaluating Starz's performance. Starz compensates for these limitations by providing a reconciliation of Adjusted OIBDA to GAAP results to enable investors to perform their own analysis of Starz's operating results. Accordingly, Adjusted OIBDA should be considered in addition to, but not as a substitute for, operating income, income before income taxes, net income, net cash provided by operating activities and other measures of financial performance prepared in accordance with GAAP.

The following table provides a reconciliation of Adjusted OIBDA to income before income taxes (*in millions*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Consolidated Adjusted OIBDA	\$ 114.7	\$ 109.8	\$ 393.6	\$ 353.4
Stock compensation	(8.1)	(7.6)	(24.5)	(22.9)
Depreciation and amortization	(4.8)	(4.9)	(14.3)	(14.9)
Interest expense, net of amounts capitalized	(11.5)	(11.4)	(34.0)	(34.7)
Other income (expense), net	(4.5)	(1.5)	(8.8)	10.0
Income before income taxes	\$ 85.8	\$ 84.4	\$ 312.0	\$ 290.9

Starz's reportable segments are strategic business units that offer different services. They are managed separately because each segment requires different technologies, content delivery methods and marketing strategies. Starz identifies its reportable segments as those operating segments that represent 10% or more of its consolidated annual revenue, annual Adjusted OIBDA or total assets. Starz Networks and Starz Distribution have been identified as reportable segments; however, as Starz has three operating segments, Starz Animation is also reported. As mentioned in Note 1, Starz, LLC sold 100% of its wholly-owned subsidiary Film Roman, which makes up 100% of the Starz Animation operating segment, in October 2015. Starz generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current prices.

Starz and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2015

Performance Measures *(in millions)*:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue:				
Starz Networks	\$ 329.3	\$ 327.2	\$ 996.6	\$ 979.4
Starz Distribution	65.6	73.5	253.7	235.9
Starz Animation	9.3	7.9	23.1	24.0
Inter-segment eliminations	(0.1)	(0.4)	(0.9)	(1.0)
Total revenue	<u>\$ 404.1</u>	<u>\$ 408.2</u>	<u>\$ 1,272.5</u>	<u>\$ 1,238.3</u>
Adjusted OIBDA:				
Starz Networks	\$ 113.1	\$ 109.9	\$ 365.0	\$ 345.7
Starz Distribution	1.8	0.6	30.2	9.5
Starz Animation	(0.1)	(0.7)	(1.4)	(2.1)
Inter-segment eliminations	(0.1)	—	(0.2)	0.3
Total Adjusted OIBDA	<u>\$ 114.7</u>	<u>\$ 109.8</u>	<u>\$ 393.6</u>	<u>\$ 353.4</u>

Other Information *(in millions)*:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Cash paid for investment in films and television programs:				
Starz Networks	\$ 48.6	\$ 57.5	\$ 188.9	\$ 173.1
Starz Distribution	2.8	29.4	96.1	94.3
Starz Animation	—	—	—	—
Inter-segment eliminations	—	—	—	—
Total cash paid for investment in films and television programs	<u>\$ 51.4</u>	<u>\$ 86.9</u>	<u>\$ 285.0</u>	<u>\$ 267.4</u>

	September 30, 2015	December 31, 2014
Total assets:		
Starz Networks	\$ 1,491.3	\$ 1,357.4
Starz Distribution	173.6	174.1
Starz Animation	2.7	2.4
Other unallocated assets (primarily cash, deferred taxes and other assets, including a commercial lease for Starz's corporate headquarters facility)	99.0	101.9
Inter-segment eliminations	(150.1)	(62.6)
Total assets	<u>\$ 1,616.5</u>	<u>\$ 1,573.2</u>

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

This Quarterly Report on Form 10-Q includes statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements included in this Quarterly Report on Form 10-Q other than statements of historical fact or current fact are forward-looking statements that address activities, events or developments that we or our management expect, believe or anticipate will or may occur in the future. These statements represent our reasonable judgment on the future based on various factors and using numerous assumptions and are subject to known and unknown risks, uncertainties and other factors, many of which are beyond our control and could cause our actual results and financial position to differ materially from those contemplated by the statements. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as "anticipate," "estimate," "project," "forecast," "plan," "may," "will," "should," "could," "expect," or the negative thereof, or other words of similar meaning. In particular, these include, but are not limited to, statements of our current views and estimates of future economic circumstances, industry conditions in domestic and international markets, and our future performance and financial results. These forward-looking statements are subject to a number of factors and uncertainties that could cause our actual results to differ materially from the anticipated results and expectations expressed in such forward-looking statements.

Among the factors that may cause actual results and experiences to differ from the anticipated results and expectations expressed in such forward-looking statements are the following:

- changes in the nature of key strategic relationships with MVPDs and content providers and our ability to maintain and renew affiliation agreements with MVPDs and programming output and library agreements with content providers on terms acceptable to us;
- business combinations involving MVPDs or movie studios;
- distributor demand for our products and services, including the impact of higher rates paid by our distributors to other programmers, and our ability to adapt to changes in demand;
- consumer demand for our products and services, including changes in demand resulting from participation in and effectiveness of cooperative marketing campaigns with our distributors, and our ability to adapt to changes in demand;
- competitor responses to our products and services;
- the continued investment in, the cost of and our ability to acquire or produce desirable original programming;
- the cost of and our ability to acquire desirable theatrical movie content;
- disruption in the production of theatrical films or television programs due to work stoppages or strikes by unions representing writers, directors or actors;
- changes in distribution and viewing of television programming, including the expanded deployment of personal video recorders, video-on-demand and IP television, and their impact on media content consumption;
- uncertainties inherent in the development and deployment of new business strategies;
- uncertainties associated with the development of products and services and market acceptance, including the development and provision of programming for new television and telecommunications technologies;
- our future financial performance, including availability, terms and deployment of capital;
- the ability of our suppliers and vendors to deliver products, equipment, software and services;
- the outcome of any pending or threatened litigation;
- availability of qualified personnel and artistic talent;

- the regulatory and competitive environment of the industry in which we operate;
- changes in, or failure or inability to comply with, government regulations, including, without limitation, regulations of the Federal Communications Commission, and/or adverse outcomes from regulatory proceedings;
- changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations;
- general economic and business conditions and industry trends;
- consumer spending levels;
- rapid technological changes;
- failure to protect digital information, including confidential and proprietary information about our distributors, subscribers and employees, subjecting us to potentially costly government enforcement actions or private litigation and reputational risks;
- our ability to distribute content internationally;
- fluctuation in foreign currency exchange rates; and
- threatened terrorist attacks or political unrest in domestic and international markets.

For a description of our risk factors, please see Part I, Item 1A. of our Annual Report on Form 10-K for the year ended December 31, 2014.

All forward-looking statements contained in this Quarterly Report on Form 10-Q are qualified in their entirety by this cautionary statement. We caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update any forward-looking statements whether as a result of new information, future events or otherwise.

The following discussion and analysis provides information concerning our results of operations and financial condition. This discussion should be read in conjunction with our accompanying condensed consolidated financial statements and the notes thereto and our Annual Report on Form 10-K for the year ended December 31, 2014.

OVERVIEW

Starz is a leading integrated global media and entertainment company. We provide premium subscription video programming to U.S. MVPDs, including cable operators, satellite television providers and telecommunications companies. We also develop, produce and acquire entertainment content and distribute this content to consumers in the U.S. and throughout the world. Our business operations are conducted by our wholly-owned subsidiaries Starz, LLC, Starz Entertainment, Film Roman and certain other immaterial subsidiaries, and our majority-owned (75%) subsidiary Starz Media. In October 2015, Starz, LLC acquired the 25% interest in Starz Media owned by Weinstein.

We manage our operations through our Starz Networks, Starz Distribution and Starz Animation operating segments. Our integrated operating segments enable us to maintain control, and maximize the profitability of our original programming content and its marketing and distribution in the home entertainment and television ancillary markets. Our expanding original programming line-up also provides downstream revenue opportunities for our Starz Distribution operating segment to the extent we retain rights to exploit such programming in these ancillary markets both in the U.S. and around the world.

Our reportable segments are strategic business units that offer different services. They are managed separately because each segment requires different technologies, content delivery methods and marketing strategies. We identify our reportable segments as those operating segments that represent 10% or more of our consolidated annual revenue, annual Adjusted OIBDA or total assets. Starz Networks and Starz Distribution have been identified as reportable segments; however, as we have three operating segments, Starz Animation is also reported separately. In October 2015, we sold 100% of our wholly-owned subsidiary Film Roman, which makes up 100% of the Starz Animation operating segment.

Revenue

The STARZ and ENCORE networks are the primary drivers of Starz Networks' revenue. Our networks are distributed pursuant to affiliation agreements with MVPDs. Programming revenue is recognized in the period during which programming is provided, either:

- based solely on the total number of subscribers who receive our networks multiplied by rates specified in the agreements (i.e., consignment), or
- based on amounts or rates which are not tied solely to the total number of subscribers who receive our networks (i.e., non-consignment).

