

Cinedigm Corp.
Form 10-Q
November 14, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the fiscal period ended: September 30, 2013

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

10010
(Zip Code)

(Registrant's telephone number, including area 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
(Do not check if a smaller reporting company)

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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 11, 2013, 64,329,614 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)

	September 30, 2013	March 31, 2013
ASSETS	(Unaudited)	
Current assets		
Cash and cash equivalents	\$ 12,389	\$ 13,448
Accounts receivable, net	36,322	31,695
Deferred costs, current portion	1,309	1,238
Unbilled revenue, current portion	4,894	9,989
Prepaid and other current assets	7,784	6,101
Note receivable, current portion	324	331
Total current assets	63,022	62,802
Restricted cash	6,751	6,751
Security deposits	218	218
Property and equipment, net	152,563	170,511
Intangible assets, net	12,006	12,848
Capitalized software costs, net	7,509	7,083
Goodwill	12,739	12,739
Deferred costs, net of current portion	7,131	7,396
Unbilled revenue, net of current portion	460	543
Accounts receivable, long-term	1,505	1,225
Note receivable, net of current portion	123	130
Investment in non-consolidated entity, net	—	1,812
Total assets	\$ 264,027	\$ 284,058

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

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

	September 30, 2013 (Unaudited)	March 31, 2013
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued expenses	\$ 49,387	\$ 40,320
Current portion of notes payable, non-recourse	33,992	34,447
Current portion of capital leases	151	132
Current portion of deferred revenue	3,699	3,900
Current portion of contingent consideration for business combination	—	1,500
Total current liabilities	87,229	80,299
Notes payable, non-recourse, net of current portion	183,342	203,462
Capital leases, net of current portion	4,385	4,386
Interest rate derivatives	—	544
Deferred revenue, net of current portion	10,196	10,931
Contingent consideration, net of current portion	1,846	1,750
Total liabilities	286,998	301,372
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 September 30, 2013 and March 31, 2013, respectively. Liquidation preference of \$3,609	3,520	3,466
Class A common stock, \$0.001 par value per share; 118,759,000 shares authorized; 53,077,216 and 48,448,137 shares issued and 53,025,776 and 48,396,697 shares outstanding at September 30, 2013 and March 31, 2013, respectively	53	48
Class B common stock, \$0.001 par value per share; 1,241,000 shares authorized and issued, 0 shares outstanding at September 30, 2013 and March 31, 2013	—	—
Additional paid-in capital	228,427	221,810
Treasury stock, at cost; 51,440 Class A shares	(172	) (172)
Accumulated deficit	(254,799	) (242,466)
Total stockholders' deficit	(22,971	) (17,314)
Total liabilities and stockholders' deficit	\$ 264,027	\$ 284,058

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

CINEDIGM CORP.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2013	2012	2013	2012 (As Adjusted - See Note 1)
Revenues	\$ 20,367	\$ 22,609	\$ 39,992	\$ 43,513
Costs and expenses:				
Direct operating (exclusive of depreciation and amortization shown below)	5,470	2,928	9,961	5,363
Selling, general and administrative	5,072	6,306	12,195	12,199
Research and development	19	36	47	74
Provision for doubtful accounts	132	78	194	154
Restructuring and transition expenses	—	340	—	340
Merger and acquisition expenses	—	—	—	1,267
Depreciation and amortization of property and equipment	9,375	9,120	18,650	18,217
Amortization of intangible assets	417	223	842	381
Total operating expenses	20,485	19,031	41,889	37,995
(Loss) income from operations	(118)	) 3,578	(1,897)	) 5,518
Interest expense, net	(4,526)	) (7,278)	) (9,445)	) (14,736)
(Loss) income on investment in non-consolidated entity	(560)	) 631	(1,812)	) 662
Other income, net	108	193	241	391
Change in fair value of interest rate derivatives	(71)	) 255	758	676
Loss from continuing operations before benefit from income taxes	(5,167)	) (2,621)	) (12,155)	) (7,489)
Benefit from income taxes	—	—	—	5,019
Loss from continuing operations	(5,167)	) (2,621)	) (12,155)	) (2,470)
Income (loss) from discontinued operations	—	10	—	(274)
Net loss	(5,167)	) (2,611)	) (12,155)	) (2,744)
Preferred stock dividends	(89)	) (89)	) (178)	) (178)
Net loss attributable to common stockholders	\$ (5,256)	) \$ (2,700)	) \$ (12,333)	) \$ (2,922)
Net loss per Class A and Class B common share attributable to common shareholders - basic and diluted:				
Loss from continuing operations	\$ (0.10)	) \$ (0.06)	) \$ (0.24)	) \$ (0.06)
Loss from discontinued operations	—	—	—	(0.01)
	\$ (0.10)	) \$ (0.06)	) \$ (0.24)	) \$ (0.07)
Weighted average number of Class A and Class B common shares outstanding: basic and diluted	52,920,060	48,299,715	50,651,007	46,718,464

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

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

	For the Six Months Ended September 30,	
	2013	2012 (As Adjusted - See Note 1)
Cash flows from operating activities		
Net loss	\$(12,155)	) \$(2,744)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization of property and equipment and amortization of intangible assets	19,492	18,598
Amortization of capitalized software costs	736	527
Amortization of debt issuance costs	566	1,121
Provision for doubtful accounts	194	154
Stock-based compensation	1,277	1,319
Change in fair value of contingent consideration for business combination	(1,500)) —
Change in fair value of interest rate derivatives	(758)	) (676)
Accretion and PIK interest expense added to note payable	1,076	4,950
Loss (income) on investment in non-consolidated entity	1,812	(662)
Benefit from deferred income taxes	—	(5,019)
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	(5,101)	) (635)
Unbilled revenue	5,178	(138)
Prepaid expenses and other current assets	(1,719)	) (4,089)
Other assets	(358)	) (103)
Accounts payable and accrued expenses	9,119	2,760
Deferred revenue	(936)	) 39
Other liabilities	37	(174)
Net cash provided by operating activities	16,960	15,228
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	(618)	) (3,793)
Purchases of intangible assets	—	(22)
Additions to capitalized software costs	(1,162)	) (1,366)
Sales/maturities of restricted available-for-sale investments	—	9,477
Net cash (used in) provided by investing activities	(1,780)	) 1,169
Cash flows from financing activities:		
Repayment of notes payable	(21,519)	) (27,242)
Proceeds from notes payable	—	3,469
Principal payments on capital leases	(66)	) (86)
Proceeds from issuance of Class A common stock	5,520	11,002
Costs associated with issuance of Class A common stock	(174)) (1,113)

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Net cash used in financing activities	(16,239) (13,970)
Net change in cash and cash equivalents	(1,059) 2,427	
Cash and cash equivalents at beginning of period	13,448	16,614	
Cash and cash equivalents at end of period	\$12,389	\$19,041	

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

CINEDIGM CORP.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2013

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

(Unaudited)

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").

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 almost 12,000 movie screens from traditional film prints to digital distribution, the Company continues to advance worldwide cinema modernization with its suite of software products allowing exhibitors and distributors to manage their newly digital businesses with efficiency, insight and lower costs. And, as a leading distributor of independent content, the Company collaborates with producers and the exhibition community to market, source, curate and distribute quality content to targeted and profitable audiences through (i) theatrical releases, (ii) existing and emerging digital home entertainment platforms, including iTunes, Amazon Prime, Netflix, Xbox, Playstation, and cable video-on-demand ("VOD") and (iii) physical goods, including DVD and Blu-ray.

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 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; 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 provides content marketing and distribution services in both theatrical and ancillary home entertainment markets to alternative and independent movie content owners and to theatrical exhibitors.

Purchase of New Video Group

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 Group, Inc. ("New Video"). Upon concluding the purchase price allocation for the purchase of New Video ("New Video Acquisition") in the fourth quarter of the fiscal year ended March 31, 2013, a measurement period adjustment was made to establish a deferred tax liability with a corresponding increase in goodwill at the acquisition date. As a result of this adjustment and the assessment of its consolidated tax filing status, the Company determined it was appropriate to release a portion of its deferred tax valuation allowance established prior to the New Video Acquisition. The release of the deferred tax valuation allowance was recorded outside of acquisition accounting in accordance with the accounting guidance. Accordingly, the previously reported condensed consolidated statement of operations for the six months ended September 30, 2012 has been revised as follows:

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	As Previously Reported	As Adjusted	Change
Condensed consolidated statement of operations			
Loss from continuing operations before benefit from income taxes	\$(7,489	) \$(7,489) \$—
Benefit from income taxes	—	5,019	5,019
Loss from continuing operations	(7,489	) (2,470	) 5,019
Net loss	(7,763	) (2,744	) 5,019
Net loss attributable to common stockholders	(7,941	) (2,922	) 5,019
Net loss per Class A and Class B common share attributable to common shareholders - basic and diluted:			
Loss from continuing operations	\$ (0.16	) \$ (0.06	) \$ 0.10
Loss from discontinued operations	(0.01	) (0.01) —
	\$ (0.17	) \$ (0.07	) \$ 0.10

Subsequent Events

Gaiam Acquisition

On October 17, 2013, the Company and Cinedigm Entertainment Holdings, LLC ("CEH"), a newly-formed, wholly-owned subsidiary of the Company, entered into a Membership Interest Purchase Agreement with Gaiam Americas, Inc. and Gaiam, Inc. (together, "Gaiam") for the purchase by CEH of Gaiam's division 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 "Gaiam Acquisition"). The Company agreed to an aggregate purchase price of \$51,500, subject to a working capital adjustment, with (i) \$47,500 payable in cash and 666,978 shares of Class A Common Stock valued at \$1,000, subject to certain transfer restrictions, in each case upon the closing of the Gaiam Acquisition, and (ii) \$3,000 payable in cash on a deferred basis. The Gaiam Acquisition was consummated on October 21, 2013. Gaiam will become part of the Company's Content & Entertainment segment.

