

Cinedigm Digital Cinema Corp.  
Form 10-Q  
February 13, 2013

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 quarterly period ended: December 31, 2012

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 Digital Cinema 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)  
(973) 290-0080  
(Registrant's telephone number, including area code)

10010  
(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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(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 February 11, 2013, 48,340,369 shares of Class A Common Stock, \$0.001 par value were outstanding.

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CINEDIGM DIGITAL CINEMA CORP.  
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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

## CINEDIGM DIGITAL CINEMA CORP.

## CONDENSED CONSOLIDATED BALANCE SHEETS

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

	December 31, 2012 (Unaudited)	March 31, 2012
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 17,321	\$ 17,843
Restricted available-for-sale investments	—	9,477
Accounts receivable, net	38,538	24,502
Deferred costs, current portion	2,199	2,228
Unbilled revenue, current portion	7,982	7,510
Prepaid and other current assets	7,249	1,121
Note receivable, current portion	478	498
Assets held for sale	—	214
Total current assets	73,767	63,393
Restricted cash	5,751	5,751
Security deposits	241	207
Property and equipment, net	178,275	200,974
Intangible assets, net	14,439	466
Capitalized software costs, net	6,650	5,156
Goodwill	7,101	5,765
Deferred costs, net of current portion	3,481	5,080
Unbilled revenue, net of current portion	611	617
Accounts receivable, long-term	1,602	773
Note receivable, net of current portion	134	465
Investment in non-consolidated entity, net	2,830	1,490
Total assets	\$ 294,882	\$ 290,137

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

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

	December 31, 2012 (Unaudited)	March 31, 2012
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 42,983	\$ 20,854
Current portion of notes payable, non-recourse	33,562	35,644
Current portion of capital leases	230	186
Current portion of deferred revenue	4,556	3,677
Current portion of contingent consideration for business combination	750	—
Liabilities as part of assets held for sale	—	75
Total current liabilities	82,081	60,436
Notes payable, non-recourse, net of current portion	103,726	135,345
Notes payable	94,442	87,354
Capital leases, net of current portion	5,051	5,244
Interest rate swaps	750	1,771
Deferred revenue, net of current portion	11,464	11,451
Contingent consideration, net of current portion	3,094	—
Customer security deposits, net of current portion	—	9
Total liabilities	300,608	301,610
Commitments and contingencies (see Note 7)		
Stockholders' Deficit		
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 December 31, 2012 and March 31, 2012, respectively. Liquidation preference of \$3,589	3,439	3,357
Class A common stock, \$0.001 par value per share; 118,759,000 and 75,000,000 shares authorized; 48,446,468 and 37,722,927 shares issued and 48,395,028 and 37,671,487 shares outstanding at December 31, 2012 and March 31, 2012, respectively		
	48	38
Class B common stock, \$0.001 par value per share; 1,241,000 and 15,000,000 shares authorized; 1,241,000 and 1,241,000 shares issued and 0 and 25,000 shares outstanding, at December 31, 2012 and March 31, 2012, respectively		
	—	—
Additional paid-in capital	221,817	206,348
Treasury stock, at cost; 51,440 Class A shares	(172	) (172
Accumulated deficit	(230,858	) (221,044
Total stockholders' deficit	(5,726	) (11,473
Total liabilities and stockholders' deficit	\$ 294,882	\$ 290,137

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

CINEDIGM DIGITAL CINEMA CORP.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except for share and per share data)  
(Unaudited)

