

Cinedigm Corp.  
Form 10-Q  
November 14, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal period ended: September 30, 2014

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from --- to ---

Commission File Number: 000-31810

\_\_\_\_\_  
Cinedigm Corp.  
(Exact name of registrant as specified in its charter)

\_\_\_\_\_  
Delaware  
(State or Other Jurisdiction of Incorporation or  
Organization)

22-3720962  
(I.R.S. Employer Identification No.)

902 Broadway, 9th Floor New York, NY  
(Address of principal executive offices)  
(212) 206-8600  
(Registrant's telephone number, including area code)

10010  
(Zip Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class  
CLASS A COMMON STOCK, PAR VALUE \$0.001 PER  
SHARE

Name of each exchange on which registered  
NASDAQ GLOBAL MARKET

Securities registered pursuant to Section 12(g) of the Act:

NONE

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

Edgar Filing: Cinedigm Corp. - Form 10-Q

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   
(Do not check if a 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

As of November 10, 2014, 76,869,723 shares of Class A Common Stock, \$0.001 par value were outstanding.

---

CINEDIGM CORP.  
TABLE OF CONTENTS

	Page
PART I --	FINANCIAL INFORMATION
Item 1.	Financial Statements (Unaudited) <u>3</u>
	Condensed Consolidated Balance Sheets at September 30, 2014 (Unaudited) and March 31, 2014 <u>3</u>
	Unaudited Condensed Consolidated Statements of Operations for the Three and Six Months ended September 30, 2014 and 2013 <u>5</u>
	Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months ended September 30, 2014 and 2013 <u>6</u>
	Unaudited Condensed Consolidated Statements of Cash Flows for the Six Months ended September 30, 2014 and 2013 <u>7</u>
	Notes to Unaudited Condensed Consolidated Financial Statements <u>8</u>
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations <u>30</u>
Item 4.	Controls and Procedures <u>45</u>
PART II --	OTHER INFORMATION <u>45</u>
Item 1.	Legal Proceedings <u>45</u>
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds <u>45</u>
Item 3.	Defaults Upon Senior Securities <u>45</u>
Item 4.	Mine Safety Disclosures <u>45</u>
Item 5.	Other Information <u>45</u>
Item 6.	Exhibits <u>45</u>
Signatures	<u>47</u>
Exhibit Index	<u>48</u>

---

PART I - FINANCIAL INFORMATION  
 ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

CINEDIGM CORP.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In thousands, except for share and per share data)

	September 30, 2014	March 31, 2014
ASSETS	(Unaudited)	
Current assets		
Cash and cash equivalents	\$ 29,746	\$ 50,215
Accounts receivable, net	74,560	56,863
Inventory	3,185	3,164
Unbilled revenue	3,535	5,144
Prepaid and other current assets	18,635	8,698
Note receivable, current portion	103	112
Assets of discontinued operations, net of current liabilities	—	278
Total current assets	129,764	124,474
Restricted cash	6,751	6,751
Security deposits	346	269
Property and equipment, net	116,362	134,936
Intangible assets, net	34,295	37,639
Goodwill	32,701	25,494
Deferred costs, net	8,218	9,279
Accounts receivable, long-term	1,288	1,397
Note receivable, net of current portion	59	99
Assets of discontinued operations, net of current portion	—	5,660
Total assets	\$ 329,784	\$ 345,998

See accompanying notes to Condensed Consolidated Financial Statements

## CINEDIGM CORP.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except for share and per share data)

(continued)

	September 30, 2014 (Unaudited)	March 31, 2014
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 98,012	\$ 72,604
Current portion of notes payable, non-recourse	33,442	33,825
Current portion of notes payable	19,994	19,219
Current portion of capital leases	587	614
Current portion of deferred revenue	3,145	3,214
Total current liabilities	155,180	129,476
Notes payable, non-recourse, net of current portion	145,611	164,779
Notes payable, net of current portion	19,292	23,525
Capital leases, net of current portion	5,201	5,472
Deferred revenue, net of current portion	11,278	12,519
Total liabilities	336,562	335,771
Commitments and contingencies (see Note 6)		
Stockholders' (Deficit) Equity		
Preferred stock, 15,000,000 shares authorized;		
Series A 10% - \$0.001 par value per share; 20 shares authorized; 7 shares issued and outstanding at September 30, 2014 and March 31, 2014, respectively. Liquidation preference of \$3,648	3,559	3,559
Class A common stock, \$0.001 par value per share; 210,000,000 and 118,759,000 shares authorized; 76,839,407 and 76,571,972 shares issued and 76,787,967 and 76,520,532 shares outstanding at September 30, 2014 and March 31, 2014, respectively		
Class B common stock, \$0.001 par value per share; 1,241,000 shares authorized; 1,241,000 shares issued and 0 shares outstanding, at September 30, 2014 and March 31, 2014, respectively	77	76
Additional paid-in capital	—	—
Treasury stock, at cost; 51,440 Class A shares	276,696	275,519
Accumulated deficit	(172)	(172)
Accumulated other comprehensive loss	(286,871)	(268,686)
Total stockholders' (deficit) equity	(67)	(69)
Total liabilities and stockholders' (deficit) equity	(6,778)	10,227
	\$ 329,784	\$ 345,998

See accompanying notes to Condensed Consolidated Financial Statements

## CINEDIGM CORP.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except for share and per share data)

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2014	2013	2014	2013
Revenues	\$ 23,721	\$ 19,242	\$ 46,578	\$ 37,779
Costs and expenses:				
Direct operating (exclusive of depreciation and amortization shown below)	3,311	4,753	11,815	8,532
Selling, general and administrative	8,304	4,104	16,013	10,308
Provision for doubtful accounts	78	132	172	194
Transition and acquisition expenses	817	—	1,763	—
Depreciation and amortization of property and equipment	9,391	9,212	18,767	18,457
Amortization of intangible assets	1,464	409	3,349	827
Total operating expenses	23,365	18,610	51,879	38,318
Income (loss) from operations	356	632	(5,301)	(539)
Interest expense, net	(4,993)	(4,532)	(10,028)	(9,456)
Loss on investment in non-consolidated entity	—	(560)	—	(1,812)
Other (expense) income, net	(39)	113	100	247
Change in fair value of interest rate derivatives	84	(71)	(175)	758
Loss from continuing operations	(4,592)	(4,418)	(15,404)	(10,802)
Income (loss) from discontinued operations	293	(749)	442	(1,353)
Loss on sale of discontinued operations	(3,045)	—	(3,045)	—
Net loss	(7,344)	(5,167)	(18,007)	(12,155)
Preferred stock dividends	(89)	(89)	(178)	(178)
Net loss attributable to common stockholders	\$(7,433)	\$(5,256)	\$(18,185)	\$(12,333)
Net loss per Class A and Class B common share attributable to common shareholders - basic and diluted:				
Loss from continuing operations	\$(0.06)	\$(0.09)	\$(0.20)	\$(0.22)
Loss from discontinued operations	(0.04)	(0.01)	(0.03)	(0.02)
	\$(0.10)	\$(0.10)	\$(0.23)	\$(0.24)
Weighted average number of Class A and Class B common shares outstanding: basic and diluted	76,748,753	52,920,060	76,569,162	50,651,007

See accompanying notes to Condensed Consolidated Financial Statements

CINEDIGM CORP.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2014	2013	2014	2013
Net loss	\$ (7,344 )	\$ (5,167 )	\$ (18,007 )	\$ (12,155 )
Other comprehensive (loss) income: foreign exchange translation	(54 )	—	2	—
Comprehensive loss	\$ (7,398 )	\$ (5,167 )	\$ (18,005 )	\$ (12,155 )

See accompanying notes to Condensed Consolidated Financial Statements

CINEDIGM CORP.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)

	For the Six Months Ended September	
	30,	
	2014	2013
Cash flows from operating activities		
Net loss	\$(18,007	) \$(12,155
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss on disposal of business	3,045	—
Depreciation and amortization of property and equipment and amortization of intangible assets	22,116	19,492
Amortization of capitalized software costs	—	736
Amortization of debt issuance costs	886	566
Provision for doubtful accounts	172	194
Provision for inventory reserve	900	—
Stock-based compensation and expenses	1,073	1,277
Change in fair value of contingent consideration for business combination	—	(1,500
		)
Change in fair value of interest rate derivatives	175	(758
		)
Accretion and PIK interest expense added to note payable	1,222	1,076
Loss on investment in non-consolidated entity	—	1,812
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(17,743	) (5,101
		)
Inventory	(921	) —
Unbilled revenue	2,072	5,178
Prepaid expenses and other current assets	(9,077	) (1,719
		)
Other assets	224	(358
		)
Accounts payable and accrued expenses	18,018	9,119
Deferred revenue	(1,257	) (936
		)
Other liabilities	(351	) 37
Net cash provided by operating activities	2,547	16,960
Cash flows from investing activities:		
Net proceeds from disposal of business	2,950	—
Purchases of property and equipment	(620	) (618
		)
Purchases of intangible assets	(6	) —
Additions to capitalized software costs	(855	) (1,162
		)
Net cash provided by (used in) investing activities	1,469	(1,780
		)
Cash flows from financing activities:		
Repayment of notes payable	(29,115	) (21,519
		)
Borrowings under revolving credit facility	5,000	—
Principal payments on capital leases	(298	) (66
		)
Proceeds from issuance of Class A common stock	—	5,520
Costs associated with issuance of Class A common stock	(72	) (174
		)
Net cash used in financing activities	(24,485	) (16,239
		)
Net change in cash and cash equivalents	(20,469	) (1,059
		)



Edgar Filing: Cinedigm Corp. - Form 10-Q

Cash and cash equivalents at beginning of period	50,215	13,448
Cash and cash equivalents at end of period	\$29,746	\$12,389

See accompanying notes to Condensed Consolidated Financial Statements

7

---

CINEDIGM CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal periods ended September 30, 2014 and 2013

(\$ in thousands, except for share and per share data)

1. NATURE OF OPERATIONS

Cinedigm Corp. (formerly known as Cinedigm Digital Cinema Corp.) was incorporated in Delaware on March 31, 2000 ("Cinedigm", and collectively with its subsidiaries, the "Company"). The Company is (i) a leading distributor and aggregator of independent movie, television and other short form content managing a library of distribution rights to over 52,000 titles and episodes released across digital, physical, theatrical, home and mobile entertainment platforms as well as (ii) a leading servicer of digital cinema assets in over 12,000 movie screens in both North America and several international countries.

The Company reports its financial results in four primary segments as follows: (1) the first digital cinema deployment ("Phase I Deployment"), (2) the second digital cinema deployment ("Phase II Deployment"), (3) digital cinema services ("Services") and (4) media content and entertainment ("Content & Entertainment"). The Phase I Deployment and Phase II Deployment segments are the non-recourse, financing vehicles and administrators for the Company's digital cinema equipment (the "Systems") installed in movie theatres nationwide. The Services segment provides services and support to over 12,000 movie screens in the Phase I Deployment and Phase II Deployment segments as well as directly to exhibitors and other third party customers. Included in these services are Systems management services for a specified fee via service agreements with Phase I Deployment and Phase II Deployment as well as third party exhibitors as buyers of their own digital cinema equipment. These services facilitated the conversion from analog to digital cinema and have positioned the Company at what it believes to be the forefront of a rapidly developing industry relating to the distribution and management of digital cinema and other content to theatres and other remote venues worldwide. The Content & Entertainment segment provides content marketing and distribution services in both theatrical and ancillary home entertainment markets to independent movie, television and other short form content owners and to theatrical exhibitors. As a leading distributor of independent content, the Company collaborates with producers, major brands and other content owners to market, source, curate and distribute quality content to targeted and profitable audiences through (i) existing and emerging digital home entertainment platforms, including but not limited to, iTunes, Amazon Prime, Netflix, Hulu, Xbox, Playstation, cable video-on-demand ("VOD") and curated over-the-top ("OTT") digital entertainment channels and applications, (ii) physical goods, including DVD and Blu-ray and (iii) theatrical releases.

Gaiam Acquisition

On October 21, 2013, the Company and Cinedigm Entertainment Holdings, LLC ("CHE"), a wholly-owned subsidiary of the Company, acquired from Gaiam Americas, Inc. and Gaiam, Inc. (together, "Gaiam") their division ("GVE") that maintains exclusive distribution rights agreements with large independent studios/content providers, and distributes entertainment content through home video, digital and television distribution channels (the "GVE Acquisition"). The Company agreed to an aggregate purchase price of \$51,500, subject to a working capital adjustment, with (i) \$47,500 paid in cash and 666,978 shares of Class A Common Stock valued at \$1,000 issued upon the closing of the GVE Acquisition, and (ii) \$3,000 to be paid on a deferred basis, of which \$1,000 was paid during the fiscal year ended March 31, 2014 and the remainder was settled through the collection of a receivable during the fiscal year ended March 31, 2014. The working capital adjustment related to the purchase price has not yet been finalized between the Company and the sellers of GVE. Pending final resolution, such working capital adjustment, if any, will be recorded as adjustments to purchase considerations during the fiscal year ending March 31, 2015. Upon the closing of the GVE Acquisition, GVE became part of the Company's Content & Entertainment segment.

During the three months ended June 30, 2014, a measurement period adjustment to the purchase price allocation of the GVE Acquisition of \$2,450 was made to write off advances on the opening balance sheet of GVE due to conditions

that existed at the time of the GVE Acquisition. Additionally, during the three months ended September 30, 2014, a measurement period adjustment of \$4,757 was made to reflect the fair value of accounts payable and accrued expenses as a result of information communicated to the Company during October 2014, after the conclusion of a transition services agreement with the sellers of GVE and existed at the time of the GVE Acquisition. Such conditions, had they been identified as of March 31, 2014, would have increased the previously reported accounts payable and accrued expenses to \$77,361, prepaid and other current assets to \$6,222 and increased goodwill to \$32,701 on the consolidated balance sheets as of March 31, 2014.

The purchase price has been allocated to the identifiable net assets acquired as of the date of acquisition including any subsequent measurement period adjustments through September 30, 2014 as follows pending any final working capital adjustment:

8

---

Accounts receivable	\$15,524	
Inventory	2,224	
Advances	5,248	
Other assets	152	
Content library	17,211	
Supplier contracts and relationships	11,691	
Goodwill	24,159	
Total assets acquired	76,209	
Total liabilities assumed	(24,709	)
Total net assets acquired	\$51,500	

The Company estimates the useful life of the content library and supplier contracts and relationships to be 6 years and 8 years, respectively.

The fair values assigned to intangible assets were determined through the application of various commonly used and accepted valuation procedures and methods, including the multi-period excess earnings method. These valuation methods rely on management judgment, including expected future cash flows resulting from existing customer relationships, customer attrition rates, contributory effects of other assets utilized in the business, peer group cost of capital and royalty rates, and other factors. The valuation of tangible assets was preliminarily determined to approximate book value at the time of the GVE Acquisition. Useful lives for intangible assets were determined based upon the remaining useful economic lives of the intangible assets that are expected to contribute directly or indirectly to future cash flows. Goodwill is mainly attributable to the assembled workforce and synergies expected to arise from the GVE Acquisition.

