

Cinedigm Corp.  
Form 10-K  
June 26, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal period ended: March 31, 2018

☐ 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.)

45 West 36th Street, 7th Floor, New York, NY 10018  
(Address of principal executive offices) (Zip Code)

(212) 206-8600  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
CLASS A COMMON STOCK, PAR VALUE \$0.001 PER SHARE	NASDAQ GLOBAL MARKET

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  
☐ No  
☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes  
☐ No  
☒

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  
☐

Edgar Filing: Cinedigm Corp. - Form 10-K

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer <input type="radio"/>	Accelerated filer <input type="radio"/>	Non-accelerated filer <input type="radio"/>	Smaller reporting company <input checked="" type="radio"/>	Emerging growth company <input type="radio"/>
---	---	---	--	--

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the issuer based on a price of \$1.45 per share, the closing price of such common equity on the Nasdaq Global Market, as of September 30, 2017, was \$16,393,893. For purposes of the foregoing calculation, all directors, officers and shareholders who beneficially own 10% of the shares of such common equity have been deemed to be affiliates, but the Company disclaims that any of such persons are affiliates.

As of June 20, 2018, 35,011,984 shares of Class A Common Stock, \$0.001 par value were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

---

CINEDIGM CORP.  
TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS	Page <u>1</u>
PART I	
ITEM 1. Business	<u>1</u>
ITEM 1A. Risk Factors	<u>7</u>
ITEM 1B. Unresolved Staff Comments	<u>17</u>
ITEM 2. Properties	<u>17</u>
ITEM 3. Legal Proceedings	<u>18</u>
ITEM 4. Mine Safety Disclosures	<u>18</u>
PART II	
ITEM 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities	<u>18</u>
ITEM 6. Selected Financial Data	<u>19</u>
ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>21</u>
ITEM 8. Financial Statements and Supplementary Data	<u>36</u>
ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	<u>37</u>
ITEM 9A. Controls and Procedures	<u>37</u>
ITEM 9B. Other Information	<u>37</u>
PART III	
ITEM 10. Directors, Executive Officers and Corporate Governance	<u>38</u>
ITEM 11. Executive Compensation	<u>42</u>
ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	<u>54</u>
ITEM 13. Certain Relationships and Related Transactions	<u>57</u>
ITEM 14. Principal Accountant Fees and Services	<u>58</u>
PART IV	
ITEM 15. Exhibits and Financial Statement Schedules	<u>60</u>
SIGNATURES	<u>68</u>

## FORWARD-LOOKING STATEMENTS

Various statements contained in this report or incorporated by reference into this report constitute “forward-looking statements” within the meaning of the federal securities laws. Forward-looking statements are based on current expectations and are indicated by words or phrases such as “believe,” “expect,” “may,” “will,” “should,” “seek,” “plan,” “intend,” “anticipate” or the negative thereof or comparable terminology, or by discussion of strategy. 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. Such forward-looking statements are based largely on our current expectations and are inherently subject to risks and uncertainties. Our actual results could differ materially from those that are anticipated or projected as a result of certain risks and uncertainties, including, but not limited to, a number of factors, such as:

- successful execution of our business strategy, particularly for new endeavors;
- the performance of our targeted markets;
- competitive product and pricing pressures;
- changes in business relationships with our major customers;
- successful integration of acquired businesses;
- the content we distribute through our in-theatre, on-line and mobile services may expose us to liability;
- general economic and market conditions;
- the effect of our indebtedness on our financial condition and financial flexibility, including, but not limited to, the ability to obtain necessary financing for our business; and
- the other risks and uncertainties that are set forth in Item 1, “Business”, Item 1A “Risk Factors” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results. Except as otherwise required to be disclosed in periodic reports required to be filed by public companies with the Securities and Exchange Commission (“SEC”) pursuant to the SEC’s rules, we have no duty to update these statements, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, we cannot assure you that the forward-looking information contained in this report will in fact transpire.

In this report, “Cinedigm,” “we,” “us,” “our” and the “Company” refers to Cinedigm Corp. and its subsidiaries unless the context otherwise requires.