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2012	2011	2012	2011
Revenues	\$ 23,212	\$ 19,793	\$ 66,725	\$ 58,862
Costs and expenses:				
Direct operating (exclusive of depreciation and amortization shown below)	3,169	2,104	8,532	5,394
Selling, general and administrative	6,265	4,303	18,464	11,784
Provision for doubtful accounts	72	—	226	—
Research and development	38	72	112	162
Merger and acquisition expenses	—	—	1,267	—
Restructuring expenses	—	832	340	832
Depreciation and amortization of property and equipment	9,155	8,996	27,372	26,719
Amortization of intangible assets	739	84	1,120	253
Total operating expenses	19,438	16,391	57,433	45,144
Income from operations	3,774	3,402	9,292	13,718
Interest income	2	21	20	96
Interest expense	(6,690)	(7,603)	(21,444)	(22,543)
Income (loss) on investment in non-consolidated entity	678	(343)	1,340	(343)
Other income, net	103	175	494	606
Change in fair value of interest rate swap	349	597	1,025	29
Net loss from continuing operations	(1,784)	(3,751)	(9,273)	(8,437)
Loss from discontinued operations	—	(6,889)	(274)	(8,826)
Net loss	(1,784)	(10,640)	(9,547)	(17,263)
Preferred stock dividends	(89)	(89)	(267)	(267)
Net loss attributable to common stockholders	\$(1,873)	\$(10,729)	\$(9,814)	\$(17,530)
Net loss per Class A and Class B common share - basic and diluted:				
Loss from continuing operations	\$(0.03)	\$(0.10)	\$(0.20)	\$(0.24)
Loss from discontinued operations	\$—	\$(0.18)	\$(0.01)	\$(0.25)
	\$(0.03)	\$(0.28)	\$(0.21)	\$(0.49)
Weighted average number of Class A and Class B common shares outstanding: Basic and diluted	48,320,257	37,620,287	47,254,337	35,800,878

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

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

	For the Three Months Ended		For the Nine Months Ended	
	December 31,		December 31,	
	2012	2011	2012	2011
Net loss	\$ (1,784	) \$ (10,640	) \$ (9,547	) \$ (17,263
Other comprehensive income:				
Unrealized gains on available-for-sale investment securities	—	—	—	95
Comprehensive loss	\$ (1,784	) \$ (10,640	) \$ (9,547	) \$ (17,168

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

CINEDIGM DIGITAL CINEMA CORP.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	For the Nine Months Ended December 31,	
	2012	2011
Cash flows from operating activities		
Net loss	\$(9,547	) \$(17,263
Adjustments to reconcile net loss to net cash provided by operating activities:		
Gain on disposal of business	—	3,696
Depreciation and amortization of property and equipment and amortization of intangible assets	28,492	29,840
Amortization of capitalized software costs	829	494
Impairment of assets	—	800
Amortization of debt issuance costs	1,671	1,610
Provision for doubtful accounts	226	561
Stock-based compensation and expenses	1,832	2,246
Change in fair value of interest rate swaps	(1,025	) (29
Realized loss on restricted available-for-sale investments	—	117
PIK interest expense added to note payable	5,657	5,226
(Income) loss on investment in non-consolidated entity	(1,340	) 343
Accretion of note payable	1,646	1,849
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	(6,096	) (8,854
Unbilled revenue	(464	) (1,669
Prepaid expenses and other current assets	(5,138	) (87
Other assets	331	1,277
Accounts payable and accrued expenses	6,630	7,750
Deferred revenue	577	1,912
Other liabilities	(290	) (68
Net cash provided by operating activities	23,991	29,751
Cash flows from investing activities:		
Purchase of New Video Group, Inc., net of cash acquired of \$6,873	(3,127	) —
Purchases of property and equipment	(4,354	) (16,916
Purchases of intangible assets	(29	) (35
Additions to capitalized software costs	(2,323	) (1,632
Net proceeds from disposal of business	—	6,497
Sales/maturities of restricted available-for-sale investments	9,477	2,681
Purchase of restricted available-for-sale investments	—	(5,793
Investment in non-consolidated entity	—	(2,000
Restricted cash	—	(2
Net cash used in investing activities	(356	) (17,200
Cash flows from financing activities:		
Repayment of notes payable	(37,383	) (29,007
Proceeds from notes payable	3,469	15,795
Principal payments on capital leases	(132	) (97



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Proceeds from issuance of Class A common stock	11,002	7,070	
Costs associated with issuance of Class A common stock	(1,113	) (446	)
Net cash used in financing activities	(24,157	) (6,685	)
Net change in cash and cash equivalents	(522	) 5,866	
Cash and cash equivalents at beginning of period	17,843	10,748	
Cash and cash equivalents at end of period	\$17,321	\$16,614	

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

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CINEDIGM DIGITAL CINEMA CORP.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

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

(Unaudited)

1. NATURE OF OPERATIONS

Cinedigm Digital Cinema Corp. was incorporated in Delaware on March 31, 2000 (“Cinedigm”, and collectively with its subsidiaries, the “Company”).