#### Pro forma Information Related to the Acquisition of GVE

The following unaudited consolidated pro forma summary information for the three and six months ended September 30, 2014 and 2013 has been prepared by adjusting the historical data as set forth in the accompanying condensed consolidated statements of operations for the three and six months ended September 30, 2014 and 2013 to give effect to the GVE Acquisition as if it had occurred at April 1, 2013. The pro forma information does not reflect any cost savings from operating efficiencies or synergies that could result from the GVE Acquisition, nor does the pro forma reflect additional revenue opportunities following the GVE Acquisition.

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2014	2013	2014	2013
Revenue	\$23,721	\$31,359	\$46,578	\$58,365
Loss from continuing operations	\$(4,592	) \$(3,714	) \$(15,404	) \$(10,320
Net loss	\$(7,344	) \$(4,463	) \$(18,007	) \$(11,673
Net loss per share from continuing operations (basic and diluted)	\$(0.06	) \$(0.08	) \$(0.20	) \$(0.23

#### Sale of Software

During the fiscal year ended March 31, 2014, the Company made the strategic decision to discontinue, exit its software business and execute a plan of sale for Hollywood Software, Inc. d/b/a Cinedigm Software (“Software”), the Company's direct, wholly-owned subsidiary. Management concluded that it would be in the best interests of shareholders for the Company's focus to be toward theatrical releasing and aggregation and distribution of independent content, digitally and in the form of DVDs and Blu-Ray discs, and VOD, along with the growth and servicing of the existing digital cinema business. Further, management believed that Software, which was previously included in our Services segment, no longer yielded the same synergies across the Company's businesses as once existed.

As a consequence, it was determined that Software met the criteria for classification as held for sale/discontinued operations. As such, Software had been adjusted to reflect the fair value of its net assets and the consolidated financial statements and the notes



to consolidated financial statements presented herein have been recast solely to reflect, for all periods presented, the adjustments resulting from these changes in classification for discontinued operations.

On September 23, 2014, the Company completed the sale of Software to a third party and recognized a loss of \$3,045 during the three months ended September 30, 2014.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PRESENTATION AND CONSOLIDATION

The Company has incurred net losses historically and has an accumulated deficit of \$286,871 as of September 30, 2014. The Company also has significant contractual obligations related to its recourse and non-recourse debt for the remainder of the fiscal year ending March 31, 2015 and beyond. The Company may continue to generate net losses for the foreseeable future. Based on the Company's cash position at September 30, 2014, and expected cash flows from operations, management believes that the Company has the ability to meet its obligations through at least September 30, 2015. Failure to generate additional revenues, raise additional capital or manage discretionary spending could have an adverse effect on the Company's financial position, results of operations or liquidity.

The Company's consolidated financial statements include the accounts of Cinedigm, Access Digital Media, Inc. ("AccessDM"), ADM Cinema Corporation ("ADM Cinema") d/b/a the Pavilion Theatre (certain assets and liabilities of which were sold in May 2011), Christie/AIX, Inc. ("C/AIX") d/b/a Cinedigm Digital Cinema ("Phase 1 DC"), Vistachiarra Productions, Inc. f/k/a The Bigger Picture, currently d/b/a Cinedigm Content and Entertainment Group, Cinedigm Entertainment Corp. f/k/a New Video Group, Inc. ("New Video"), CHE, Access Digital Cinema Phase 2 Corp. ("Phase 2 DC"), Cinedigm Digital Cinema Australia Pty Ltd, Access Digital Cinema Phase 2 B/AIX Corp. ("Phase 2 B/AIX"), Cinedigm Digital Funding I, LLC ("CDF I") and Cinedigm DC Holdings LLC ("DC Holdings LLC"). Cinedigm Content and Entertainment Group, New Video and CHE are together referred to as CEG. Software comprises discontinued operations. All intercompany transactions and balances have been eliminated in consolidation.

The condensed consolidated balance sheet as of March 31, 2014, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements were prepared following the interim reporting requirements of the Securities and Exchange Commission ("SEC"). They do not include all disclosures normally made in financial statements contained in the Company's Annual Report on Form 10-K ("Form 10-K"). In management's opinion, all adjustments necessary for a fair presentation of financial position, the results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America ("GAAP") for the periods presented have been made. The results of operations for the respective interim periods are not necessarily indicative of the results to be expected for the full year. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the fiscal year ended March 31, 2014 filed with the SEC on June 26, 2014.

### INVESTMENT IN NON-CONSOLIDATED ENTITY

The Company indirectly owns 100% of the common equity of CDF2 Holdings, LLC ("Holdings"), which is a Variable Interest Entity ("VIE"), as defined in Accounting Standards Codification Topic 810 ("ASC 810"), "Consolidation". Holdings, a subsidiary of Phase 2 DC, which is wholly-owned by the Company, and its wholly-owned limited liability company, Cinedigm Digital Funding 2, LLC, were created for the purpose of capitalizing on the conversion of the exhibition industry from film to digital technology. Holdings assists customers in procuring the necessary equipment in the conversion of their Systems by providing the necessary financing, equipment, installation and related ongoing services. Holdings is a VIE, as defined in ASC 810, indirectly wholly-owned by the Company. ASC 810 requires the consolidation of VIEs by an entity that has a controlling financial interest in the VIE which entity is thereby defined as the primary beneficiary of the VIE. To be a primary beneficiary, an entity must have the power to direct the activities

of a VIE that most significantly impact the VIE's economic performance, among other factors. Although Holdings is indirectly wholly-owned by the Company, a third party, which also has a variable interest in Holdings, along with an independent third party manager and the Company must mutually approve all business activities and transactions that significantly impact Holdings' economic performance. The Company has thus assessed its variable interests in Holdings and determined that it is not the primary beneficiary of Holdings and therefore accounts for its investment in Holdings under the equity method of accounting. In completing our assessment, the Company identified the activities that it considers most significant to the economic performance of Holdings and determined that we do not have the power to direct those activities. As a result, Holdings' financial position and results of operations are not consolidated in the financial position and results of operations of the Company. The Company's net investment in Holdings is reflected as "Investment in non-consolidated entity, net" in the accompanying condensed consolidated balance sheets.

Holdings' total stockholder's deficit at September 30, 2014 was \$4,857. The Company has no obligation to fund the operating loss or the deficit beyond its initial investment of \$2,000, and accordingly, the Company currently carries its investment in Holdings at \$0.

Accounts receivable due from Holdings for service fees under its master service agreement as of September 30, 2014 and March 31, 2014 were \$445 and \$346, respectively, and are included within accounts receivable, net on the accompanying condensed consolidated balance sheets.

During the three months ended September 30, 2014 and 2013, the Company received \$276 and \$275 in aggregate revenues through digital cinema servicing fees from Holdings, respectively, which are included in revenues on the accompanying condensed consolidated statements of operations. During the six months ended September 30, 2014 and 2013, such amounts were \$571 and \$537, respectively.

#### RECLASSIFICATION

Certain reclassifications, principally for discontinued operations (see Note 3), have been made to the fiscal period ended September 30, 2013 condensed consolidated financial statements to conform to the current fiscal period ended September 30, 2014 presentation.

#### USE OF ESTIMATES

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates include the adequacy of accounts receivable reserves, return reserves, inventory reserves, recoupment of advances, minimum guarantees, assessment of goodwill and intangible asset impairment, valuation reserve for income taxes and estimates related to reserves and transactions subject to transition service agreements resulting from business acquisitions, among others. Actual results could differ from these estimates.

#### CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with an original maturity of three months or less to be "cash equivalents." The Company maintains bank accounts with major banks, which from time to time may exceed the Federal Deposit Insurance Corporation's insured limits. The Company periodically assesses the financial condition of the institutions and believes that the risk of any loss is minimal.

#### ACCOUNTS RECEIVABLE

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. Reserves are recorded primarily on a specific identification basis. Allowance for doubtful accounts amounted to \$1,058 and \$898 as of September 30, 2014 and March 31, 2014, respectively.

Within the Content & Entertainment segment, the Company recognizes the accounts receivable net of an estimated allowance for product returns and customer chargebacks at the time we recognize the original sale. We base the amount of the returns allowance and customer chargebacks upon historical experience and future expectations. Accounts receivable, long-term result from up-front activation fees earned from the Company's Systems deployments with extended payment terms that are discounted to their present value at prevailing market rates.



**ADVANCES**

Advances, which are recorded within prepaid and other current assets on the condensed consolidated balance sheets, represent amounts prepaid to studios or content producers for which the Company provides content distribution services and such advances, net of any impairment charges, are estimated to be fully recoupable as of the balance sheet dates.

## INVENTORY

Inventory consists of finished goods of owned physical DVD titles and is stated at the lower of cost (determined based on weighted average cost) or market. The Company identifies inventory items to be written down for obsolescence based on the item's sales status and condition. The Company writes down discontinued or slow moving inventories based on an estimate of the markdown to retail price needed to sell through our current stock level of the inventories.

## RESTRICTED CASH

In connection with the 2013 Term Loans issued in February 2013 and the 2013 Prospect Loan Agreement issued in February 2013 (collectively, see Note 4), the Company maintains cash restricted for repaying interest on the respective loans as follows:

	As of September 30, 2014	As of March 31, 2014
Reserve account related to the 2013 Term Loans (See Note 4)	\$5,751	\$5,751
Reserve account related to the 2013 Prospect Loan Agreement (See Note 4)	1,000	1,000
	\$6,751	\$6,751

## DEFERRED COSTS

Deferred costs primarily consist of unamortized debt issuance costs related to the 2013 Term Loans, 2013 Prospect Loan and Cinedigm Credit Agreement (see Note 4), which are principally amortized under the effective interest rate method over the terms of the respective debt.

## PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation expense is recorded using the straight-line method over the estimated useful lives of the respective assets as follows:

Computer equipment and software	3 - 5 years
Digital cinema projection systems	10 years
Machinery and equipment	3 - 10 years
Furniture and fixtures	3 - 6 years

Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the leasehold improvements. Maintenance and repair costs are charged to expense as incurred. Major renewals, improvements and additions are capitalized. Upon the sale or other disposition of any property and equipment, the cost and related accumulated depreciation and amortization are removed from the accounts and the gain or loss on disposal is included in the condensed consolidated statements of operations.

## ACCOUNTING FOR DERIVATIVE ACTIVITIES

Derivative financial instruments are recorded at fair value. The Company had three separate interest rate swap agreements (the "Interest Rate Swaps") to limit the Company's exposure to changes in interest rates related to the 2013 Term Loans which matured in June 2013. Additionally, the Company entered into two separate interest rate cap transactions during the fiscal year ended March 31, 2013, recorded in prepaid and other current assets on the condensed consolidated balance sheets, to limit the Company's exposure to interest rates related to the 2013 Term Loans and 2013 Prospect Loan. Changes in fair value of derivative financial instruments are either recognized in accumulated other comprehensive loss (a component of stockholders' deficit/equity) or in the condensed consolidated statements of operations depending on whether the derivative qualifies for hedge accounting. The Company has not sought hedge accounting treatment for these instruments and therefore, changes in the value of its Interest Rate Swaps

and caps were recorded in the condensed consolidated statements of operations (See Note 4).

#### FAIR VALUE MEASUREMENTS

The fair value measurement disclosures are grouped into three levels based on valuation factors:

Level 1 – quoted prices in active markets for identical investments

12

---

Level 2 – other significant observable inputs (including quoted prices for similar investments and market corroborated inputs)

Level 3 – significant unobservable inputs (including the Company’s own assumptions in determining the fair value of investments)

Assets and liabilities measured at fair value on a recurring basis use the market approach, where prices and other relevant information are generated by market transactions involving identical or comparable assets or liabilities.

The following tables summarize the levels of fair value measurements of the Company’s financial assets and liabilities:

	As of September 30, 2014			
	Level 1	Level 2	Level 3	Total
Restricted cash	\$6,751	\$—	\$—	\$6,751
Interest rate derivatives	—	545	—	545
	\$6,751	\$545	\$—	\$7,296
	As of March 31, 2014			
	Level 1	Level 2	Level 3	Total
Restricted cash	\$6,751	\$—	\$—	\$6,751
Interest rate derivatives	—	787	—	787
	\$6,751	\$787	\$—	\$7,538

The Company’s cash and cash equivalents, accounts receivable, unbilled revenue and accounts payable and accrued expenses are financial instruments and are recorded at cost in the condensed consolidated balance sheets. The estimated fair values of these financial instruments approximate their carrying amounts because of their short-term nature. The carrying amount of accounts receivable, long-term and notes receivable approximates fair value based on the discounted cash flows of that instrument using current assumptions at the balance sheet date. The fair value of fixed rate and variable rate debt is estimated by management based upon current interest rates available to the Company at the respective balance sheet date for arrangements with similar terms and conditions. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of notes payable and capital lease obligations approximates fair value.

#### IMPAIRMENT OF LONG-LIVED AND FINITE-LIVED ASSETS

The Company reviews the recoverability of its long-lived assets and finite-lived intangible assets, when events or conditions occur that indicate a possible impairment exists. The assessment for recoverability is based primarily on the Company’s ability to recover the carrying value of its long-lived and finite-lived assets from expected future undiscounted net cash flows. If the total of expected future undiscounted net cash flows is less than the total carrying value of the assets the asset is deemed not to be recoverable and possibly impaired. The Company then estimates the fair value of the asset to determine whether an impairment loss should be recognized. An impairment loss will be recognized if the difference between the fair value and the carrying value of the asset exceeds its fair value. Fair value is determined by computing the expected future undiscounted cash flows. During the three and six months ended September 30, 2014 and 2013, no impairment charge from continuing operations for long-lived assets or finite-lived assets was recorded.

#### GOODWILL

Goodwill is the excess of the purchase price paid over the fair value of the net assets of an acquired business. The Company’s process of evaluating goodwill for impairment involves the determination of fair value of its CEG goodwill reporting unit over its carrying value. The Company conducts its annual goodwill impairment analysis during the fourth quarter of each fiscal year, measured as of March 31, unless triggering events occur which require goodwill to

be tested at another date.

13

---

Information related to the goodwill allocated to the Company's Content & Entertainment segment is as follows:

As of March 31, 2013	\$8,542
Goodwill resulting from the GVE Acquisition	16,952
As of March 31, 2014	25,494
Measurement period adjustment - GVE Acquisition	2,450
As of June 30, 2014	27,944
Measurement period adjustment - GVE Acquisition	4,757
As of September 30, 2014	\$32,701

## REVENUE RECOGNITION

### Phase I Deployment and Phase II Deployment

Virtual print fees (“VPFs”) are earned, net of administrative fees, pursuant to contracts with movie studios and distributors, whereby amounts are payable by a studio to Phase 1 DC and to Phase 2 DC when movies distributed by the studio are displayed on screens utilizing the Company’s Systems installed in movie theatres. VPFs are earned and payable to Phase 1 DC based on a defined fee schedule with a reduced VPF rate year over year until the sixth year at which point the VPF rate remains unchanged through the tenth year. One VPF is payable for every digital title displayed per System. The amount of VPF revenue is dependent on the number of movie titles released and displayed using the Systems in any given accounting period. VPF revenue is recognized in the period in which the digital title first plays on a System for general audience viewing in a digitally-equipped movie theatre, as Phase 1 DC’s and Phase 2 DC’s performance obligations have been substantially met at that time.