Credit Facility

On October 17, 2013, the Company entered into a credit agreement (the "CEH 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 CEH Credit Agreement and subject to the terms and conditions thereof, the Company may borrow an aggregate principal amount of \$55,000, including term loans of \$25,000 (the "CEH Term Loans") and revolving loans of \$30,000 (the "CEH Revolving Loans"). All of the CEH Term Loans and \$15,000 of the CEH Revolving Loans were drawn at closing in connection with funding the Gaiam Acquisition upon the Company's contribution of such funds to CEH. Each of the CEH Term Loans and the CEH 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%. All collections and revenues of CEH 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 CEH 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 CEH Term Loans. The CEH Term Loans and CEH Revolving Loans mature and must be paid in full by October 21, 2016. In addition, the Company may prepay the CEH Term Loans and CEH Revolving Loans, in whole or in part, subject to paying certain breakage costs, as applicable.

Shelf Offering

On October 17, 2013, the Company conducted an underwritten public offering resulting in the sale by the Company of an aggregate of 9,089,990 shares of Class A Common Stock on October 21, 2013 and October 23, 2013 with net proceeds to the Company of approximately \$12,049.

Securities Purchase Agreements

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

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of the 2013 Notes and 2013 Warrants were used for working capital and general corporate purposes, including to finance, in part, the Gaiam Acquisition.

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.

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. The Company has agreed to register the resale of the shares exercisable under the 2013 Warrants.

Stock Purchase Agreement

On October 17, 2013, the Company entered into a common stock purchase agreement (the "Stock Purchase Agreement") with an investor party thereto (the "Common Stock Investor") pursuant to which the Company agreed to sell to the Common Stock Investor 1,398,601 shares (the "2013 Shares") of Class A Common Stock, for an aggregate purchase price in cash of \$2,000, priced at \$1.43 per share. The sale was consummated on October 21, 2013. The proceeds of the sale of the 2013 Shares will be used for working capital and general corporate purposes, including to finance, in part, the Gaiam Acquisition. In addition, the Company has agreed to register the resale of the 2013 Shares with the Securities and Exchange Commission ("SEC").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND CONSOLIDATION

The Company has incurred net losses historically and has an accumulated deficit of \$254,799 as of September 30, 2013. The Company also has significant contractual obligations related to its non-recourse debt for the fiscal year ending March 31, 2014 and beyond. The Company may continue to generate net losses for the foreseeable future. Based on the Company's cash position at September 30, 2013, and expected cash flows from operations, management believes that the Company has the ability to meet its obligations through at least September 30, 2014. 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"), 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"), USM (sold in September 2011), 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"), 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 and New Video are together referred to as CEG. AccessDM and Satellite are together referred to as 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, 2013, 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 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 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 Annual Report on Form 10-K for the fiscal year ended March 31, 2013 filed with the SEC on June 20, 2013 (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 accounts 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 income taxes, have been made to the fiscal period ended September 30, 2012 consolidated financial statements to conform to the current fiscal period ended September 30, 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.

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 \$844 and \$699 as of September 30, 2013 and March 31, 2013, respectively.

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.

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 5), the Company maintains cash restricted for repaying interest on the respective loans as follows:

	As of September 30, 2013	As of March 31, 2013
Reserve account related to the 2013 Term Loans (See Note 5)	\$5,751	\$5,751
Reserve account related to the 2013 Prospect Loan Agreement (See Note 5)	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 and 2013 Prospect Loan (see Note 5) which are amortized under the effective interest rate method over the terms of the respective debt. All other unamortized debt issuance costs are amortized on a straight-line basis over the term of the respective debt. For such debt, amortization on a 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 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 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) 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 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 and liabilities:

	As of September 30, 2013			
	Level 1	Level 2	Level 3	Total
Restricted cash	\$6,751	\$—	\$—	\$6,751
Contingent consideration	—	—	(1,846	) (1,846)
	\$6,751	\$—	\$(1,846	) \$4,905
	As of March 31, 2013			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$1,004	\$—	\$—	\$1,004

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Restricted cash	6,751	—	—	6,751
Interest rate derivatives	—	(544) —	(544)
Contingent consideration	—	—	(3,250) (3,250)
	\$ 7,755	\$ (544) \$ (3,250) \$ 3,961

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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 ending March 31, 2014 and 2015. The 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 change in contingent consideration liabilities during the six months ended September 30, 2013 were as follows:

Balance at March 31, 2013	\$ 3,250	
Change in fair value	(1,500)
Accretion of contingent liability	96	
Balance at September 30, 2013	\$ 1,846	

Key assumptions include a discount rate of 7% and that New Video will achieve 100% of its business unit financial performance target in each of the two fiscal years described above, resulting in a payment of 75% of the maximum contingent consideration amount. During the three months ended September 30, 2013, the Company determined that the business unit would not meet the target for the fiscal year ending March 31, 2014 as defined in the New Video stock purchase agreement. Accordingly, the fair value of the liability was reduced by \$1,500 and is a reduction of selling, general and administrative expenses within the condensed consolidated statements of operations for the three and six months ended September 30, 2013. As of September 30, 2013, the remaining amount of contingent consideration arrangement, the range of outcomes and the assumptions used to develop the estimate had not changed for the fiscal year ending March 31, 2015.

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, 2013 and 2012, no impairment charge from continuing operations for long-lived assets or finite-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.

Information related to the goodwill allocated to the Company's reportable segments is detailed below:

	Phase I	Phase II	Services	Content & Entertainment	Corporate	Consolidated
As of March 31, 2013	\$—	\$—	\$4,197	\$8,542	\$—	\$12,739
As of September 30, 2013	\$—	\$—	\$4,197	\$8,542	\$—	\$12,739

CAPITALIZED SOFTWARE DEVELOPMENT COSTS

Software development costs for software to be sold, licensed or otherwise marketed that are incurred subsequent to establishing technological feasibility, when it is determined that the software can be produced to meet its design specifications, are capitalized until the product is available for general release. Amounts capitalized as software development costs are amortized using the greater of recognized revenues during the period compared to the total estimated revenues to be earned or on a straight-line basis over estimated lives, generally 5 years, except for deployment software which is for 10 years. The Company reviews capitalized software costs to determine if any impairment exists on a periodic basis. Amortization of capitalized software development costs, included in direct operating costs, for the three months ended September 30, 2013 and 2012 amounted to \$422 and \$396, respectively. Amortization of capitalized software development costs, included in direct operating costs, for the six months ended September 30, 2013 and 2012 amounted to \$736 and \$527, respectively.

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 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

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 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.

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 3 years of a movie’s initial theatrical release date.

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

STOCK-BASED COMPENSATION

During the three months ended September 30, 2013 and 2012, the Company recorded employee stock-based compensation of \$540 and \$528, respectively. During the six months ended September 30, 2013 and 2012, the Company recorded employee and director stock-based compensation of \$1,277 and \$1,319, respectively.

The weighted-average grant-date fair value of options granted during the three months ended September 30, 2013 and 2012 was \$0.84 and \$0.79, respectively. The weighted-average grant-date fair value of options granted during the six months ended September 30, 2013 and 2012 was \$0.84 and \$0.92, respectively. There were no options exercised during the three months ended September 30, 2013. There were 42,640 stock options exercised during the six months ended September 30, 2013. During the three and six months ended September 30, 2012, there were no exercises of stock options.

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,	
	2013	2012	2013	2012
Range of risk-free interest rates	1.4 - 1.6%	0.6 - 0.7%	0.7 - 1.6%	0.9 - 2.1%
Dividend yield	—	—	—	—
Expected life (years)	5	5	5	5
Range of expected volatilities	72.7 - 73.1%	75.2 - 75.6%	72.7 - 74.0%	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 and director stock-based compensation expense 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,	
	2013	2012	2013	2012
Direct operating	\$ 16	\$ 26	\$ 34	\$ 48
Selling, general and administrative	505	466	1,202	1,198
Research and development	19	36	41	73
	\$ 540	\$ 528	\$ 1,277	\$ 1,319

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 outstanding during the period

The sum of net loss from continuing operations per fully diluted share for the three months ended September 30, 2013 and three months ended June 30, 2013 does not equal the six months ended September 30, 2013 amount due to rounding. 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 six months ended September 30, 2013 and 2012 and, therefore, the impact of dilutive potential common shares from outstanding stock options and warrants, totaling 22,009,140 shares and 20,827,897 shares as of September 30, 2013 and 2012, respectively, were excluded from the computation as it would be anti-dilutive.