## PART I

### ITEM 1. BUSINESS

#### OVERVIEW

Cinedigm Corp. was incorporated in Delaware on March 31, 2000 (“Cinedigm”, and collectively with its subsidiaries, the “Company”). We are (i) a leading distributor and aggregator of independent movie, television and other short form content managing a library of distribution rights to thousands of titles and episodes released across digital, physical, and home and mobile entertainment platforms as well as (ii) a leading servicer of digital cinema assets on over 12,000 domestic and foreign movie screens.

Since our inception, we have played a significant role in the digital distribution revolution that continues to transform the media landscape. In addition to our pioneering role in transitioning over 12,000 movie screens from traditional analog film prints to digital distribution, we have become a leading distributor of independent content, both through organic growth and acquisitions. We distribute products for major brands such as Hallmark, Televisa, ZDF, Shout! Factory, NFL, NHL and Scholastic as well as leading international and domestic content creators, movie producers, television producers and other short form digital content producers. We collaborate with producers, major brands and other content owners to market, source, curate and distribute quality content to targeted audiences through (i) existing and emerging digital home entertainment platforms, including iTunes, Amazon Prime, Netflix, Hulu, Xbox, PlayStation, and cable video-on-demand ("VOD") and (ii) packaged distribution of DVD and Blu-ray discs to wholesalers and retailers with sales coverage to over 60,000 brick and mortar storefronts, including Walmart, Target, Best Buy and Amazon. In addition, we operate a growing number of branded and curated over-the-top ("OTT") entertainment channels, including Docurama, CONtv and Dove Channel.

We report our 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 group ("Content & Entertainment" or "CEG"). The Phase I Deployment and Phase II Deployment segments are the non-recourse, financing vehicles and administrators for our digital cinema equipment (the "Systems") installed in movie theatres throughout the United States and Canada, and in Australia and New Zealand. Our Services segment provides fee-based support to approximately 12,000 movie screens in our Phase I Deployment and Phase II Deployment segments as well as directly to exhibitors and other third party customers in the form of monitoring, billing, collection and verification services. Our Content & Entertainment segment is a market leader in: (1) ancillary market aggregation and distribution of entertainment content, and (2) branded and curated OTT digital network business providing entertainment channels, applications and distribution services.

We are structured so that our digital cinema business (collectively, our Phase I Deployment, Phase II Deployment and Services segments) operates independently from our Content & Entertainment business. As of March 31, 2018, we had approximately \$40.2 million of non-recourse outstanding debt principal that relates to, and is serviced by, our digital cinema business. We also have approximately \$33.8 million of outstanding debt principal, as of March 31, 2018 that is attributable to our Content & Entertainment and Corporate segments.

## CONTENT & ENTERTAINMENT

### Content Distribution and our OTT Entertainment Channels and Applications

Cinedigm Entertainment Group, or CEG, is a leading independent content distributor in the United States as well as an innovator and leader in the quickly evolving OTT digital network business. We are unique among most independent distributors because of our direct relationships with thousands of physical retail locations and digital platforms, including Walmart, Target, iTunes, Netflix and Amazon, as well as the national Video on Demand platforms. Our library of films and television episodes encompass award winning documentaries from Docurama Films®, acclaimed independent films, festival picks and a wide range of content from brand name suppliers, including Scholastic, NFL, Shout! Factory and Hallmark.

Additionally, we are leveraging our infrastructure, technology, content and distribution expertise to rapidly and cost effectively build and expand our OTT digital network business. Our first channel, Docurama, launched in May 2014 as an advertising supported video on demand service ("AVOD") across most Internet connected devices and now contains hundreds of documentary films to stream. In December 2015, we successfully transitioned Docurama to a subscription video on demand ("SVOD") service with its launch on Amazon Prime. In March 2015, we launched CONtv in partnership with Wizard World, Inc., a fandom and pop culture entertainment targeted lifestyle channel and "Freemium" service with both AVOD and SVOD components. Our Freemium business model provides users with free content and the ability to upgrade to a selection of premium services by paying subscription fees. CONtv is one of the largest Freemium OTT channels available in terms of hours of content, with over 3,000 hours of film and television episodes, including original programs and live coverage of Comic-Con and pop culture events from around the country. In the fall of 2015, we introduced our third OTT channel, Dove Entertainment Channel, which is a family entertainment service providing high-quality film and television programs approved by the Dove Foundation. In April 2018, we launched two channels: Wham Network, which is an entertainment, news and lifestyle channel targeting the eSports industry; and COMBAT GO, a 24/7, mixed martial arts, worldwide combat channel. We now have a total of five networks distributed, and four to five more in our development pipeline slated to roll out over the next 12 months.