Phase 2 DC’s agreements with distributors require the payment of VPFs, according to a defined fee schedule, for ten years from the date each system is installed; however, Phase 2 DC may no longer collect VPFs once “cost recoupment,” as defined in the agreements, is achieved. Cost recoupment will occur once the cumulative VPFs and other cash receipts collected by Phase 2 DC have equaled the total of all cash outflows, including the purchase price of all Systems, all financing costs, all “overhead and ongoing costs”, as defined, and including the Company’s service fees, subject to maximum agreed upon amounts during the three-year rollout period and thereafter. Further, if cost recoupment occurs before the end of the eighth contract year, a one-time “cost recoupment bonus” is payable by the studios to the Company. Any other cash flows, net of expenses, received by Phase 2 DC following the achievement of cost recoupment are required to be returned to the distributors on a pro-rata basis. At this time, the Company cannot estimate the timing or probability of the achievement of cost recoupment.

Alternative content fees (“ACFs”) are earned pursuant to contracts with movie exhibitors, whereby amounts are payable to Phase 1 DC and to Phase 2 DC, generally either a fixed amount or as a percentage of the applicable box office revenue derived from the exhibitor’s showing of content other than feature movies, such as concerts and sporting events (typically referred to as “alternative content”). ACF revenue is recognized in the period in which the alternative content first opens for audience viewing.

Revenues are deferred for up front exhibitor contributions and are recognized over the cost recoupment period, which is expected to be ten years.

### Services

Exhibitors who purchased and own Systems using their own financing in the Phase II Deployment, paid an upfront activation fee that is generally \$2 thousand per screen to the Company (the “Exhibitor-Buyer Structure”). These upfront activation fees are recognized in the period in which these exhibitor-owned Systems are ready for content, as the

Company has no further obligations to the customer, and are generally paid quarterly from VPF revenues over approximately one year. Additionally, the Company recognizes activation fee revenue of between \$1 and \$2 on Phase 2 DC Systems and for Systems installed by Holdings upon installation and such fees are generally collected upfront upon installation. The Company will then manage the billing and collection of VPFs and will remit all VPFs collected to the exhibitors, less an administrative fee that will approximate up to 10% of the VPFs collected.

The administrative fee related to the Phase I Deployment approximates 5% of the VPFs collected and an incentive service fee equal to 2.5% of the VPFs earned by Phase 1 DC. This administrative fee is recognized in the period in which the billing of VPFs occurs, as performance obligations have been substantially met at that time.

## Content & Entertainment

CEG earns fees for the distribution of content in the home entertainment markets via several distribution channels, including digital, VOD, and physical goods (e.g. DVD and Blu-ray) is typically based on the gross amounts billed to our customers less the amounts owed to the media studios or content producers under distribution agreements, and gross media sales of owned or licensed content. The fee rate earned by the Company varies depending upon the nature of the agreements with the platform and content providers. Generally, revenues are recognized at the availability date of the content for a subscription digital platform, at the time of shipment for physical goods, or point-of-sale for transactional and VOD services. Reserves for sales returns and other allowances are provided based upon past experience. If actual future returns and allowances differ from past experience, adjustments to our allowances may be required. Sales returns and allowances are reported net in accounts receivable and as a reduction of revenues.

CEG also has contracts for the theatrical distribution of third party feature movies and alternative content. CEG's distribution fee revenue and CEG's participation in box office receipts is recognized at the time a feature movie and alternative content is viewed. CEG has the right to receive or bill a portion of the theatrical distribution fee in advance of the exhibition date, and therefore such amount is recorded as a receivable at the time of execution, and all related distribution revenue is deferred until the third party feature movies' or alternative content's theatrical release date.

## Movie Cost Amortization

Once a movie is released, capitalized acquisition costs are amortized and participations and residual costs are accrued on an individual title basis in the proportion to the revenue recognized during the period for each title ("Period Revenue") bears to the estimated remaining total revenue to be recognized from all sources for each title ("Ultimate Revenue"). The amount of movie and other costs that is amortized each period will depend on the ratio of Period Revenue to Ultimate Revenue for each movie. The Company makes certain estimates and judgments of Ultimate Revenue to be recognized for each title. Ultimate Revenue does not include estimates of revenue that will be earned beyond 5 years of a movie's initial theatrical release date. Movie cost amortization is a component of direct operating costs within the condensed consolidated statements of operations.

Estimates of Ultimate Revenue and anticipated participation and residual costs are reviewed periodically in the ordinary course of business and are revised if necessary. A change in any given period to the Ultimate Revenue for an individual title will result in an increase or decrease in the percentage of amortization of capitalized movie and other costs and accrued participation and residual costs relative to a previous period. Depending on the performance of a title, significant changes to the future Ultimate Revenue may occur, which could result in significant changes to the amortization of the capitalized acquisition costs.

## DIRECT OPERATING COSTS

Direct operating costs consist of operating costs such as cost of goods sold, fulfillment expenses, shipping costs, property taxes and insurance on Systems, royalty expenses, marketing and direct personnel costs.

## PARTICIPATIONS PAYABLE

The Company records liabilities within accounts payable and accrued expenses on the condensed consolidated balance sheet, that represent amounts owed to studios or content producers for which the Company provides content distribution services for royalties owed under licensing arrangements. The Company identifies and records as a reduction to the liability any expenses that are to be reimbursed to the Company by such studios or content producers.

## STOCK-BASED COMPENSATION



During the three months ended September 30, 2014 and 2013, the Company recorded stock-based compensation from continuing operations of \$407 and \$499, respectively. During the six months ended September 30, 2014 and 2013, the Company recorded stock-based compensation from continuing operations of \$1,025 and \$1,183, respectively.

The weighted-average grant-date fair value of options granted during the three months ended September 30, 2014 and 2013 was \$1.09 and \$0.84, respectively. The weighted-average grant-date fair value of options granted during the six months ended September 30, 2014 and 2013 was \$1.27 and \$0.84, respectively. There were 6,623 stock options exercised during the three months ended September 30, 2014. There were 41,066 and 42,640 stock options exercised during the six months ended September 30, 2014 and 2013, respectively. There were no options exercised during the three months ended September 30, 2013.

The Company estimated the fair value of stock options at the date of each grant using a Black-Scholes option valuation model with the following assumptions:

Assumptions for Option Grants	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2014	2013	2014	2013
Range of risk-free interest rates	1.6 - 1.8%	1.4 - 1.6%	1.6 - 1.8%	0.7 - 1.6%
Dividend yield	—	—	—	—
Expected life (years)	5	5	5	5
Range of expected volatilities	71.4% - 71.5%	72.7 - 73.1%	71.4 - 72.3%	72.7 - 74.0%

The risk-free interest rate used in the Black-Scholes option pricing model for options granted under the Company's stock option plan awards is the historical yield on U.S. Treasury securities with equivalent remaining lives. The Company does not currently anticipate paying any cash dividends on common stock in the foreseeable future. Consequently, an expected dividend yield of zero is used in the Black-Scholes option pricing model. The Company estimates the expected life of options granted under the Company's stock option plans using both exercise behavior and post-vesting termination behavior, as well as consideration of outstanding options. The Company estimates expected volatility for options granted under the Company's stock option plans based on a measure of historical volatility in the trading market for the Company's common stock.

Employee and director stock-based compensation expense from continuing operations related to the Company's stock-based awards was as follows:

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2014	2013	2014	2013
Direct operating	\$3	\$1	\$6	\$3
Selling, general and administrative	404	498	1,019	1,180
	\$407	\$499	\$1,025	\$1,183

#### NET LOSS PER SHARE

Basic and diluted net loss per common share has been calculated as follows:

Basic and diluted net loss per common share	Net loss + preferred dividends
=	Weighted average number of common stock shares outstanding during the period

Shares issued and any shares that are reacquired during the period are weighted for the portion of the period that they are outstanding.

The Company incurred net losses for each of the three months ended September 30, 2014 and 2013 and, therefore, the impact of dilutive potential common shares from outstanding stock options and warrants, totaling 29,113,797 shares and 26,509,140 shares as of September 30, 2014 and 2013, respectively, were excluded from the computation as it would be anti-dilutive.

#### COMPREHENSIVE LOSS

As of September 30, 2014, the Company's other comprehensive loss consisted of net loss and foreign currency translation adjustments.

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards update which modifies the requirements for disposals to qualify as discontinued operations and expands related disclosure requirements. The update will be effective for the Company during the fiscal year ending March 31, 2015. The adoption of the update may impact whether future disposals qualify as discontinued operations and therefore could impact the Company's financial statement presentation and disclosures.

In May 2014, the FASB issued new accounting guidance on revenue recognition. The new standard provides for a single five-step model to be applied to all revenue contracts with customers as well as requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. The guidance will be effective for the Company during the fiscal year ending March 31, 2018. The Company intends to evaluate the impact of the adoption of this accounting standard update on its consolidated financial statements.

In June 2014, the FASB issued an accounting standards update which provides additional guidance on how to account for share-based payments where the terms of an award may provide that the performance target could be achieved after an employee completes the requisite service period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite period is treated as a performance condition. The guidance will be effective for the Company during the fiscal year ending March 31, 2017. The Company intends to evaluate the impact of the adoption of this accounting standard update on its consolidated financial statements, and may be applied (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. Earlier adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

In August 2014, the FASB amended accounting guidance pertaining to going concern considerations by company management. The amendments in this update state that in connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). The guidance will be effective for the Company during the fiscal year ending March 31, 2018. Early application is permitted. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

### 3. DISCONTINUED OPERATIONS

As discussed in Note 1, discontinued operations is principally comprised of the operations of Software.

The assets and liabilities of discontinued operations were comprised of the following:

	As of March 31, 2014
Current assets of discontinued operations:	
Accounts receivable, net	\$1,835
Unbilled revenue	534
Prepaid and other current assets	11
Total current assets of discontinued operations	2,380
Current liabilities of discontinued operations:	
Accounts payable and accrued expenses	668
Deferred revenue	1,434
Total current liabilities of discontinued operations	2,102
Current assets of discontinued operations, net of current liabilities	\$278
Property and equipment, net	\$474
Capitalized software, net	4,862
Unbilled revenue, net of current portion	324
Assets of discontinued operations, net of current portion	\$5,660



Edgar Filing: Cinedigm Corp. - Form 10-Q

The results of Software have been reported as discontinued operations for all periods presented. The income (loss) from discontinued operations was as follows:

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2014	2013	2014	2013
Revenues	\$919	\$1,125	\$1,968	\$2,213
Costs and Expenses:				
Direct operating (exclusive of depreciation and amortization shown below)	151	726	326	1,429
Selling, general and administrative	561	937	1,093	1,887
Research and development	5	41	14	47
Depreciation of property and equipment	—	163	—	193
Amortization of intangible assets	—	8	—	15
Total operating expenses	717	1,875	1,433	3,571
Income (loss) from operations	202	(750)	535	(1,358)
Interest income	—	7	—	11
Other expense, net	(8)	(6)	(93)	(6)
Income (loss) before benefit from income taxes	194	(749)	442	(1,353)
Benefit from income taxes	99	—	—	—
Income (loss) from discontinued operations, net of taxes	\$293	\$(749)	\$442	\$(1,353)

#### 4. NOTES PAYABLE

Notes payable consisted of the following:

	As of September 30, 2014		As of March 31, 2014	
	Current Portion	Long Term Portion	Current Portion	Long Term Portion
Notes Payable				
2013 Term Loans, net of debt discount	\$25,500	\$52,799	\$25,688	\$68,590
2013 Prospect Loan Agreement	—	68,975	—	68,454
KBC Facilities	7,755	23,187	7,961	27,009
P2 Vendor Note	115	427	105	466
P2 Exhibitor Notes	72	223	71	260
Total non-recourse notes payable	\$33,442	\$145,611	\$33,825	\$164,779
Cinedigm Term Loans	\$4,250	\$15,647	\$3,750	\$20,015
Cinedigm Revolving Loans	15,744	—	15,469	—
2013 Notes	—	3,645	—	3,510
Total recourse notes payable	\$19,994	\$19,292	\$19,219	\$23,525
Total notes payable	\$53,436	\$164,903	\$53,044	\$188,304

Non-recourse debt is generally defined as debt whereby the lenders' sole recourse with respect to defaults by the Company is limited to the value of the assets collateralized by the debt. The 2013 Term Loans are not guaranteed by the Company or its other subsidiaries, other than Phase 1 DC. The 2013 Prospect Loan Agreement is not guaranteed by the Company or its other subsidiaries and the service fees of Phase 1 DC and Phase 2 DC were assigned by the Company to DC Holdings LLC. The KBC Facilities, the P2 Vendor Note and the P2 Exhibitor Notes are not guaranteed by the Company or its other subsidiaries, other than Phase 2 DC.

#### 2013 Term Loans

On February 28, 2013, CDF I entered into an amended and restated credit agreement (the “2013 Credit Agreement”) with Société Générale, New York Branch, as administrative agent and collateral agent for the lenders party thereto and certain other secured parties (the “Collateral Agent”), and the lenders party thereto. The 2013 Credit Agreement amended and restated its prior credit

18

---

agreement. The primary changes effected by the Amended and Restated Credit Agreement were (i) changing the aggregate principal amount of the term loans to \$130,000, which included an assignment of \$5,000 of the principal balance to an affiliate of CDF I, (ii) changing the interest rate (described further below) and (iii) extending the term of the credit facility to February 2018. The proceeds of the term loans ("2013 Term Loans") under the 2013 Credit Agreement were used by CDF I to refinance its prior credit agreement.

Under the 2013 Credit Agreement, each of the 2013 Term Loans bears interest, at the option of CDF I and subject to certain conditions, based on the base rate (generally, the bank prime rate) or the LIBOR rate set at a minimum of 1.00%, plus a margin of 1.75% (in the case of base rate loans) or, 2.75% (in the case of LIBOR rate loans). All collections and revenues of CDF I are deposited into designated accounts, from which amounts are paid out on a monthly basis to pay certain operating expenses and principal, interest, fees, costs and expenses relating to the 2013 Credit Agreement according to certain designated priorities. On a quarterly basis, if funds remain after the payment of all such amounts, they will be applied to prepay the 2013 Term Loans. The 2013 Term Loans mature and must be paid in full by February 28, 2018. In addition, CDF I may prepay the 2013 Term Loans, in whole or in part, subject to paying certain breakage costs, if applicable. The LIBOR rate at September 30, 2014 was 0.15%.

The 2013 Credit Agreement also requires each of CDF I's existing and future direct and indirect domestic subsidiaries (the "Guarantors") to guarantee, under an Amended and Restated Guaranty and Security Agreement dated as of February 28, 2013 by and among CDF I, the Guarantors and the Collateral Agent (the "Guaranty and Security Agreement"), the obligations under the 2013 Credit Agreement, and all such obligations to be secured by a first priority perfected security interest in all of the collective assets of CDF I and the Guarantors, including real estate owned or leased, and all capital stock or other equity interests in C/AIX, the direct holder of CDF I's equity, CDF I and CDF I's subsidiaries. In connection with the 2013 Credit Agreement, AccessDM, a wholly-owned subsidiary of the Company and the direct parent of C/AIX, entered into an amended and restated pledge agreement dated as of February 28, 2013 (the "AccessDM Pledge Agreement") in favor of the Collateral Agent pursuant to which AccessDM pledged to the Collateral Agent all of the outstanding shares of common stock of C/AIX, and C/AIX entered into an amended and restated pledge agreement dated as of February 28, 2013 (the "C/AIX Pledge Agreement") in favor of the Collateral Agent pursuant to which C/AIX pledged to the Collateral Agent all of the outstanding membership interests of CDF I. The 2013 Credit Agreement contains customary representations, warranties, affirmative covenants, negative covenants and events of default.