The agreements generally provide for annual contractual rate increases of a fixed percentage or a fixed amount, or rate increases tied to annual increases in the Consumer Price Index.

Starz Distribution earns revenue from its Anchor Bay Entertainment, Starz Digital and Starz Worldwide Distribution businesses through the sale of its content in the U.S. and throughout the world on DVDs, pay-per-view, video-on-demand, SVOD, AVOD, electronic sell-through, other digital formats and free and pay television. Revenue generated from the sale of DVDs is recognized, net of an allowance for estimated sales returns, on the later of the estimated receipt of the product by the customer or after any restrictions on sale lapse. At the time of the initial sale, we also record a provision, based on historical trends and practices, to reduce revenue for discounts and rebates provided to customers related to the sale of DVDs. Revenue from digital and television licensing is recognized when the film or program is complete in accordance with the terms of the arrangement and is available for exploitation by the licensee. The film or program is available for exploitation when it has been delivered or is available to the licensee and the license period has commenced. Starz Distribution's content includes content we own and license, including Starz Networks' original series, and for Anchor Bay Entertainment and Starz Digital, it also includes the Weinstein's films.

Starz Animation recognizes revenue related to animation services provided to customers under contract generally based on the percentage that costs incurred-to-date bear to estimated total costs to complete utilizing the most recent information. Revenue recognized is proportional to the work performed-to-date under the contracts.

Costs and Expenses

Programming costs are Starz Networks' largest expense. The cost of program rights for films and television programs (including original series) exhibited by Starz Networks is generally amortized on a title-by-title or episode-by-episode basis over the anticipated number of exhibitions. Starz Networks estimates the number of exhibitions based on the number of exhibitions allowed in the agreement and the expected usage of the content. Certain other program rights are amortized to expense on a straight-line basis over the respective lives of the agreements. Starz Networks generally has rights to two or three separate windows under its output agreements. For films with multiple windows, the license fee is allocated between the windows based upon the proportionate estimated fair value of each window with the majority of the cost allocated to the first window. Programming costs vary due to the number of airings and cost of our original series, the number of films licensed and the cost per film paid under our output and library programming agreements.

Production and acquisition costs are Starz Distribution's largest expense and include amortization of our investment in films and television programs, participation and royalty costs and residuals. The portion of costs attributed to the pay television window for our original series is included in programming costs. All remaining production and acquisition costs for original series as well as our other films and television programs that we own or license (not including films licensed under our output and library programming agreements which are included in programming costs) are amortized to production and acquisition costs based on the proportion that current revenue bears to an estimate of Ultimate Revenue for each film or television program. The amount of production and acquisition costs that we will incur for original programming is impacted by both the number of and cost of the productions and the various distribution rights that we acquire or retain for these productions. Participation costs represent amounts paid or due to participants under agreements we have whereby Starz Distribution distributes content in which a participant (e.g., Weinstein, producers or writers of our original programming, etc.) has an ownership interest.

Home video cost of sales represents the direct costs related to the production and distribution of DVDs in our Starz Distribution segment. Costs related to the production of DVDs include costs such as distribution fees, freight, manufacturing costs and mastering costs.

Operating expenses primarily include production costs related to animation services provided to customers under contract and represent Starz Animation's largest expense. In addition, it includes our Starz Networks' operating costs (e.g., salaries, transponder expenses and maintenance and repairs) and non-DVD distribution expenses related to Starz Distribution.

Selling, general and administrative expenses include our advertising and marketing costs and our general and administrative expenses. Our advertising and marketing costs primarily include consumer marketing, distributor marketing support and other marketing costs. Our general and administrative expenses include salaries, stock compensation and other overhead costs.

RESULTS OF OPERATIONS - THREE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

Our operating results were as follows (*dollars in millions*):

	Three Months Ended September 30,		\$ Change	% Change
	2015	2014	'15 vs '14	'15 vs '14
Revenue:				
Programming networks and other services	\$ 369.8	\$ 364.8	\$ 5.0	1 %
Home video net sales	34.3	43.4	(9.1)	(21)%
Total revenue	404.1	408.2	(4.1)	(1)%
Costs and expenses:				
Programming (including amortization)	159.0	156.0	3.0	2 %
Production and acquisition (including amortization)	39.7	36.0	3.7	10 %
Home video cost of sales	9.2	18.9	(9.7)	(51)%
Operating	15.2	13.7	1.5	11 %
Selling, general and administrative	74.4	81.4	(7.0)	(9)%
Depreciation and amortization	4.8	4.9	(0.1)	(2)%
Total costs and expenses	302.3	310.9	(8.6)	(3)%
Operating income	101.8	97.3	4.5	5 %
Other expense:				
Interest expense, net of amounts capitalized	(11.5)	(11.4)	(0.1)	(1)%
Other expense, net	(4.5)	(1.5)	(3.0)	(200)%
Income before income taxes	85.8	84.4	1.4	2 %
Income tax expense	(26.3)	(28.6)	2.3	8 %
Net income	\$ 59.5	\$ 55.8	\$ 3.7	7 %

COMPARISON OF THREE MONTHS ENDED SEPTEMBER 30, 2015 TO THREE MONTHS ENDED SEPTEMBER 30, 2014

Revenue

Revenue by segment was as follows (*dollars in millions*):

	Three Months Ended September 30,		\$ Change	% Change
	2015	2014	'15 vs '14	'15 vs '14
Revenue				
Starz Networks	\$ 329.3	\$ 327.2	\$ 2.1	1 %
Starz Distribution	65.6	73.5	(7.9)	(11)%
Starz Animation	9.3	7.9	1.4	18 %
Inter-segment eliminations	(0.1)	(0.4)	0.3	75 %
Total revenue	\$ 404.1	\$ 408.2	\$ (4.1)	(1)%

Starz Networks' revenue represented 81% and 80% of our total revenue for the three months ended September 30, 2015 and 2014, respectively.

The table below sets forth, for the periods presented, subscriptions to our STARZ and ENCORE networks (*subscriptions in millions*):

Period End Subscriptions:	As of September 30,		# Change	% Change
	2015	2014 (1)	'15 vs '14	'15 vs '14
STARZ	23.3	22.3	1.0	4 %
ENCORE	32.5	33.5	(1.0)	(3)%
Total	55.8	55.8	—	— %

(1) The September 30, 2014 period end subscriptions have been adjusted for a reporting correction by one of our distributors. Such adjustment had no impact on our revenue.

Revenue from Starz Networks increased \$2.1 million or 1% for the three months ended September 30, 2015 as compared to the corresponding prior year period. The increase in revenue was a result of a \$5.1 million increase due to higher average subscriptions, offset by a \$3.0 million decrease due to lower effective rates, both due to increased promotional activity with various distributors.

Revenue from Starz Distribution decreased \$7.9 million or 11% for the three months ended September 30, 2015 as compared to the corresponding prior year period. This decrease was primarily due to lower revenue from AMC Networks' "The Walking Dead" and no significant new STARZ original series releases, which were partially offset by an increase in revenue from films distributed for Weinstein.

Programming

Programming costs increased \$3.0 million or 2% for the three months ended September 30, 2015 as compared to the corresponding prior year period. The increase in programming costs was due to a \$10.0 million increase in original series amortization expense and a \$2.2 million increase in other programming related costs, offset by a \$9.2 million decrease in output and library film amortization expense.

We expect programming costs related to original programming to increase for the remainder of 2015 due to the mix of our original series in the fourth quarter. We are debuting "Ash vs Evil Dead," premiering the third and final season of "Da Vinci's Demons" and premiering the higher cost limited series "Flesh and Bone" as compared to two lower cost series in the fourth quarter of 2014: "The Missing" and "The Chair." As a result of this increase in original programming, we expect programming expense in the range of \$195.0 million to \$205.0 million for the fourth quarter of 2015.

In addition, we expect programming costs related to original programming to increase in the future. We are currently benefiting from a lower cost per film that we pay under our output agreements with Sony and Disney. This lower cost per film was the result of favorable negotiations during the most recent output agreement renewals. We expect to see continued savings in the 2015 through 2017 timeframe at which time the first window license period under our Disney output agreement ends. We plan to utilize these savings to fund a portion of the increase in our original programming to 80-90 episodes per year over the next few years.

Production and Acquisition

Production and acquisition costs increased \$3.7 million or 10% for the three months ended September 30, 2015 as compared to the corresponding prior year period. The increase was primarily due to an increase in revenue from films distributed for Weinstein, which resulted in higher participation costs.

Home Video Cost of Sales

Home video cost of sales decreased \$9.7 million or 51% for the three months ended September 30, 2015 as compared to the corresponding prior year period. Home video cost of sales represented 27% and 44% of home video net sales for the three months ended September 30, 2015 and 2014, respectively. This decrease in costs as a percentage of sales was due to a higher percentage of revenue from Weinstein titles as compared to our other home video releases, including lower revenue from “The Walking Dead” and our original series. Under our agreement with Weinstein, DVD replication and packaging costs are paid for by Weinstein.