The Company is a digital cinema services, software and content marketing and distribution company supporting and capitalizing on the conversion of the exhibition industry from film to digital technology and the accelerating shift in the home entertainment market to digital and video-on-demand services from physical goods such as DVDs. The Company provides a digital cinema platform that combines technology solutions, financial advice and guidance, and software services to content owners and distributors and to movie exhibitors. Cinedigm leverages this digital cinema platform with a series of business applications that utilize the platform to capitalize on the new business opportunities created by the transformation of movie theatres into networked entertainment centers. The two main applications provided by Cinedigm include (i) its end-to-end digital entertainment content acquisition, marketing and distribution business focused on the distribution of alternative content and independent film in theatrical and ancillary home entertainment markets; and (ii) its operational, analytical and transaction processing software applications. Historically, the conversion of an industry from analog to digital has created new revenue and growth opportunities as well as an opening for new players to emerge to capitalize on this technological shift.

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, 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, which includes our newly acquired wholly-owned subsidiary New Video Group, Inc. (“New Video”) as described below, provides content marketing and distribution services in both theatrical and ancillary home entertainment markets to alternative and independent film content owners and to theatrical exhibitors.

Purchase of New Video Group, Inc.

On April 19, 2012, the Company entered into a stock purchase agreement for the purchase of all of the issued and outstanding capital stock of New Video, an independent home entertainment distributor of quality packaged goods entertainment and digital content that provides distribution services in the DVD, BD, Digital and VOD channels for more than 500 independent rights holders (the “New Video Acquisition”). The Company agreed to pay \$10.0 million in cash and 2,525,417 shares of Class A common stock at \$1.51 per share, subject to certain transfer restrictions, plus up to an additional \$6.0 million in cash or Class A common stock, at the Company’s discretion, if certain business unit

financial performance targets are met during the fiscal years ended March 31, 2013, 2014 and 2015. In addition, the Company has agreed to register the resale of the shares of Class A common stock paid as part of the purchase price. The New Video Acquisition was consummated on April 20, 2012. The Company is currently in the process of finalizing the fair value of assets acquired and liabilities assumed. Merger and acquisition expenses, consisting primarily of professional fees, directly related to the New Video Acquisition totaled \$1.9 million, of which \$1.3 million was incurred during the three months ended June 30, 2012.

The results of operations of New Video have been included in the accompanying condensed consolidated statements of operations from the date of the acquisition within the Company's Content & Entertainment segment. The total amount of revenues and net income of New Video since the acquisition date that have been included in the condensed consolidated statements of operations for the nine months ended December 31, 2012 was approximately \$10.0 million and \$1.6 million, respectively.

The aggregate purchase price after post-closing adjustments for 100% of the equity of New Video was \$17.6 million, including cash acquired of \$6.9 million.

The purchase price has been preliminarily allocated to the identifiable net assets acquired as follows pending management's final valuation of the fair value of the net assets acquired as of the date of acquisition:

Cash and cash equivalents	\$ 6,873
Accounts receivable	8,983
Other assets	1,142
Intangible assets subject to amortization	15,064
Goodwill	1,336
Total assets acquired	33,398
Less: Total liabilities assumed	(15,763 )
Total net assets acquired	\$ 17,635

The preliminary estimated fair value of the accounts receivable acquired was \$8,983. The Company has estimated that all of the accounts receivable will be collected.

Of the preliminary estimate of \$15,064 of intangible assets subject to amortization, \$11,595 was preliminarily assigned to customer relationships with a useful life of 15 years, \$1,913 was preliminarily assigned to a content library with a useful life of five years, \$1,296 was preliminarily assigned to a favorable lease with a useful life of approximately five years and \$260 was preliminarily assigned to covenants not to compete with a useful life of two years. Upon finalization of the allocations, the amortization impact, if any, on any individual quarter, is not expected to be material.