We distribute our OTT content in two distinct ways: direct to consumer, through major application platforms such as the web, iOS, Android, Roku, AppleTV, Amazon Fire, Vizio, and Samsung; and through third party distributors of content on emerging platforms such as Amazon Prime, Twitch, Xumo and Sling/ Dish.

CEG has focused its activities in the areas of: (1) ancillary market aggregation and distribution of entertainment content, and (2) branded and curated over-the-top OTT digital network business providing entertainment channels and

applications. With these complementary entertainment distribution capabilities, we believe that we are capitalizing on the key drivers of value that we believe are critical to success in content distribution going forward. Our CEG segment holds direct relationships with thousands of physical storefronts and digital retailers, including Walmart, Target, iTunes, Netflix, and Amazon, as well as all the national cable and satellite television VOD platforms.

### Our Strategy

Direct to consumer digital distribution of film and television content over the Internet is rapidly growing. We believe that our large library of film and television episodes, long-standing relationships with digital platforms, up-to-date technologies and four years of experience operating OTT channels, will allow us to continue to build a diversified portfolio of narrowcast OTT channels that generate recurring revenue streams from advertising, merchandising and subscriptions. We plan to launch niche channels that make use of our existing library of titles, while partnering with strong brands that bring name recognition, marketing support and an existing customer base for new channel opportunities.

Rapid changes in the entertainment landscape require that we continually refine our strategy to adapt to new technologies and consumer behaviors. For example, we have added acquisitions of home entertainment content to focus on long-term partnerships with producers of high quality, cast-driven, genre content, to our traditional catalog-based titles business. In recent years, we acquired the distribution rights to a variety of new and original films. In addition, we have accelerated our efforts to be a leader in the OTT digital network business, where we can leverage our existing infrastructure and library, in partnership with well-known brands, to distribute our content direct-to-consumers.

We believe that we are well positioned to succeed in the OTT channel business for the following key reasons:

- Four years of history operating OTT channels with millions of downloads, hundreds of thousands of registered users, and hundreds of millions of discrete data points on our customer's behavior and preferences,
- The depth and breadth of our almost 50,000 title film and television episode library,
- Our digital assets and deep, long-standing relationships as launch partners that cover the major digital platforms and devices,
- Our marketing expertise,
- Our flexible releasing strategies, which differ from larger entertainment companies that need to protect their legacy businesses,
- Our strengthened capital base, and
- Our experienced management team

#### Intellectual Property

We own certain copyrights, trademarks and Internet domain names in connection with the Content & Entertainment business. We view these proprietary rights as valuable assets. We maintain registrations, where appropriate, to protect them and monitor them on an ongoing basis.

#### Customers

For the fiscal year ended March 31, 2018, two customers, Walmart and Amazon, represented 10% or more of CEG's revenues and Walmart represented approximately 10% of our consolidated revenues.

#### Competition

Numerous companies are engaged in various forms of producing and distributing independent movies and alternative content. These competitors may have significantly greater financial, marketing and managerial resources than we do, may have generated greater revenue and may be better known than we are at this time.

Competitors to our Content & Entertainment segment are as follows:

- Entertainment One (eOne) Ltd.
- IFC Entertainment
- Lionsgate Entertainment
- Magnolia Pictures
- Pure Flix
- RLJ Entertainment, Inc.
- Warner Brothers Digital Networks
- AMC Networks





## DEPLOYMENT

Our Phase I Deployment and Phase II Deployment segments consist of the following:

Operations of:	Products and services provided:
Cinedigm Digital Funding I, LLC ("Phase 1 DC")	Financing vehicles and administrators for 3,717 Systems installed nationwide in Phase 1 DC's deployment to theatrical exhibitors. We retain 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. We are no longer earning a significant portion of virtual print fees ("VPFs") revenues from certain major studios on all of such systems.
Access Digital Cinema Phase II Corp. ("Phase 2 DC")	Financing vehicles and administrators for our 7,903 Systems installed in the second digital cinema deployment and international deployments, through Phase 2 DC. We retain 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.