Selling, General and Administrative

Selling, general and administrative expenses were as follows (*dollars in millions*):

	Three Months Ended September 30,		\$ Change	% Change
	2015	2014	'15 vs '14	'15 vs '14
Advertising and marketing				
Starz Networks	\$ 29.6	\$ 36.8	\$ (7.2)	(20)%
Starz Distribution	5.9	7.3	(1.4)	(19)%
Starz Animation	—	—	—	— %
Inter-segment eliminations	—	—	—	— %
Total advertising and marketing	35.5	44.1	(8.6)	(20)%
General and administrative, excluding stock compensation				
Starz Networks	22.9	20.5	2.4	12 %
Starz Distribution	8.4	9.7	(1.3)	(13)%
Starz Animation	0.1	0.1	—	— %
Inter-segment eliminations	—	—	—	— %
General and administrative, excluding stock compensation	31.4	30.3	1.1	4 %
Stock compensation	7.5	7.0	0.5	7 %
Total general and administrative	38.9	37.3	1.6	4 %
Total selling, general and administrative	\$ 74.4	\$ 81.4	\$ (7.0)	(9)%
General and administrative expense as a percentage of revenue	10%	9%		

Starz Networks' advertising and marketing costs decreased due to lower spend related to the mix of shows in our original programming line-up.

Adjusted OIBDA

Adjusted OIBDA by segment was as follows (*dollars in millions*):

	Three Months Ended September 30,		\$ Change	% Change
	2015	2014	'15 vs '14	'15 vs '14
Adjusted OIBDA (1)				
Starz Networks	\$ 113.1	\$ 109.9	\$ 3.2	3 %
Starz Distribution	1.8	0.6	1.2	200 %
Starz Animation	(0.1)	(0.7)	0.6	86 %
Inter-segment eliminations	(0.1)	—	(0.1)	— %
Total Adjusted OIBDA	\$ 114.7	\$ 109.8	\$ 4.9	4 %

(1) See Note 9 to the unaudited condensed consolidated financial statements included in this Form 10-Q for a discussion of Adjusted OIBDA, which also includes a reconciliation of Adjusted OIBDA to the GAAP measure income before income taxes.

Adjusted OIBDA for Starz Networks increased \$3.2 million for the three months ended September 30, 2015 as compared to the corresponding prior year period. Such increase was a result of the increase in revenue and lower advertising and marketing costs, partially offset by an increase in programming costs. Adjusted OIBDA for Starz Distribution increased \$1.2 million primarily due to the distribution of films for Weinstein.

Other Expense, Net

We recorded other expense, net of \$4.5 million and \$1.5 million for the three months ended September 30, 2015 and 2014, respectively. The expense for the three months ended September 30, 2015 was primarily comprised of our share of losses from our investment in Playco Holdings Limited ("Playco"), losses on foreign currency hedging transactions and foreign currency exchange losses. We account for our investment in Playco using the equity method.

Income Taxes

We had income before income taxes of \$85.8 million and \$84.4 million and income tax expense of \$26.3 million and \$28.6 million for the three months ended September 30, 2015 and 2014, respectively. Our effective tax rate was 31% and 34% for the three months ended September 30, 2015 and 2014, respectively. Our effective tax rate for the three months ended September 30, 2015 and 2014 was positively impacted by Internal Revenue Code Section 199, which allows U.S. taxpayers a deduction for qualified domestic production activities, which was partially offset by state and local taxes. The deduction for qualified production activity is based on our level of domestic productions and other criteria and must be evaluated each year. Changes in our domestic production activities could impact our qualification for a deduction under Section 199 in the future.

RESULTS OF OPERATIONS - NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

Our operating results were as follows (*dollars in millions*):

	Nine Months Ended September 30,		\$ Change	% Change
	2015	2014	'15 vs '14	'15 vs '14
Revenue:				
Programming networks and other services	\$ 1,165.9	\$ 1,100.1	\$ 65.8	6 %
Home video net sales	106.6	138.2	(31.6)	(23)%
Total revenue	1,272.5	1,238.3	34.2	3 %
Costs and expenses:				
Programming (including amortization)	459.5	471.6	(12.1)	(3)%
Production and acquisition (including amortization)	146.3	126.8	19.5	15 %
Home video cost of sales	29.6	41.6	(12.0)	(29)%
Operating	40.9	40.4	0.5	1 %
Selling, general and administrative	227.1	227.4	(0.3)	— %
Depreciation and amortization	14.3	14.9	(0.6)	(4)%
Total costs and expenses	917.7	922.7	(5.0)	(1)%
Operating income	354.8	315.6	39.2	12 %
Other income (expense):				
Interest expense, net of amounts capitalized	(34.0)	(34.7)	0.7	2 %
Other income (expense), net	(8.8)	10.0	(18.8)	(188)%
Income before income taxes	312.0	290.9	21.1	7 %
Income tax expense	(103.4)	(99.3)	(4.1)	(4)%
Net income	\$ 208.6	\$ 191.6	\$ 17.0	9 %

COMPARISON OF NINE MONTHS ENDED SEPTEMBER 30, 2015 TO NINE MONTHS ENDED SEPTEMBER 30, 2014

Revenue

Revenue by segment was as follows (*dollars in millions*):

	Nine Months Ended September 30,		\$ Change	% Change
	2015	2014	'15 vs '14	'15 vs '14
Revenue				
Starz Networks	\$ 996.6	\$ 979.4	\$ 17.2	2 %
Starz Distribution	253.7	235.9	17.8	8 %
Starz Animation	23.1	24.0	(0.9)	(4)%
Inter-segment eliminations	(0.9)	(1.0)	0.1	10 %
Total revenue	\$ 1,272.5	\$ 1,238.3	\$ 34.2	3 %

Starz Networks' revenue represented 78% and 79% of our total revenue for the nine months ended September 30, 2015 and 2014, respectively.

The table below sets forth, for the periods presented, subscriptions to our STARZ and ENCORE networks(*subscriptions in millions*):

Period End Subscriptions:	As of September 30,		# Change	% Change
	2015	2014 (1)	'15 vs '14	'15 vs '14
STARZ	23.3	22.3	1.0	4 %
ENCORE	32.5	33.5	(1.0)	(3) %
Total	55.8	55.8	—	— %

(1) The September 30, 2014 period end subscriptions have been adjusted for a reporting correction by one of our distributors. Such adjustment had no impact on our revenue.

Revenue from Starz Networks increased \$17.2 million or 2% for the nine months ended September 30, 2015 as compared to the corresponding prior year period. The increase in revenue was a result of a \$10.5 million increase due to higher effective rates and a \$6.7 million increase due to higher average subscriptions resulting from increased promotional activity with various distributors.

Revenue from Starz Distribution increased \$17.8 million or 8% for the nine months ended September 30, 2015 as compared to the corresponding prior year period. This increase was primarily due to licensing of our original series “Spartacus” and “Magic City” to Netflix in the U.S. and select international territories and “The White Queen” to Amazon in the U.S. and Netflix in select international territories along with the release of “Black Sails” season one in the home entertainment market (i.e., DVD and digital formats) and “Black Sails” season two in various television markets throughout the world. In addition, revenue from Starz Distribution was impacted by an increase in revenue from films distributed for Weinstein, partially offset by a decrease in revenue from AMC Networks’ “The Walking Dead.”

Programming

Programming costs decreased \$12.1 million or 3% for the nine months ended September 30, 2015 as compared to the corresponding prior year period. The decrease in programming costs was primarily due to a \$34.4 million decrease in output and library film amortization expense, partially offset by a \$22.8 million increase in original series amortization expense.

We expect programming costs related to original programming to increase for the remainder of 2015 due to the mix of our original series in the fourth quarter. We are debuting “Ash vs Evil Dead,” premiering the third and final season of “Da Vinci’s Demons” and premiering the higher cost limited series “Flesh and Bone” as compared to two lower cost series in the fourth quarter of 2014: “The Missing” and “The Chair.” As a result of this increase in original programming, we expect programming expense in the range of \$650.0 million to \$660.0 million for the year ended December 31, 2015.

In addition, we expect programming costs related to original programming to increase in the future. We are currently benefiting from a lower cost per film that we pay under our output agreements with Sony and Disney. This lower cost per film was the result of favorable negotiations during the most recent output agreement renewals. We expect to see continued savings in the 2015 through 2017 timeframe at which time the first window license period under our Disney output agreement ends. We plan to utilize these savings to fund a portion of the increase in our original programming to 80-90 episodes per year over the next few years.

Production and Acquisition

Production and acquisition costs increased \$19.5 million or 15% for the nine months ended September 30, 2015 as compared to the corresponding prior year period. The increase was primarily due to (i) higher Starz Distribution revenue related to our original series, which resulted in higher amortization of our investment in films and television programs and participation costs and (ii) an increase in revenue from films distributed for Weinstein, which resulted in higher participation costs.

Home Video Cost of Sales

Home video cost of sales decreased \$12.0 million or 29% for the nine months ended September 30, 2015 as compared to the corresponding prior year period. Home video cost of sales represented 28% and 30% of home video net sales for the nine months ended September 30, 2015 and 2014, respectively. This decrease in costs as a percentage of sales was due to lower revenue from non-Weinstein titles. Under our agreement with Weinstein, DVD replication and packaging costs are paid for by Weinstein.