#### Pro forma Information Related To the Acquisition of New Video (Unaudited)

The following unaudited supplemental pro forma consolidated summary operating data for the three and nine months ended December 31, 2011 has been prepared by adjusting the historical data as set forth in the accompanying condensed consolidated statements of operations for the three and nine months ended December 31, 2011 to give effect to the acquisition of New Video as if it had occurred at April 1, 2011. As the acquisition of New Video was consummated near the beginning of the three months ended June 30, 2012, the difference between actual operating results and pro forma results for the nine months ended December 31, 2012 is not substantial.

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2012	2011	2012	2011
Revenue	\$ 23,212	\$ 24,729	\$ 66,725	\$ 69,038
Operating income	\$ 3,774	\$ 5,457	\$ 9,292	\$ 15,815
Net loss	\$(1,784 )	\$(8,585 )	\$(9,547 )	\$(15,166 )
Net loss per share (basic and diluted)	\$(0.03 )	\$(0.23 )	\$(0.21 )	\$(0.42 )

This unaudited pro forma information is provided for informational purposes only and does not purport to be indicative of the results of operations that would have occurred if the acquisition had been completed on the date set forth above, nor is it necessarily indicative of the future operating results.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PRESENTATION AND CONSOLIDATION

The Company has incurred net losses historically and has an accumulated deficit of \$230,858 as of December 31, 2012. The Company also has significant contractual obligations related to its recourse and non-recourse debt for the fiscal year ended March 31, 2013 and beyond. The Company may continue to generate net losses for the foreseeable future. Based on the Company's cash position at December 31, 2012, and expected cash flows from operations, management believes that the Company has the ability to meet its obligations through at least December 31, 2013. 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 condensed consolidated financial statements include the accounts of Cinedigm, Access Digital Media, Inc. ("AccessDM"), Hollywood Software, Inc. d/b/a Cinedigm Software ("Software"), Core Technology Services, Inc. ("Managed Services") (sold in August 2010), 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 sold in May 2011), Christie/AIX, Inc. d/b/a Cinedigm Digital Cinema ("Phase 1 DC"), USM (sold in September 2011), Vistachiara Productions, Inc. f/k/a The Bigger Picture, currently d/b/a Cinedigm Content and Entertainment Group, New Video, 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") and Cinedigm Digital Funding I, LLC ("CDF I"). Content and Entertainment Group and New Video are together referred to as CEG. AccessDM and Satellite are together referred to as the DMS (the majority of which was sold in November, 2011 and remaining assets of which were sold in May 2012). All intercompany transactions and balances have been eliminated in consolidation.

The condensed consolidated balance sheet as of March 31, 2012, 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 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 U.S. generally accepted accounting principles ("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 Annual Report on Form 10-K for the fiscal year ended March 31, 2012 filed with the SEC on June 18, 2012 (the "Form 10-K").

#### 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". The Company has determined that it is not the primary beneficiary of Holdings in accordance with ASC 810, and it is accounting for its investment in Holdings under the equity method of accounting. The Company's net investment in Holdings is reflected as "Investment in non-consolidated entity, net" in the accompanying condensed consolidated balance sheets. See Note 4 for further discussion.

#### RECLASSIFICATION

Certain reclassifications, principally for discontinued operations (see Note 3) have been made to the fiscal year ended March 31, 2012 financial statements to conform to the current fiscal year ending March 31, 2013 presentation.

#### USE OF ESTIMATES

The preparation of condensed consolidated financial statements in conformity with GAAP 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates include the adequacy of accounts receivable reserves, assessment of goodwill and intangible asset impairment and valuation reserve for income taxes, 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.

#### RESTRICTED AVAILABLE-FOR-SALE INVESTMENTS

In connection with \$172,500 of term loans issued in May 2010 (See Note 5), the sale of USM in September 2011 and the sale of the majority of assets of DMS in November 2011 (See Note 3), the Company segregated \$9,477 of the combined proceeds received in the transactions into an account to be used with the approval of the 2010 Noteholder either (i) to support an acquisition by the Company; or (ii) to repay the 2010 Note. During the three months ended June 30, 2012, these funds were released from restricted available-for-sale investments and used to finance a portion of the cost of the acquisition of the New Video Acquisition in April 2012 (See Note 1).