In June 2005, we formed our Phase I Deployment segment in order to purchase up to 4,000 Systems under an amended framework agreement with Christie Digital Systems USA, Inc. ("Christie"). As of March 31, 2018, Phase I Deployment had 3,717 Systems installed.

In October 2007, we formed our Phase II Deployment segment for the administration of up to 10,000 additional Systems. As of March 31, 2018, Phase II Deployment had 7,903 of such Systems installed.

Our Phase I Deployment and Phase II Deployment segments own and license Systems to theatrical exhibitors and collect VPFs from motion picture studios and distributors, as well as alternative content fees ("ACFs") from alternative content providers and theatrical exhibitors, when content is shown on exhibitors' screens. We have licensed the necessary software and technology solutions to the exhibitor and have facilitated the industry's transition from analog (film) to digital cinema. As part of the Phase I Deployment of our Systems, we have agreements with nine motion picture studios and certain smaller independent studios and exhibitors, allowing us to collect VPFs and ACFs when content is shown in theatres, in exchange for having facilitated and financed the deployment of Systems. Phase 1 DC has agreements with 20 theatrical exhibitors that license our Systems in order to show digital content distributed by the motion picture studios and other providers, including Content & Entertainment, which is described below.

Beginning in December 2015, certain of our Phase I Deployment Systems began to reach the conclusion of their deployment payment period with certain distributors and, therefore, VPF revenues ceased to be recognized on such Systems, related to such distributors. Furthermore, because the Phase I Deployment installation period ended in November 2007, a majority of the VPF revenue associated with the Phase I Deployment Systems has ended. As of March 31, 2018, all of the Systems in our Phase I Deployment segment ceased to earn a significant portion VPF revenue from these certain distributors. We expect to continue to earn VPFs from other distributors and ancillary revenue from the Phase I Deployment Systems through December of 2020; however, such amounts are expected to be significantly less material to our consolidated financial statements. The expected reduction in VPF revenue on our Phase I Deployment systems is scheduled to approximately coincide with the conclusion of certain of our non-recourse debt obligations and, therefore, we expect that reduced cash outflows related to such non-recourse debt obligations will partially offset reduced VPF revenue.

Under the terms of our standard Phase I Deployment licensing agreements, exhibitors will continue to have the right to use our Systems through December 2020, after which time, they have the option to: (1) return the Systems to us; (2) renew their license agreement for successive one-year terms, or; (3) purchase the Systems from us at fair-market-value.

Our Phase II Deployment segment has entered into digital cinema deployment agreements with eight motion picture studios, and certain smaller independent studios and exhibitors, to distribute digital movie releases to exhibitors equipped with our Systems, for which we and our wholly owned, non-consolidated subsidiary Cinedigm Digital Funding 2, LLC ("CDF2 Holdings") earn VPFs. As of March 31, 2018, our Phase II Deployment segment also entered into master license agreements with 327 exhibitors covering 7,903 screens, whereby the exhibitors agreed to install our Systems. As of March 31, 2018, we had 7,903 Phase 2 DC Systems installed, including 5,400 screens under the exhibitor-buyer structure ("Exhibitor-Buyer"), 1,050 screens covering 12 exhibitors through non-recourse financing provided by KBC Bank NV ("KBC"), 1,431 screens covering 23 exhibitors through CDF2, and 22 screens under other arrangements with two exhibitors.

Exhibitors paid us an installation fee of up to \$2.0 thousand per screen out of the VPFs collected by our Services segment. We manage the billing and collection of VPFs and remit to exhibitors all VPFs collected, less an administrative fee of approximately 10%. For Phase 2 DC Systems we own and finance on a non-recourse basis, we typically received a similar installation fee of up to \$2.0 thousand per screen and an ongoing administrative fee of approximately 10% of VPFs collected. We have recorded no debt, property and equipment, financing costs or depreciation in connection with Systems covered under the Exhibitor-Buyer Structure and CDF2 Holdings.