Selling, General and Administrative

Selling, general and administrative expenses were as follows (dollars in millions):

	Nine Months Ended September 30,		\$ Change	% Change
	2015	2014	'15 vs '14	'15 vs '14
Advertising and marketing				
Starz Networks	\$ 93.1	\$ 86.9	\$ 6.2	7 %
Starz Distribution	21.2	25.6	(4.4)	(17)%
Starz Animation	—	—	—	— %
Inter-segment eliminations	—	—	—	— %
Total advertising and marketing	114.3	112.5	1.8	2 %
General and administrative, excluding stock compensation				
Starz Networks	66.0	63.4	2.6	4 %
Starz Distribution	24.0	29.9	(5.9)	(20)%
Starz Animation	0.4	0.4	—	— %
Inter-segment eliminations	—	—	—	— %
General and administrative, excluding stock compensation	90.4	93.7	(3.3)	(4)%
Stock compensation	22.4	21.2	1.2	6 %
Total general and administrative	112.8	114.9	(2.1)	(2)%
Total selling, general and administrative	\$ 227.1	\$ 227.4	\$ (0.3)	— %
General and administrative expense as a percentage of revenue	9 %	9 %		

Starz Networks' advertising and marketing costs increased primarily due to higher distributor marketing support. Starz Distribution's advertising and marketing costs decreased primarily as a result of reduced spend on various non-Weinstein titles. The decrease in Starz Distribution's general and administrative expenses was primarily due to a reduction in bad debt expense.

Adjusted OIBDA

Adjusted OIBDA by segment was as follows (*dollars in millions*):

	Nine Months Ended September 30,		\$ Change	% Change
	2015	2014	'15 vs '14	'15 vs '14
Adjusted OIBDA (1)				
Starz Networks	\$ 365.0	\$ 345.7	\$ 19.3	6 %
Starz Distribution	30.2	9.5	20.7	218 %
Starz Animation	(1.4)	(2.1)	0.7	33 %
Inter-segment eliminations	(0.2)	0.3	(0.5)	(167)%
Total Adjusted OIBDA	\$ 393.6	\$ 353.4	\$ 40.2	11 %

(1) See Note 9 to the unaudited condensed consolidated financial statements included in this Form 10-Q for a discussion of Adjusted OIBDA, which also includes a reconciliation of Adjusted OIBDA to the GAAP measure income before income taxes.

Adjusted OIBDA for Starz Networks increased \$19.3 million for the nine months ended September 30, 2015 as compared to the corresponding prior year period. Such increase was a result of the increase in revenue and lower programming costs, partially offset by the increase in selling, general and administrative expenses. Adjusted OIBDA for Starz Distribution increased \$20.7 million primarily due to higher revenue and a decrease in selling, general and administrative expenses, partially offset by an increase in production and acquisition costs.

Other Income (Expense), Net

We recorded other expense, net of \$8.8 million for the nine months ended September 30, 2015 as compared to other income, net of \$10.0 million for the nine months ended September 30, 2014. The expense for the nine months ended September 30, 2015 was primarily comprised of our share of losses from our investment in Playco, losses on foreign currency hedging transactions and foreign currency exchange losses. We account for our investment in Playco using the equity method. The income for the nine months ended September 30, 2014 was primarily comprised of \$10.7 million of cash we received from Revolution Studios Holding Company, LLC ("Revolution"), an equity investee in which we hold a 15% ownership interest, as a result of the sale of all of its assets. We account for Revolution using the equity method and reduced our investment to zero in 2006.

Income Taxes

We had income before income taxes of \$312.0 million and \$290.9 million and income tax expense of \$103.4 million and \$99.3 million for the nine months ended September 30, 2015 and 2014, respectively. Our effective tax rate was 33% and 34% for the nine months ended September 30, 2015 and 2014, respectively. Our effective tax rate for the nine months ended September 30, 2015 and 2014 was positively impacted by Internal Revenue Code Section 199, which allows U.S. taxpayers a deduction for qualified domestic production activities, which was partially offset by state and local taxes. The deduction for qualified production activity is based on our level of domestic productions and other criteria and must be evaluated each year. Changes in our domestic production activities could impact our qualification for a deduction under Section 199 in the future.

MATERIAL CHANGES IN FINANCIAL CONDITION

As of September 30, 2015, our cash and cash equivalents totaled \$17.0 million. Our cash and cash equivalents are, from time to time, invested in U.S. Treasury securities, other government securities or government guaranteed funds, AAA rated money market funds and other highly rated commercial paper.

We generated \$88.5 million and \$107.2 million of net cash provided by operating activities for the nine months ended September 30, 2015 and 2014, respectively. Our primary uses of cash are for payments under our programming output and library agreements and production and acquisition costs for our original programming, home video and other content (i.e., investment in films and television programs), which are included as a reduction of net cash provided by operating activities. Cash paid under our programming output and library agreements totaled \$350.2 million and \$348.0 million for the

nine months ended September 30, 2015 and 2014, respectively. Cash paid for original programming, home video and other content totaled \$285.0 million and \$267.4 million for the nine months ended September 30, 2015 and 2014, respectively, and increased primarily due to an increase in the number of original series in production. We plan to continue to increase our investments in original programming in future periods. A \$30.5 million increase in our long term receivables from the licensing of certain of our original series to Netflix and Amazon and a \$15.7 million increase in taxes paid negatively impacted our net cash provided by operating activities for the nine months ended September 30, 2015.

During the nine months ended September 30, 2015, we made advances to Playco, an equity investee in which we hold an approximate 40% ownership interest, totaling \$3.8 million. We received \$10.7 million of cash from Revolution, an equity investee in which we hold a 15% ownership interest, as a result of the sale of all of its assets during the nine months ended September 30, 2014.

During the nine months ended September 30, 2015, we had net payments of debt of \$10.9 million. We repurchased 1.7 million shares of common stock for \$64.7 million, including fees, under our share repurchase program during the nine months ended September 30, 2015 as compared to \$226.6 million during the nine months ended September 30, 2014. We had \$117.6 million available under our share repurchase program as of September 30, 2015.

We are continually projecting our anticipated cash requirements for our operating, investing and financing needs as well as net cash provided by operating activities available to meet these needs. Our potential sources of liquidity are net cash provided by operating activities and borrowings under our 2015 Credit Agreement and we expect that we will be able to utilize these sources to fund our expected uses of cash for investing and financing activities, which include debt repayments, buybacks of common stock and capital expenditures during 2015. Based upon our current operating plans, we believe that our net cash provided by operating activities and borrowings under our 2015 Credit Agreement through its expiration on April 20, 2020 will be sufficient to fund our cash commitments for investing and financing activities, such as our capital expenditures and long term debt obligations from 2016 through 2019. As of September 30, 2015, we had \$575.0 million of borrowing capacity available under our 2015 Credit Agreement.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09 *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 replaces the majority of all U.S. GAAP guidance that currently exists on revenue recognition with a single model to be applied to all contracts with customers. The core principle of ASU 2014-09 is that “an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” For a public entity, ASU 2014-09 is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is permitted, but not before annual periods beginning after December 15, 2016. An entity must apply ASU 2014-09 using either the full retrospective approach, by restating all years presented, or the cumulative effect at the date of adoption approach. We are currently assessing the impact that these changes will have on our consolidated financial statements, and therefore are unable to quantify such impact or determine the method of adoption.

In April 2015, the FASB issued ASU 2015-03 *Interest-Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in ASU 2015-03. For a public entity, ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted for financial statements that have not been previously issued. In August 2015, the FASB issued ASU 2015-15 *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*. The guidance in ASU 2015-03 does not address the presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. ASU 2015-15 states that given the absence of authoritative literature, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the debt issuance costs over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. As of September 30, 2015, Starz had \$12.7 million of debt issuance costs which are included in other assets, net in the accompanying condensed consolidated balance sheets. We plan to adopt the new guidance effective December 31, 2015. Other than the reclassification of debt issuance costs from other assets, net to debt in the consolidated balance sheets, we do not expect this guidance to have a material impact on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk in the normal course of business due to our ongoing financial and operating activities. Market risk refers to the risk of loss arising from adverse changes in stock prices and interest rates. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows and future earnings.

We are exposed to changes in interest rates as a result of borrowings used to fund our investing and financing activities. The nature and amount of our long-term and short-term debt are expected to vary as a result of future requirements, market conditions and other factors. We manage our exposure to interest rates by maintaining what we believe is an appropriate mix of fixed and variable rate debt and by entering into interest rate swap and collar arrangements when we deem appropriate.

As of September 30, 2015, our debt was comprised of the following amounts (*in millions*):

Variable rate debt		Fixed rate debt	
Principal amount	Weighted avg. interest rate	Principal amount	Weighted avg. interest rate
\$425.0	2.10%	\$743.2	5.13%

A hypothetical 50 basis point change in interest rates prevailing at September 30, 2015 would either increase or decrease our annual interest expense on our variable rate debt by approximately \$2.1 million. As shown above, the majority of our outstanding debt at September 30, 2015 was fixed rate debt. We have borrowing capacity at September 30, 2015 of \$575.0 million under our 2015 Credit Agreement at variable rates.