3. DISCONTINUED OPERATIONS

During the three and six months ended September 30, 2013, there were no discontinued operations. For the three and six months ended September 30, 2012, the loss from discontinued operations is comprised of DMS. There is no tax provision or benefit related to any of the discontinued operations. The loss from discontinued operations was as follows:

	For the Three Months Ended September 30, 2012	For the Six Months Ended September 30, 2012
Revenues	\$ —	\$ 67
Costs and Expenses:		
Direct operating (exclusive of depreciation and amortization shown below)	—	178
Selling, general and administrative	(10	) 107
Provision for doubtful accounts	—	36
Total operating expenses	(10	) 321
Income (loss) from operations	10	(254)
Other expense, net	—	(20)
Income (loss) from discontinued operations	\$ 10	\$ (274)

4. INVESTMENT IN NON-CONSOLIDATED ENTITY

Investment in Holdings

As discussed in Note 2, 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 maximum exposure to loss as it relates to Holdings as of September 30, 2013 and March 31, 2013 includes:

• The Company's investment in the equity of Holdings;

• As a result of operating losses for the six months ended September 30, 2013, the investment in the equity of Holdings is \$0 as of September 30, 2013. As of March 31, 2013, the investment in the equity of Holdings was \$1,812; and

Accounts receivable due from Holdings for service fees under its master service agreement of \$268 and \$396, respectively, included within accounts receivable, net on the accompanying condensed consolidated balance sheets.

During the three months ended September 30, 2013 and 2012, the Company received \$275 and \$470 in aggregate revenues through digital cinema servicing fees from Holdings, respectively, included in revenues on the accompanying condensed consolidated statements of operations. During the six months ended September 30, 2013 and 2012, such amounts were \$537 and \$894, respectively. Digital cinema servicing fees earned from Holdings during the three and six months ended September 30, 2012 included one-time installation management fees of \$461 and \$920, respectively.

The change in the carrying amount of our investment in Holdings for the six months ended September 30, 2013 is as follows:

Balance at March 31, 2013	\$ 1,812	
Equity in loss of Holdings	(1,812)
Balance at September 30, 2013	\$—	

5. NOTES PAYABLE

Notes payable consisted of the following:

Notes Payable	As of September 30, 2013		As of March 31, 2013	
	Current Portion	Long Term Portion	Current Portion	Long Term Portion
2013 Term Loans, net of debt discount	\$ 26,062	\$ 81,982	\$ 26,250	\$ 96,207
2013 Prospect Loan Agreement	—	69,315	—	70,151
KBC Facilities	7,768	31,232	8,059	36,205
P2 Vendor Note	95	517	74	569
P2 Exhibitor Notes	67	296	64	330
Total non-recourse notes payable	\$ 33,992	\$ 183,342	\$ 34,447	\$ 203,462

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 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.

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 the 2010 Credit 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 the 2010 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, and a 1.0% prepayment premium if a prepayment is made during the first year of the 2013 Term Loans.

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 \$5,104 and \$6,787 as of September 30, 2013 and March 31, 2013, 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, 2013 and March 31, 2013.

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

	As of September 30, 2013	As of March 31, 2013
2013 Term Loans, at issuance, net	\$ 125,087	\$ 125,087
Payments to date	(16,746	) (2,275
Discount on 2013 Term Loans	(297	) (355
2013 Term Loans, net	108,044	122,457
Less current portion	(26,062	) (26,250
Total long term portion	\$ 81,982	\$ 96,207

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, will bear 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, 2013 was as follows:

	As of September 30, 2013	As of March 31, 2013
2013 Prospect Loan Agreement, at issuance	\$ 70,000	\$ 70,000
PIK Interest	1,038	151
Payments to date	(1,723) —
2013 Prospect Loan Agreement, net	69,315	70,151
Less current portion	—	—
Total long term portion	\$ 69,315	\$ 70,151

CREDIT 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. A summary of the credit facilities is as follows:

Facility ¹	Credit Facility	Interest Rate ²	Maturity Date	Outstanding Principal Balance	
				As of September 30, 2013	As of March 31, 2013
1	\$8,900	8.50	% December 2016	\$—	\$—
2	2,890	3.75	% December 2017	521	1,961
3	22,336	3.75	% September 2018	15,157	16,752
4	13,312	3.75	% September 2018	9,509	10,459
5	11,425	3.75	% March 2019	8,976	9,794
6	6,450	3.75	% December 2018	4,837	5,298
	\$65,313			\$39,000	\$44,264

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

² The interest rate for facilities 2 through 6 are the three month LIBOR, plus the interest rate noted above.

At September 30, 2013, the Company was in compliance with all of its debt covenants.

6. STOCKHOLDERS' EQUITY

CAPITAL STOCK

COMMON STOCK

As of September 30, 2013 and March 31, 2013, the Company has 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.

On June 26, 2013, the Company entered into an underwriting agreement (the "Underwriting Agreement") with Merriman Capital, Inc. and National Securities Corporation (together, the "Underwriters") pursuant to which the Underwriters agreed to act as underwriters of 3,780,718 shares of the Company's Class A common stock at a purchase price equal to \$1.2834 per share, representing a per security discount equal to 7.0% of the public offering price per security of \$1.38 (the "Offering"). In July 2013, the Underwriters exercised an option in full to buy up to an additional 567,108 shares from the Company under the above referenced terms (the "Over-Allotment"). The Company also agreed to bear the expenses of the Offering. The Over-Allotment shares were issued and sold on July 10, 2013. Total

proceeds from the issuance of the Company's Class A common stock, including the Over-Allotment, amounted to approximately \$5,520, net of underwriting discount, during July 2013.

PREFERRED STOCK

Cumulative dividends in arrears on the preferred stock at September 30, 2013 and March 31, 2013 were \$89 on each date. In October 2013, the Company paid its preferred stock dividends accrued at September 30, 2013 in the form of 62,802 shares of its Class A Common Stock.

CINEDIGM'S EQUITY INCENTIVE PLAN

During the six months ended September 30, 2013, the Company granted stock options to purchase 1,660,000 shares of its Class A Common Stock to its employees at exercise prices ranging from \$1.37 to \$1.53 per share, which will vest equally over a four year period. As of September 30, 2013, the weighted average exercise price for outstanding stock options was \$1.90 and the weighted average remaining contractual life was 7.49 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, 2013	4,053,000	\$2.16
Granted	1,660,000	1.40
Exercised	(42,640)	1.63
Canceled	(186,220)	2.33
Balance at September 30, 2013	5,484,140	1.90

Restricted Stock Awards

The Plan also provides for the issuance of restricted stock and restricted stock unit awards. During the six months ended September 30, 2013 and 2012, the Company did not grant any restricted stock or restricted stock units. There are currently no restricted stock units outstanding.

The following table summarizes the activity of the Plan related to restricted stock awards:

	Restricted Stock Awards	Weighted Average Market Price Per Share
Balance at March 31, 2013	16,108	\$ 1.40
Vested	(15,140)	1.40
Canceled	(968)	1.40
Balance at September 30, 2013	—	—

WARRANTS

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

The Sageview Warrants were exercisable beginning on September 30, 2009, 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 and expire on July 1, 2021.

7.COMMITMENTS AND CONTINGENCIES

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.

8.SUPPLEMENTAL CASH FLOWS DISCLOSURE

	For the Six Months Ended September 30,	
	2013	2012
Cash interest paid	\$9,077	\$10,408
Assets acquired under capital leases	\$84	\$—
Accretion of preferred stock discount	\$54	\$55
Accrued dividends on preferred stock	\$178	\$178
Issuance of Class A Common Stock in connection with New Video Acquisition	\$—	\$3,687
Issuance of common stock for payment of preferred stock dividends	\$89	\$—

9.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 8,697 Systems installed in the second digital cinema deployment, 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 consists of the following:

Operations of:	Products and services provided:
Services	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. Collects and disburses VPFs from motion picture studios and distributors and ACFs from alternative content providers, movie exhibitors and theatrical exhibitors.
Software	Develops and licenses software to the theatrical distribution and exhibition industries as well as other content owners, provides ASP services, and provides software enhancements and consulting services.

The Content & Entertainment segment consists of the following:

Operations of:

Products and services provided:

CEG

As a leading distributor of independent digital content, CEG collaborates with producers and the exhibition community 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, 2013					
	Phase I	Phase II	Services	Content & Entertainment	Corporate	Consolidated
Total intangible assets, net	\$ 321	\$ 3	\$ 34	\$ 11,648	\$ —	\$ 12,006
Total goodwill	\$ —	\$ —	\$ 4,197	\$ 8,542	\$ —	\$ 12,739
Total assets	\$ 122,808	\$ 72,703	\$ 21,295	\$ 41,425	\$ 5,796	\$ 264,027
Notes payable, non-recourse	\$ 177,359	\$ 39,975	\$ —	\$ —	\$ —	\$ 217,334
Capital leases	—	—	—	81	4,455	4,536
Total debt	\$ 177,359	\$ 39,975	\$ —	\$ 81	\$ 4,455	\$ 221,870
	As of March 31, 2013					
	Phase I	Phase II	Services	Content & Entertainment	Corporate	Consolidated
Total intangible assets, net	\$ 344	\$ 6	\$ 49	\$ 12,449	\$ —	\$ 12,848
Total goodwill	\$ —	\$ —	\$ 4,197	\$ 8,542	\$ —	\$ 12,739
Total assets	\$ 137,880	\$ 79,139	\$ 21,864	\$ 39,158	\$ 6,017	\$ 284,058
Notes payable, non-recourse	\$ 192,609	\$ 45,300	\$ —	\$ —	\$ —	\$ 237,909
Capital leases	—	—	—	—	4,518	4,518
Total debt	\$ 192,609	\$ 45,300	\$ —	\$ —	\$ 4,518	\$ 242,427

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	\$4,114	\$3,718		\$20,367
Intersegment revenues (1)	—	—	71	21	—	92
Total segment revenues	9,374	3,161	4,185	3,739	—	20,459
Less: Intersegment revenues	—	—	(71	) (21	) —	(92
Total consolidated revenues	\$9,374	\$3,161	\$4,114	\$3,718	\$—	\$20,367
Direct operating (exclusive of depreciation and amortization shown below) (2)	202	141	788	4,339	—	5,470
Selling, general and administrative	96	40	1,177	2,772	987	5,072
Plus: Allocation of Corporate overhead	—	—	1,008	692	(1,700) —
Research and development	—	—	19	—	—	19
Provision for doubtful accounts	102	16	14	—	—	132
Depreciation and amortization of property and equipment	7,138	1,880	199	7	151	9,375
Amortization of intangible assets	12	1	8	395	1	417
Total operating expenses	7,550	2,078	3,213	8,205	(561	) 20,485
Income (loss) from operations	\$1,824	\$1,083	\$901	\$(4,487	) \$561	\$(118

(1) Intersegment revenues principally represent personnel expenses.