#### 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 \$448 and \$257 as of December 31, 2012 and March 31, 2012, respectively.

Accounts receivable, long-term result from up-front activation fees with extended payment terms that are discounted to their present value at prevailing market rates.

#### RESTRICTED CASH

In connection with the 2010 Term Loans issued in May 2010 (See Note 5), the Company maintains cash restricted for repaying interest on the 2010 Term Loans, as follows:

	As of December 31, 2012	As of March 31, 2012
Reserve account related to the 2010 Term Loans (See Note 5)	\$ 5,751	\$ 5,751

#### DEFERRED COSTS

Deferred costs primarily consist of unamortized debt issuance costs which are amortized on a straight-line basis over the term of the respective debt. The straight-line basis is not materially different from the effective interest method.

#### 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. 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. In May 2010, the Company settled the interest rate swap in place with respect to its previous credit facility. In June 2010, the Company executed three separate interest rate swap agreements (the "Interest Rate Swaps") to limit the Company's exposure to changes in interest rates related to the 2010 Term Loans. Changes in fair value of derivative financial instruments are either recognized in accumulated other comprehensive loss (a component of stockholders' equity (deficit)) 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 were recorded in the condensed consolidated statements of operations (See Note 5).

## 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

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:

	As of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 17,321	\$ —	\$ —	\$ 17,321
Restricted cash	5,751	—	—	5,751
Interest rate swap	—	(750	) —	(750 )
Contingent consideration	—	—	(3,844	) (3,844 )
	\$ 23,072	\$ (750	) \$(3,844	) \$ 18,478

	As of March 31, 2012			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 17,843	\$ —	\$ —	\$ 17,843
Restricted available-for-sale investments	9,477	—	—	9,477
Restricted cash	5,751	—	—	5,751
Interest rate swap	—	(1,771	) —	(1,771 )
	\$ 33,071	\$ (1,771	) \$ —	\$ 31,300

Contingent consideration is a liability to the sellers of New Video based upon its business unit financial performance target in each of the fiscal years ended March 31, 2013, 2014 and 2015 (see Note 1). The preliminary estimates of the fair value of the contingent consideration arrangement was estimated by using the current forecast of New Video adjusted EBITDA, as defined by the New Video stock purchase agreement. That measure is based on significant inputs that are not observable in the market, which are considered Level 3 inputs.

The following summarized changes in contingent consideration liabilities in during the nine months ended December 31, 2012:

Balance at March 31, 2012	\$ —
Contingent consideration	3,844
Balance at December 31, 2012	\$ 3,844

Key assumptions include a discount rate of 8% and that New Video will achieve 100% of its business unit financial performance target in each of the three fiscal years described above, resulting in a payment of 75% of the maximum contingent consideration amount described in Note 1. As of December 31, 2012, the amount recognized for the contingent consideration arrangements, the range of outcomes, and the assumptions used to develop the estimate had not changed.

## 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 exist 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 discounted cash flows. During the three and nine months ended December 31, 2012 and 2011, no impairment charge from continuing operations for long-lived assets was recorded.

## GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS

Goodwill is the excess of the purchase price paid over the fair value of the net assets of an acquired business. Goodwill and intangible assets with indefinite lives are not amortized; rather, they are tested for impairment on at least an annual basis.

The Company's process of evaluating goodwill for impairment involves the determination of fair value of its goodwill reporting units: Software and CEG. 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. As discussed in Note 1, goodwill increased as a result of the New Video Acquisition. During the three and nine months ended December 31, 2012 and 2011, no impairment charge was recorded for goodwill related to the Company's continuing operations.

For further details on the Company's process for evaluating goodwill for impairment, refer to the Form 10-K. Information related to the goodwill allocated to the Company is detailed below:

	Phase I	Phase II	Services	Content & Entertainment	Corporate	Consolidated
As of March 31, 2012	\$—	\$—	\$4,197	\$1,568	\$—	\$5,765
Goodwill resulting from the New Video Acquisition	—	—	—	1,336	—	1,336
As of December 31, 2012	\$—	\$—	\$4,197	\$2,904	\$—	\$7,101

## REVENUE RECOGNITION

### Phase I Deployment and Phase II Deployment

Virtual print fees ("VPFs") are earned 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 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 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, plus a compounded

return on any billed but unpaid overhead and ongoing costs, of 15% per year. 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 films, 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 a period of ten years.