At September 30, 2015, the fair value of our Senior Notes was \$680.0 million. We believe the fair value of our 2015 Credit Agreement approximates its carrying value as of September 30, 2015 due to its variable rate nature and our stable credit spread.

We are exposed to foreign exchange rate risk on certain of our original series that are produced in foreign countries. We mitigate this foreign exchange rate risk by entering into forward contracts and other types of derivative instruments as deemed appropriate. As of September 30, 2015, the fair market value of our outstanding derivative instruments related to foreign currencies was insignificant. We are also exposed to foreign exchange rate risk on our foreign operations; however, this risk is not deemed significant to our overall business.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

In accordance with Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended ("Exchange Act"), we carried out an evaluation, under the supervision and with the participation of management, including our chief executive officer and our principal financial and accounting officer ("Executives"), of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Executives concluded that our disclosure controls and procedures were effective as of September 30, 2015 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in our internal control over financial reporting that occurred during the three months ended September 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

In the normal course of business, we are subject to lawsuits and other claims. While it is not possible to predict the outcome of these matters, it is the opinion of management, based upon consultation with legal counsel, that the ultimate disposition of known proceedings will not have a material adverse impact on our consolidated financial position, results of operations or liquidity.

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

Share Repurchase Program

The Starz board of directors has authorized a total of \$800.0 million since January 2013 to repurchase Starz common stock.

Third quarter repurchases and remaining availability under the repurchase program was as follows:

Series A common stock				
Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
July 1 - 31, 2015	244,900	\$ 44.70	244,900	\$138.5 million
August 1 - 31, 2015	277,000	\$ 37.77	277,000	\$128.1 million
September 1 - 30, 2015	271,300	\$ 38.54	271,300	\$117.6 million
Total	793,200		793,200	

In addition to the shares listed in the table above, 1,345 shares of Series A common stock were surrendered in the third quarter of 2015 by an employee to pay withholding taxes in connection with the vesting of the employee's restricted stock.

Item 6. Exhibits

Listed below are the exhibits which are filed as part of this Report (according to the number assigned to them in Item 601 of Regulation S-K).

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
10.1	Employment Agreement dated as of July 20, 2015 between Starz Entertainment, LLC and Jeffrey Hirsch*
31.1	Rule 13a-14(a)/15(d)-14(a) Certification*
31.2	Rule 13a-14(a)/15(d)-14(a) Certification*
32.1	Section 1350 Certifications**
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Label Linkbase Document*
101.PRE	XBRL Taxonomy Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Definition Document*

*Filed herewith.

**Furnished
herewith.

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.

Date: October 29, 2015

Starz

By: /s/ Christopher P. Albrecht

Name: Christopher P. Albrecht

Title: Chief Executive Officer

Date: October 29, 2015

By: /s/ Scott D. Macdonald

Name: Scott D. Macdonald

Title: Chief Financial Officer, Executive Vice
President and Treasurer (Principal Financial
Officer and Principal Accounting Officer)

Exhibit List

Exhibits. Listed below are the exhibits which are filed as a part of this Report (according to the number assigned to them in Item 601 of Regulation S-K):

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
10.1	Employment Agreement dated as of July 20, 2015 between Starz Entertainment, LLC and Jeffrey Hirsch*
31.1	Rule 13a-14(a)/15(d)-14(a) Certification*
31.2	Rule 13a-14(a)/15(d)-14(a) Certification*
32.1	Section 1350 Certifications**
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Label Linkbase Document*
101.PRE	XBRL Taxonomy Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Definition Document*

*	Filed herewith.
**	Furnished herewith.

EMPLOYMENT AGREEMENT

This Employment Agreement (this "Agreement"), made effective as of July 20, 2015, is entered into by and between Starz Entertainment, LLC, a Colorado limited liability company ("Employer"), and Jeffrey Hirsch ("Executive").

Employer, together with other members of the Starz Group, is presently engaged in the business of providing premium movie channels for distribution in the United States, creating and distributing animated and live-action programming, distributing home video/DVD products and producing feature-length films. Employer desires to employ Executive, and Executive desires to be employed with Employer, under the terms and conditions set forth herein. Certain capitalized terms used in this Agreement have the meanings set forth in Section 9.

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Employment; Term; Duties

1. **Employment.** Upon the terms and conditions hereinafter set forth, Employer hereby employs Executive, and Executive hereby accepts employment, as the President of Global Marketing and Product Planning of Employer and of other members of the Starz Group designated by Employer from time to time.

2. **Term.** Subject to earlier termination in accordance with the terms of this Agreement, Executive's employment hereunder shall be for a term commencing effective as of July 20, 2015 ("Effective Date"), and expiring at the close of business on July 19, 2018 (such fixed three-year period hereinafter referred to as the "Initial Term"). The period of time from the Effective Date until the expiration or earlier termination of the term of Executive's employment under this Agreement, whether such expiration or termination occurs during or at the end of the Initial Term is referred to herein as the "Term." Employer shall notify Executive no less than (90) days prior to the end of the Initial Term of Employer's intention to extend the employment relationship. Any extension shall be subject to new contractual arrangements that are mutually acceptable to Executive and Employer.

3. **Duties; Reporting.** During the Term, Executive shall perform such executive duties for Employer and other members of the Starz Group as are consistent with his position hereunder. Executive shall report to the Chief Executive Officer of Starz Group (the "CEO") and shall devote 100% of his business time, attention and energies to the performance of his duties under this Agreement. Subject to the direction of the CEO, Executive shall be the most senior executive officer of Employer with authority and responsibility for marketing and product planning and (at the CEO's election) program planning. Executive shall use his best efforts to advance the interests and business of Employer and other members of the Starz Group. Executive shall abide by all rules, regulations and policies of Employer of which Executive has received written notice as may be in effect from time to time. Notwithstanding the foregoing, Executive may engage in the management of his personal investments; and subject to applicable company policies: (i) engage in civic, charitable or academic activities including non-compensatory services provided to professional organizations; and (ii) subject to the prior approval of the CEO, serve on corporate boards, so long as such activities do not materially interfere with performance of Executive's services hereunder.

4. **Location.** Except for services rendered during business trips as may be reasonably necessary, Executive shall render his services under this Agreement primarily from the offices of Employer in Beverly Hills, California.

5. **No Conflicting Agreement.** Executive represents and warrants to Employer that there are no agreements or arrangements, whether written or oral, in effect that would prevent Executive from rendering his services exclusively to Employer during the Term in accordance with the provisions of this Agreement.

Section 2. Compensation

1. **Compensation.** For all services rendered by Executive to Employer and other members of the Starz Group, Employer shall pay, and Executive shall accept, as full compensation, the amounts set forth in this Section 2.

2. **Base Salary.** Effective as of the Effective Date, Executive's base salary shall be an annual salary of \$600,000 ("Base Salary"), payable by Employer in accordance with Employer's normal payroll practices (which shall not be less than monthly); provided, that Executive's Base Salary shall be increased by 10% to \$660,000 effective January 1, 2016.

3. **Bonus.** For each full or partial fiscal year during the Term, in addition to the Base Salary, provided that Executive is employed by Employer on the date of payment thereof, Executive shall be eligible for a discretionary annual bonus ("Bonus") of up to 70% of Executive's annual Base Salary ("Target") earned during each such year based upon achievement of corporate and individual performance criteria to be determined by the CEO in conjunction with the compensation committee of the Starz Board of Directors ("Compensation Committee") in their sole discretion (so that for the 2015 fiscal year, Executive's Bonus shall be based on the Base Salary he receives for the portion of that year for which he is employed hereunder). Executive's entitlement to, and the amount of, any Bonus will be determined by Employer in its sole discretion. Nothing in this Agreement shall be construed to guarantee the payment of any Bonus to Executive

4. **Equity Awards; Additional Compensation.** As part of the consideration for Executive's services to Employer, Executive shall receive the equity awards and additional compensation as set forth in Schedule 1 ("Schedule 1") attached to this Agreement.

5. **Deductions.** Employer shall deduct from the compensation described in Sections 2.2 and 2.3, and from any other amounts payable pursuant to this Agreement, any federal, state or local withholding taxes and any other amounts which may be required to be deducted or withheld by Employer pursuant to any federal, state or local laws, rules or regulations.

Section 3. Benefits; Expenses

1. **Benefits.** Executive will be entitled to participate in such group life, health, accident, disability or hospitalization insurance plans and retirement plans ("Employer Plans"), and to receive such other benefits and perquisites, as Employer may make available to its other senior executive employees as a group. Executive's participation in any Employer Plans and receipt of such other benefits and perquisites shall be at a level, and on terms and conditions, that are commensurate with his positions and responsibilities at Employer but are no less favorable than those made available to other senior executives of Employer.

2. **Expenses.** Employer agrees that Executive is authorized to incur reasonable and appropriate expenses in the performance of his duties hereunder and in promoting the business of Employer and to be reimbursed therefor in accordance with the terms of Employer's Travel & Entertainment Policy (as the same may be modified or amended by Employer from time to time in its sole discretion).