VPFs are earned pursuant to contracts with movie studios and distributors, whereby amounts are payable to our Phase I and Phase II deployment businesses according to fixed fee schedules, when movies distributed by studios are displayed in movie theatres using our installed Systems. One VPF is payable to us upon the initial booking of a movie, for every movie title displayed per System. Therefore, the amount of VPF revenue that we earn depends on the number of unique movie titles released and displayed using our Systems. Our Phase II Deployment segment earns VPF revenues only for Systems that it owns.

Our Phase II Deployment agreements with distributors require payment of VPFs for ten years from the date that each system is installed; however, we 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 us 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, subject to maximum agreed upon amounts during the four-year roll-out period and thereafter. Furthermore, if cost recoupment occurs before the end of the eighth contract year, a one-time “cost recoupment bonus” is payable to us by the studios. Cash flows, net of expenses, received by our Phase II Deployment business, following the achievement of cost recoupment, must be returned to the distributors on a pro-rata basis. At this time, we cannot estimate the timing or probability of the achievement of cost recoupment.

Beginning in December 2018, certain Phase 2 DC Systems will reach the conclusion of their deployment payment period, subject to earlier achievement of cost recoupment. In accordance with existing agreements with distributors, VPF revenues will cease to be recognized on such Systems. Because the Phase II deployment installation period ended in December 2012, a majority of the VPF revenue associated with the Phase II systems will end by December 2022 or earlier if cost recoupment is achieved.

#### Customers

Phase I and Phase II Deployment customers are mainly motion picture studios and theatrical exhibitors. For the year ended March 31, 2018, four (4) customers, 20th Century Fox, Warner Brothers, Disney Worldwide Services and Universal Pictures, each represented 10% or more of Phase 2 DC's revenues and together generated 47% of Phase II consolidated revenues. Two (2) customers, Warner Brothers and Lionsgate comprised more than 10% of Phase 2 accounts receivable. One (1) customer, Lionsgate, represented more than 10% of Phase 1 DC revenue and one (1) customer, Open Road, comprised more than 10% of Phase 1 accounts receivable. No single Phase I or Phase II customer comprised more than 10% of our consolidated revenue or accounts receivable.

#### Seasonality

Revenues earned by our Phase I and Phase II Deployment segments 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. The seasonality of motion picture exhibition; however, has become less pronounced as the motion picture studios are releasing movies somewhat more evenly throughout the year.

## SERVICES

Our Services segment provides monitoring, billing, collection, verification and other management services to Phase 1 DC and Phase 2 DC as well as to exhibitor-buyers who purchase their own equipment. Our Services segment provides such services to the 3,717 screens in the Phase I Deployment for a monthly service fee equal to 5% of the VPFs earned by Phase 1 DC and an incentive service fee equal to 2.5% of the VPFs earned by Phase 1 DC. The Services segment also provides services to the 7,903 Phase II Systems deployed, for which we typically receive a monthly fee of approximately 10% of the VPFs earned by Phase 2 DC. The total Phase II service fees are subject to an annual limitation under the terms of our agreements with motion picture studios and are determined based upon the respective Exhibitor-Buyer Structure, KBC or CDF2 agreements. Unpaid service fees in any period remain an obligation to Phase 2 DC in the cost recoupment framework. Such fees are not recognized as income or accrued as an asset on our balance sheet given the uncertainty of the receipt and the timing thereof as future movie release and

bookings are not known. Service fees are accrued and recognized only on deployed Phase II Systems. As a result, the annual service fee limitation is variable until these fees are paid.

In February 2013, we (i) assigned to our wholly owned subsidiary, Cinedigm DC Holdings LLC (“DC Holdings”), the right and obligation to service the digital cinema projection systems from the Phase I Deployment and certain systems that were part of the Phase II Deployment, (ii) delegated to DC Holdings the right and obligation to service certain other systems that were part of the Phase II Deployment and (iii) assigned to DC Holdings the right to receive servicing fees from the Phase I and Phase II Deployments. We also transferred to DC Holdings certain of our operational staff whose responsibilities and activities relate solely to the operation of the servicing business and to provide DC Holdings with the right to use the supporting software and other intellectual property associated with the operation of the servicing business.

Our Services segment also has international servicing partnerships in Australia and New Zealand with the Independent Cinema Association of Australia and is currently servicing 534 screens as of March 31, 2018.