All collections and revenues of CDF I are deposited into designated accounts. These amounts are included in cash and cash equivalents in the condensed consolidated balance sheets and are only available to pay certain operating expenses, principal, interest, fees, costs and expenses relating to the 2013 Credit Agreement, according to certain designated priorities, which totaled \$4,779 and \$6,493 as of September 30, 2014 and March 31, 2014, respectively. The Company also set up a debt service fund under the 2013 Credit Agreement for future principal and interest payments, classified as restricted cash of \$6,751 as of September 30, 2014 and March 31, 2014, respectively.

The balance of the 2013 Term Loans, net of the original issue discount, at September 30, 2014 was as follows:

	As of September 30, 2014	As of March 31, 2014
2013 Term Loans, at issuance, net	\$ 125,087	\$ 125,087
Payments to date	(46,558	) (30,543
Discount on 2013 Term Loans	(230	) (266
2013 Term Loans, net	78,299	94,278
Less current portion	(25,500	) (25,688
Total long term portion	\$ 52,799	\$ 68,590

#### 2013 Prospect Loan Agreement

On February 28, 2013, DC Holdings LLC, AccessDM and Phase 2 DC entered into a term loan agreement (the "2013 Prospect Loan Agreement") with Prospect Capital Corporation ("Prospect"), as administrative agent (the "Prospect



Administrative Agent”) and collateral agent (the “Prospect Collateral Agent”) for the lenders party thereto, and the other lenders party thereto pursuant to which DC Holdings LLC borrowed \$70,000 (the “2013 Prospect Loan”). The 2013 Prospect Loan, as subsequently amended, bears interest annually in cash at LIBOR plus 9.00% (with a 2.00% LIBOR floor) and at 2.50% to be accrued as an increase in the aggregate principal amount of the 2013 Prospect Loan until the 2013 Credit Agreement is paid off, at which time all interest will be payable in cash.

The 2013 Prospect Loan matures on March 31, 2021. The 2013 Prospect Loan may be accelerated upon a change in control (as defined in the Term Loan Agreement) or other events of default as set forth therein and would be subject to mandatory acceleration upon an insolvency of DC Holdings LLC. The 2013 Prospect Loan is payable on a voluntary basis after the second anniversary

of the initial borrowing in whole but not in part, subject to a prepayment penalty equal to 5.00% of the principal amount prepaid if the 2013 Prospect Loan is prepaid after the second anniversary but prior to the third anniversary of issuance, a prepayment penalty of 4.00% of the principal amount prepaid if the 2013 Prospect Loan is prepaid after such third anniversary but prior to the fourth anniversary of issuance, a prepayment penalty of 3.00% of the principal amount prepaid if the 2013 Prospect Loan is prepaid after such fourth anniversary but prior to the fifth anniversary of issuance, a prepayment penalty of 2.00% of the principal amount prepaid if the 2013 Prospect Loan is prepaid after such fifth anniversary but prior to the sixth anniversary of issuance, a prepayment penalty of 1.00% of the principal amount prepaid if the 2013 Prospect Loan is prepaid after such sixth anniversary but prior to the seventh anniversary of issuance, and without penalty if the 2013 Prospect Loan is prepaid thereafter, plus cash in an amount equal to the accrued and unpaid interest amount with respect to the principal amount through and including the prepayment date. In connection with the 2013 Prospect Loan, the Company assigned to DC Holdings LLC its rights to receive servicing fees under the Company's Phase I and Phase II deployments. Pursuant to a Limited Recourse Pledge Agreement (the "Limited Recourse Pledge") executed by the Company and a Guaranty, Pledge and Security Agreement (the "Prospect Guaranty and Security Agreement") among DC Holdings LLC, AccessDM, Phase 2 DC and Prospect, as Prospect Collateral Agent, the Prospect Loan is secured by, among other things, a first priority pledge of the stock of Holdings owned by the Company, the stock of AccessDM owned by DC Holdings LLC and the stock of Phase 2 DC owned by the Company, and guaranteed by AccessDM and Phase 2 DC. The Company provides limited financial support to the 2013 Prospect Loan not to exceed \$1,500 per year in the event financial performance does not meet certain defined benchmarks.

The 2013 Prospect Loan Agreement contains customary representations, warranties, affirmative covenants, negative covenants and events of default. The balance of the 2013 Prospect Loan Agreement at September 30, 2014 and March 31, 2014 was as follows:

	As of September 30, 2014	As of March 31, 2014
2013 Prospect Loan Agreement, at issuance	\$ 70,000	\$ 70,000
PIK Interest	2,777	1,906
Payments to date	(3,802	) (3,452
2013 Prospect Loan Agreement, net	68,975	68,454
Less current portion	—	—
Total long term portion	\$ 68,975	\$ 68,454

#### KBC Facilities

In December 2008, Phase 2 B/AIX, a direct wholly-owned subsidiary of Phase 2 DC and an indirect wholly-owned subsidiary of the Company, began entering into multiple credit facilities to fund the purchase of Systems from Barco, Inc. to be installed in movie theatres as part of the Company's Phase II Deployment. There were no draws on the KBC facilities during the six months ended September 30, 2014. A summary of the credit facilities is as follows:

Facility <sup>1</sup>	Credit Facility	Interest Rate <sup>2</sup>	Maturity Date	Outstanding Principal Balance	
				As of September 30, 2014	As of March 31, 2014
1	\$8,900	8.50	% December 2016	\$—	\$—
2	2,890	3.75	% December 2017	109	315
3	22,336	3.75	% September 2018	11,966	13,561
4	13,312	3.75	% September 2018	7,607	8,558
5	11,425	3.75	% March 2019	7,344	8,160
6	6,450	3.75	% December 2018	3,916	4,376
	\$65,313			\$30,942	\$34,970

<sup>1</sup> For each facility, principal is to be repaid in twenty-eight quarterly installments.

<sup>2</sup> The interest rate for facilities 2 through 6 are the three month LIBOR rate of 0.23% at September 30, 2014, plus the interest rate noted above.

20

---

## Cinedigm Credit Agreement

On October 17, 2013, the Company entered into a credit agreement (the “Cinedigm Credit Agreement”) with Société Générale, New York Branch, as administrative agent and collateral agent for the lenders party thereto and certain other secured parties (the “Collateral Agent”). Under the Cinedigm Credit Agreement and subject to the terms and conditions thereof, the Company may borrow an aggregate principal amount of up to \$55,000, including term loans of \$25,000 (the “Cinedigm Term Loans”) and revolving loans of up to \$30,000 (the “Cinedigm Revolving Loans”). All of the Cinedigm Term Loans, for which principal will be paid quarterly, and \$15,000 of the Cinedigm Revolving Loans were drawn at closing in connection with funding the GVE Acquisition upon the Company’s contribution of such funds. Each of the Cinedigm Term Loans and the Cinedigm Revolving Loans bears interest at the base rate plus 3.0% or the eurodollar rate plus 4.0%. Base rate, per annum, is equal to the highest of (a) the rate quoted by the Wall Street Journal as the “base rate on corporate loans by at least 75% of the nation’s largest banks,” (b) 0.50% plus the federal funds rate, and (c) the eurodollar rate plus 1.0%. All collections and revenues of CEG will be deposited into a special blocked account, from which amounts are paid out on a monthly basis to pay certain operating expenses and principal, interest, fees, costs and expenses relating to the Cinedigm Credit Agreement according to certain designated priorities. On a quarterly basis, if funds remain after the payment of all such amounts, a portion of such funds will be applied to prepay the Cinedigm Term Loans. The Cinedigm Term Loans and Cinedigm Revolving Loans mature and must be paid in full by October 21, 2016. In addition, the Company may prepay the Cinedigm Term Loans and Cinedigm Revolving Loans, in whole or in part, subject to paying certain breakage costs, as applicable.

The balance of the Cinedigm Term Loans as of September 30, 2014 and March 31, 2014 was as follows:

	As of September 30, 2014	As of March 31, 2014
Cinedigm Term Loans, at issuance, net	\$ 25,000	\$ 25,000
Payments to date	(4,808	) (875 )
Discount on Cinedigm Term Loans	(295	) (360 )
Cinedigm Term Loans, net	19,897	23,765
Less current portion	(4,250	) (3,750 )
Total long term portion	\$ 15,647	\$ 20,015

At September 30, 2014 and March 31, 2014, the balances of the Cinedigm Revolving Loans were \$15,744 and \$15,469, respectively.

In August 2014, the Company increased its borrowings under the Cinedigm Revolving Loans by \$5,000 for working capital purposes.

## 2013 Notes

On October 17, 2013 and October 21, 2013, the Company entered into securities purchase agreements (the “Securities Purchase Agreements”) with certain investors party thereto (the “Investors”) pursuant to which the Company agreed to sell to the Investors notes in the aggregate principal amount of \$5,000 (the “2013 Notes”) and warrants to purchase an aggregate of 1,500,000 shares of Class A Common Stock (the “2013 Warrants”). The sales were consummated on October 21, 2013. The proceeds of the sales of the 2013 Notes and 2013 Warrants were used for working capital and general corporate purposes, including to finance, in part, the GVE Acquisition. The Company allocated a proportional value of \$1,598 to the 2013 Warrants using a Black-Scholes option valuation model with the following assumptions:

Risk free interest rate	1.38	%
Dividend yield	—	
Expected life (years)	5	
Expected volatility	76.25	%

The Company has treated the proportional value of the 2013 Warrants of \$1,598 as a debt discount. The debt discount of the 2013 Notes will be amortized through the maturity of the 2013 Notes as interest expense.

The principal amount outstanding under the 2013 Notes is due on October 21, 2018. The 2013 Notes bear interest at 9.0% per annum, payable in quarterly installments over the term of the 2013 Notes. The 2013 Notes entitle the Company to redeem the 2013 Notes any time on or after October 21, 2015, subject to certain premiums.

## Letters of Credit

As of September 30, 2014, outstanding letters of credit amounted to \$7,000. No amounts were drawn upon during the three months ended September 30, 2014.

At September 30, 2014, the Company was in compliance with all of its debt covenants.

## 5. STOCKHOLDERS' (DEFICIT) EQUITY

### CAPITAL STOCK

#### COMMON STOCK

In September 2014, the Company increased the number of shares of Class A Common Stock authorized for issuance by 91,241,000 shares and designated the additional shares as Class A Common Stock.

As of September 30, 2014 and March 31, 2014, the Company has 210,000,000 and 118,759,000 authorized shares of Class A Common Stock and 1,241,000 shares of authorized Class B Common Stock of which none remain available for issuance.

#### PREFERRED STOCK

Cumulative dividends in arrears on the preferred stock at September 30, 2014 and March 31, 2014 were \$89 on each date. In October 2014, the Company paid its preferred stock dividends accrued at September 30, 2014 in the form of 56,794 shares of its Class A Common Stock.

### CINEDIGM'S EQUITY INCENTIVE PLAN

#### Stock Options

Awards under the Company's equity incentive plan (the "Plan") may be in any of the following forms (or a combination thereof) (i) stock option awards; (ii) stock appreciation rights; (iii) stock or restricted stock or restricted stock units; or (iv) performance awards. The Plan provides for the granting of incentive stock options ("ISOs") with exercise prices not less than the fair market value of the Company's Class A Common Stock on the date of grant. ISOs granted to shareholders of more than 10% of the total combined voting power of the Company must have exercise prices of at least 110% of the fair market value of the Company's Class A Common Stock on the date of grant. ISOs and non-statutory stock options granted under the Plan are subject to vesting provisions, and exercise is subject to the continuous service of the participant. The exercise prices and vesting periods (if any) for non-statutory options are set at the discretion of the Company's compensation committee. Upon a change of control of the Company, all stock options (incentive and non-statutory) that have not previously vested will vest immediately and become fully exercisable. In connection with the grants of stock options under the Plan, the Company and the participants have executed stock option agreements setting forth the terms of the grants.

The Plan previously provided for the issuance of up to 9,300,000 shares of Class A Common Stock to employees, outside directors and consultants. After approval by the Company's stockholders on September 16, 2014, the Company amended the Plan to increase the total number of shares of the Company's Class A Common Stock available for issuance to 14,300,000 shares.

During the six months ended September 30, 2014, the Company granted stock options to purchase 740,125 shares of its Class A Common Stock to its employees at exercise prices ranging from \$1.81 to \$2.66 per share, which will vest ratably over a four year period. As of September 30, 2014, the weighted average exercise price for outstanding stock options was \$1.80 and the weighted average remaining contractual life was 5.47 years.

The following table summarizes the activity of the Plan related to shares issuable pursuant to outstanding options:

	Shares Under Option	Weighted Average Exercise Price Per Share
Balance at March 31, 2014	6,072,986	\$ 1.74

Edgar Filing: Cinedigm Corp. - Form 10-Q

Granted	740,125	2.11
Exercised	(41,066 )	1.72
Canceled	(412,623 )	1.78
Balance at September 30, 2014	6,359,422	1.80

22

---

#### OPTIONS GRANTED OUTSIDE CINEDIGM'S EQUITY INCENTIVE PLAN

In October 2013, the Company issued options outside of the Equity Incentive Plan to 10 employees who joined the Company following the GVE Acquisition. The employees received options to purchase an aggregate of 620,000 shares of the Company's Class A Common Stock. The options have ten-year terms and an exercise price of \$1.75 per share. As of September 30, 2014, there were 515,000 unvested options outstanding.

#### WARRANTS

As of September 30, 2014, outstanding warrants consisted of 16,000,000 held by Sageview ("Sageview Warrants"), 525,000 held by a strategic management service provider and the 2013 Warrants.

The Sageview Warrants were exercisable beginning on September 30, 2009 at an exercise price of \$1.37, contain a customary cashless exercise provision and anti-dilution adjustments, and expire on August 11, 2016 (subject to extension in limited circumstances).

The strategic management service provider warrants were issued in connection with a consulting management services agreement entered into with the Company. These warrants for the purchase of 525,000 shares of Class A common stock vested over 18 months commencing in July 2011, are subject to termination with 90 days notice in the event of termination of the consulting management services agreement and expire on July 1, 2021.

The 2013 Warrants will be exercisable through October 21, 2018 at an exercise price per share of \$1.85. The 2013 Warrants and 2013 Notes are subject to certain transfer restrictions. As of September 30, 2014, 1,250,625 of the 2013 Warrants were outstanding.

#### 6.COMMITMENTS AND CONTINGENCIES

The Company is subject to a capital lease obligation where we have no continuing involvement other than being the primary obligor. A sub-lease agreement, pursuant to which an unrelated third party purchaser pays the capital lease, was amended during January 2013. The impact of the capital lease amendment to the Company's condensed consolidated financial statements was not material.

