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Cinedigm Digital Cinema Corp.
Form 10-Q
August 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: June 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 Digital Cinema Corp.
(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of Incorporation or
Organization)

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

902 Broadway, 9th Floor New York, NY
(Address of principal executive offices)
(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 August 12, 2013, 52,981,677 shares of Class A Common Stock, \$0.001 par value were outstanding.

CINEDIGM DIGITAL CINEMA CORP.
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

CINEDIGM DIGITAL CINEMA CORP.

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	June 30, 2013 (Unaudited)	March 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 13,611	\$ 13,448
Accounts receivable, net	34,798	31,695
Deferred costs, current portion	1,271	1,238
Unbilled revenue, current portion	6,949	9,989
Prepaid and other current assets	7,415	6,101
Note receivable, current portion	316	331
Total current assets	64,360	62,802
Restricted cash	6,753	6,751
Security deposits	218	218
Property and equipment, net	161,377	170,511
Intangible assets, net	12,423	12,848
Capitalized software costs, net	7,500	7,083
Goodwill	12,739	12,739
Deferred costs, net of current portion	7,683	7,396
Unbilled revenue, net of current portion	480	543
Accounts receivable, long-term	1,556	1,225
Note receivable, net of current portion	136	130
Investment in non-consolidated entity, net	560	1,812
Total assets	\$ 275,785	\$ 284,058

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

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

	June 30, 2013 (Unaudited)	March 31, 2013
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued expenses	\$ 47,832	\$ 40,320
Current portion of notes payable, non-recourse	34,466	34,447
Current portion of capital leases	132	132
Current portion of deferred revenue	3,664	3,900
Current portion of contingent consideration for business combination	1,500	1,500
Total current liabilities	87,594	80,299
Notes payable, non-recourse, net of current portion	195,305	203,462
Capital leases, net of current portion	4,355	4,386
Interest rate derivatives	131	544
Deferred revenue, net of current portion	10,563	10,931
Contingent consideration, net of current portion	1,787	1,750
Total liabilities	299,735	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 June 30, 2013 and March 31, 2013, respectively.	3,493	3,466
Liquidation preference of \$3,582		
Class A common stock, \$0.001 par value per share; 118,759,000 shares authorized; 48,506,281 and 48,448,137 shares issued and 48,455,281 and 48,396,697 shares outstanding at June 30, 2013 and March 31, 2013, respectively	48	48
Class B common stock, \$0.001 par value per share; 1,241,000 shares authorized and issued, 0 shares outstanding at June 30, 2013 and March 31, 2013	—	—
Additional paid-in capital	222,224	221,810
Treasury stock, at cost; 51,440 Class A shares	(172)	(172)
Accumulated deficit	(249,543)	(242,466)
Total stockholders' deficit	(23,950)	(17,314)
Total liabilities and stockholders' deficit	\$ 275,785	\$ 284,058

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

CINEDIGM DIGITAL CINEMA CORP.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	For the Three Months Ended June 30,	
	2013	2012 (As Adjusted - See Note 1)
Revenues	\$ 19,625	\$ 20,904
Costs and expenses:		
Direct operating (exclusive of depreciation and amortization shown below)	4,491	2,435
Selling, general and administrative	7,123	5,893
Provision for doubtful accounts	62	76
Research and development	28	38
Merger and acquisition expenses	—	1,267
Depreciation and amortization of property and equipment	9,275	9,097
Amortization of intangible assets	425	158
Total operating expenses	21,404	18,964
(Loss) income from operations	(1,779)	) 1,940
Interest income	15	19
Interest expense	(4,934)	) (7,477)
(Loss) income on investment in non-consolidated entity	(1,252)	) 31
Other income, net	133	198
Change in fair value of interest rate derivatives	829	421
Loss from continuing operations before benefit from income taxes	(6,988)	) (4,868)
Benefit from income taxes	—	5,019
(Loss) income from continuing operations	(6,988)	) 151
Loss from discontinued operations	—	(284)
Net loss	(6,988)	) (133)
Preferred stock dividends	(89)	) (89)
Net loss attributable to common stockholders	\$ (7,077)	) \$ (222)
Net loss per Class A and Class B common share attributable to common shareholders - basic and diluted:		
Loss from continuing operations	\$ (0.15)	) \$ —
Loss from discontinued operations	—	(0.01)
	\$ (0.15)	) \$ (0.01)
Weighted average number of Class A and Class B common shares outstanding: basic and diluted	48,357,020	45,119,838