#### Customers

For the year ended March 31, 2018, no customer(s) comprised more than 10% of Services' revenues or accounts receivable.

#### Competition

Our Services segment faces limited competition domestically in its digital cinema services business as the major Hollywood movie studios have only signed digital cinema deployment agreements with five entities, including us, and the deployment period in North America is now complete. Competitors include: Digital Cinema Implementation Partners (“DCIP”), a joint venture of three large exhibitors (Regal Entertainment Group, AMC Entertainment Holdings, Inc. and Cinemark Holdings, Inc.) focused on managing the conversions of those three exhibitors; Sony Digital Cinema, to support the deployment of Sony projection equipment; Christie Digital USA, Inc., to support the deployment of Christie equipment; and GDC, Inc., to support the deployment of GDC equipment. We have a significantly greater market share than all other competitors except for the DCIP consortium, which services approximately 18,000 total screens representing its consortium members.

As we expand our servicing platform internationally, additional competitors beyond those listed above consist of Arts Alliance, Inc., a leading digital cinema servicer focused on the European markets, and GDC, as well as other potential local start-ups seeking to service a specific international market. We typically seek to partner with a leading local entity to combine our efficient servicing infrastructure and strong studio relationships with the necessary local market expertise and exhibitor relationships.

#### ENVIRONMENTAL

The nature of our business does not subject us to environmental laws in any material manner.

#### EMPLOYEES

As of March 31, 2018, we had 110 employees, with 6 part-time and 104 full-time, of which 19 are in sales and marketing, 43 are in operations, and 42 are in executive, finance, technology and administration functions.

#### AVAILABLE INFORMATION

## Edgar Filing: Cinedigm Corp. - Form 10-K

Our Internet website address is [www.cinedigm.com](http://www.cinedigm.com). We will make available, free of charge at the “About Us - Investor Relations - Financial Information” section of our website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and all amendments to those reports and statements filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC.

In addition, the SEC maintains a website that contains reports, proxy and information statements, and other information regarding companies that file electronically with the Commission. This information is available at [www.sec.gov](http://www.sec.gov), the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549 or by calling 1-800-SEC-0330.

## ITEM 1A. RISK FACTORS

### Risks Related to our Business

We maintain a substantial amount of outstanding indebtedness, which could impair our ability to operate our business and react to changes in our business, remain in compliance with debt covenants and make payments on our debt.

We maintain a substantial amount of outstanding indebtedness, which could impair our ability to operate our business and react to changes in our business, remain in compliance with debt covenants and make payments on our debt. Our level of indebtedness could have important consequences, including, without limitation:

- requiring a substantial portion of our cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities;

- limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes;

- limiting our ability to pursue our growth strategy or, including restricting us from making strategic acquisitions or causing us to make nonstrategic divestitures;

- placing us at a disadvantage compared to our competitors who are less leveraged and may be better able to use their cash flow to fund competitive responses to changing industry, market or economic conditions; and
- making us more vulnerable in the event of a downturn in our business, our industry or the economy in general.

In addition, our current credit facilities contain, and any future credit facilities will likely contain, covenants and other provisions that restrict our operations. These restrictive covenants and provisions could limit our ability to obtain future financing, make needed capital expenditures, withstand a future downturn in our business or the economy in general, or otherwise conduct necessary corporate activities, and may prevent us from taking advantage of business opportunities that arise in the future. If we refinance our credit facilities, we cannot guarantee that any new credit facility will not contain similar covenants and restrictions.

We face the risks of doing business in new and rapidly evolving markets and may not be able successfully to address such risks and achieve acceptable levels of success or profits.

We have encountered and may continue to encounter the challenges, uncertainties and difficulties frequently experienced in new and rapidly evolving markets, including:

- limited operating experience;

- net losses;

- lack of sufficient customers or loss of significant customers;

- a changing business focus;

- the downward trend in sales of physical DVD and Blu-ray discs;

- rapidly-changing technology for some of the products and services we offer; and

- difficulties in managing potentially rapid growth.

We expect competition to be intense. If we are unable to compete successfully, our business and results of operations will be seriously harmed.