#### LITIGATION

##### Gaiam Dispute

In August 2014, the Company sent a demand letter to Gaiam notifying Gaiam of the Company's intent to pursue mediation and, if necessary, arbitration with respect to certain claims resulting from the GVE Acquisition. The Company believes that (i) Gaiam materially breached its representations and warranties under the Membership Interest Purchase Agreement (the "MIPA"), (ii) Gaiam engaged in tortious acts in connection with the sale, (iii) the amount of Working Capital in the business unit was substantially below that required under the terms of the MIPA and is subject to a working capital adjustment, (iv) Gaiam breached the Transition Services Agreement ("TSA"), resulting in additional costs to the Company and potential losses associated with the non-collection of Company accounts receivables, and (v) Gaiam breached the terms of other agreements related to the transfer of cash from collected accounts receivables, resulting in the slowdown of receipt of such cash by the Company. The Company is seeking in excess of \$13.0 million in a Working Capital adjustment, as well as damages related to Gaiam's purported financial and business misrepresentations and the Company's other claims. The Company may also seek specific performance for certain breaches by Gaiam. While Gaiam has not formally asserted any counterclaims, Gaiam has indicated that it believes it has counterclaims against the Company related to the amount of Working Capital and an allegation that the Company breached the TSA. We believe that our claims have merit and intend to pursue them vigorously. If Gaiam were to assert counterclaims, the Company believes they would be without merit. No formal



arbitration proceedings have yet been initiated, and at this early stage, there can be no assurance as to the likelihood of success on the merits.

We are subject to certain legal proceedings in the ordinary course of business. We do not expect any such items to have a significant impact on our financial position and results of operations and liquidity.

## 7. SUPPLEMENTAL CASH FLOW INFORMATION

	For the Six Months Ended September 30,	
	2014	2013
Cash interest paid	\$ 8,474	\$ 9,077
Accretion of preferred stock discount	\$ —	\$ 54
Accrued dividends on preferred stock	\$ 178	\$ 178
Issuance of common stock for payment of preferred stock dividends	\$ 178	\$ 89
Deferred consideration recorded in connection with sale of business	\$ 1,050	\$ —
Assets acquired under capital leases	\$ —	\$ 84

## 8. SEGMENT INFORMATION

The Company is comprised of four reportable segments: Phase I Deployment, Phase II Deployment, Services and Content & Entertainment. The segments were determined based on the products and services provided by each segment and how management reviews and makes decisions regarding segment operations. Performance of the segments is evaluated on the segment's income (loss) from continuing operations before interest, taxes, depreciation and amortization.

The Phase I Deployment and Phase II Deployment segments consist of the following:

Operations of:	Products and services provided:
Phase 1 DC	Financing vehicles and administrators for the Company's 3,724 Systems installed nationwide in Phase 1 DC's deployment to theatrical exhibitors. The Company retains ownership of the Systems and the residual cash flows related to the Systems after the repayment of all non-recourse debt at the expiration of exhibitor master license agreements.
Phase 2 DC	Financing vehicles and administrators for the Company's 8,915 Systems installed in the second digital cinema deployment and international deployments, through Phase 2 DC. The Company retains no ownership of the residual cash flows and digital cinema equipment after the completion of cost recoupment and at the expiration of the exhibitor master license agreements.

The Services segment provides monitoring, billing, collection, verification and other management services to the Company's Phase I Deployment, Phase II Deployment, Holdings, as well as to exhibitors who purchase their own equipment. Services also collects and disburses VPFs from motion picture studios and distributors and ACFs from alternative content providers, movie exhibitors and theatrical exhibitors.

The Content & Entertainment segment, or CEG, is a leading distributor of independent content, collaborates with producers and other content owners to market, source, curate and distribute independent content to targeted and profitable audiences in theatres and homes, and via mobile and emerging platforms.

Information related to the segments of the Company and its subsidiaries is detailed below:

	As of September 30, 2014					
	Phase I	Phase II	Services	Content & Entertainment	Corporate	Consolidated
Total intangible assets, net	\$ 275	\$ —	\$ —	\$ 34,010	\$ 10	\$ 34,295
Total goodwill	\$ —	\$ —	\$ —	\$ 32,701	\$ —	\$ 32,701
Total assets	\$ 94,065	\$ 68,908	\$ 2,745	\$ 144,304	\$ 19,762	\$ 329,784
Notes payable, non-recourse	\$ 147,272	\$ 31,781	\$ —	\$ —	\$ —	\$ 179,053
Notes payable	—	—	—	—	39,286	39,286
Capital leases	—	—	—	83	5,705	5,788
Total debt	\$ 147,272	\$ 31,781	\$ —	\$ 83	\$ 44,991	\$ 224,127
	As of March 31, 2014					
	Phase I	Phase II	Services	Content & Entertainment	Corporate	Consolidated
Total intangible assets, net	\$ 298	\$ —	\$ —	\$ 37,333	\$ 8	\$ 37,639
Total goodwill	\$ —	\$ —	\$ —	\$ 25,494	\$ —	\$ 25,494
Assets from continuing operations	\$ 109,538	\$ 66,957	\$ 3,848	\$ 124,226	\$ 35,491	340,060
Net assets from discontinued operations						5,938
Total assets						\$ 345,998
Notes payable, non-recourse	\$ 162,732	\$ 35,872	\$ —	\$ —	\$ —	\$ 198,604
Notes payable	—	—	—	—	42,744	42,744
Capital leases	—	—	—	81	6,005	6,086
Total debt	\$ 162,732	\$ 35,872	\$ —	\$ 81	\$ 48,749	\$ 247,434

Statements of Operations  
For the Three Months Ended September 30, 2014  
(Unaudited)

	Phase I	Phase II	Services	Content & Entertainment	Corporate	Consolidated
Total consolidated revenues	\$8,812	\$3,038	\$2,863	\$9,008	\$—	\$23,721
Direct operating (exclusive of depreciation and amortization shown below)	221	137	1	2,952	—	3,311
Selling, general and administrative	183	34	212	4,808	3,067	8,304
Plus: Allocation of Corporate overhead	—	—	459	1,336	(1,795	) —
Provision for doubtful accounts	36	34	8	—	—	78
Transition and acquisition expenses, net	—	—	—	576	241	817
Depreciation and amortization of property and equipment	7,138	1,881	53	51	268	9,391
Amortization of intangible assets	12	—	—	1,451	1	1,464
Total operating expenses	7,590	2,086	733	11,174	1,782	23,365
Income (loss) from operations	\$1,222	\$952	\$2,130	\$(2,166	) \$(1,782	) \$356

The following employee and director stock-based compensation expense related to the Company's stock-based awards is included in the above amounts as follows:

	Phase I	Phase II	Services	Content & Entertainment	Corporate	Consolidated
Direct operating	\$—	\$—	\$—	\$3	\$—	\$3
Selling, general and administrative	—	—	6	65	333	404
Total stock-based compensation	\$—	\$—	\$6	\$68	\$333	\$407

Statements of Operations  
For the Three Months Ended September 30, 2013  
(Unaudited)

	Phase I	Phase II	Services	Content & Entertainment	Corporate	Consolidated	
Revenues from external customers	\$9,374	\$3,161	\$2,989	\$3,718	\$—	\$19,242	
Intersegment revenues (1)	—	—	5	21	—	26	
Total segment revenues	9,374	3,161	2,994	3,739	—	19,268	
Less: Intersegment revenues	—	—	(5	) (21	) —	(26	)
Total consolidated revenues	\$9,374	\$3,161	\$2,989	\$3,718	\$—	\$19,242	
Direct operating (exclusive of depreciation and amortization shown below)	202	141	69	4,341	—	4,753	
Selling, general and administrative	96	40	206	2,773	989	4,104	
Plus: Allocation of Corporate overhead	—	—	538	692	(1,230	) —	
Provision for doubtful accounts	102	16	14	—	—	132	
Depreciation and amortization of property and equipment	7,138	1,880	36	6	152	9,212	
Amortization of intangible assets	12	1	—	396	—	409	
Total operating expenses	7,550	2,078	863	8,208	(89	) 18,610	
Income (loss) from operations	\$1,824	\$1,083	\$2,126	\$(4,490	) \$89	\$632	

(1) Intersegment revenues principally represent personnel expenses.

The following employee and director stock-based compensation expense related to the Company's stock-based awards is included in the above amounts as follows:

	Phase I	Phase II	Services	Content & Entertainment	Corporate	Consolidated
Direct operating	\$—	\$—	\$—	\$1	\$—	\$1
Selling, general and administrative	—	—	8	21	469	498
Total stock-based compensation	\$—	\$—	\$8	\$22	\$469	\$499

Statements of Operations  
For the Six Months Ended September 30, 2014  
(Unaudited)

	Phase I	Phase II	Services	Content & Entertainment	Corporate	Consolidated
Total consolidated revenues	\$ 18,296	\$ 6,209	\$ 5,923	\$ 16,150	\$—	\$ 46,578
Direct operating (exclusive of depreciation and amortization shown below)	465	274	52	11,024	—	11,815
Selling, general and administrative	278	73	412	9,302	5,948	16,013
Plus: Allocation of Corporate overhead	—	—	925	2,689	(3,614	) —
Provision for doubtful accounts	96	55	21	—	—	172
Transition and acquisition expenses, net	—	—	—	1,418	345	1,763
Depreciation and amortization of property and equipment	14,275	3,762	106	92	532	18,767
Amortization of intangible assets	23	—	—	3,324	2	3,349
Total operating expenses	15,137	4,164	1,516	27,849	3,213	51,879
Income (loss) from operations	\$ 3,159	\$ 2,045	\$ 4,407	\$ (11,699	) \$(3,213	) \$(5,301

The following employee and director stock-based compensation expense related to the Company's stock-based awards is included in the above amounts as follows:

	Phase I	Phase II	Services	Content & Entertainment	Corporate	Consolidated
Direct operating	\$—	\$—	\$—	\$6	\$—	\$6
Selling, general and administrative	—	—	10	129	880	1,019
Total stock-based compensation	\$—	\$—	\$ 10	\$ 135	\$ 880	\$ 1,025

Statements of Operations  
For the Six Months Ended September 30, 2013  
(Unaudited)

	Phase I	Phase II	Services	Content & Entertainment	Corporate	Consolidated	
Revenues from external customers	\$ 18,293	\$ 6,115	\$ 6,379	\$ 6,992	\$—	\$ 37,779	
Intersegment revenues (1)	—	—	11	32	—	43	
Total segment revenues	18,293	6,115	6,390	7,024	—	37,822	
Less: Intersegment revenues	—	—	(11	) (32	) —	(43	)
Total consolidated revenues	\$ 18,293	\$ 6,115	\$ 6,379	\$ 6,992	\$—	\$ 37,779	
Direct operating (exclusive of depreciation and amortization shown below)	357	283	167	7,725	—	8,532	
Selling, general and administrative	159	127	425	5,527	4,070	10,308	
Plus: Allocation of Corporate overhead	—	—	1,038	1,425	(2,463	) —	
Provision for doubtful accounts	145	30	19	—	—	194	
Depreciation and amortization of property and equipment	14,275	3,761	108	10	303	18,457	
Amortization of intangible assets	23	3	—	800	1	827	
Total operating expenses	14,959	4,204	1,757	15,487	1,911	38,318	
Income (loss) from operations	\$ 3,334	\$ 1,911	\$ 4,622	\$ (8,495	) \$(1,911	) \$(539	)

(1) Intersegment revenues principally represent personnel expenses.

The following employee and director stock-based compensation expense related to the Company's stock-based awards is included in the above amounts as follows:

	Phase I	Phase II	Services	Content & Entertainment	Corporate	Consolidated
Direct operating	\$—	\$—	\$—	\$3	\$—	\$3
Selling, general and administrative	—	—	16	42	1,122	1,180
Total stock-based compensation	\$—	\$—	\$ 16	\$ 45	\$ 1,122	\$ 1,183

#### 9.RESTRUCTURING, TRANSITION AND ACQUISITION EXPENSES

During the fiscal year ended March 31, 2014, the Company completed a strategic assessment of its resource requirements within its Content & Entertainment reporting segment which were principally attributed to the integration of the GVE Acquisition. Transition and acquisition expenses of \$817 and \$1,763 for the three and six months ended September 30, 2014, respectively, are attributed to the continued integration of GVE and ongoing alignment of resources to our content and entertainment business.

A summary of activity for the restructuring accrual included within accounts payable and accrued expenses as of September 30, 2014 is as follows:

Balance at March 31, 2014	Total Cost	Amounts Paid/Adjusted	Balance at September 30, 2014
\$ 1,019	\$—	\$ (687	) \$ 332





## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our historical consolidated financial statements and the related notes included elsewhere in this document.

This report contains forward-looking statements within the meaning of the federal securities laws. These include statements about our expectations, beliefs, intentions or strategies for the future, which are indicated by words or phrases such as “believes,” “anticipates,” “expects,” “intends,” “plans,” “will,” “estimates,” and similar words. Forward-looking statements represent, as of the date of this report, our judgment relating to, among other things, future results of operations, growth plans, sales, capital requirements and general industry and business conditions applicable to us. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, assumptions and other factors, some of which are beyond the Company’s control that could cause actual results to differ materially from those expressed or implied by such forward-looking statements.

### OVERVIEW

Cinedigm Corp. (formerly known as Cinedigm Digital Cinema Corp.) was incorporated in Delaware on March 31, 2000 (“Cinedigm”, and collectively with its subsidiaries, the “Company”). Cinedigm is (i) a leading distributor of independent movie, television and other short form content managing a library of distribution rights to over 52,000 titles and episodes released across theatrical, digital, physical, home and mobile entertainment platforms as well as (ii) a leading servicer of digital cinema assets on over 12,000 movie screens in both North America and several international countries.

Over the past decade, the Company has played a significant role in the digital distribution revolution that continues to transform the media landscape. In addition to its pioneering role in transitioning over 12,000 movie screens from traditional analog film prints to digital distribution, the Company, through both organic growth and acquisitions, has become a leading distributor of independent content. The Company distributes products for major brands such as the NFL, Discovery Networks, National Geographic and Scholastic as well as leading international and domestic content creators, movie producers, television producers and other short form digital content producers. Cinedigm collaborates with producers, major brands and other content owners to market, source, curate and distribute quality content to targeted and profitable audiences through (i) existing and emerging digital home entertainment platforms, including but not limited to, iTunes, Amazon Prime, Netflix, Hulu, Xbox, Playstation, VOD and curated OTT digital entertainment channels and applications, (ii) physical goods, including DVD and Blu-ray and (iii) theatrical releases.

The Company reports its financial results in four primary segments as follows: (1) Phase I Deployment, (2) Phase II Deployment, (3) Services and (4) Content & Entertainment. The Phase I Deployment and Phase II Deployment segments are the non-recourse, financing vehicles and administrators for the Company's Systems installed in North American movie theatres. The Services segment provides services, software and support to the Phase I Deployment and Phase II Deployment segments as well as directly to exhibitors and other third party customers. Included in these services are asset management services for a specified fee via service agreements with Phase I Deployment and Phase II Deployment as well as third party exhibitors as buyers of their own digital cinema equipment; and software license, maintenance and consulting services to Phase I and Phase II Deployment, various other exhibitors, studios and other content organizations. These services primarily facilitate the conversion from analog to digital cinema and have positioned the Company at what it believes to be the forefront of a rapidly developing industry relating to the distribution and management of digital cinema and other content to theatres and other remote venues worldwide. The Content & Entertainment segment is a market leader in three key areas of entertainment content distribution - ancillary market aggregation and distribution, theatrical releasing and branded and curated OTT digital entertainment channels and applications.



