

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: December 31, 2012

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

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

Commission File Number: 000-31810

Cinedigm Digital Cinema Corp.
(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of Incorporation or
Organization)

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

902 Broadway, 9th Floor New York, NY
(Address of principal executive offices)
(973) 290-0080
(Registrant's telephone number, including area code)

10010
(Zip Code)

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

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

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

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

Edgar Filing: Cinedigm Digital Cinema Corp. - Form 10-Q

(Do not check if a smaller reporting
company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

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

CINEDIGM DIGITAL CINEMA CORP.
 CONTENTS TO FORM 10-Q

	Page
PART I --	FINANCIAL INFORMATION
Item 1.	Financial Statements (Unaudited) <u>3</u>
	Condensed Consolidated Balance Sheets at December 31, 2012 (Unaudited) and March 31, 2012 <u>3</u>
	Unaudited Condensed Consolidated Statements of Operations for the Three and Nine Months ended December 31, 2012 and 2011 <u>5</u>
	Unaudited Condensed Consolidated Statements of Comprehensive Loss for the Three and Nine Months ended December 31, 2012 and 2011 <u>6</u>
	Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months ended December 31, 2012 and 2011 <u>7</u>
	Notes to Unaudited Condensed Consolidated Financial Statements <u>8</u>
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations <u>31</u>
Item 4.	Controls and Procedures <u>49</u>
PART II --	OTHER INFORMATION <u>50</u>
Item 1.	Legal Proceedings <u>50</u>
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds <u>50</u>
Item 3.	Defaults Upon Senior Securities <u>50</u>
Item 4.	Mine Safety Disclosures <u>50</u>
Item 5.	Other Information <u>50</u>
Item 6.	Exhibits <u>50</u>
Signatures	<u>51</u>
Exhibit Index	<u>52</u>

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

CINEDIGM DIGITAL CINEMA CORP.

CONDENSED CONSOLIDATED BALANCE SHEETS

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

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

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

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

	December 31, 2012 (Unaudited)	March 31, 2012
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued expenses	\$42,983	\$20,854
Current portion of notes payable, non-recourse	33,562	35,644
Current portion of capital leases	230	186
Current portion of deferred revenue	4,556	3,677
Current portion of contingent consideration for business combination	750	—
Liabilities as part of assets held for sale	—	75
Total current liabilities	82,081	60,436
Notes payable, non-recourse, net of current portion	103,726	135,345
Notes payable	94,442	87,354
Capital leases, net of current portion	5,051	5,244
Interest rate swaps	750	1,771
Deferred revenue, net of current portion	11,464	11,451
Contingent consideration, net of current portion	3,094	—
Customer security deposits, net of current portion	—	9
Total liabilities	300,608	301,610
Commitments and contingencies (see Note 7)		
Stockholders' Deficit		
Preferred stock, 15,000,000 shares authorized;		
Series A 10% - \$0.001 par value per share; 20 shares authorized; 7 shares issued and outstanding at December 31, 2012 and March 31, 2012, respectively. Liquidation preference of \$3,589	3,439	3,357
Class A common stock, \$0.001 par value per share; 118,759,000 and 75,000,000 shares authorized; 48,446,468 and 37,722,927 shares issued and 48,395,028 and 37,671,487 shares outstanding at December 31, 2012 and March 31, 2012, respectively		
	48	38
Class B common stock, \$0.001 par value per share; 1,241,000 and 15,000,000 shares authorized; 1,241,000 and 1,241,000 shares issued and 0 and 25,000 shares outstanding, at December 31, 2012 and March 31, 2012, respectively		
	—	—
Additional paid-in capital	221,817	206,348
Treasury stock, at cost; 51,440 Class A shares	(172	) (172
Accumulated deficit	(230,858	) (221,044
Total stockholders' deficit	(5,726	) (11,473
Total liabilities and stockholders' deficit	\$294,882	\$290,137

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

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

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

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

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

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

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

CINEDIGM DIGITAL CINEMA CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

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