(2) Included in direct operating of the Services segment is \$422 for the amortization of capitalized software development costs.

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	\$—	\$—	\$15	\$1	\$—	\$16
Selling, general and administrative	—	—	19	19	467	505
Research and development	—	—	19	—	—	19
Total stock-based compensation	\$—	\$—	\$53	\$20	\$467	\$540

Statements of Operations
For the Three Months Ended September 30, 2012
(Unaudited)

	Phase I	Phase II	Services	Content & Entertainment	Corporate	Consolidated	
Revenues from external customers	\$ 10,087	\$ 3,164	\$ 5,755	\$ 3,603	\$—	\$ 22,609	
Intersegment revenues (1)	—	—	247	11	—	258	
Total segment revenues	10,087	3,164	6,002	3,614	—	22,867	
Less: Intersegment revenues	—	—	(247) (11) —	(258)
Total consolidated revenues	\$ 10,087	\$ 3,164	\$ 5,755	\$ 3,603	\$—	\$ 22,609	
Direct operating (exclusive of depreciation and amortization shown below) (2)	94	158	1,280	1,396	—	2,928	
Selling, general and administrative	56	26	906	2,192	3,126	6,306	
Plus: Allocation of Corporate overhead	—	—	1,221	900	(2,121) —	
Research and development	—	—	36	—	—	36	
Provision for doubtful accounts	53	15	10	—	—	78	
Restructuring expenses	—	—	—	340	—	340	
Depreciation and amortization of property and equipment	7,137	1,828	35	5	115	9,120	
Amortization of intangible assets	12	1	6	203	1	223	
Total operating expenses	7,352	2,028	3,494	5,036	1,121	19,031	
Income (loss) from operations	\$ 2,735	\$ 1,136	\$ 2,261	\$ (1,433	) \$(1,121	) \$ 3,578

(1) Intersegment revenues principally represent personnel expenses.

(2) Included in direct operating of the Services segment is \$396 for the amortization of capitalized software development costs.

The following employee 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	\$—	\$—	\$ 19	\$ 7	\$—	\$ 26
Selling, general and administrative	—	—	17	21	428	466
Research and development	—	—	36	—	—	36
Total stock-based compensation	\$—	\$—	\$ 72	\$ 28	\$ 428	\$ 528

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	\$ 8,592	\$ 6,992	\$—	\$ 39,992	
Intersegment revenues (1)	—	—	141	32	—	173	
Total segment revenues	18,293	6,115	8,733	7,024	—	40,165	
Less: Intersegment revenues	—	—	(141) (32) —	(173)
Total consolidated revenues	\$ 18,293	\$ 6,115	\$ 8,592	\$ 6,992	\$—	\$ 39,992	
Direct operating (exclusive of depreciation and amortization shown below) (2)	357	283	1,597	7,724	—	9,961	
Selling, general and administrative	159	127	2,313	5,527	4,069	12,195	
Plus: Allocation of Corporate overhead	—	—	2,041	1,425	(3,466) —	
Research and development	—	—	47	—	—	47	
Provision for doubtful accounts	145	30	19	—	—	194	
Depreciation and amortization of property and equipment	14,275	3,761	301	10	303	18,650	
Amortization of intangible assets	23	3	15	800	1	842	
Total operating expenses	14,959	4,204	6,333	15,486	907	41,889	
Income (loss) from operations	\$ 3,334	\$ 1,911	\$ 2,259	\$ (8,494) \$(907) \$(1,897)

(1) Intersegment revenues principally represent personnel expenses.

(2) Included in direct operating of the Services segment is \$736 for the amortization of capitalized software development costs.

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	\$—	\$—	\$ 31	\$ 3	\$—	\$ 34
Selling, general and administrative	—	—	40	42	1,120	1,202
Research and development	—	—	41	—	—	41
Total stock-based compensation	\$—	\$—	\$ 112	\$ 45	\$ 1,120	\$ 1,277

Statements of Operations
For the Six Months Ended September 30, 2012
(Unaudited)

	Phase I	Phase II	Services	Content & Entertainment	Corporate	Consolidated	
Revenues from external customers	\$ 20,003	\$ 6,323	\$ 10,819	\$ 6,368	\$—	\$ 43,513	
Intersegment revenues (1)	—	—	488	18	—	506	
Total segment revenues	20,003	6,323	11,307	6,386	—	44,019	
Less: Intersegment revenues	—	—	(488) (18) —	(506)
Total consolidated revenues	\$ 20,003	\$ 6,323	\$ 10,819	\$ 6,368	\$—	\$ 43,513	
Direct operating (exclusive of depreciation and amortization shown below) (2)	209	324	2,396	2,434	—	5,363	
Selling, general and administrative	73	51	1,796	3,887	6,392	12,199	
Plus: Allocation of Corporate overhead	—	—	2,484	1,824	(4,308) —	
Research and development	—	—	74	—	—	74	
Provision for doubtful accounts	105	31	18	—	—	154	
Restructuring expenses	—	—	—	340	—	340	
Merger and acquisition expenses	—	—	—	—	1,267	1,267	
Depreciation and amortization of property and equipment	14,275	3,629	77	10	226	18,217	
Amortization of intangible assets	23	3	13	341	1	381	
Total operating expenses	14,685	4,038	6,858	8,836	3,578	37,995	
Income (loss) from operations	\$ 5,318	\$ 2,285	\$ 3,961	\$ (2,468	) \$(3,578	) \$ 5,518

(1) Intersegment revenues principally represent personnel expenses.

(2) Included in direct operating of the Services segment is \$527 for the amortization of capitalized software development costs.

The following employee 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	\$—	\$—	\$ 37	\$ 11	\$—	\$ 48
Selling, general and administrative	—	—	32	38	1,128	1,198
Research and development	—	—	73	—	—	73
Total stock-based compensation	\$—	\$—	\$ 142	\$ 49	\$ 1,128	\$ 1,319

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").

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 almost 12,000 movie screens from traditional film prints to digital distribution, the Company continues to advance worldwide cinema modernization with its suite of software products allowing exhibitors and distributors to manage their digital businesses with efficiency, insight and lower costs. And, as a leading distributor of independent content domestically, the Company collaborates with producers and the exhibition community to market, source, curate and distribute quality content to targeted and profitable audiences through (i) theatrical releases, (ii) existing and emerging digital home entertainment platforms, including iTunes, Amazon Prime, Netflix, Xbox, Playstation, VOD and (iii) physical goods, including DVD and Blu-ray. The Company's library of over 5,000 physical goods titles and 20,000 digital titles from more than 650 independent rights holders includes award-winning documentaries from Docurama Films®, next-generation independent movies from Flatiron Film Company® and acclaimed independent movies and festival picks through partnerships with the Sundance Institute and Tribeca Film. The Company is proud to distribute many Oscar®-nominated movies including "The Invisible War," "Hell and Back Again," "GasLand," "Waste Land" and "Paradise Lost 3: Purgatory."

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 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; 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 the three pillars of digital entertainment distribution - aggregation and distribution, theatrical releasing and branded and curated over-the-top entertainment channels and applications.

Gaiam Acquisition

On October 17, 2013, the Company and CEH, a newly-formed, wholly-owned subsidiary of the Company, entered into a Membership Interest Purchase Agreement with Gaiam for the purchase by CEH of Gaiam's division 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 Company agreed to an aggregate purchase price of \$51,500, subject to a working capital adjustment, with (i) \$47,500 payable in cash and 666,978 shares of Class A Common Stock valued at \$1,000, subject to certain transfer restrictions, in each case upon the closing of the Gaiam Acquisition, and (ii) \$3,000 payable in cash on a deferred basis. The Gaiam Acquisition was consummated on October 21, 2013. Gaiam will become part of the Company's Content & Entertainment segment. When combined, the Company and Gaiam will have a market position as the aggregator and distributor of independent content and the fourth largest distributor of non-theatrical DVDs and Blu-Ray in the United States of America. Additionally, the combined

company will have direct customer relationships with control of over 60,000 physical and digital titles and a library of over 32,000 titles and episodes of a wide range of content.