The following organizational chart provides a graphic representation of our business and our four reporting segments:

We have incurred consolidated net losses from continuing operations, including the results of our non-recourse deployment subsidiaries, of \$15.4 million and \$10.8 million during the six months ended September 30, 2014 and 2013, respectively, and we have an accumulated deficit of \$286.9 million as of September 30, 2014. Included within the six months ended September 30, 2014 were \$1.8 million of transition and acquisition expenses. We also have significant contractual obligations related to our non-recourse and recourse debt for the fiscal year ended March 31, 2015 and beyond. We may continue generating consolidated net losses for the foreseeable future. Based on our cash position at September 30, 2014, and expected cash flows from operations, we believe that we have the ability to meet our obligations through at least September 30, 2015. Failure to generate additional revenues, raise additional capital or manage discretionary spending could have an adverse effect on our financial position, results of operations or liquidity.

## Results of Continuing Operations for the Three Months Ended September 30, 2014 and 2013

## Revenues

(\$ in thousands)	For the Three Months Ended September 30,			
	2014	2013	\$ Change	% Change
Phase I Deployment	\$8,812	\$9,374	\$(562)	(6)%
Phase II Deployment	3,038	3,161	(123)	(4)%
Services	2,863	2,989	(126)	(4)%
Content & Entertainment	9,008	3,718	5,290	142%
	\$23,721	\$19,242	\$4,479	23%

Revenues increased \$4.5 million or 23% during the three months ended September 30, 2014. Growth in revenues in Content and Entertainment were partially offset by decreases in revenues from Phase I and Phase II Deployments and Services.

Phase 1 and Phase 2 Deployment revenues decreased by 5% for the three months ended September 30, 2014 as VPFs decreased due to one less wide release title and five seasonal wide release titles being released during the current quarter as compared to seven seasonal wide release titles in the previous fiscal year quarter.

Revenues from the Services segment decreased slightly by \$0.1 million, or 4%, for the three months ended September 30, 2014. During the three months ended September 30, 2014, a total of 8,915 installed Phase 2 Systems were generating service fees at September 30, 2014 as compared to 8,697 Phase 2 Systems at September 30, 2013. The Company also services an additional 3,724 screens in Phase I.

The CEG business expanded by \$5.3 million, or 142%, year over year, primarily from the inclusion of business added following the GVE Acquisition, which was not part of the prior year quarter's operating results. Additionally contributing to the increase was organic growth from the addition of physical and digital distribution rights of home entertainment titles, which included the successful release of God's Not Dead during the current quarter, of our library of over 52,000 movies and television episodes and licensing of original content. Growth in net revenues was limited due to higher than anticipated physical returns. In addition, industry wide changes in consumer behavior, declining retail foot traffic and reduced retail shelf space within the industry further impacted physical sales of independent studio titles.

## Direct Operating Expenses

(\$ in thousands)	For the Three Months Ended September 30,			
	2014	2013	\$ Change	% Change
Phase I Deployment	\$221	\$202	\$19	9%
Phase II Deployment	137	141	(4)	(3)%
Services	1	69	(68)	(99)%
Content & Entertainment	2,952	4,341	(1,389)	(32)%
	\$3,311	\$4,753	\$(1,442)	(30)%

Direct operating expenses decreased by 30% as a result of reduced upfront theatrical releasing, marketing and acquisitions costs of \$1.8 million as CEG released one movie during the current fiscal period versus four releases in the prior fiscal period. The decrease within CEG was partially offset by increased cost of goods sold.

## Selling, General and Administrative Expenses

(\$ in thousands)	For the Three Months Ended September 30,			
	2014	2013	\$ Change	% Change
Phase I Deployment	\$183	\$96	\$87	91%
Phase II Deployment	34	40	(6)	(15)%
Services	212	206	6	3%
Content & Entertainment	4,808	2,773	2,035	73%

Edgar Filing: Cinedigm Corp. - Form 10-Q

Corporate	3,067	989	2,078	210	%
	\$8,304	\$4,104	\$4,200	102	%

32

---

Selling, general and administrative expenses grew by 102% during the period. The Content & Entertainment segment increased 73% as a result of the inclusion of the GVE Acquisition and increased staffing of \$1.1 million to support the growth in our home entertainment business. During the three months ended September 30, 2013, Corporate selling, general and administrative expenses were approximately \$2.5 million before being offset by a reduction of a contingent liability of \$1.5 million related to a previous business combination.

#### Transition and Acquisition Expenses

Transition and acquisition expenses were \$0.8 million for the three months ended September 30, 2014. Transition expenses are attributed to the continued integration of GVE and ongoing alignment of resources to our content and entertainment business.

#### Depreciation and Amortization Expense on Property and Equipment

(\$ in thousands)	For the Three Months Ended September 30,				
	2014	2013	\$ Change	% Change	
Phase I Deployment	\$7,138	\$7,138	\$—	—	%
Phase II Deployment	1,881	1,880	1	—	%
Services	53	36	17	47	%
Content & Entertainment	51	6	45	750	%
Corporate	268	152	116	76	%
	\$9,391	\$9,212	\$179	2	%

Depreciation and amortization expense increased slightly from the prior year quarter by \$0.2 million or 2%.

#### Amortization of intangible assets

Amortization of intangible assets increased to \$1.5 million for the three months ended September 30, 2014 from \$0.4 million, which is attributed to the finite-lived intangible assets added from the GVE Acquisition.

#### Interest expense, net

(\$ in thousands)	For the Three Months Ended September 30,				
	2014	2013	\$ Change	% Change	
Phase I Deployment	\$3,451	\$3,733	\$(282)	(8)	%
Phase II Deployment	397	524	(127)	(24)	%
Corporate	1,145	275	870	316	%
	\$4,993	\$4,532	\$461	10	%

Interest expense, net increased \$0.5 million or 10% due to the increase in recourse debt in corporate offset by the continued repayment of non-recourse and recourse term loan and revolver debt as the Company reduced principal outstanding by \$14.2 million during the three months ended September 30, 2014.

Corporate interest expense during the three months ended September 30, 2014 includes recourse debt from the Cinedigm Term Loans and Cinedigm Revolving Loans and the 2013 Notes. Each of the Cinedigm Term Loans and the Cinedigm Revolving Loans bear interest at the base rate plus 3.0% or the eurodollar rate plus 4.0%. Base rate, per annum, is equal to the highest of (a) the rate quoted by the Wall Street Journal as the “base rate on corporate loans by at least 75% of the nation’s largest banks,” (b) 0.50% plus the federal funds rate, and (c) the eurodollar rate plus 1.0%. The 2013 Notes bear interest at 9.0%.

The 8% decrease in interest paid and accrued within the non-recourse Phase I Deployment segment is the result of the benefit from the resulting reduced debt balance. The 2013 Term Loans, which are repaid from free cash flow, are at a rate of LIBOR, plus 275 basis points with a 1.0% LIBOR floor, versus the prior credit agreement rate of LIBOR, plus 350 basis points with a 1.75% LIBOR floor. The 2013 Prospect Loan carries an interest rate of 13.5%, including a

cash rate of LIBOR, plus 9.0% with a 2.0% LIBOR floor, and a PIK rate of 2.5%. Interest decreased within the Phase II Deployment segment related to the KBC Facilities due to the reduction of outstanding principal. Phase 2 DC's non-recourse interest expense is expected to continue to decrease as it did during the fiscal year as we continue to repay the KBC Facilities from free cash flow and benefit from the resulting reduced debt balance.

Non-cash interest expense was approximately \$0.2 million for the three months ended September 30, 2014 and 2013.

#### Change in fair value of interest rate derivatives

The change in fair value of the interest rate derivatives was a gain of approximately \$0.1 million and a loss of \$0.1 million for the three months ended September 30, 2014 and 2013, respectively.

#### Discontinued operations

Discontinued operations, which represents the results of Software, incurred losses of \$2.8 million and \$0.7 million for the three months ended September 30, 2014 and 2013, respectively. Included within the three months ended September 30, 2014 was a loss on the sale of Software of \$3.0 million.

#### Adjusted EBITDA

Adjusted EBITDA is defined by the Company for the periods presented to be earnings before interest, taxes, depreciation and amortization, other income, net, stock-based compensation and expenses, transition and acquisition expenses and certain other items.

The Company reported Adjusted EBITDA (including its Phase 1 DC and Phase 2 DC subsidiaries) of \$12.4 million for the three months ended September 30, 2014, an increase of 11% in comparison to \$11.2 million for the three months ended September 30, 2013 and a \$5.2 million, or 73%, increase from the three months ended June 30, 2014. Adjusted EBITDA from non-deployment businesses was \$1.2 million during the three months ended September 30, 2014, increasing \$1.9 million from a loss \$0.7 million for the three months ended September 30, 2013 and \$6.1 million increase from the three months ended June 30, 2014.

Adjusted EBITDA is not a measurement of financial performance under GAAP and may not be comparable to other similarly titled measures of other companies. The Company uses Adjusted EBITDA as a financial metric to measure the financial performance of the business because management believes it provides additional information with respect to the performance of its fundamental business activities. For this reason, the Company believes Adjusted EBITDA will also be useful to others, including its stockholders, as a valuable financial metric.

Management presents Adjusted EBITDA because it believes that Adjusted EBITDA is a useful supplement to net loss from continuing operations as an indicator of operating performance. Management also believes that Adjusted EBITDA is a financial measure that is useful both to management and investors when evaluating the Company's performance and comparing our performance with the performance of our competitors. Management also uses Adjusted EBITDA for planning purposes, as well as to evaluate the Company's performance because Adjusted EBITDA excludes certain non-recurring or non-cash items, such as stock-based compensation charges, that management believes are not indicative of the Company's ongoing operating performance.

The Company believes that Adjusted EBITDA is a performance measure and not a liquidity measure, and a reconciliation between net loss from continuing operations and Adjusted EBITDA is provided in the financial results. Adjusted EBITDA should not be considered as an alternative to income from operations or net loss from continuing operations as an indicator of performance or as an alternative to cash flows from operating activities as an indicator of cash flows, in each case as determined in accordance with GAAP, or as a measure of liquidity. In addition, Adjusted EBITDA does not take into account changes in certain assets and liabilities as well as interest and income taxes that can affect cash flows. Management does not intend the presentation of these non-GAAP measures to be considered in isolation or as a substitute for results prepared in accordance with GAAP. These non-GAAP measures should be read only in conjunction with the Company's consolidated financial statements prepared in accordance with GAAP.





Following is the reconciliation of the Company's consolidated Adjusted EBITDA to consolidated GAAP net loss from continuing operations:

(\$ in thousands)	For the Three Months Ended September 30,	
	2014	2013
Net loss from continuing operations	\$ (4,592	) \$(4,418
Add Back:		
Depreciation and amortization of property and equipment	9,391	9,212
Amortization of intangible assets	1,464	409
Interest expense, net	4,993	4,532
Loss on investment in non-consolidated entity	—	560
Other income, net	39	(113
Change in fair value of interest rate derivatives	(84	) 71
Stock-based compensation and expenses	407	499
Transaction and acquisition expenses	817	—
Allocated costs attributable to discontinued operations	—	468
Adjusted EBITDA	\$ 12,435	\$ 11,220
Adjustments related to the Phase I and Phase II Deployments:		
Depreciation and amortization of property and equipment	\$ (9,019	) \$(9,018
Amortization of intangible assets	(12	) (13
Income from operations	(2,174	) (2,907
Intersegment services fees earned	—	5
Adjusted EBITDA from non-deployment businesses	\$ 1,230	\$ (713

## Results of Continuing Operations for the Six Months Ended September 30, 2014 and 2013

## Revenues

(\$ in thousands)	For the Six Months Ended September 30,				
	2014	2013	\$ Change	% Change	
Phase I Deployment	\$ 18,296	\$ 18,293	\$ 3	—	%
Phase II Deployment	6,209	6,115	94	2	%
Services	5,923	6,379	(456)	(7)	%
Content & Entertainment	16,150	6,992	9,158	131	%
	\$ 46,578	\$ 37,779	\$ 8,799	23	%

Revenues increased \$8.8 million or 23% during the six months ended September 30, 2014. Growth in CEG revenues, including additional net revenues from the GVE Acquisition which was not part of the prior comparable period's revenues, along with a slight increase in Deployment, were partially offset by a decrease in revenues from Services. Phase 1 and Phase 2 Deployment revenues increased by less than 1% for the six months ended September 30, 2014 as total VPFs were nearly consistent period over period. During the period ended September 30, 2014, 63 wide release titles being released during the current period as compared to 60 wide release titles in the previous fiscal year period. In the Services segment, a \$0.5 million, or 7%, decrease in revenues was primarily due to the expected reduction of revenues as activation fee revenue recognized in the prior fiscal period of \$0.7 million was not present during the current fiscal period. The decrease was partially offset by an increase in servicing fees of \$0.2 million attributed to our international deployment.

The CEG business expanded by \$9.2 million, or 131%, year over year, which is primarily attributed to increased net revenues resulting from the GVE Acquisition. The remaining increase is attributed to organic growth from the addition of physical and digital distribution rights of home entertainment titles of our library of over 52,000 movies and television episodes and licensing of original content. This growth was limited due to certain missed sales and from higher than anticipated physical returns resulting from the conversion, as part of the GVE integration, to a new physical goods replication, distribution and fulfillment center partner. In addition, industry wide changes in consumer behavior, declining retail foot traffic and reduced retail shelf space within the industry further impacted physical sales of independent studio content.

## Direct Operating Expenses

(\$ in thousands)	For the Six Months Ended September 30,				
	2014	2013	\$ Change	% Change	
Phase I Deployment	\$ 465	\$ 357	\$ 108	30	%
Phase II Deployment	274	283	(9)	(3)	%
Services	52	167	(115)	(69)	%
Content & Entertainment	11,024	7,725	3,299	43	%
	\$ 11,815	\$ 8,532	\$ 3,283	38	%

Direct operating expenses increased by 38% as a result of (i) increased cost of good sold of \$6.4 million largely driven by the addition of the GVE Acquisition (ii) approximately \$1.0 million in impairment and additional amortization of advances based upon revised ultimates and (iii) higher than anticipated expenses resulting from the conversion, as part of the GVE integration, to a new physical goods replication, distribution and fulfillment center partner. These increases were partially offset by reduced upfront theatrical releasing, marketing and acquisitions costs of \$2.6 million as CEG released four movies during the current fiscal period versus nine releases in the prior fiscal period.

