Cinedigm Corp.
Form 10-Q
August 14, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the fiscal period ended: June 30, 2014

o 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	22-3720962
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
902 Broadway, 9th Floor New York, NY	10010
(Address of principal executive offices)	(Zip Code)

(212) 206-8600
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
CLASS A COMMON STOCK, PAR VALUE $0.001 PER SHARE	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 x No o

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 x No o

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 o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company x
		(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 o No x

As of August 11, 2014, 76,774,253 shares of Class A Common Stock, $0.001 par value were outstanding.

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

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

	June 30, 2014	March 31, 2014
ASSETS	(Unaudited)	
Current assets		
Cash and cash equivalents	$ 36,742	$ 50,215
Accounts receivable, net	37,506	56,863
Inventory	2,870	3,164
Unbilled revenue	5,122	5,144
Prepaid and other current assets	8,392	8,698
Note receivable, current portion	101	112
Assets of discontinued operations, net of current liabilities	—	278
Total current assets	90,733	124,474
Restricted cash	6,751	6,751
Security deposits	269	269
Property and equipment, net	125,642	134,936
Intangible assets, net	35,757	37,639
Goodwill	27,944	25,494
Deferred costs, net	8,618	9,279
Accounts receivable, long-term	1,343	1,397
Note receivable, net of current portion	91	99
Assets of discontinued operations, net of current portion	6,238	5,660
Total assets	$ 303,386	$ 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)

LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY	June 30, 2014 (Unaudited)	March 31, 2014
Current liabilities		
Accounts payable and accrued expenses	$ 55,537	$ 72,604
Current portion of notes payable, non-recourse	33,540	33,825
Current portion of notes payable	15,608	19,219
Current portion of capital leases	609	614
Current portion of deferred revenue	3,025	3,214
Total current liabilities	108,319	129,476
Notes payable, non-recourse, net of current portion	155,388	164,779
Notes payable, net of current portion	22,499	23,525
Capital leases, net of current portion	5,330	5,472
Deferred revenue, net of current portion	11,899	12,519
Total liabilities	303,435	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 June 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; 118,759,000 shares authorized; 76,656,587 and 76,571,972 shares issued and 76,605,147 and 76,520,532 shares outstanding at June 30, 2014 and March 31, 2014, respectively	77	76
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 June 30, 2014 and March 31, 2014, respectively	—	—
Additional paid-in capital	275,938	275,519
Treasury stock, at cost; 51,440 Class A shares	(172)	(172)
Accumulated deficit	(279,438)	(268,686)
Accumulated other comprehensive loss	(13)	(69)
Total stockholders' (deficit) equity	(49)	10,227
Total liabilities and stockholders' (deficit) equity	$ 303,386	$ 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 June 30,	
	2014	2013
Revenues	$ 22,857	$ 18,537
Costs and expenses:		
Direct operating (exclusive of depreciation and amortization shown below)	8,504	3,779
Selling, general and administrative	7,709	6,204
Provision for doubtful accounts	94	62
Transition and acquisition expenses	946	—
Depreciation and amortization of property and equipment	9,376	9,245
Amortization of intangible assets	1,885	418
Total operating expenses	28,514	19,708
Loss from operations	(5,657)	(1,171)
Interest expense, net	(5,035)	(4,924)
Loss on investment in non-consolidated entity	—	(1,252)
Other income, net	139	134
Change in fair value of interest rate derivatives	(259)	829
Loss from continuing operations	(10,812)	(6,384)
Income (loss) from discontinued operations	149	(604)
Net loss	(10,663)	(6,988)
Preferred stock dividends	(89)	(89)
Net loss attributable to common stockholders	$ (10,752)	$ (7,077)
Net loss per Class A and Class B common share attributable to common shareholders - basic and diluted:		
Loss from continuing operations	$ (0.14)	$ (0.13)
Income (loss) from discontinued operations	—	(0.02)
	$ (0.14)	$ (0.15)
Weighted average number of Class A and Class B common shares outstanding: basic and diluted	76,567,128	48,357,020