Credit Facility

On October 17, 2013, the Company entered into the CEH Credit Agreement with Société Générale, New York Branch, as administrative agent and Collateral Agent". Under the CEH Credit Agreement and subject to the terms and conditions thereof, the Company may borrow an aggregate principal amount of \$55,000, including Term Loans of \$25,000 and Revolving Loans of \$30,000. All of the CEH Term Loans and \$15,000 of the CEH Revolving Loans were drawn at closing in connection with funding the Gaiam Acquisition upon the Company's contribution of such funds to CEH. Each of the CEH Term Loans and the CEH Revolving Loans bear interest at 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 CEH 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 CEH 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 CEH Term Loans. The CEH Term Loans and CEH Revolving Loans mature and must be paid in full by October 21, 2016. In addition, the Company may prepay the CEH Term Loans and CEH Revolving Loans, in whole or in part, subject to paying certain breakage costs, as applicable.

Shelf Offering

On October 17, 2013, the Company conducted an underwritten public offering resulting in the sale by the Company of an aggregate of 9,089,990 shares of Class A Common Stock on October 21, 2013 and October 23, 2013 with net proceeds to the Company of approximately \$12,049.

Securities Purchase Agreements

On October 17, 2013 and October 21, 2013, the Company entered into Securities Purchase Agreements with certain Investors pursuant to which the Company agreed to sell to the Investors notes in the aggregate principal amount of \$5,000 and warrants to purchase an aggregate of 1,500,000 shares of Class A Common Stock. 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 Gaiam Acquisition.

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.

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. The Company has agreed to register the resale of the shares exercisable under the 2013 Warrants.

Stock Purchase Agreement

On October 17, 2013, the Company entered into a Stock Purchase Agreement with a Common Stock Investor pursuant to which the Company agreed to sell to the Common Stock Investor 1,398,601 shares of Class A Common Stock, for an aggregate purchase price in cash of \$2,000, priced at \$1.43 per share. The sale was consummated on October 21, 2013. The proceeds of the sale of the Shares will be used for working capital and general corporate purposes, including to finance, in part, the Gaiam Acquisition. In addition, the Company has agreed to register the resale of the 2013 Shares with the SEC.

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

We have incurred consolidated losses from continuing operations of \$5,167 and \$12,155 during the three and six months ended September 30, 2013 and we have an accumulated deficit of \$254,799 as of September 30, 2013. We also have significant contractual obligations related to our non-recourse debt for the remainder of the fiscal year ending March 31, 2014 and beyond. We may continue generating consolidated net losses for the foreseeable future. Based on our cash position at September 30, 2013, expected cash flows from operations and debt and equity offerings consummated in October 2013, we believe that we have the ability to meet our obligations through at least September 30, 2014. 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, 2013 and 2012

Revenues

(\$ in thousands)	For the Three Months Ended September 30,			
	2013	2012	\$ Change	% Change
Phase I Deployment	\$9,374	\$10,087	\$(713)	(7)%
Phase II Deployment	3,161	3,164	(3)	—%
Services	4,114	5,755	(1,641)	(29)%
Content & Entertainment	3,718	3,603	115	3%
	\$20,367	\$22,609	\$(2,242)	(10)%

Revenues decreased \$2.2 million or 10% during the three months ended September 30, 2013. Phase 1 and Phase 2 Deployment revenues declined by \$0.7 million for the three months ended September 30, 2013 as a result of (i) fewer releases by studios in the current fiscal quarter as compared to the prior year fiscal quarter as two release titles were delayed to our fiscal third and fourth quarters due to the crowded release calendar this quarter; and (ii) limited screen space to accommodate all tent-pole and wide studio releases constrained booking patterns. Phase 2 DC's financed Systems installed and ready for content were 2,497 at September 30, 2013, increasing from 2,359 at September 30, 2012.

In the Services segment, a \$1.6 million, or 29%, decrease in revenues was primarily due to (i) the expected reduction in service revenues as the termination of the North American deployment program resulted in no activation fee revenue recognized during the current quarter as compared to \$1.4 million of activation fees in the prior year quarter; (ii) lower results in Software license fees reflecting the successful in-process business model shift to a software-as-a-service ("SaaS") revenue model. We currently have in excess of 15 exhibitors in trial periods for our new software products as well as several studio customers negotiating a shift to SaaS arrangements; (iii) delays in deployments by several international exhibitors to later this fiscal year; and (iv) the continued go-live testing and conversion by a studio customer delaying revenue recognition into the fiscal third or fourth quarter. Digital cinema services revenues grew modestly year on year reflecting our expanding international servicing business and predictable and solid servicing revenues from our domestic deployment. During the three months ended September 30, 2013, 200 Phase 2 DC Exhibitor-Buyer Structure Systems were installed and a total of 8,697 installed Phase 2 Systems were generating service fees at September 30, 2013 as compared to 7,128 Phase 2 Systems at September 30, 2012. The Company also services an additional 3,724 screens in its Phase I deployment subsidiary. We expect growth in Services as we (i) continue with international servicing and software installations in Australia, New Zealand and Europe during remainder of the fiscal year ending March 31, 2014 from our over 150 international screen backlog; (ii) recognize additional revenues from delayed implementations for existing software customers; and (iii) achieve continued growth in software and cinema services from our sales pipeline.

The CEG business increased 3% during the seasonably slow second quarter with revenues of \$3.7 million. CEG was negatively impacted by a number of timing issues that shifted revenues to the fiscal third and fourth quarters including: (i) several large digital licensing transactions delayed and several street dates for signed contracts moved into the fiscal third or fourth quarter by our digital customers; (ii) DVD shipments delayed into October by a large retailer; (iii) home entertainment released dates of CEG theatrical titles not occurring until mid-September therefore having minimal impact in our fiscal second quarter. Based on recently signed digital transactions and the strong retail placement of physical goods products we have secured going into the holiday season, we expect fiscal third quarter to show solid growth. In addition, significant CEG resources were dedicated to the completion of the Gaiam Acquisition and we expect the combined company to utilize its strong market position to accelerate growth over the next 18 months. CEG expanded its total home entertainment distribution library by 708 titles to over 22,000 titles during the second quarter. CEG is further leveraging its position to acquire the North American distribution rights in all media for independent movies as well as to launch several narrowcast entertainment networks through over-the-top video channels to all home and mobile platforms. During the three months ended September 30, 2013, CEG released four movies theatrically, acquired the distribution rights to two independent movies and has eight movies in its upcoming

release slate. CEG expects to release four of these movies during the remainder of the current fiscal year. CEG expects the slate of its releases to date to be profitable based upon ancillary revenue pre-sales, DVD pre-orders as well as projected transactional VOD results.

Direct Operating Expenses

(\$ in thousands)	For the Three Months Ended September 30,			
	2013	2012	\$ Change	% Change
Phase I Deployment	\$202	\$94	\$108	115 %
Phase II Deployment	141	158	(17)	(11)%
Services	788	1,280	(492)	(38)%
Content & Entertainment	4,339	1,396	2,943	211 %
	\$5,470	\$2,928	\$2,542	87 %

Direct operating expenses increased by 87% primarily due to significant growth in upfront theatrical releasing, marketing and acquisitions costs as CEG released four movies in the current quarter versus none in the prior year quarter. These four releases total approximately \$2.9 million of upfront releasing costs which CEG expects to fully recoup from revenues earned in home entertainment distribution during its first three-year ultimate cycle. In accordance with GAAP, Cinedigm must recognize its upfront content acquisition and marketing expenses at the time of a theatrical release of a movie. We expect to recover those expenses as well as earn our fee-based profits over the ensuing 12-36 months from revenues earned on the distribution of the movie in the ancillary home entertainment markets. This timing difference creates a “J-Curve” and will continue in future periods as we increase our distribution activities and we will also experience an increase in direct operating expenses corresponding with additional revenue growth.

The decrease in the Services segment was primarily related to (i) expense reductions in digital cinema services as the domestic installation period ended and (ii) reduced contractor expense in Software, partially offset by increased amortization of capitalized software cost.

Selling, General and Administrative Expenses

(\$ in thousands)	For the Three Months Ended September 30,			
	2013	2012	\$ Change	% Change
Phase I Deployment	\$96	\$56	\$40	71 %
Phase II Deployment	40	26	14	54 %
Services	1,177	906	271	30 %
Content & Entertainment	2,772	2,192	580	26 %
Corporate	987	3,126	(2,139)	(68)%
	\$5,072	\$6,306	\$(1,234)	(20)%

Selling, general and administrative expenses decreased \$1.2 million or 20%. The increase in the Services segment was mainly due to payroll and related employee expenses for increased staffing as we added servicing resources to support the expanding international digital cinema servicing efforts as well as additional management, sales resources, software development and quality assurance staff to support the recent and expected software customer additions. The Content & Entertainment segment increased 26% primarily as a result of the full period inclusion of our theatrical releasing and marketing teams which we added in the summer and fall of 2012. We have maintained selling, general and administrative expenses at CEG relatively consistent with the previous quarters. The decrease within Corporate reflects ongoing prudent expense management and reduction of a contingent liability of \$1.5 million related to a business combination. Future increases in selling, general and administrative expenses will be tied to additional revenues as we support our expanding content acquisition and distribution activities with additional sales and service headcount.