## Selling, General and Administrative Expenses

(\$ in thousands)	For the Six Months Ended September 30,			
	2014	2013	\$ Change	% Change
Phase I Deployment	\$ 278	\$ 159	\$ 119	75 %
Phase II Deployment	73	127	(54)	(43)%
Services	412	425	(13)	(3)%
Content & Entertainment	9,302	5,527	3,775	68 %
Corporate	5,948	4,070	1,878	46 %
	\$ 16,013	\$ 10,308	\$ 5,705	55 %

Increases in selling, general and administrative for the period was driven by the inclusion of the GVE Acquisition and increased staffing of \$2.2 million to support the growth in our home entertainment business within the Content & Entertainment segment. During the six months ended September 30, 2013, Corporate selling, general and administrative expenses were approximately \$5.6 million before being offset by a reduction of a contingent liability of \$1.5 million related to a previous business combination.

## Transition and Acquisition Expenses

Transition and acquisition expenses, principally attributed to the continued integration of GVE and ongoing alignment of resources to our content and entertainment business, were \$1.8 million for the six months ended September 30, 2014.

## Depreciation and Amortization Expense on Property and Equipment

(\$ in thousands)	For the Six Months Ended September 30,			
	2014	2013	\$ Change	% Change
Phase I Deployment	\$ 14,275	\$ 14,275	\$—	— %
Phase II Deployment	3,762	3,761	1	— %
Services	106	108	(2)	(2)%
Content & Entertainment	92	10	82	820 %
Corporate	532	303	229	76 %
	\$ 18,767	\$ 18,457	\$ 179	2 %

Depreciation and amortization expense remained nearly consistent with the prior fiscal period, increasing by \$0.2 million or 2%.

## Amortization of intangible assets

Amortization of intangible assets increased to \$3.3 million for the period ended September 30, 2014 from \$0.8 million, which is attributed to the finite-lived intangible assets added from the GVE Acquisition.

## Interest expense, net

(\$ in thousands)	For the Six Months Ended September 30,			
	2014	2013	\$ Change	% Change
Phase I Deployment	\$ 6,979	\$ 7,889	\$(910)	(12)%
Phase II Deployment	809	1,040	(231)	(22)%
Corporate	2,240	527	1,713	325 %
	\$ 10,028	\$ 9,456	\$ 572	6 %

Interest expense, net increased \$0.6 million or 6% due to the increase in recourse debt in corporate offset by the continued repayment of non-recourse and recourse term loan and revolver debt as the Company reduced principal outstanding by \$29.1 million during the six months ended September 30, 2014.

Corporate interest expense during the three months ended September 30, 2014 includes recourse debt from the Cinedigm Term Loans and Cinedigm Revolving Loans and the 2013 Notes. Each of the Cinedigm Term Loans and the Cinedigm Revolving Loans bear interest at the base rate plus 3.0% or the eurodollar rate plus 4.0%. Base rate, per annum, is equal to the highest of (a) the

37

---

rate quoted by the Wall Street Journal as the “base rate on corporate loans by at least 75% of the nation’s largest banks,” (b) 0.50% plus the federal funds rate, and (c) the eurodollar rate plus 1.0%. The 2013 Notes bear interest at 9.0%. The 8% decrease in interest paid and accrued within the non-recourse Phase I Deployment segment is the result of the benefit from the resulting reduced debt balance. The 2013 Term Loans, which are repaid from free cash flow, are at a rate of LIBOR, plus 275 basis points with a 1.0% LIBOR floor, versus the prior credit agreement rate of LIBOR, plus 350 basis points with a 1.75% LIBOR floor. Interest decreased within the Phase II Deployment segment related to the KBC Facilities due to the reduction of outstanding principal. The 2013 Prospect Loan carries an interest rate of 13.5%, including a cash rate of LIBOR, plus 9.0% with a 2.0% LIBOR floor, and a PIK rate of 2.5%. Phase 2 DC’s non-recourse interest expense is expected to continue to decrease as it did during the fiscal year as we continue to repay the KBC Facilities from free cash flow and benefit from the resulting reduced debt balance. The decrease in interest paid and accrued within Corporate is related to the recourse note, which was paid off in February 2013. Non-cash interest expense was approximately \$0.4 million and \$0.2 million for the six months ended September 30, 2014 and 2013, respectively.

#### Change in fair value of interest rate derivatives

The change in fair value of the interest rate derivatives was a loss of approximately \$0.2 million and a gain of \$0.8 million for the six months ended September 30, 2014 and 2013, respectively. The interest swap associated with the 2013 Term Loans matured in June 2013.

#### Discontinued operations

Discontinued operations, which represents the results of Software, incurred losses of \$2.6 million and \$1.4 million for the six months ended September 30, 2014 and 2013, respectively. Included within the six months ended September 30, 2014 was a loss on the sale of Software of \$3.0 million.

#### Adjusted EBITDA

Adjusted EBITDA is defined by the Company for the periods presented to be earnings before interest, taxes, depreciation and amortization, other income, net, stock-based compensation and expenses, merger and acquisition costs, restructuring and transition expenses and certain other items.

The Company reported Adjusted EBITDA (including its Phase 1 DC and Phase 2 DC subsidiaries) of \$19.6 million for the six months ended September 30, 2014, a decrease of 6% in comparison to \$20.9 million for the six months ended September 30, 2013. Adjusted EBITDA from non-deployment businesses was \$(3.7) million during the six months ended September 30, 2014, decreasing from \$(2.4) million, or 55%, for the six months ended September 30, 2013. As previously discussed, the decline within non-deployment was attributed to missed sales and higher than anticipated physical returns incurred as a result of a transition to a new physical goods replication, distribution and fulfillment center partner. changes in consumer behavior, along with declining retail foot traffic and shelf space for physical product within the industry. Additionally, industry wide changes in consumer behavior, declining retail foot traffic and reduced retail shelf space within the industry further impacted physical sales.

Adjusted EBITDA is not a measurement of financial performance under GAAP and may not be comparable to other similarly titled measures of other companies. The Company uses Adjusted EBITDA as a financial metric to measure the financial performance of the business because management believes it provides additional information with respect to the performance of its fundamental business activities. For this reason, the Company believes Adjusted EBITDA will also be useful to others, including its stockholders, as a valuable financial metric.

Management presents Adjusted EBITDA because it believes that Adjusted EBITDA is a useful supplement to net loss from continuing operations as an indicator of operating performance. Management also believes that Adjusted

EBITDA is a financial measure that is useful both to management and investors when evaluating the Company's performance and comparing our performance with the performance of our competitors. Management also uses Adjusted EBITDA for planning purposes, as well as to evaluate the Company's performance because Adjusted EBITDA excludes certain non-recurring or non-cash items, such as stock-based compensation charges, that management believes are not indicative of the Company's ongoing operating performance.

The Company believes that Adjusted EBITDA is a performance measure and not a liquidity measure, and a reconciliation between net loss from continuing operations and Adjusted EBITDA is provided in the financial results. Adjusted EBITDA should not be considered as an alternative to income from operations or net loss from continuing operations as an indicator of performance or

as an alternative to cash flows from operating activities as an indicator of cash flows, in each case as determined in accordance with GAAP, or as a measure of liquidity. In addition, Adjusted EBITDA does not take into account changes in certain assets and liabilities as well as interest and income taxes that can affect cash flows. Management does not intend the presentation of these non-GAAP measures to be considered in isolation or as a substitute for results prepared in accordance with GAAP. These non-GAAP measures should be read only in conjunction with the Company's consolidated financial statements prepared in accordance with GAAP.

Following is the reconciliation of the Company's consolidated Adjusted EBITDA to consolidated GAAP net loss from continuing operations:

(\$ in thousands)	For the Six Months Ended September 30,	
	2014	2013
Net loss from continuing operations	\$ (15,404	) \$ (10,802 )
Add Back:		
Depreciation and amortization of property and equipment	18,767	18,457
Amortization of intangible assets	3,349	827
Interest expense, net	10,028	9,456
Loss on investment in non-consolidated entity	—	1,812
Other income, net	(100	) (247 )
Change in fair value of interest rate derivatives	175	(758 )
Stock-based compensation and expenses	1,025	1,183
Transaction and acquisition expenses	1,763	—
Allocated costs attributable to discontinued operations	—	1,002
Adjusted EBITDA	\$ 19,603	\$ 20,930
Adjustments related to the Phase I and Phase II Deployments:		
Depreciation and amortization of property and equipment	\$ (18,037	) \$ (18,036 )
Amortization of intangible assets	(23	) (26 )
Income from operations	(5,204	) (5,245 )
Intersegment services fees earned	—	11
Adjusted EBITDA from non-deployment businesses	\$ (3,661	) \$ (2,366 )



## Critical Accounting Policies

The following is a discussion of our critical accounting policies.

### PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation expense is recorded using the straight-line method over the estimated useful lives of the respective assets as follows:

Computer equipment and software	3-5 years
Digital cinema projection systems	10 years
Machinery and equipment	3-10 years
Furniture and fixtures	3-6 years

Leasehold improvements are being amortized over the shorter of the lease term or the estimated useful life of the improvement. Maintenance and repair costs are charged to expense as incurred. Major renewals, improvements and additions are capitalized.

Useful lives are determined based on an estimate of either physical or economic obsolescence, or both. During the three months ended September 30, 2014 and 2013, the Company has neither made any revisions to estimated useful lives, nor recorded any impairment charges from continuing operations on its property and equipment.

### GOODWILL

Goodwill is the excess of the purchase price paid over the fair value of the net assets of an acquired business. The Company's process of evaluating goodwill for impairment involves the determination of fair value of its CEG goodwill reporting unit over its carrying value. The Company conducts its annual goodwill impairment analysis during the fourth quarter of each fiscal year, measured as of March 31, unless triggering events occur which require goodwill to be tested at another date.

### DEFINITE-LIVED INTANGIBLE ASSETS

As of September 30, 2014, the Company's finite-lived intangible assets consisted of customer relationships, supplier agreements, content libraries, theatre relationships, covenants not to compete, a favorable operating lease, trade names and trademarks. During the three and six months ended September 30, 2014 and 2013, no impairment charge for finite-lived intangible assets was recorded within continuing operations.

### REVENUE RECOGNITION

#### Phase I Deployment and Phase II Deployment

VPFs are earned, net of administrative fees, pursuant to contracts with movie studios and distributors, whereby amounts are payable by a studio to Phase 1 DC, CDF I and to Phase 2 DC when movies distributed by the studio are displayed on screens utilizing the Company's Systems installed in movie theatres. VPFs are earned and payable to Phase 1 DC and CDF I based on a defined fee schedule with a reduced VPF rate year over year until the sixth year (calendar 2011) at which point the VPF rate remains unchanged through the tenth year. One VPF is payable for every digital title displayed per System. The amount of VPF revenue is dependent on the number of movie titles released and displayed using the Systems in any given accounting period. VPF revenue is recognized in the period in which the digital title first plays on a System for general audience viewing in a digitally-equipped movie theatre, as Phase 1

DC's, CDF I's and Phase 2 DC's performance obligations have been substantially met at that time.

Phase 2 DC's agreements with distributors require the payment of VPFs, according to a defined fee schedule, for ten years from the date each system is installed; however, Phase 2 DC may no longer collect VPFs once "cost recoupment," as defined in the contracts with movie studios and distributors, is achieved. Cost recoupment will occur once the cumulative VPFs and other cash receipts collected by Phase 2 DC have equaled the total of all cash outflows, including the purchase price of all Systems, all financing costs, all "overhead and ongoing costs", as defined, and including the Company's service fees, subject to maximum agreed upon amounts during the three-year rollout period and thereafter. Further, if cost recoupment occurs before the end of the eighth contract year, a one-time "cost recoupment bonus" is payable by the studios to the Company. Any other cash flows, net of expenses, received by Phase 2 DC following the achievement of cost recoupment are required to be returned to the distributors on a pro-rata basis. At this time, the Company cannot estimate the timing or probability of the achievement of cost recoupment.

Alternative content fees (“ACFs”) are earned pursuant to contracts with movie exhibitors, whereby amounts are payable to Phase 1 DC, CDF I and to Phase 2 DC, generally either a fixed amount or as a percentage of the applicable box office revenue derived from the exhibitor’s showing of content other than feature movies, such as concerts and sporting events (typically referred to as “alternative content”). ACF revenue is recognized in the period in which the alternative content first opens for audience viewing.

Revenues are deferred for up front exhibitor contributions and are recognized over the cost recoupment period, which is expected to be ten years.

#### Services

Exhibitors who purchased and own Systems using their own financing in the Phase II Deployment, paid an upfront activation fee that is generally \$2 thousand per screen to the Company (the “Exhibitor-Buyer Structure”). These upfront activation fees are recognized in the period in which these exhibitor-owned Systems are ready for content, as the Company has no further obligations to the customer, and are generally paid quarterly from VPF revenues over approximately one year. Additionally, the Company recognizes activation fee revenue of between \$1 thousand and \$2 thousand on Phase 2 DC Systems and for Systems installed by Holdings upon installation and such fees are generally collected upfront upon installation. The Company will then manage the billing and collection of VPFs and will remit all VPFs collected to the exhibitors, less an administrative fee that will approximate up to 10% of the VPFs collected.

The administrative fee related to the Phase I Deployment approximates 5% of the VPFs collected and an incentive service fee equal to 2.5% of the VPFs earned by Phase 1 DC. This administrative fee is recognized in the period in which the billing of VPFs occurs, as performance obligations have been substantially met at that time.

#### Content & Entertainment

CEG earns fees for the distribution of content in the home entertainment markets via several distribution channels, including digital, video-on-demand, and physical goods (e.g. DVD and Blu-ray). The fee rate earned by the Company varies depending upon the nature of the agreements with the platform and content providers. Generally, revenues are recognized at the availability date of the content for a subscription digital platform, at the time of shipment for physical goods, or point-of-sale for transactional and video-on-demand services. Reserves for sales returns and other allowances are provided based upon past experience. If actual future returns and allowances differ from past experience, adjustments to our allowances may be required. Sales returns and allowances are reported net in accounts receivable and as a reduction of revenues.

CEG also has contracts for the theatrical distribution of third party feature movies and alternative content. CEG’s distribution fee revenue and CEG’s participation in box office receipts is recognized at the time a feature movie and alternative content is viewed. CEG has the right to receive or bill a portion of the theatrical distribution fee in advance of the exhibition date, and therefore such amount is recorded as a receivable at the time of execution, and all related distribution revenue is deferred until the third party feature movies’ or alternative content’s theatrical release date. Revenue is deferred in cases where a portion or the entire contract amount cannot be recognized as revenue due to non-delivery of services. Such amounts are classified as deferred revenue and are recognized as earned revenue in accordance with the Company’s revenue recognition policies described above.

In connection with revenue recognition for CEG, the following are also considered critical accounting policies:

#### Advances

Advances, which are recorded within prepaid and other current assets on the consolidated balance sheets, represent amounts prepaid to studios or content producers for which the Company provides content distribution services and

such advances are estimated to be fully recoupable as of the consolidated balance sheet date.

Participations payable

The Company records liabilities within accounts payable and accrued expenses on the consolidated balance sheet, that represent amounts owed to studios or content producers for which the Company provides content distribution services for royalties owed under licensing arrangements. The Company identifies and records as a reduction to the liability any expenses that are to be reimbursed to the Company by such studios or content producers.