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

CINEDIGM DIGITAL CINEMA CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	For the Three Months Ended June 30,	
	2013	2012 (As Adjusted - See Note 1)
Cash flows from operating activities		
Net loss	\$(6,988	) \$(133)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization of property and equipment and amortization of intangible assets	9,700	9,255
Amortization of capitalized software costs	314	250
Amortization of debt issuance costs	288	572
Provision for doubtful accounts	62	76
Stock-based compensation	737	791
Change in fair value of interest rate derivatives	(829	) (421)
Accretion and PIK interest expense added to note payable	472	2,456
Loss (income) on investment in non-consolidated entity	1,252	(31)
Benefit from deferred income taxes	—	(5,019)
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	(3,496	) 1,346
Unbilled revenue	3,103	(1,310)
Prepaid expenses and other current assets	(1,314	) (1,930)
Other assets	(599	) (188)
Accounts payable and accrued expenses	7,216	(2,907)
Deferred revenue	(604	) (742)
Other liabilities	364	(95)
Net cash provided by operating activities	9,678	1,970
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	(141	) (2,007)
Purchases of intangible assets	—	(9)
Additions to capitalized software costs	(731	) (776)
Sales/maturities of restricted available-for-sale investments	—	9,477
Restricted cash	(2	) —
Net cash (used in) provided by investing activities	(874	) 3,558
Cash flows from financing activities:		
Repayment of notes payable	(8,610	) (15,594)
Proceeds from notes payable	—	1,799
Principal payments on capital leases	(31	) (42)
Proceeds from issuance of Class A common stock	—	11,002
Costs associated with issuance of Class A common stock	—	(1,024)
Net cash used in financing activities	(8,641	) (3,859)
Net change in cash and cash equivalents	163	1,669
Cash and cash equivalents at beginning of period	13,448	17,843

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Cash and cash equivalents at end of period	\$13,611	\$19,512
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See accompanying notes to Unaudited Condensed Consolidated Financial Statements

CINEDIGM DIGITAL CINEMA CORP.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

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

(Unaudited)

1. NATURE OF OPERATIONS

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

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 three months ended June 30, 2012 has been revised as follows:

	As Previously Reported	As Adjusted	Change
Condensed consolidated statement of operations			
Loss from continuing operations before benefit from income taxes	\$(4,868	) \$(4,868	) \$—
Benefit from income taxes	—	5,019	5,019
(Loss) income from continuing operations	(4,868	) 151	5,019
Net loss	(5,152	) (133	) 5,019
Net loss attributable to common stockholders	(5,241	) (222	) 5,019
Net loss per Class A and Class B common share attributable to common shareholders - basic and diluted:			
Loss from continuing operations	\$(0.11	) \$—	\$0.11
Loss from discontinued operations	(0.01	) (0.01	) —
	\$(0.12	) \$(0.01	) \$0.11

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND CONSOLIDATION

The Company has incurred net losses historically and has an accumulated deficit of \$249,543 as of June 30, 2013. The Company also has significant contractual obligations related to its non-recourse debt for the fiscal year ended 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 June 30, 2013, and expected cash flows from operations, management believes that the Company has the ability to meet its obligations through at least June 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), Vistachiara Productions, Inc. f/k/a The Bigger Picture, currently d/b/a Cinedigm Content and Entertainment Group, 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"). 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 Securities and Exchange Commission ("SEC"). They do not include all disclosures normally made in financial statements contained in the Form 10-K. In management's opinion, all adjustments necessary for a fair presentation of financial position, the results of operations and cash flows in accordance with 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 June 30, 2012 financial statements to conform to the current fiscal period ended June 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 \$712 and \$699 as of June 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 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 June 30, 2013	As of March 31, 2013
Reserve account related to the 2013 Term Loans (See Note 5)	\$5,753	\$5,751
Reserve account related to the 2013 Prospect Loan Agreement (See Note 5)	1,000	1,000
	\$6,753	\$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:

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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. In May 2010, the Company settled the interest rate swap in place with respect to its previous credit facility. 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:

	As of June 30, 2013			
	Level 1	Level 2	Level 3	Total
Restricted cash	\$6,753	\$—	\$—	\$6,753
Interest rate derivatives	—	(131	) —	(131)
Contingent consideration	—	—	(3,287	) (3,287)
	\$6,753	\$(131	) \$(3,287	) \$3,335
	As of March 31, 2013			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$1,004	\$—	\$—	\$1,004
Restricted cash	6,751	—	—	6,751
Interest rate derivatives	—	(544	) —	(544)

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Contingent consideration	—	—	(3,250	) (3,250	)
	\$7,755	\$(544	) \$(3,250	) \$3,961	

Contingent consideration is a liability to the sellers of New Video based upon its business unit financial performance target in each of the fiscal years ended March 31, 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 three months ended June 30, 2013 were as follows:

Balance at March 31, 2013	\$ 3,250
Change in fair value	37
Balance at June 30, 2013	\$ 3,287

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. As of June 30, 2013, the remaining amount of contingent consideration arrangements, the range of outcomes and the assumptions used to develop the estimate had not changed.

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 months ended June 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 June 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 June 30, 2013 and 2012 amounted to \$314 and \$250, 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 Disc). The fee rate earned by the Company varies depending upon the nature of the agreements with the platform and content providers. Generally, revenues are recognized at the availability date of the content for a subscription digital platform, at the time of shipment for physical goods, or point-of-sale for transactional and video-on-demand services.

CEG also has contracts for the theatrical distribution of third party feature 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.

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 June 30, 2013 and 2012, the Company recorded employee and director stock-based compensation from continuing operations of \$737 and \$791, respectively.

The weighted-average grant-date fair value of options granted during the three months ended June 30, 2013 and 2012 was \$0.89 and \$0.93, respectively. There were 42,640 stock options exercised during the three months ended June 30, 2013. During the three months ended June 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	
	June 30,	
	2013	2012
Range of risk-free interest rates	0.7 - 1.2%	0.7 - 0.9%
Dividend yield	—	—
Expected life (years)	5	5
Range of expected volatilities	73.4 - 73.8%	75.7 - 76.2%

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:

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	For the Three Months Ended June 30,	
	2013	2012
Direct operating	\$ 18	\$ 22
Selling, general and administrative	697	732
Research and development	22	37
	\$ 737	\$ 791

NET LOSS PER SHARE

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

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

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

The Company incurred net losses for each of the three months ended June 30, 2013 and 2012 and, therefore, the impact of dilutive potential common shares from outstanding stock options and warrants, totaling 20,501,398 shares and 20,765,640 shares as of June 30, 2013 and 2012, respectively, were excluded from the computation as it would be anti-dilutive.

3. DISCONTINUED OPERATIONS

For the three months ended June 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:

Revenues	\$ 67	
Costs and Expenses:		
Direct operating (exclusive of depreciation and amortization shown below)	178	
Selling, general and administrative	117	
Provision for doubtful accounts	36	
Total operating expenses	331	
Loss from operations	(264)	)
Other expense, net	(20)	)
Loss from discontinued operations	\$ (284)	)

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 June 30, 2013 and March 31, 2013 includes:

- The investment in the equity of Holdings of \$560 and \$1,812, respectively; and
- Accounts receivable due from Holdings for service fees under its master service agreement of \$426 and \$396, respectively, included within accounts receivable, net on the accompanying condensed consolidated balance sheets.

During the three months ended June 30, 2013 and 2012, the Company received \$262 and \$424 in aggregate revenues through digital cinema servicing fees from Holdings, respectively, included in revenues on the accompanying condensed consolidated statements of operations.

The changes in the carrying amount of our investment in Holdings for the three months ended June 30, 2013 are as follows:

Balance at March 31, 2013	\$ 1,812	
Equity in loss of Holdings	(1,252	)
Balance at June 30, 2013	\$ 560	

5. NOTES PAYABLE

Notes payable consisted of the following:

	As of June 30, 2013		As of March 31, 2013	
	Current Portion	Long Term Portion	Current Portion	Long Term Portion
Notes Payable				
2013 Term Loans, net of debt discount	\$ 26,250	\$ 89,674	\$ 26,250	\$ 96,207
2013 Prospect Loan Agreement	—	70,595	—	70,151
KBC Facilities	8,059	34,189	8,059	36,205
P2 Vendor Note	91	534	74	569
P2 Exhibitor Notes	66	313	64	330
Total non-recourse notes payable	\$ 34,466	\$ 195,305	\$ 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 consolidated balance sheets and are only available to pay certain operating expenses, principal, interest, fees, costs and expenses relating to the 2013 Credit Agreement, according to certain designated priorities, which totaled \$4,676 and \$6,787 as of June 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 \$6,753 and \$6,751 as of June 30, 2013 and March 31, 2013, respectively.