Depreciation and Amortization Expense on Property and Equipment

(\$ in thousands)	For the Three Months Ended September 30,			
	2013	2012	\$ Change	% Change
Phase I Deployment	\$7,138	\$7,137	\$1	— %
Phase II Deployment	1,880	1,828	52	3 %
Services	199	35	164	469 %

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Content & Entertainment	7	5	2	40	%
Corporate	151	115	36	31	%
	\$9,375	\$9,120	\$255	3	%

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Depreciation and amortization expense increased \$0.3 million or 3%. The increase in the Phase II Deployment segment represents depreciation on the increased number of Phase 2 DC Systems which were not in service during the three months ended September 30, 2012. We expect the depreciation and amortization expense in the Phase II Deployment segment to remain at similar levels as the Phase 2 deployment period has ended and we do not expect to add international Systems that require inclusion on our balance sheet. In addition, we expect modest additional growth in Services and Corporate depreciation and amortization expense tied to technology investments supporting our software expansion and our upgraded corporate information technology infrastructure.

Amortization of intangible assets

Amortization of intangible assets increased to \$0.4 million from \$0.2 million for the three months ended September 30, 2013, principally due to the final purchase price allocation of the April 2012 acquisition of New Video, which was still preliminary during the prior year fiscal quarter.

Interest expense, net

(\$ in thousands)	For the Three Months Ended September 30,			
	2013	2012	\$ Change	% Change
Phase I Deployment	\$3,733	\$2,077	\$1,656	80 %
Phase II Deployment	524	598	(74)	(12)%
Corporate	269	4,603	(4,334)	(94)%
	\$4,526	\$7,278	\$(2,752)	(38)%

Interest expense, net decreased \$2.8 million or 38% due to the interest savings driven by the February 2013 refinancing and the continued repayment of debt as the company reduced principal outstanding by \$12.9 million during the three months ended September 30, 2013. The 80% increase in interest paid and accrued within the non-recourse Phase I Deployment segment is the result of the shifting of the Company's corporate debt to non-recourse as part of the February 2013 refinancing. The non-recourse Phase I deployment debt was refinanced and expanded and combined with the proceeds of the non-recourse 2013 Prospect Loan to repay the recourse 2010 Note in the Company's Corporate segment. The 2013 Term Loans are at a rate of LIBOR, plus 275 basis points with a 1.0% LIBOR floor, versus the 2010 Term Loan 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. Phase 2 DC's non-recourse interest expense is expected to continue to decrease as it did during the fiscal quarter as we continue to repay the KBC Facilities from free cash flow and the 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. 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 Payment In Kind ("PIK") rate of 2.5%. Interest on the prior recourse note was 8% PIK Interest and 7% per annum paid in cash.

Non-cash interest expense was approximately \$0.9 million and \$3.0 million for the three months ended September 30, 2013 and 2012, respectively. PIK interest was \$0.6 million and \$1.9 million for the three months ended September 30, 2013 and 2012, respectively, associated with the 2013 Prospect Loan and prior recourse note within Corporate for the prior period. Amortization of debt issuance costs were \$0.3 million and \$0.6 million for the three months ended September 30, 2013 and 2012, respectively. The remaining amount for the three months ended September 30, 2012 represents the accretion of \$0.4 million on the note payable discount associated with the recourse note in Corporate.

Change in fair value of interest rate derivatives

The change in fair value of the interest rate derivatives were a loss of \$0.1 million and a gain of \$0.3 million for the three months ended September 30, 2013 and 2012, respectively.

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, merger and acquisition costs, and certain other items.

The Company reported lower Adjusted EBITDA (including its Phase 1 DC and Phase 2 DC subsidiaries) of \$10.6 million for the three months ended September 30, 2013 in comparison to \$14.1 million for the three months ended September 30, 2012. This decline was due to the \$0.7 million reduction in VPF revenues and related EBITDA earned in the period as a result of (i) fewer releases by studios in the current fiscal quarter as compared to the prior year fiscal quarter as two release titles were delayed to the third and fourth quarter of our current fiscal year due to the crowded release calendar this quarter; (ii) limited screen space to

accommodate all tent-pole and wide studio releases constrained booking patterns in the quarter; and (iii) the additional factors described below. Adjusted EBITDA from non-deployment businesses was a loss of \$1.3 million during the three months ended September 30, 2013, declining from \$1.2 million for the three months ended September 30, 2012. This decline was primarily driven by three factors: (i) \$2.9 million of upfront theatrical releasing, marketing and acquisition costs recognized in the quarter (“J-curve” costs) as well as the additional theatrical releasing selling, general and administrative expenses supporting these releases (ii) timing delays in several digital licensing transactions to later this current fiscal year as well as a major DVD shipment delayed until early October at the request of the retailer; and (iii) timing delays to later this fiscal year in our software unit of installations and revenue recognition from several existing international exhibitors and domestic movie studio customers.

Phase 1 DC and Phase 2 DC revenues are expected to decline modestly this year due to the impact of an overcrowded release schedule on studio booking patterns. Other than limited Phase 2 DC contractual rate reductions, revenues going forward should be stable as the domestic deployment period ended at January 31, 2013 and any remaining international installations will be through an Exhibitor-Buyer structure or other servicing partnerships which should contribute to continued growth in digital cinema servicing. Based on recently signed digital transactions and the strong retail placement of physical goods products we have secured going into the holiday season, we expect fiscal third quarter to show solid growth. In addition, significant CEG resources were dedicated to the completion of the Gaiam Acquisition and we expect the combined company to utilize its strong market position to accelerate growth over the next 18 months. The Company intends to continue investing in the growth of its business through the acquisition of content distribution rights, related marketing related expenditures and through the continued development of additional software products and services.

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,	
	2013	2012
Net loss from continuing operations before income taxes	\$ (5,167	) \$ (2,621
Add Back:		
Amortization of capitalized software costs	422	277
Depreciation and amortization of property and equipment	9,375	9,120
Amortization of intangible assets	417	223
Interest expense, net	4,526	7,278
Loss (income) on investment in non-consolidated entity	560	(631
Other income, net	(108	) (193
Change in fair value of interest rate derivatives	71	(255
Stock-based compensation	540	523
Non-recurring transaction expenses	—	340
Adjusted EBITDA	\$ 10,636	\$ 14,061
Adjustments related to the Phase I and Phase II Deployments:		
Depreciation and amortization of property and equipment	(9,018	) (8,965
Amortization of intangible assets	(13	) (13
Income from operations	(2,907	) (3,871
Intersegment services fees earned	5	9
Adjusted EBITDA from non-deployment businesses	\$ (1,297	) \$ 1,221

Results of Continuing Operations for the Six Months Ended September 30, 2013 and 2012

Revenues

(\$ in thousands)	For the Six Months Ended September 30,			
	2013	2012	\$ Change	% Change
Phase I Deployment	\$ 18,293	\$ 20,003	\$(1,710)	(9)%
Phase II Deployment	6,115	6,323	(208)	(3)%
Services	8,592	10,819	(2,227)	(21)%
Content & Entertainment	6,992	6,368	624	10%
	\$ 39,992	\$ 43,513	\$(3,521)	(8)%

Revenues decreased \$3.5 million or 8% during the six months ended September 30, 2013 with 10% organic growth in revenues in Content and Entertainment of \$0.6 million more than offset by decreases in Deployment and Services revenues. Phase 1 and Phase 2 Deployment revenues declined by \$1.9 million for the six months ended September 30, 2013 as a result of (i) fewer releases by studios in the current period as compared to the prior year comparable period as two release titles were delayed to our current year fiscal third and fourth quarters due to the crowded release calendar; and (ii) limited screen space to accommodate all tent-pole and wide studio releases constrained booking patterns. Phase 2 DC's financed Systems installed and ready for content were 2,497 at September 30, 2013, increasing from 2,359 at September 30, 2012.

In the Services segment, a \$2.2 million, or 21%, decrease in revenues was primarily due to (i) the expected reduction in service revenues as the termination of the North American deployment program resulted in \$0.7 million of activation fee revenue recognized during the current period as compared to \$2.4 million of activation fees in the prior year period; (ii) lower results in Software license fees reflecting the successful in-process business model shift to a SaaS revenue model. We currently have in excess of 15 exhibitors in trial periods for our new software products as well as several studio customers negotiating a shift to SaaS arrangements; (iii) delays in deployments by several international exhibitors to later this fiscal year; and (iv) the continued go-live testing and conversion by a studio customer delaying revenue recognition into the fiscal third or fourth quarter. Digital cinema services revenues grew modestly year on year reflecting our expanding international servicing business and predictable and solid servicing revenues from our domestic deployment. During the six months ended September 30, 2013, 717 Phase 2 DC Exhibitor-Buyer Structure Systems were installed and a total of 8,697 installed Phase 2 Systems were generating service fees at September 30, 2013 as compared to 7,128 Phase 2 Systems at September 30, 2012. The Company also services an additional 3,724 screens in its Phase I deployment subsidiary. We expect growth in Services as we (i) continue with international servicing and software installations in Australia, New Zealand and Europe during remainder of the fiscal year ending March 31, 2014 from our over 150 international screen backlog; (ii) recognize additional revenues from delayed implementations for existing software customers; and (iii) achieve continued growth in software and cinema services from our sales pipeline.