The markets for the digital cinema business and the content distribution business are competitive, evolving and subject to rapid technological and other changes. We expect the intensity of competition in each of these areas to increase in the future. Companies willing to expend the necessary capital to create facilities and/or capabilities similar to ours may compete with our business. Increased competition may result in reduced revenues and/or margins and loss of market share, any of which could seriously harm our business. In order to compete effectively in each of these fields, we must differentiate ourselves from competitors.

Many of our current and potential competitors have longer operating histories and greater financial, technical, marketing and other resources than we do, which may permit them to adopt aggressive pricing policies. As a result, we may suffer from pricing pressures that could adversely affect our ability to generate revenues and our results of operations. Many of our competitors also have significantly greater name and brand recognition and a larger customer



base than us. If we are unable to compete successfully, our business and results of operations will be seriously harmed.

Our plan to acquire additional businesses involves risks, including our inability to complete an acquisition successfully, our assumption of liabilities, dilution of your investment and significant costs.

Strategic and financially appropriate acquisitions are a key component of our growth strategy. Although there are no other acquisitions identified by us as probable at this time, we may make further acquisitions of similar or complementary businesses or assets. Even if we identify appropriate acquisition candidates, we may be unable to negotiate successfully the terms of the acquisitions, finance them, integrate the acquired business into our then existing business, obtain required regulatory approvals, and/or attract and retain customers. Completing an acquisition and integrating an acquired business may require a significant diversion of management time and resources and may involve assuming new liabilities. Any acquisition also involves the risks that the assets acquired may prove less valuable than expected and/or that we may assume unknown or unexpected liabilities, costs and problems. If we make one or more significant acquisitions in which any of the consideration consists of our capital stock, your equity interest in the Company could be diluted, perhaps significantly. If we were to proceed with one or more significant acquisitions in which the consideration included cash, we could be required to use a substantial portion of our available cash, or obtain additional financing to consummate them.

Our previous acquisitions involve risks, including our inability to integrate successfully the new businesses and our assumption of certain liabilities.

Our acquisition of these businesses and their respective assets also involved the risks that the businesses and assets acquired may prove to be less valuable than we expected and/or that we may assume unknown or unexpected liabilities, costs and problems. In addition, we assumed certain liabilities in connection with these acquisitions and we cannot assure you that we will be able to satisfy adequately such assumed liabilities. Other companies that offer similar products and services may be able to market and sell their products and services more cost-effectively than we can.

We have recorded goodwill impairment charges and may be required to record additional charges to future earnings if our goodwill becomes further impaired or our intangible assets become impaired.

We are required under generally accepted accounting principles to review our goodwill and definite-lived intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill must be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our reporting units and intangible assets may not be recoverable include a decline in stock price and market capitalization, slower growth rates in our industry or our own operations, and/or other materially adverse events that have implications on the profitability of our business. In fiscal year ended March 31, 2016, we recorded a goodwill impairment charge of \$18.0 million in our Content & Entertainment operating segment. We may be required to record additional charges to earnings during any period in which a further impairment of our goodwill or other intangible assets is determined which could adversely affect our results of operations.

If we do not manage our growth, our business will be harmed.

We may not be successful in managing our growth. Past growth has placed, and future growth will continue to place, significant challenges on our management and resources, related to the successful integration of the newly acquired businesses. To manage the expected growth of our operations, we will need to improve our existing, and implement new, operational and financial systems, procedures and controls. We may also need to expand our finance, administrative, client services and operations staffs and train and manage our growing employee base effectively. Our current and planned personnel, systems, procedures and controls may not be adequate to support our future operations. Our business, results of operations and financial position will suffer if we do not effectively manage our growth. If we are not successful in protecting our intellectual property, our business will suffer.

We depend heavily on technology and viewing content to operate our business. Our success depends on protecting our intellectual property, which is one of our most important assets. We have intellectual property consisting of:

- rights to certain domain names;
- registered service marks on certain names and phrases;
- various unregistered trademarks and service marks;

film, television and other forms of viewing content;  
know-how; and  
rights to certain logos.

If we do not adequately protect our intellectual property, our business, financial position and results of operations would be harmed. Our means of protecting our intellectual property may not be adequate. Unauthorized parties may attempt to copy aspects of our intellectual property or to obtain and use information that we regard as proprietary. In addition, competitors may be able to devise methods of competing with our business that are not covered by our intellectual property. Our competitors may independently develop similar technology, duplicate our technology or design around any intellectual property that we may obtain.