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

	As of June 30, 2013	As of March 31, 2013
2013 Term Loans, at issuance, net	\$ 125,087	\$ 125,087
Payments to date	(8,837)	(2,275)
Discount on 2013 Term Loans	(326)	(355)
2013 Term Loans, net	115,924	122,457
Less current portion	(26,250)	(26,250)
Total long term portion	\$ 89,674	\$ 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 June 30, 2013 was as follows:

	As of June 30, 2013	As of March 31, 2013
2013 Prospect Loan Agreement, at issuance	\$ 70,000	\$ 70,000
PIK Interest	595	151
2013 Prospect Loan Agreement, net	70,595	70,151
Less current portion	—	—
Total long term portion	\$ 70,595	\$ 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 June 30, 2013	As of March 31, 2013
1	\$8,900	8.5	% December 2016	\$—	\$—
2	2,890	3.75	% December 2017	1,858	1,961
3	22,336	3.75	% September 2018	15,954	16,752
4	13,312	3.75	% September 2018	9,984	10,459
5	11,425	3.75	% March 2019	9,385	9,794
6	6,450	3.75	% December 2018	5,067	5,298
	\$65,313			\$42,248	\$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 June 30, 2013, the Company was in compliance with all of its debt covenants.

6. STOCKHOLDERS' EQUITY

CAPITAL STOCK

COMMON STOCK

As of June 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 \$5,531, net of underwriting discount, during July 2013.

PREFERRED STOCK

Cumulative dividends in arrears on the preferred stock at June 30, 2013 and March 31, 2013 were \$89 on each date.

CINEDIGM'S EQUITY INCENTIVE PLAN

Stock Options

During the three months ended June 30, 2013, the Company granted stock options to purchase 60,000 shares of its Class A Common Stock to its employees at exercise prices ranging from \$1.41 to \$1.53 per share, which will vest equally over a four year period. As of June 30, 2013, the weighted average exercise price for outstanding stock options was \$2.11 and the weighted average remaining contractual life was 6.83 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	60,000	1.49
Exercised	(42,640)	) 1.63
Canceled	(110,070)	) 2.34
Balance at June 30, 2013	3,960,290	2.11

Restricted Stock Awards

The Plan also provides for the issuance of restricted stock and restricted stock unit awards. During the three months ended June 30, 2013 and 2012, the Company did not grant any restricted stock or restricted stock units. As of June 30, 2013, there were 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
Granted	—	—
Vested	(15,140)	) 1.40
Canceled	(968)	) 1.40
Balance at June 30, 2013	—	—

WARRANTS

At June 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, are subject to termination with 90 days notice in the event of termination of the consulting management services agreement and expire on July 1, 2021.

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 Three Months Ended June 30,	
	2013	2012
Cash interest paid	\$ 6,064	\$ 5,598
Accretion of preferred stock discount	\$ 27	\$ 27
Accrued dividends on preferred stock	\$ 89	\$ 89
Issuance of Class A Common Stock in connection with New Video Acquisition	\$ —	\$ 3,687

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 8,530 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 June 30, 2013					
	Phase I	Phase II	Services	Content & Entertainment	Corporate	Consolidated
Total intangible assets, net	\$ 332	\$ 5	\$ 42	\$ 12,044	\$ —	\$ 12,423
Total goodwill	\$ —	\$ —	\$ 4,197	\$ 8,542	\$ —	\$ 12,739
Total assets	\$ 131,731	\$ 75,366	\$ 21,299	\$ 43,018	\$ 4,371	\$ 275,785
Notes payable, non-recourse	\$ 186,519	\$ 43,252	\$ —	\$ —	\$ —	\$ 229,771
Capital leases	—	—	—	—	4,487	4,487
Total debt	\$ 186,519	\$ 43,252	\$ —	\$ —	\$ 4,487	\$ 234,258
	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 June 30, 2013
(Unaudited)

	Phase I	Phase II	Services	Content & Entertainment	Corporate	Consolidated
Revenues from external customers	\$ 8,919	\$ 2,954	\$ 4,478			