See accompanying notes to Condensed Consolidated Financial Statements

CINEDIGM CORP.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

	For the Three Months Ended June 30,	
	2014	2013
Net loss	$(10,663)	$(6,988)
Other comprehensive income: foreign exchange translation	56	—
Comprehensive loss	$(10,607)	$(6,988)

See accompanying notes to Condensed Consolidated Financial Statements

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

	For the Three Months Ended June 30,	
	2014	2013
Cash flows from operating activities		
Net loss	$(10,663)	$(6,988)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization of property and equipment and amortization of intangible assets	11,261	9,700
Amortization of capitalized software costs	—	314
Amortization of debt issuance costs	437	288
Provision for doubtful accounts	94	62
Stock-based compensation and expenses	651	737
Change in fair value of interest rate derivatives	259	(829)
Accretion and PIK interest expense added to note payable	631	472
Loss on investment in non-consolidated entity	—	1,252
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	19,301	(3,496)
Inventory	294	—
Unbilled revenue	394	3,103
Prepaid expenses and other current assets	228	(1,314)
Other assets	243	(599)
Accounts payable and accrued expenses	(19,823)	7,216
Deferred revenue	(591)	(604)
Other liabilities	(292)	364
Net cash provided by operating activities	2,424	9,678
Cash flows from investing activities:		
Purchases of property and equipment	(331)	(141)
Purchases of intangible assets	(4)	—
Additions to capitalized software costs	(483)	(731)
Restricted cash	—	(2)
Net cash used in investing activities	(818)	(874)
Cash flows from financing activities:		
Repayment of notes payable	(14,862)	(8,610)
Principal payments on capital leases	(147)	(31)
Costs associated with issuance of Class A common stock	(70)	—
Net cash used in financing activities	(15,079)	(8,641)
Net change in cash and cash equivalents	(13,473)	163
Cash and cash equivalents at beginning of period	50,215	13,448
Cash and cash equivalents at end of period	$36,742	$13,611

See accompanying notes to Condensed Consolidated Financial Statements

CINEDIGM CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the fiscal periods ended June 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”). Cinedigm 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 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 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 newly-formed, 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.
Upon concluding the purchase price allocation for the GVE Acquisition during the three months ended June 30, 2014, a measurement period adjustment 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. Such conditions, had they been identified as of March 31, 2014, would have reduced the previously reported prepaid and other current assets to $6,222 and increased goodwill to $27,944 on the consolidated balance sheets as of March 31, 2014, respectively.

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

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Accounts receivable	$15,524
Inventory	2,224
Advances	5,248
Other assets	152
Content library	17,211
Supplier contracts and relationships	11,691
Goodwill	19,402
Total assets acquired	71,452
Total liabilities assumed	(19,952)
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 months ended June 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 months ended June 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 June 30,	
	2014	2013
Revenue	$22,857	$27,006
Loss from continuing operations	$(10,812)	$(6,606)
Net loss	$(10,663)	$(7,210)
Net loss per share (basic and diluted)	$(0.14)	$(0.15)

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 has 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND CONSOLIDATION

The Company has incurred net losses historically and has an accumulated deficit of $279,438 as of June 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 June 30, 2014, and expected cash flows from operations, management believes that the Company has the ability to meet its obligations through at least June 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”), FiberSat Global Services, Inc. d/b/a Cinedigm Satellite and Support Services (“Satellite”), 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”), Vistachiara 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.

The Holding’s total stockholder’s deficit at June 30, 2014 was $3,512. The Company has no obligation to fund the operating loss or the deficit beyond its initial investment, and accordingly, the Company carried its investment in Holdings at $0.

Accounts receivable due from Holdings for service fees under its master service agreement as of June 30, 2014 and March 31, 2014 were $352 and $346, respectively, are included within accounts receivable, net on the accompanying condensed consolidated balance sheets.

During the three months ended June 30, 2014 and 2013, the Company received $294 and $262 in aggregate revenues through digital cinema servicing fees from Holdings, respectively, which are included in revenues on the accompanying condensed consolidated statements of operations.

RECLASSIFICATION

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

USE OF ESTIMATES

The preparation of condensed consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the assets and liabiliti