Section 4. Severance Pay Benefits

1. **Severance Pay Benefits - Generally.** Subject to Section 5, Executive will receive severance pay benefits equal to his Base Pay for the remainder of the Initial Term as if it had expired with the passage of time ("Severance Pay Amount") upon either of the following: (a) a Qualifying Termination that is not an Excluded Termination; or (b) a Voluntary Termination for Good Reason.

2. **Form and Timing of Severance Pay.** Except as otherwise provided in Sections 5 and 6, the Severance Pay Amount will be paid as follows:

a. The lesser of the number of days remaining in the Initial Term of Base Pay, or six (6) months of Base Pay being paid in one lump sum payment within sixty (60) days after Executive's termination date, and

b. The remaining Severance Pay Amount, if any, will be paid in installments in amounts equal to Executive's Base Pay pursuant to Employer's regular payroll practices, commencing with the payroll date coincident with or immediately following the six (6) month anniversary of Executive's termination date.

c. The Severance Pay Amount will be subject to all applicable tax and other withholdings, except that no withholding will be made for any 401(k) plan or for premiums for continued insurance coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act ("COBRA").

d. If Executive becomes re-employed by Employer or any member of the Starz Group in any category of employment before receiving the full amount of his Severance Pay Amount, the severance payments will be suspended, and Executive will not be entitled to additional severance payments under this Agreement. If Executive dies after becoming eligible for the Severance Pay Amount but before Executive receives the full amount of his Severance Pay Amount, the remaining amount of such Severance Pay Amount will be paid in one lump sum, within sixty (60) days after Executive's

date of death, to Executive's estate.

- e. In no event will the Severance Pay Amount be considered "wages" pursuant to any State law or regulation, other than for tax purposes.

3. **Adjustments to the Severance Pay Amount.** The Severance Pay Amount shall be reduced by each of the following, provided that the aggregate reductions shall not reduce severance pay below the Release Consideration:

- a. The amount of wages or other compensation for services received by Executive from any other employer or other entity (that is not a member of the Starz Group) during the Severance Period, but this reduction shall apply only to the installment payments (set forth in Section 4.2(b) above) under the Severance Pay Amount;

- b. Any wages or wage replacement benefits paid or payable to Executive with respect to any applicable notice period required under the Worker Adjustment and Retraining Notification Act (WARN) or any state law with respect to notice prior to termination; and

- c. To the extent permitted by law, by any debt that Executive owes Employer or any member of the Starz Group at the time the Severance Pay Amount becomes payable, provided that in no event will this provision be applied in such a way that it would violate Section 409A of the Internal Revenue Code.

4.4 Enhanced Severance Pay Amount Upon a Change in Control. If Executive experiences a Qualifying Termination within thirty (30) days preceding or twelve (12) months immediately following a Change in Control, in addition to the Severance Pay Amount, and subject to the adjustments in Section 4.3 and the provisions of Section 5, Executive will be entitled to the following additional severance pay benefits:

- a. A lump sum payment equal to 70% of the Executive's annual Base Salary for the year of the Qualifying Termination, which will be paid within sixty (60) days following such termination date; and

- b. Provided that Executive elects continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"), Employer will contribute to the health plan maintained by Employer as of the date of termination, or any such successor health plan maintained by Employer, that monthly amount that reflects the portion of the premium for such coverage that is paid by Employer as of the date of termination throughout the period beginning on the date of termination and ending on the earliest of (A) the date that is eighteen (18) months following the date of termination, or (B) the expiration of the coverage period specified under COBRA.

Section 5. Conditions for Payment of Severance Pay Amount. Executive must meet all of the following conditions in order to be eligible to receive severance pay benefits under this Agreement:

- 1. **Waiver and Release Agreement Required.** To the extent permitted under applicable law, the Severance Pay Amount provided under this Agreement is conditioned upon Executive (or by Executive's legal representative, if applicable based on Executive's death) returning the signed Waiver and Release Agreement to Employer by the 21st day following Executive's termination date and not revoking it within seven (7) days following execution of the Waiver and Release Agreement (the "Release Review Period").

- 2. **Suspension of Severance Pay Upon Competitive Activities.** Conditions for Executive's receipt of the Severance Pay Amount are intended to protect the trade secrets and other business interests of the Starz Group. To the extent permitted by law and enforceable in the applicable jurisdiction, if Executive elects to engage in Competitive Activities during the Severance Period, Executive shall deliver to Employer at least ten business days prior to commencing any such Competitive Activities a written notice advising Employer of (i) Executive's intent to commence Competitive Activities, and (ii) the commencement date for such Competitive Activities. If Executive engages in Competitive Activities prior to the expiration of the Severance Period Employer shall have no obligation to make any further payment of the Severance Pay Amount (except to the extent the Severance Pay Amount is at least equal to the Release Consideration that has not theretofore been paid).

- 3. **Other Damages Upon Competitive Activities.** In addition to the suspension of severance pay upon Executive's engaging in Competitive Activities as provided above, and to the extent permitted by applicable law and enforceable in the applicable jurisdiction, Executive agrees that (i) Employer and its affiliates will be irreparably injured in the event of such Competitive Activities; (ii) Executive will repay to Employer 75% of the total amount of the Severance Pay Amount received by Executive under this Agreement; provided that Executive may retain severance pay benefits equal to the Release

Consideration (whether such payments were received prior or subsequent to such Competitive Activities), together with interest from the dates of such payments to the date reimbursement is made at the rate per annum equal to the prime rate of interest charged by the bank designated by Employer plus 5% or, if lower, the maximum rate permitted by law; (iii) because monetary damages will not be an adequate remedy for any such Competitive Activities, Employer and its affiliates also will be entitled to injunctive relief, in addition to any other remedy which they may have, in the event of such Competitive Activities; and (iv) the existence of any unrelated claims which Executive may have against Employer or any of its affiliates, whether under this Agreement or otherwise, will not be a defense to the enforcement by Employer or its affiliates of any of their rights under this paragraph. The covenants of Executive contained in this paragraph are in addition to, and not in lieu of, any obligations which Executive may have with respect to the subject matter of this paragraph, whether by contract, as a matter of law or otherwise, and such covenants and their enforceability will survive any termination of the employment of Executive for any reason and any investigation made with respect to the Competitive Activities by Employer or any of its affiliates.

4. **Agreement to Not Solicit and to Keep Information Confidential** Executive agrees that, during his employment with Employer or any member of the Starz Group and during the Severance Period and to the extent enforceable in the applicable jurisdiction, Executive will not:

- a. Solicit or divert any business or any customer from any Starz Group member or assist any person in doing so or attempting to do so, or cause or seek to cause any person to refrain from dealing or doing business with any member of the Starz Group or assist any person in doing so or attempting to do so;
- b. Solicit or induce, directly or indirectly, or cause or authorize others to solicit or induce, directly or indirectly, any person employed by any member of the Starz Group to leave such employment with the Starz Group member; and
- c. Disclose or furnish to, or use for the benefit of, any other person, firm or corporation any Confidential Information, except in the course of the proper performance of the Executive's employment duties or as required by law, governmental authority or legal process (in which event Executive shall give prior written notice to Employer and shall cooperate with Employer, at Employer's expense, in complying with such legal requirements).

Executive agrees that (A) Employer and its affiliates will be irreparably injured in the event of a breach of the provisions of this Section 5.4; (B) because monetary damages will not be an adequate remedy for any such breach, Employer and its affiliates will be entitled to injunctive relief, in addition to any other remedy which they may have, in the event of such a breach of the provisions of this paragraph; and (C) the existence of any unrelated claims which Executive may have against Employer or any of its affiliates, whether under this Agreement or otherwise, will not be a defense to the enforcement by Employer or its affiliates of any of their rights under this paragraph.

5. **Transfer of Duties.** Executive must cooperate with the orderly transfer of his duties as requested by Employer.

6. **Return of Property.** Executive must return all Employer and Starz Group property by a date specified by Employer.

7. **Notification of Other Employment.** Executive must notify Employer in writing immediately upon becoming employed by any employer in any capacity during the Severance Period.

Section 6. Application of Code Section 409A to Severance Pay. All payments and benefits under this Agreement are intended either to be exempt from, or to comply with, the requirements of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"), and this Agreement shall be interpreted and administered in a manner consistent with such intent. To the extent that Section 409A applies to any payment of severance under this Agreement, the following will apply:

1. Any payment that is triggered upon Executive's termination of employment shall be paid only if such termination of employment constitutes a "separation from service" under Section 409A. References in this Agreement to "termination of employment" and similar terms shall mean a "separation from service" as determined under Section 409A. A separation from service shall be deemed to occur if it is anticipated that the level of services Executive will perform after a certain date (whether as an employee or as an independent contractor) will permanently decrease to no more than 20% of the average level of services provided by Executive in the immediately preceding thirty-six (36) months.