#### Services

For software multi-element licensing arrangements that do not require significant production, modification or customization of the licensed software, revenue is recognized for the various elements as follows: revenue for the licensed software element is recognized upon delivery and acceptance of the licensed software product, as that represents the culmination of the earnings process and the Company has no further obligations to the customer, relative to the software license. Revenue earned from consulting services is recognized upon the performance and completion of these services. Revenue earned from annual software maintenance is recognized ratably over the maintenance term (typically one year).

Revenue is deferred in cases where: (1) a portion or the entire contract amount cannot be recognized as revenue, due to non-delivery or pre-acceptance of licensed software or custom programming, (2) uncompleted implementation of application service provider arrangements (“ASP Service”), or (3) unexpired pro-rata periods of maintenance, minimum ASP Service fees or website subscription fees. As license fees, maintenance fees, minimum ASP Service fees and website subscription fees are often paid in advance, a portion of this revenue is deferred until the contract ends. Such amounts are classified as deferred revenue and are recognized as earned revenue in accordance with the Company’s revenue recognition policies described above.

Exhibitors who will purchase and own Systems using their own financing in the Phase II Deployment, will pay 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 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. 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 Disc). 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.

CEG also has contracts for the theatrical distribution of third party feature films and alternative content. CEG’s distribution fee revenue and CEG’s participation in box office receipts is recognized at the time a feature film 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 films’ or alternative content’s theatrical release date.

#### DIRECT OPERATING COSTS

Direct operating costs consist of facility operating costs such as rent, utilities, real estate taxes, repairs and maintenance, insurance and other related expenses, direct personnel costs, and amortization of capitalized software development costs.

#### STOCK-BASED COMPENSATION

During the three months ended December 31, 2012 and 2011, the Company recorded employee stock-based compensation from continuing operations expense of \$513 and \$561, respectively. During the nine months ended December 31, 2012 and 2011, the Company recorded employee stock-based compensation from continuing operations expense of \$1,527 and \$1,479, respectively.

The weighted-average grant-date fair value of options granted during the three months ended December 31, 2012 and 2011 was \$0.88 and \$1.37, respectively. The weighted-average grant-date fair value of options granted during the nine months ended

December 31, 2012 and 2011 was \$0.92. There were no stock options exercised during the three and nine months ended December 31, 2012 and 2011.

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		For the Nine Months Ended	
	December 31,		December 31,	
	2012	2011	2012	2011
Range of risk-free interest rates	0.6 - 0.7%	0.9 - 2.1%	0.6 - 0.9%	0.9 - 2.1%
Dividend yield	—	—	—	—
Expected life (years)	5	5	5	5
Range of expected volatilities	74.5 - 75.2%	76.7 - 78.2%	74.5 - 76.2%	76.7 - 78.1%

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 stock-based compensation expense related to the Company's stock-based awards was as follows:

	For the Three Months		For the Nine Months	
	Ended December 31,		Ended December 31,	
	2012	2011	2012	2011
Direct operating	\$ 18	\$ 11	\$ 66	\$ 32
Selling, general and administrative	457	481	1,350	1,304
Research and development	38	69	111	143
	\$ 513	\$ 561	\$ 1,527	\$ 1,479

#### NET LOSS PER SHARE

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

$$\begin{aligned} \text{Basic and diluted net loss per common share} &= \frac{\text{Net loss + preferred dividends}}{\text{Weighted average number of common stock outstanding during the period}} \end{aligned}$$

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 and nine months ended December 31, 2012 and 2011 and, therefore, the impact of dilutive potential common shares from outstanding stock options and warrants, totaling 20,766,397 shares and 25,375,245 shares as of December 31, 2012 and 2011, respectively, were excluded from the computation as it would be anti-dilutive.



RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Standards

In July 2012, the Financial Accounting Standards Board ("FASB") issued a new accounting standard update, which amends guidance allowing an entity to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite – lived intangible asset is impaired. This assessment should be used as a basis for determining whether it is necessary to perform the quantitative impairment test. An entity would not be required to calculate the fair value of the intangible asset and perform the quantitative test unless the entity determines, based upon its qualitative assessment, that it is more likely than not that its fair value is less than its carrying value. The update provides further guidance

of events and circumstances that an entity should consider in determining whether it is more likely than not that the fair value of an indefinite – lived intangible asset is less than its carrying amount. The update also allows an entity the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. This update is effective for annual and interim periods beginning after September 15, 2012, with early adoption permitted. The Company adopted this standard on October 1, 2012. The adoption of this standard did not have a material impact on the condensed consolidated financial statements and disclosures.

In October 2012, the FASB issued a new accounting standard update, which aligns the guidance on fair value measurements in the impairment test of unamortized film costs with the guidance on fair value measurements in other instances within GAAP. The amendments in this update eliminate certain requirements related to an impairment assessment of unamortized film costs and clarify when unamortized film costs should be assessed for impairment. This update does not add any new guidance to the FASB's codification for Entertainment - Films. This update is effective for the Company's impairment assessments performed on or after December 15, 2012. The Company adopted this standard on January 1, 2013. The adoption of this standard did not have a material impact on the condensed consolidated financial statements and disclosures.

### 3. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

USM had contracts with exhibitors to display pre-show advertisements on their screens, in exchange for certain fees paid to the exhibitors. USM then contracted with businesses of various types to place their advertisements in select theatre locations, designed the advertisement, and placed it on-screen for specific periods of time, generally ranging from three to twelve months. The Company determined that this business did not meet its strategic plan and sold USM in September 2011 for \$6,000, before transaction expenses of \$226, and recognized a gain on the sale of \$846 for the fiscal year ended March 31, 2012. USM was formerly part of the Content & Entertainment segment.

In November 2011, pursuant to an asset purchase agreement, the Company sold to a third party the majority of assets of Cinedigm's physical and electronic distribution business and trailer distribution business for \$1,000 before transaction expenses of \$277, and recognized a loss on the sale of \$4,606 for the fiscal year ended March 31, 2012. Concurrently on completion of this transaction, the Company classified \$200 of net assets of its non-theatrical DMS business which were not sold as part of this transaction as held for sale and classified these assets as discontinued operations which the Company intended to sell within the next twelve months. These DMS non-theatrical assets were written down in value by \$800 during the fiscal year ended March 31, 2012. DMS was formerly part of the Services segment.

In May 2012, pursuant to an asset purchase agreement, the Company sold to a third party the remaining net assets of its non-theatrical DMS business for \$200. The Company did not recognize a gain or loss on the sale during the three months ended June 30, 2012. In connection with the sale and in consideration of other payments made by the Company on behalf of the buyer, the Company received a secured promissory note from the third party for \$260 representing the sale proceeds and other amounts advanced by the Company on behalf of the third party. The promissory note, which bears interest of 5% per annum, was originally due on October 19, 2012 and has an outstanding balance of \$152 as of December 31, 2012. The promissory note will now be satisfied in exchange for cash payments and services with the third party through December 31, 2013.

With the sale of the remaining net assets of its non-theatrical DMS business, there are no assets or liabilities held for sale as of December 31, 2012. The assets and liabilities held for sale as of March 31, 2012 were comprised of the following:

	As of March 31, 2012
Accounts receivable, net and notes receivable	\$ 14
Property and equipment, net	200

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Assets held for sale	\$214
Accounts payable and accrued expenses	\$75
Liabilities as part of assets held for sale	\$75

For the three and nine months ended December 31, 2012, the loss from discontinued operations is comprised of DMS. There is no tax provision or benefit related to any of the discontinued operations. For the three and nine months ended December 31, 2011, the loss from discontinued operations is comprised of USM, DMS and the Pavilion Theatre. The loss from discontinued operations was as follows:

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	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2012	2011	2012	2011
Revenues	\$—	\$904	\$67	\$11,236
Costs and Expenses:				
Direct operating (exclusive of depreciation and amortization shown below)	—	&		