### Movie Cost Amortization

Once a movie is released, capitalized acquisition costs are amortized and participations and residual costs are accrued on an individual title basis in the proportion to the revenue recognized during the period for each title ("Period Revenue") bears to the estimated remaining total revenue to be recognized from all sources for each title ("Ultimate Revenue"). The amount of movie and other costs that is amortized each period will depend on the ratio of Period Revenue to Ultimate Revenue for each movie. The Company makes certain estimates and judgments of Ultimate Revenue to be recognized for each title. Ultimate Revenue does not include estimates of revenue that will be earned beyond 5 years of a movie's initial theatrical release date. Movie cost amortization is a component of direct operating costs within the consolidated statements of operations.

Estimates of Ultimate Revenue and anticipated participation and residual costs are reviewed periodically in the ordinary course of business and are revised if necessary. A change in any given period to the Ultimate Revenue for an individual title will result in an increase or decrease in the percentage of amortization of capitalized movie and other costs and accrued participation and residual costs relative to a previous period. Depending on the performance of a title, significant changes to the future Ultimate Revenue may occur, which could result in significant changes to the amortization of the capitalized acquisition costs.

### Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards update which modifies the requirements for disposals to qualify as discontinued operations and expands related disclosure requirements. The update will be effective for the Company during the fiscal year ending March 31, 2015. The adoption of the update may impact whether future disposals qualify as discontinued operations and therefore could impact the Company's financial statement presentation and disclosures.

In May 2014, the FASB issued new accounting guidance on revenue recognition. The new standard provides for a single five-step model to be applied to all revenue contracts with customers as well as requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. The guidance will be effective for the Company during the fiscal year ending March 31, 2018. The Company intends to evaluate the impact of the adoption of this accounting standard update on its financial statements.

In June 2014, the FASB issued an accounting standards update which provides additional guidance on how to account for share-based payments where the terms of an award may provide that the performance target could be achieved after an employee completes the requisite service period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite period is treated as a performance condition. The guidance will be effective for the Company during the fiscal year ending March 31, 2017. The Company intends to evaluate the impact of the adoption of this accounting standard update on its consolidated financial statements, and may be applied (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. Earlier adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

In August 2014, the FASB amended accounting guidance pertaining to going concern considerations by company management. The amendments in this update state that in connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). The guidance will be effective for the Company during the fiscal year ending March 31, 2018. Early application is permitted. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

## Liquidity and Capital Resources

We have incurred net losses each year since we commenced our operations. Since our inception, we have financed our operations substantially through the private placement of shares of our common and preferred stock, the issuance of promissory notes, our initial public offering and subsequent private and public offerings, notes payable and common stock used to fund various acquisitions.

Our business is primarily driven by the growth in global demand for entertainment content in all forms, and in particular, the shifting consumer demand for content in digital forms within home and mobile devices as well as the maturing digital cinema marketplace. Primary revenue drivers will be the increasing number of digitally equipped devices/screens and the demand for entertainment content in theatrical, home and mobile ancillary markets. According to the Motion Picture Association of America,

during 2013 there were approximately 43,000 domestic (United States and Canada) movie theatre screens and approximately 135,000 screens worldwide, of which approximately 40,000 of the domestic screens were equipped with digital cinema technology, and 12,639 of those screens contained our Systems. Historically, the number of digitally-equipped screens in the marketplace has been a significant determinant of our potential revenue streams. Going forward, the expansion of our content business into the ancillary distribution markets as well into the acquisition and distribution of new movie releases expands our market opportunities and will be the primary driver of our revenue streams as the rapidly evolving digital and entertainment landscape creates significant new growth potential for the Company.

Beginning in May 2010, Phase 2 B/AIX, an indirect wholly-owned subsidiary of the Company, entered into additional credit facilities, the KBC Facilities, to fund the purchase of Systems from Barco, to be installed in movie theatres as part of the Company's Phase II Deployment. As of September 30, 2014, the outstanding principal balance of the KBC Facilities was \$30.9 million.

In February 2013, the Company refinanced its existing non-recourse senior 2010 Term Loan and recourse 2010 Note with a \$125.0 million senior non-recourse credit facility led by Société Générale, New York Branch and a \$70.0 million non-recourse credit facility provided by Prospect Capital Corporation. These two non-recourse credit facilities are supported by the cash flows of the Phase 1 deployment and the Company's digital cinema servicing business. As of September 30, 2014, the outstanding principal balance of these non-recourse credit facilities was \$147.5 million.

In October 2013, the Company entered the Cinedigm Credit Agreement pursuant to which the Company borrowed term loans of \$25.0 million and revolving loans of up to \$30.0 million, of which all of the term loans and \$15.0 million of the revolving loans were drawn upon in connection with the GVE Acquisition. The Cinedigm Credit Agreement, which further enhances the Company's working capital needs and ability to further invest in entertainment content, is primarily supported by the cash flows of the Company's media library, acquired in connection with the GVE Acquisition. Additionally, the Company entered into an agreement providing \$5.0 million of financing. As of September 30, 2014, the outstanding principal balance of these recourse credit facilities was \$40.9 million.

In August 2014, the Company increased its borrowings under the Cinedigm Revolving Loans by \$5.0 million for working capital purposes.

As of September 30, 2014, we had negative working capital, defined as current assets less current liabilities, of \$25.4 million and cash and cash equivalents and restricted cash totaling \$36.5 million.

Operating activities provided net cash of \$2.5 million and \$17.0 million for the six months ended September 30, 2014 and 2013, respectively. Cash flows from VPFs are expected to remain consistent with the current fiscal year and support non-recourse debt paydown. Generally, changes in accounts receivable from our studio customers and others are a large component of operating cash flow and will vary based on the seasonality of movie release schedules by the major studios. The CEG business differs from our deployment business as we build receivables, the amount of cash flows and timing which will depend upon the success of the theatrical and home entertainment releases. The Company has put in place an up to \$30.0 million revolver to support these working capital fluctuations. In addition, the Company makes advances towards theatrical releases, and expects to recover the initial expenditures within nine to twelve months, and advances to certain home entertainment distribution clients which it expects to recover within the same period. CEG also generates additional operating cash flows during the Company's fiscal third and fourth quarter resulting from holiday revenues and distributes royalties from such revenues in the subsequent one to two fiscal quarters.

Investing activities provided net cash of \$1.5 million and used net cash of \$1.8 million for the six months ended September 30, 2014 and 2013, respectively. The sale of Software was partially offset by capital expenditures for the

six months ended September 30, 2014.

Financing activities used net cash of \$24.5 million and \$16.2 million for the six months ended September 30, 2014 and 2013, respectively. The increase reflects the Cinedigm Credit Facility which was not present during the prior year period in addition to normal principal reduction of other notes payables during the three months ended September 30, 2014 as well as the seasonally expected reduction in outstanding revolver balance. Additionally, as previously discussed, the Company increased its borrowings under the Cinedigm Revolving Loans by \$5.0 million for working capital purposes. Financing activities are expected to continue using the net cash generated from the Phase 1 and Phase 2 DC operations as well as a portion of the cash generated from CEG, primarily for principal repayments on the 2013 Term Loans, 2013 Prospect Loan, the Cinedigm Credit Facility and other existing debt facilities.



We have contractual obligations that include long-term debt consisting of notes payable, credit facilities, non-cancelable long-term capital lease obligations for the Pavilion Theatre, capital leases for information technology equipment and other various computer related equipment, non-cancelable operating leases consisting of real estate leases, and minimum guaranteed obligations under theatre advertising agreements with exhibitors for displaying cinema advertising. The capital lease obligation of the Pavilion Theatre is paid by an unrelated third party, although Cinedigm remains the primary lessee and would be obligated to pay if the unrelated third party were to default on its rental payment obligations.

The following table summarizes our significant contractual obligations as of September 30, 2014:

Contractual Obligations (\$ in thousands)	Payments Due				
	Total	2015	2016 & 2017	2018 & 2019	Thereafter
Long-term recourse debt <sup>(1)</sup>	\$ 40,936	\$ 19,994	\$ 15,942	\$ 5,000	\$—
Long-term non-recourse debt <sup>(2)</sup>	191,634	33,441	57,517	19,353	81,323
Capital lease obligations <sup>(3)</sup>	5,767	619	1,417	1,179	2,552
Debt-related obligations, principal	\$ 238,337	\$ 54,054	\$ 74,876	\$ 25,532	\$ 83,875
Interest on recourse debt <sup>(1)</sup>	\$ 3,690	\$ 1,471	\$ 1,743	\$ 476	\$—
Interest on non-recourse debt <sup>(2)</sup>	62,187	11,509	19,961	\$ 17,370	13,347
Interest on capital leases <sup>(3)</sup>	4,167	796	1,365	909	1,097
Total interest	\$ 70,044	\$ 13,776	\$ 23,069	\$ 18,755	\$ 14,444
Total debt-related obligations	\$ 308,381	\$ 67,830	\$ 97,945	\$ 44,287	\$ 98,319
Total non-recourse debt including interest	\$ 253,821	\$ 44,950	\$ 77,478	\$ 36,723	\$ 94,670
Operating lease obligations <sup>(4)</sup>	\$ 9,928	\$ 1,992	\$ 2,828	\$ 2,509	\$ 2,599

(1) Recourse debt includes the Cinedigm Credit Agreement and the 2013 Notes.

Non-recourse debt is generally defined as debt whereby the lenders' sole recourse with respect to defaults by the Company is limited to the value of the asset, which is collateral for the debt. The 2013 Term Loans are not

(2) guaranteed by the Company or its other subsidiaries, other than Phase 1 DC and CDF I, the 2013 Prospect Loan is not guaranteed by the Company or its other subsidiaries, other than Phase 1 DC and DC Holdings LLC, and the KBC Facilities are not guaranteed by the Company or its other subsidiaries, other than Phase 2 DC.

(3) Represents the capital lease and capital lease interest for the Pavilion Theatre and capital leases on information technology equipment. The Company has remained the primary obligor on the Pavilion capital lease, and therefore, the capital lease obligation and related assets under the capital lease remain on the Company's consolidated financial statements as of September 30, 2014. The Company has, however, entered into a sub-lease agreement with the unrelated third party purchaser which pays the capital lease and as such, has no continuing involvement in the operation of the Pavilion Theatre. This capital lease was previously included in discontinued operations.

(4) Includes the remaining operating lease agreement for one IDC lease now operated and paid for by FiberMedia, consisting of unrelated third parties. FiberMedia currently pays the lease directly to the landlord and the Company continues to attempt to obtain landlord consent to assign the facility lease to FiberMedia. Until such landlord consent is obtained, the Company will remain as the lessee.

We may continue to generate net losses for the foreseeable future primarily due to depreciation and amortization, interest on the 2013 Term Loans, 2013 Prospect Loan and Cinedigm Credit Agreement, marketing and promotional activities, content acquisition and marketing costs and the development of our digital OTT channels. Certain of these costs, including costs of content acquisition, marketing and promotional activities and digital channels, could be reduced if necessary. The restrictions imposed by the 2013 Term Loans and 2013 Prospect Loan may limit our ability

to obtain financing, make it more difficult to satisfy our debt obligations or require us to dedicate a substantial portion of our cash flow to payments on our existing debt obligations. The 2013 Prospect Loan requires certain screen turn performance from Phase 1 DC and Phase 2 DC. While such restrictions may reduce the availability of our cash flow to fund working capital, capital expenditures and other corporate requirements, we do not have similar restrictions imposed upon our CEG business. We may seek to raise additional capital for strategic acquisitions or working capital as necessary. Failure to generate additional revenues, raise additional capital or manage discretionary spending could have an adverse effect on our financial position, results of operations or liquidity.

## Seasonality

Revenues from our Phase I Deployment and Phase II Deployment segments derived from the collection of VPFs from motion picture studios are seasonal, coinciding with the timing of releases of movies by the motion picture studios. Generally, motion picture studios release the most marketable movies during the summer and the winter holiday season. The unexpected emergence of a hit movie during other periods can alter the traditional trend. The timing of movie releases can have a significant effect on our results of operations, and the results of one quarter are not necessarily indicative of results for the next quarter or any other quarter. While CEG benefits from the winter holiday season, we believe the seasonality of motion picture exhibition, however, is becoming less pronounced as the motion picture studios are releasing movies somewhat more evenly throughout the year.

## Off-balance sheet arrangements

We are not a party to any off-balance sheet arrangements, other than operating leases in the ordinary course of business, which are disclosed above in the table of our significant contractual obligations, and Holdings. In addition, as discussed further in Note 2 to the Condensed Consolidated Financial Statements, the Company holds a 100% equity interest in Holdings, which is an unconsolidated variable interest entity (“VIE”), which wholly owns Cinedigm Digital Funding 2, LLC; however, the Company is not the primary beneficiary of the VIE.

## Impact of Inflation

The impact of inflation on our operations has not been significant to date. However, there can be no assurance that a high rate of inflation in the future would not have an adverse impact on our operating results.

## Item 4. CONTROLS AND PROCEDURES

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report.

Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of the end of such period, the Company’s disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act and are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including the Company’s principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There have been no changes in the Company’s internal control over financial reporting during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

#### Gaiam Dispute

In August 2014, the Company sent a demand letter to Gaiam notifying Gaiam of the Company’s intent to pursue mediation and, if necessary, arbitration with respect to certain claims resulting from the GVE Acquisition. The

Company believes that (i) Gaiam materially breached its representations and warranties under the Membership Interest Purchase Agreement (the "MIPA"), (ii) Gaiam engaged in tortious acts in connection with the sale, (iii) the amount of Working Capital in the business unit was substantially below that required under the terms of the MIPA and is subject to a working capital adjustment, (iv) Gaiam breached the Transition Services Agreement ("TSA"), resulting in additional costs to the Company and potential losses associated with the non-collection of Company accounts receivables, and (v) Gaiam breached the terms of other agreements related to the transfer of cash from collected accounts receivables, resulting in the slowdown of receipt of such cash by the Company. The Company is seeking in excess of \$13.0 million in a Working Capital adjustment, as well as damages related to Gaiam's purported financial and business misrepresentations and the Company's other claims. The Company may also seek specific performance for certain breaches by Gaiam. While Gaiam has not formally asserted any counterclaims, Gaiam has indicated that it believes it has counterclaims against the Company related to the amount of Working Capital and an allegation that the Company breached the TSA. We believe that our claims have merit and intend to pursue them vigorously. If Gaiam were to assert counterclaims, the Company believes they would be without merit. No formal arbitration proceedings have yet been initiated, and at this early stage, there can be no assurance as to the likelihood of success on the merits.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The exhibits are listed in the Exhibit Index on page 49 herein.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

CINEDIGM CORP.

Date: November 13, 2014

By: /s/ Christopher J. McGurk  
Christopher J. McGurk  
Chief Executive Officer and Chairman of the Board of Directors  
(Principal Executive Officer)

Date: November 13, 2014

By: /s/ Jeffrey S. Edell  
Jeffrey S. Edell  
Chief Financial Officer (Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Description of Document
3.1	Fourth Amended and Restated Certificate of Incorporation of Cinedigm Corp., as amended.
31.1	Officer's Certificate Pursuant to 15 U.S.C. Section 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Officer's Certificate Pursuant to 15 U.S.C. Section 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation.
101.DEF	XBRL Taxonomy Extension Definition.
101.LAB	XBRL Taxonomy Extension Label.
101.PRE	XBRL Taxonomy Extension Presentation.