The CEG business expanded by \$0.6 million, or 10%, period over period. This was due to strong organic growth in distribution fees earned from (i) recent acquisitions of distribution rights of home entertainment titles; (ii) expanded monetization of our library of over 22,000 movies and television episodes; and (iii) revenues from theatrical releases that have reached the home entertainment window. We expect this trend to continue as CEG is continuing to expand its physical and digital content distribution rights due to its position as the largest aggregator of digital content. CEG expanded its total home entertainment distribution library by 1,384 titles during the period. CEG growth would have accelerated more rapidly if not for a number of timing issues that shifted revenues to the fiscal third and fourth quarters including: (i) several large digital licensing transactions delayed and several street dates for signed contracts moved into the third and fourth quarters of our current fiscal year by our digital customers; (ii) DVD shipments delayed into October by a large retailer; and (iii) home entertainment released dates of CEG theatrical titles not occurring until mid-September therefore having minimal impact in fiscal second quarter. CEG, after the Gaiam Acquisition, expects to further leverage its position as the largest physical and digital goods distributor of non-theatrical released content into the home and mobile to acquire the North American distribution rights in all

media for independent movies as well as to launch several narrowcast entertainment networks through over-the-top video channels to all home and mobile platforms. During the six months ended September 30, 2013, CEG released nine movies theatrically, acquired the distribution rights to five independent movies and has eight movies in its upcoming release slate. CEG expects to release four of these movies during the remainder of the current fiscal year. CEG expects the slate of its releases to date to be profitable based upon ancillary revenue pre-sales, DVD pre-orders as well as projected transactional VOD results.

Direct Operating Expenses

(\$ in thousands)	For the Six Months Ended September 30,			
	2013	2012	\$ Change	% Change
Phase I Deployment	\$ 357	\$ 209	\$ 148	71 %
Phase II Deployment	283	324	(41)	(13)%
Services	1,597	2,396	(799)	(33)%
Content & Entertainment	7,724	2,434	5,290	217 %
	\$ 9,961	\$ 5,363	\$ 4,598	86 %

Direct operating expenses decreased by 86% primarily due to significant growth in upfront theatrical releasing, marketing and acquisitions costs as CEG released nine movies during the current fiscal year versus a single small release in the prior year period. These nine releases total over \$5.5 million of upfront releasing costs which CEG expects to fully recoup from revenues earned in home entertainment distribution during its first three-year ultimate cycle. In accordance with GAAP, Cinedigm must recognize its upfront content acquisition and marketing expenses at the time of a theatrical release of a movie. We expect to recover those expenses as well as earn our fee-based profits over the ensuing 12-36 months from revenues earned on the distribution of the movie in the ancillary home entertainment markets. This timing difference creates a “J-Curve” and will continue in future periods as we increase our distribution activities and we will also experience an increase in direct operating expenses corresponding with additional revenue growth.

The decrease in the Services segment was primarily related to (i) expense reductions in digital cinema services as the domestic installation period ended and (ii) reduced contractor expense in Software, partially offset by increased amortization of capitalized software cost.

Selling, General and Administrative Expenses

(\$ in thousands)	For the Six Months Ended September 30,			
	2013	2012	\$ Change	% Change
Phase I Deployment	\$ 159	\$ 73	\$ 86	118 %
Phase II Deployment	127	51	76	149 %
Services	2,313	1,796	517	29 %
Content & Entertainment	5,527	3,887	1,640	42 %
Corporate	4,069	6,392	(2,323)	(36)%
	\$ 12,195	\$ 12,199	\$ (4)	— %

Selling, general and administrative expenses remained level for the period. The increase in the Services segment was mainly due to payroll and related employee expenses for increased staffing as we added servicing resources to support the expanding international digital cinema servicing efforts as well as additional management, sales resources, software development and quality assurance staff to support the recent and expected software customer additions. The Content & Entertainment segment increased 42% primarily as a result of the full period inclusion of our theatrical releasing and marketing teams which we added in the summer and fall of 2012 as well as increased staffing to support the rapid growth in our home entertainment acquisition and distribution volume. We have maintained selling, general and administrative expenses at CEG relatively consistent with the previous two quarters. The decrease within Corporate reflects ongoing prudent expense management and reduction of a contingent liability of \$1.5 million related to a business combination. Future increases in selling, general and administrative expenses will be tied to the integration of Gaiam into CEG and the additional revenues as we support our expanding sales pipeline and our additional content acquisition and distribution activities with additional sales and service headcount.

Merger and Acquisition Expenses

Merger and acquisition expenses included in corporate expenses for the six months ended September 30, 2012 of \$1.3 million include professional fees incurred which pertained to the purchase of New Video which was consummated in April 2012.

Depreciation and Amortization Expense on Property and Equipment

(\$ in thousands)	For the Six Months Ended September 30,			
	2013	2012	\$ Change	% Change
Phase I Deployment	\$ 14,275	\$ 14,275	\$—	— %
Phase II Deployment	3,761	3,629	132	4 %
Services	301	77	224	291 %
Content & Entertainment	10	10	—	— %
Corporate	303	226	77	34 %
	\$ 18,650	\$ 18,217	\$ 433	2 %

Depreciation and amortization expense increased \$0.4 million or 2%. The increase in the Phase II Deployment segment represents depreciation on the increased number of Phase 2 DC Systems which were not in service during the six months ended September 30, 2012. We expect the depreciation and amortization expense in the Phase II Deployment segment to remain at similar levels as the Phase 2 deployment period has ended and we do not expect to add international Systems that require inclusion on our balance sheet. In addition, we expect modest additional growth in Services and Corporate depreciation and amortization expense tied to technology investments supporting our software expansion and our upgraded corporate information technology infrastructure.

Amortization of intangible assets

Amortization of intangible assets increased to \$0.8 million from \$0.4 million for the six months ended September 30, 2013, principally due to the timing of the April 2012 acquisition of New Video, which was still preliminary during the prior year fiscal period.

Interest expense, net

(\$ in thousands)	For the Six Months Ended September 30,			
	2013	2012	\$ Change	% Change
Phase I Deployment	\$ 7,889	\$ 4,386	\$ 3,503	80 %
Phase II Deployment	1,040	1,210	(170)	(14) %
Corporate	516	9,140	(8,624)	(94) %
	\$ 9,445	\$ 14,736	\$ (5,291)	(36) %

Interest expense, net decreased \$5.3 million or 36% due to the interest savings driven by the February 2013 refinancing and the continued repayment of debt as the company reduced principal outstanding by \$21.5 million during the current fiscal year. The 80% increase in interest paid and accrued within the non-recourse Phase I Deployment segment is the result of the shifting of the Company's corporate debt to non-recourse as part of the February 2013 refinancing. The non-recourse Phase I deployment debt was refinanced and expanded and combined with the proceeds of the non-recourse 2013 Prospect Loan to repay the recourse 2010 Note in the Company's Corporate segment. The 2013 Term Loans are at a rate of LIBOR, plus 275 basis points with a 1.0% LIBOR floor, versus the 2010 Term Loan 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. Phase 2 DC's non-recourse interest expense is expected to continue to decrease as it did during the fiscal quarter as we continue to repay the KBC Facilities from free cash flow and the 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. 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 on the prior recourse note was 8% PIK Interest and 7% per annum paid in cash.

Non-cash interest expense was approximately \$1.6 million and \$6.0 million for the six months ended September 30, 2013 and 2012, respectively. PIK interest was \$1.1 million and \$3.7 million for the six months ended September 30, 2013 and 2012, respectively, associated with the 2013 Prospect Loan and prior recourse note within Corporate for the prior period. Amortization of debt issuance costs were \$0.5 million and \$1.2 million for the six months ended

September 30, 2013 and 2012, respectively. The remaining amount for the six months ended September 30, 2012 represents the accretion of \$1.1 million on the note payable discount associated with the recourse note in Corporate.

Change in fair value of interest rate derivatives

The change in fair value of the interest rate derivatives were gains of approximately \$0.8 million and \$0.7 million for the six months ended September 30, 2013 and 2012, respectively. The interest swap associated with the 2013 Term Loans matured in June 2013.

Benefit from income taxes

A net benefit from income taxes of \$5.0 million was recorded primarily from the acquisition of New Video during the six months ended September 30, 2012. A net deferred tax liability of \$5.0 million was recorded upon the New Video Acquisition for the excess of the financial statement basis over the tax basis of the acquired assets and liabilities. As New Video will be included in the Company's consolidated federal and state tax returns, deferred tax liabilities assumed in the New Video Acquisition are able to offset the reversal of the Company's pre-existing deferred tax assets. Accordingly, the Company's valuation allowance has been reduced by \$5.0 million and recorded as a deferred tax benefit in the accompanying condensed consolidated statements of operations for the six months ended September 30, 2012. Management will continue to assess the realizability of the deferred tax assets at each interim and annual balance sheet date based upon actual and forecasted operating results.

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, merger and acquisition costs, and certain other items.

The Company reported lower Adjusted EBITDA (including its Phase 1 DC and Phase 2 DC subsidiaries) of \$19.6 million for the six months ended September 30, 2013 in comparison to \$27.6 million for the six months ended September 30, 2012. This decline was due to the \$1.9 million reduction in VPF revenues and related EBITDA earned in the period as a result of (i) fewer releases by studios in the current fiscal year as compared to the prior year fiscal year as two release titles were delayed to the third and fourth quarter of our current fiscal year due to the crowded release calendar this year; (ii) limited screen space to accommodate all tent-pole and wide studio releases constrained booking patterns in the quarter; and (iii) the additional factors described below. Adjusted EBITDA from non-deployment businesses was a loss of \$3.7 million during the six months ended September 30, 2013, declining from \$2.0 million for the six months ended September 30, 2012. This decline was primarily driven by two factors: (i) \$5.5 million of upfront theatrical releasing, marketing and acquisition costs recognized in the quarter ("J-curve" costs) as well as the additional theatrical releasing selling, general and administrative expenses supporting these releases; (ii) timing delays in several digital licensing transactions to later this current fiscal year as well as a major DVD shipment delayed until early October at the request of the retailer; and (iii) timing delays to later this fiscal year in our software unit of installations and revenue recognition from several existing international exhibitors and domestic movie studio customers.