2. For purposes of Section 409A, Executive's right to receive installment payments of any severance amount shall be treated as a right to receive a series of separate and distinct payments, and each payment shall be considered, and is hereby designated as, a separate payment for purposes of Section 409A.

a. If the period of time in which a Waiver and Release Agreement shall be executed and become irrevocable as described under Section 5 straddles two calendar years, then the Severance Pay Amount will be paid in the second calendar year, regardless of when the Waiver and Release Agreement is signed. In no event will Employer or its affiliates be liable for any additional tax, interest or penalties that may be imposed on Executive under Section 409A or any damages for failing to comply with Section 409A.

3. In the event that Executive is deemed on the date of termination to be a "specified employee" as defined in Section 409A, then with regard to any payment that is subject to Section 409A, and that becomes payable by reason of Executive's termination of employment, such payment shall be delayed until the earlier of (A) the first business day of the seventh calendar month following such termination of employment, or (B) Executive's death. Any payments delayed by reason of the prior sentence shall be paid in a single lump sum, without interest thereon, on the date indicated by the previous sentence and any remaining payments due under this Agreement shall be paid as otherwise provided herein.

4. Employer may, without Executive's consent, amend any provision of this Agreement to the extent that, in the reasonable judgment of Employer, such amendment is necessary or advisable to avoid the imposition on Executive of any tax, interest or penalties pursuant to Section 409A.

Section 7. Miscellaneous

1. **Amendment and Termination of Agreement.** Subject to Section 6.4 above, this Agreement may be amended only by written action signed by Executive and Employer; provided, however, that Employer may assign this Agreement to any member of the Starz Group, or any successor to any member of the Starz Group, without the consent of Executive. Additionally, and notwithstanding anything else in this Agreement to the contrary, Executive remains an "employee at will", and Executive's employment by Employer is subject to termination by Employer at any time, with or without notice or cause, and for any reason or no reason.

2. **Ineligibility for Other Severance Plans.** Executive acknowledges and agrees that he is not eligible to participate in, or to receive any benefits under, the Starz Severance Plan for Employees, the Starz Severance Plan for Executives, any successor plan to such plans, or any other contract or arrangement providing severance benefits. Therefore, any now existing contract or severance arrangement between Executive and Employer is hereby deemed null and void.

3. **Records.** The records of Employer with respect to the determination of eligibility, employment history, Base Pay, absences, and all other relevant matters shall be conclusive for all purposes of this Agreement.

4. **Construction.** The laws of the State of California will apply and any action brought under this Agreement shall be brought in the State of California.

5. **Return of Amounts Paid in Error.** Upon a determination by Employer that amounts have been paid under this Agreement to Executive or other individual in error, or amounts have been paid to any individual not entitled to payment under the terms of this Agreement, Executive or other individual receiving such incorrect payments will repay such amounts to Employer immediately upon notice of such error, and Employer will have the right to pursue such repayment to the fullest extent of the law.

6. **Severability Provisions.** If any provision of this Agreement, or the application of such provision to any person or in any circumstance, is found by a court of competent jurisdiction to be unenforceable for any reason, such provision may be modified or severed from this Agreement to the extent necessary to make such provision enforceable against such person or in such circumstance. Neither the unenforceability of such provision nor the modification or severance of such provision will affect (i) the enforceability of any other provision of this Agreement or (ii) the enforceability of such provision against any person or in any circumstance other than those against or in which such provision is found to be unenforceable.

7. **Binding Effect.** This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective legal representatives, heirs, distributees, successors and permitted assigns.

8. **Notices.** All notices, requests, demands and other communications under this Agreement shall be in

writing and shall be deemed to have been duly given: (a) on the date of service if served personally on the party to whom notice is to be given; (b) on the day of transmission if sent via facsimile transmission to the facsimile number given below, and telephonic confirmation of receipt is obtained promptly after completion of transmission; (c) on the day of transmission if sent via electronic mail to the electronic mail address given below; (d) on the day after delivery by Federal Express or similar overnight courier or the Express Mail service maintained by the United States Postal Service; or (e) on the fifth day after mailing, if mailed to the party to whom notice is to be given, by first class mail, registered or certified, postage prepaid and properly addressed, to the party as follows:

(a) If to Employer:
Starz
9242 Beverly Blvd., Suite 200
Beverly Hills, California 90210
Attention: General Counsel

(b) If to Executive:
Jeffrey Hirsch

With a copy to:

Grubman Shire & Meiselas, P.C.
152 West 57th Street
New York, New York 11577

Notwithstanding the foregoing, any notice of change of address of a party shall be effective only upon actual receipt by the other party hereto.

9. **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument. Facsimile signatures shall have the same effect as originals.

10. **Entire Agreement.** This Agreement contains the full and complete agreement of the parties relating to the subject matter hereof, and supersedes all prior agreements, arrangements or understandings, whether written or oral, relating thereto.

Section 8. Arbitration

1. **Application of Section.** Other than any action to obtain injunctive relief relating to the matters set forth in Section 5 of this Agreement, if any controversy, claim or dispute arises out of or in any way relates to this Agreement, the alleged breach thereof, Executive's employment with Employer or termination therefrom, including, without limitation, any and all claims for employment discrimination or harassment, civil tort and any other employment laws, excepting only claims that may not, by statute, be arbitrated, both Executive and Employer (and its members, managers, officers, employees or agents) agree to submit any such dispute exclusively to binding arbitration. Both Executive and Employer acknowledge that they are relinquishing their right to a jury trial in civil court. Executive and Employer agree that arbitration is the exclusive remedy for all disputes arising out of or related to Executive's employment with Employer.

2. **Arbitration.** The arbitration shall be subject to the Federal Arbitration Act and shall be administered by JAMS in accordance with the Employment Arbitration Rules & Procedures of JAMS then in effect and subject to JAMS Policy on Employment Arbitration Minimum Standards, except as otherwise provided in this Agreement. Arbitration shall be commenced and heard in the Los Angeles, California metropolitan area. Only one arbitrator shall preside over the proceedings, who shall be selected by agreement of the parties from a list of five or more qualified arbitrators provided by the arbitration tribunal, or if the parties are unable to agree on an arbitrator within ten business days following receipt of such list, the arbitration tribunal shall select the arbitrator. The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the

state wherein Executive worked at the time of his termination, as applicable to the claim(s) asserted. In any arbitration, the burden of proof shall be allocated as provided by applicable law. The arbitrator shall have the authority to award any and all legal and equitable relief authorized by the law applicable to the claim(s) being asserted in the arbitration, as if the claim(s) were brought in a federal or state court of law. Either party may bring an action in court to compel arbitration under this Agreement and to enforce an arbitration award. Discovery, such as depositions or document requests, shall be available to Employer and Executive as though the dispute were pending in federal court. The arbitrator shall have the ability to rule on pre-hearing motions as though the matter were in a federal court, including the ability to rule on a motion for summary judgment.

3. **Fees.** If permitted by applicable law, the fees of the arbitrator and any other fees for the administration of the arbitration that would not normally be incurred if the action were brought in a court of law (e.g., filing fees, room rental fees, etc.) shall be shared equally by the parties. If the foregoing is not permitted by applicable law, the fees of the arbitrator and any other fees for the administration of the arbitration that would not normally be incurred if the action were brought in a court of law (e.g., filing fees, room rental fees, etc.) shall be paid by Employer, provided that Executive shall be required to pay the amount of filing fees equal to that which Executive would be required to pay to file an action in California state court. Each party shall pay its own attorneys' fees and other costs incurred in connection with the arbitration, unless the relief authorized by law allows otherwise and the arbitrator determines that attorneys' fees shall be paid in a different manner. The arbitrator must provide a written decision that is subject to limited judicial review consistent with applicable law. If any part of this arbitration provision is deemed to be unenforceable by an arbitrator or a court of law, that part may be severed or reformed so as to make the balance of this arbitration provision enforceable.

Section 9. Definitions

1. **"Base Pay"** means Executive's weekly base pay in effect for the payroll period during which Executive's employment is terminated. Overtime, bonuses, commissions, piece rate, incentive pay and any taxable or nontaxable fringe benefits or payments are not included in the calculation of Base Pay.

2. **"Change in Control"** means the closing date of an Approved Transaction, or the effective date of a Board Change or a Control Purchase, as such terms are defined in the Starz 2011 Incentive Plan Amended and Restated as of October 15, 2013.

3. **"Competitive Activities"** occur when Executive, during his employment with Employer or any member of the Starz Group and during the Severance Period, directly or indirectly, as principal or agent, or in any other capacity, owns, manages, operates, participates in, or is employed by (including, but not limited to, service as a freelance employee or freelance contractor, an independent contractor, or consultant), any party that competes with the business of Employer (which may include, but is not limited to, program providers such as HBO, Showtime, Amazon, Epix, Netflix and Hulu) or any successor in interest to any of the above mentioned entities. Nothing contained in this Agreement shall be construed as denying Executive the right to own securities of any such entity, so long as such securities are listed on a national securities exchange or quoted on the Nasdaq Stock Market, but in any event no more than an aggregate of 5% of the outstanding shares of such securities.

4. **"Confidential Information"** means any and all non-public information of which any member of the Starz Group takes reasonable steps to protect the confidentiality of and that affects or relates to the business of the Starz Group, including, without limitation: (i) financial data, customer lists and data, licensing arrangements, business strategies, pricing information, product development, intellectual, artistic, literary, dramatic or musical rights, works, or other materials of any kind or nature (whether or not entitled to protection under applicable copyright laws, or reduced to or embodied in any medium or tangible form), including, without limitation, all copyrights, patents, trademarks, service marks, trade secrets, contract rights, titles, themes, stories, treatments, ideas, concepts, technologies, art work, logos, hardware, and software; (ii) such information as may be embodied in any and all computer programs, tapes, diskettes, disks, mailing lists, lists of actual or prospective customers and/or suppliers, notebooks, documents, memoranda, reports, files, correspondence, charts and lists; and (iii) all other written, printed or otherwise recorded material of any kind whatsoever and any other information, whether or not reduced to writing, including "know-how," ideas, concepts, research, processes, and plans. "Confidential Information" does not include information relating to Executive's working conditions or wages, information that is in the public domain, information that is generally known in the trade, or information that Executive can prove he acquired wholly independently of his employment with Employer.

5. **"Excluded Termination"**
means:

a. Executive's employment is terminated because of resignation (other than a Voluntary Termination for Good Reason that is a Qualifying Termination), retirement, death or disability;

b. Executive's employment is terminated because of (i) any act or omission that constitutes a breach by Executive of any of his material obligations under this Agreement; (ii) the continued failure or refusal of Executive, other than on account of death or disability of Executive, (A) to substantially perform the material duties required of him as President of Global Marketing and Product Planning of Employer and/or (B) to comply with reasonable directions of the CEO; (iii) any material violation by Executive of any (A) policy, rule or regulation of Employer or (B) any law or regulation applicable to the business of Employer or any of its affiliates; (iv) any other intentional misconduct by Executive that has a material detrimental effect on the financial condition or business reputation of the Employer or any of its affiliates; (v) Executive's conviction for the commission of an act or acts constituting a felony or a crime of moral turpitude punishable by imprisonment of 30 days or more under the laws of the United States or any State or subdivision thereof; or (vi) Executive's commission of any act of embezzlement, gross negligence or gross malfeasance; provided, that a termination pursuant to this clause b. (i), (ii) or (iii) shall not constitute an Excluded Termination unless all of the following provisions shall have been complied with: (A) Employer shall give Executive a written notice of Employer's intention to effect a termination, such notice to state in detail the particular circumstances that constitute the grounds on which the proposed termination is based; (B) Executive shall have 30 days after receiving such notice in which to cure such grounds; and (C) Executive fails, within such 30-day period, to cure such grounds to Employer's reasonable satisfaction. If Executive timely cures such grounds in accordance with the preceding sentence, such termination shall not constitute an Excluded Termination;

c. Executive fails to return to work after any leave of absence;
or

d. Executive voluntarily terminates his employment prior to the termination of employment date set forth in the notice of layoff, reduction in force, job elimination or restructuring, unless such termination constitutes a Voluntary Termination for Good Reason that is a Qualifying Termination.

6. **"Qualifying Termination"**
means:

a. An involuntary termination of employment by the Company by reason of a layoff, firing, reduction in force, job elimination or restructuring, and that is not an Excluded Termination; or

b. Solely within the 30 days preceding or the twelve months immediately following a Change in Control, a Voluntary Termination for Good Reason.

7. **"Release Consideration"** means the amount of the Severance Pay Amount that is equal to one-twelfth of Executive's Base Pay in effect at the date of termination of Executive's employment, which amount shall constitute consideration for Executive's delivery of the Waiver and Release Agreement.

8. **"Severance Period"** means the period over which severance payments are made as provided in Section 4.1.

9. **"Starz Group"** means Starz, a Delaware corporation (and any successor thereto) and its (or its successor's) direct and indirect subsidiaries and affiliates (defined for this purpose as any entity which is more than 50% owned) as of the date of determination, including Employer.

10. **"Voluntary Termination for Good Reason"** means Executive's termination of his employment with Employer upon the occurrence of any of the following events without the prior consent of Executive:

a. A significant reduction in Executive's then current Base Salary;

b. A significant reduction in Executive's title or duties with Employer or the assignment to Executive of duties that are inconsistent with Executive's position with Employer;

c. Employer requiring Executive to report to any position other than as set forth in Section 1.3 of this Agreement; or

d. The relocation of Executive's primary place of employment to a location that is more than 50 miles from Executive's primary place of employment as of Executive's termination date.

A Voluntary Termination for Good Reason shall not be effective unless all of the following provisions shall

have been complied with: (A) Executive shall give Employer a written notice of Executive's intention to effect a Voluntary Termination for Good Reason, such notice to state in detail the particular circumstances that constitute the grounds on which the proposed Voluntary Termination for Good Reason is based and to be given no later than 90 days after the initial occurrence of such circumstances; (B) Employer shall have 30 days after receiving such notice in which to cure such grounds; and (C) if Employer fails, within such 30-day period, to cure such grounds to Executive's reasonable satisfaction, Executive terminates his employment hereunder within 30 days following the last day of such 30-day period. If Employer timely cures such grounds in accordance with the preceding sentence, Executive shall not be entitled to terminate his employment pursuant to a Voluntary Termination for Good Reason based on such grounds.

11. **"Waiver and Release Agreement"** means the written agreement under which Executive agrees to release Employer and all others associated or affiliated with Employer from all legal claims associated with Executive's employment by Employer and to keep Starz Group information confidential and to not disparage any member of the Starz Group or any related person, such agreement to be in a form acceptable to, and provided by, Employer.

[Signature page follows]

IN WITNESS WHEREOF, Employer and Executive have signed this Employment Agreement to be effective on the Effective Date.

Starz Entertainment, LLC

By: /s/ Christopher P. Albrecht
Title: Chief Executive Officer
Date: July 20, 2015

/s/ Jeffrey Hirsch
Jeffrey Hirsch

SCHEDULE 1 TO
EMPLOYMENT AGREEMENT

1. Signing Bonus Restricted Share Grant: \$400,000 value of Restricted Shares to be priced on the Grant Date (as determined by the Compensation Committee) vesting 25% per year over 4 years and subject to other standard terms as set forth in the award agreement
2. Grant Date: As specified in 3(a) below; provided, however, that in the event that the Executive is subject to a blackout period (as such blackout period may be extended to the extent that such blackout period terminates during another blackout period under the Employer's insider trading policy, the "Blackout Period") during which Executive cannot trade in shares of STRZA Stock: (i) the Grant Date will be the first trading day after the end of the Blackout Period; (ii) the exercise price of the Options will be the closing sale price on the Grant Date as reported by Nasdaq; (iii) the number of shares subject to the Options will be determined by dividing the dollar value contemplated in this Schedule 1 by the value of an option as of the Grant Date, calculated using a Black-Scholes valuation based on assumptions for expected volatility, exercise behavior, the risk-free rate of return and dividend yield consistent with those used for valuing options in the Corporation's latest financial reports filed with the Securities Exchange Commission; and (iv) the number of Restricted Shares and Restricted Stock Units will be determined by dividing the dollar value contemplated in this Schedule 1 by the closing sales price per share of STRZA Stock on the Grant Date as reported by Nasdaq
3. Annual Equity Incentive: Target of 150% of annual Base Salary to be priced on the grant date (as determined by the Compensation Committee) and subject to the other standard terms of the award agreement, except as described below:
- a. Initial 2015 Annual Equity Grant Allocation (with such grant to be made on prior to December 31, 2015, subject to possible events of force majeure):
- | | | |
|------|-----|--|
| i) | 20% | Options (standard vesting - 4 years) |
| ii) | 40% | Restricted Share Units (standard time based vesting - 4 years) |
| iii) | 40% | Performance Based Restricted Share Units (vesting upon satisfaction of performance criteria) |
- b. Future Annual Equity Grant Allocation: The allocation of 2016 and future annual equity grants to be determined by the Compensation Committee (with such allocation to be on terms substantially similar to those afforded to Starz Group's senior executives)
4. Enhanced Relocation: \$125,000 increase to the Starz standard executive relocation allocation (as defined in the executive relocation package)
5. Incentive Plan: Means the Starz 2011 Incentive Plan (Amended and Restated as of October 15, 2013). Capitalized terms in this Schedule 1, to the extent defined in the Incentive Plan, have the meanings ascribed to them in the Incentive Plan, or in an award agreement under the Incentive Plan.

CERTIFICATION

I, Christopher P. Albrecht, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Starz;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2015

/s/ Christopher P. Albrecht
Christopher P. Albrecht
Chief Executive Officer

CERTIFICATION

I, Scott D. Macdonald, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Starz;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2015

/s/ Scott D. Macdonald

Scott D. Macdonald

Chief Financial Officer, Executive Vice President and Treasurer

Certification

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Starz, a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the period ended September 30, 2015 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 29, 2015

By: /s/ Christopher P. Albrecht

Name: Christopher P. Albrecht

Title: Chief Executive Officer (Principal Executive Officer)

Date: October 29, 2015

By: /s/ Scott D. Macdonald

Name: Scott D. Macdonald

Title: Chief Financial Officer, Executive Vice President and
Treasurer (Principal Financial Officer and Principal
Accounting Officer)

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.