Phase 1 DC and Phase 2 DC revenues are expected to decline modestly this year due to the impact of an overcrowded release schedule on studio booking patterns. Other than limited Phase 2 DC contractual rate reductions, revenues going forward should be stable as the domestic deployment period ended at January 31, 2013 and any remaining international installations will be through an Exhibitor-Buyer structure or other servicing partnerships which should contribute to continued growth in digital cinema servicing. Based on the Gaiam Acquisition along with the expansion in CEG driven by the growth in our library of distribution rights, the recognition of revenues from recently released theatrical movies and our expanding future independent movie release slate, the Company expects Adjusted EBITDA performance to return to positive results and to improve significantly during the remainder of the fiscal year ending March 31, 2014 relative to current year results. The Company intends to continue investing in the growth of its business through the acquisition of content distribution rights, related marketing related expenditures and through the continued development of additional software products and services.

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,	
	2013	2012
Net loss from continuing operations before income taxes	\$(12,155)	\$(7,489)
Add Back:		
Amortization of capitalized software costs	736	527
Depreciation and amortization of property and equipment	18,650	18,217
Amortization of intangible assets	842	381
Interest expense, net	9,445	14,736
Loss (income) on investment in non-consolidated entity	1,812	(662)
Other income, net	(241)	(391)
Change in fair value of interest rate derivatives	(758)	(676)
Stock-based compensation	1,277	1,314
Non-recurring transaction expenses	—	1,607
Adjusted EBITDA	\$ 19,608	\$ 27,564
Adjustments related to the Phase I and Phase II Deployments:		
Depreciation and amortization of property and equipment	(18,036)	(17,904)
Amortization of intangible assets	(26)	(26)
Income from operations	(5,245)	(7,603)
Intersegment services fees earned	11	15
Adjusted EBITDA from non-deployment businesses	\$(3,688)	\$ 2,046

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

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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 and six months ended September 30, 2013 and 2012, the Company has not made any revisions to estimated useful lives.

CAPITALIZED SOFTWARE DEVELOPMENT COSTS

Software development costs for software to be sold, licensed or otherwise marketed that are incurred subsequent to establishing technological feasibility, when it is determined that the software can be produced to meet its design specifications, are capitalized until the product is available for general release. Amounts capitalized as software development costs are amortized using the greater of revenues during the period compared to the total estimated revenues to be earned or on a straight-line basis over estimated lives, generally five years, except for deployment software which is for ten years. The Company reviews capitalized software costs to determine if any impairment exists on a periodic basis.

GOODWILL AND DEFINITE-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.

For further details on the Company's process for evaluating goodwill for impairment, refer to the Company's 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, 2013	\$—	\$—	\$4,197	\$8,542	\$—	\$12,739
As of September 30, 2013	\$—	\$—	\$4,197	\$8,542	\$—	\$12,739

As of September 30, 2013, the Company's finite-lived intangible assets consisted of customer relationships and agreements, theatre relationships, covenants not to compete, a favorable operating lease, trade names and trademarks. During the three and six months ended September 30, 2013 and 2012, no impairment charge for finite-lived intangible assets was recorded.

REVENUE RECOGNITION

Phase I Deployment and Phase II Deployment

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 (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, 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 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

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 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 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.

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 3 years of a movie's initial theatrical release date.

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.

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 screens, the growing demand for software to power these screens and drive other efficiencies and the demand for entertainment content in both theatrical and home ancillary markets. According to the Motion Picture Association of America, during 2012 there were approximately 43,000 domestic (United States and Canada) movie theatre screens and approximately 130,000 screens worldwide, of which approximately 36,000 of the domestic screens were equipped with digital cinema technology, and 12,254 of those screens contained our Systems and software. The Company's North American digital deployment period ended at January 31, 2013 other than for a modest special program for drive-in theatres. We have deployed 3,724 screens in our Phase I Deployment, and through September 30, 2013 have deployed 8,697 Phase 2 DC Systems. To date, the number of digitally-equipped screens in the marketplace has been a significant determinant of our potential revenue streams. 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 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, 2013, the outstanding principal balance of the KBC Facilities was \$39.0 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 new non-recourse credit facilities will be supported by the cash flows of the Phase 1 deployment and the Company's digital cinema servicing business.

As of September 30, 2013, we had negative working capital, defined as current assets less current liabilities, of \$24.2 million and cash and cash equivalents and restricted cash totaling \$19.1 million.

Operating activities provided net cash of \$17.0 million and \$15.2 million for the six months ended September 30, 2013 and 2012, respectively. The increase is primarily the result of an increase in the change in accounts payable and accrued expenses of \$9.1 million, period over period. While the Company expects to recover initial investments in movie acquisition in the next fiscal year, cash flows from VPFs are expected to remain consistent with the current fiscal year. Generally, changes in accounts receivable from our studio customers and others is 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 slightly from our deployment business as we will continue to build receivables, the amount of which will depend upon the success of the theatrical releases, through the end of this fiscal year which the Company expects to collect upon during the first quarter of the next fiscal year. Generally, the Company makes advances towards theatrical releases and expects to recover the initial expenditures within six to twelve months. 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. The changes in the Company's trade accounts payable is also a significant factor, but the Company does not anticipate major changes in payables activity. The Company also has non-cash expense fluctuations, primarily resulting from the change in the fair value of interest rate derivative arrangements. We expect operating activities to continue to be a positive source of cash.

Investing activities used net cash of \$1.8 million and provided \$1.2 million for the six months ended September 30, 2013 and 2012, respectively. The decrease is primarily attributed to activity from the six months ended September 30, 2012 where the sale of previously restricted available for sale investments, more than offset cash paid for the purchase of New Video, net of cash acquired. We expect cash used in investing activities to decline significantly as the Phase II Deployment is complete. The Company does not fund Systems capital expenditures from its operating cash flows.

Financing activities used net cash of \$16.2 million and \$14.0 million for the six months ended September 30, 2013 and 2012 respectively. Normal principal reduction of during the six months ended March 31, 2013 was more than offset by the combination of the sale of common stock in April 2012 and normal principal reduction during the six months ended September 30, 2012. In July 2013, the Company raised \$5.5 million through the issuance of Class A Common Stock. Financing activities are expected to continue using the net cash generated from the Phase 1 and Phase 2 DC operations, primarily for principal repayments on the 2013 Term Loans, 2013 Prospect Loan 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 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.

In October 2013, the Company acquired Gaiam for \$51,500. The acquisition was financed through a combination of: (i) a new \$55,000 senior secured credit facility arranged and led by Société Générale Corporate and Investment Banking that included a \$25,000 3-year term loan funded at closing and an up to \$30,000 revolving credit facility of which \$15,000 was drawn at closing; (ii) \$5,000 subordinated 5-year loan facility; (iii) \$3,000 of restricted Company stock of which \$1,000 was issued to Gaiam and \$2,000 was purchased by an existing shareholder; and (iv) a \$13,000 underwritten public offering of common stock, inclusive of a \$1,500 over-allotment.

The following table summarizes our significant contractual obligations as of September 30, 2013:

Contractual Obligations (\$ in thousands)	Payments Due				
	Total	2014	2015 & 2016	2017 & 2018	Thereafter
Long-term non-recourse debt ⁽¹⁾	\$ 232,137	\$ 33,993	\$ 65,412	\$ 47,799	\$ 84,933
Capital lease obligations ⁽²⁾	4,536	163	418	765	3,190
Debt-related obligations, principal	\$ 236,673	\$ 34,156	\$ 65,830	\$ 48,564	\$ 88,123
Interest on non-recourse debt	\$ 77,518	\$ 13,042	\$ 22,826	\$ 18,999	\$ 22,651
Interest on capital leases ⁽²⁾	4,790	782	1,472	1,295	1,241
Total interest	\$ 82,308	\$ 13,824	\$ 24,298	\$ 20,294	\$ 23,892
Total debt-related obligations	\$ 318,981	\$ 47,980	\$ 90,128	\$ 68,858	\$ 112,015
Total non-recourse debt including interest	\$ 309,655	\$ 47,035	\$ 88,238	\$ 66,798	\$ 107,584
Operating lease obligations ⁽³⁾	\$ 2,550	\$ 1,179	\$ 966	\$ 405	\$ —

(1) 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 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.

Represents the capital lease and capital lease interest for the Pavilion Theatre. 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 condensed consolidated financial statements as of September 30, 2013. The
(2) 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.

(3) 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 will 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 and 2013 Prospect Loan, software development, marketing and promotional activities and content acquisition and marketing costs. Certain of these costs, including costs of software development and marketing and promotional activities, 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 Software and CEG businesses. 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 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

None.

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 47 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 14, 2013

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

Date: November 14, 2013

By: /s/ Adam M. Mizel
Adam M. Mizel
Chief Operating Officer, Chief Financial Officer and Director
(Principal Financial Officer)

Date: November 14, 2013

By: /s/ John B. Brownson
John B. Brownson
Senior Vice President – Accounting & Finance
(Principal Accounting 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.*
31.3	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.*
32.3	Certification of Chief Accounting 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.*