Although we hold rights to various web domain names, regulatory bodies in the United States and abroad could establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. The relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights is unclear. We may be unable to prevent third parties from acquiring domain names that are similar to or diminish the value of our proprietary rights.

Our substantial debt and lease obligations could impair our financial flexibility and restrict our business significantly. We now have, and will continue to have, significant debt obligations. In March 2018, we entered into a Loan, Guaranty and Security agreement, dated as of March 30, 2018, which provides for a Credit Facility (the "Credit Facility") pursuant to which we can borrow up to \$19.0 million in revolving loans at any time outstanding. The obligations under the Credit Facility are with full recourse to Cinedigm. As of March 31, 2018, the principal amount outstanding under the Credit Facility was \$8.2 million. Separately, in October 2013, we issued \$5.0 million aggregate principal amount of subordinated notes (the "2013 Notes"), which debt is unsecured and subordinate to the debt under the Credit Facility. In July, September and October 2016 and January, February and July 2017, we issued \$10.4 million aggregate principal amount of 12.75% Second Secured Lien Notes due 2019 (the "Second Secured Lien Notes"), which debt is secured on a second lien basis and is subordinate to the debt under the Credit Facility and senior to the 2013 Notes. In November 2017, \$0.5 million principal amount of Second Secured Lien Notes were cancelled in exchange for other securities of the Company, and approximately \$10.6 million principal amount of Second Secured Lien Notes is outstanding as of March 31, 2018.

As of March 31, 2018, total indebtedness of our consolidated subsidiaries (not including guarantees of our debt) was \$40.2 million, none of which is guaranteed by Cinedigm Corp. or our subsidiaries, other than DC Holdings LLC, AccessDM and ADCP2 with respect to the Prospect Loan, and Phase II B/AIX with respect to the KBC Agreements. In connection with the Prospect Loan, we provided a limited recourse guaranty pursuant to which Cinedigm guaranteed certain representations and warranties and performance obligations with respect to the Prospect Loan in favor of the collateral agent and the administrative agent for the Prospect Loan. Cinedigm Corp. has provided a limited recourse guaranty in respect of a portion of this indebtedness (\$39.7 million as of March 31, 2018) pursuant to which it agreed to become a primary obligor of such indebtedness in certain specified circumstances, none of which have occurred as of the date hereof.

In February 2013, DC Holdings LLC, our wholly owned subsidiary, entered into the Prospect Loan in the aggregate principal amount of \$70.0 million. Additionally, in February 2013, CDF I, our indirect wholly owned subsidiary that is intended to be a special purpose, bankruptcy remote entity, amended and restated the Phase I Credit Agreement, pursuant to which it borrowed \$130.0 million of which \$5.0 million was assigned to DC Holdings LLC. As of March 31, 2018, the outstanding principal amount of the Prospect Loan was \$39.7 million. In November 2016, the Phase I Credit Agreement was repaid in full, and accordingly no amount remains outstanding as of March 31, 2018. Phase II B/AIX, our indirect wholly owned subsidiary, has entered into the KBC Agreements pursuant to which it has borrowed \$65.3 million in the aggregate. As of March 31, 2018, the outstanding principal balance under the KBC Agreements was \$0.2 million in the aggregate.

The obligations and restrictions under the Credit Facility, the Prospect Loan, the KBC Agreements and our other debt obligations could have important consequences for us, including:

- limiting our ability to obtain necessary financing in the future; and
- requiring us to dedicate a substantial portion of our cash flow to payments on our debt obligations, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other corporate requirements or expansion of our business.

CDF2 and CDF2 Holdings are our indirect wholly owned, non-consolidated VIEs that are intended to be special purpose, bankruptcy remote entities. CDF2 has entered into the Phase II Credit Agreement, pursuant to which it borrowed \$63.2 million in the aggregate. As of March 31, 2018, the outstanding balance under the Phase II Credit Agreement, which includes interest payable, was \$10.2 million. In June 2018, the Phase II Credit Agreement was repaid in full, and accordingly no amount remains outstanding under the Phase II Credit Agreement. However, at the time the Phase II Credit Agreement became effective, CDF2 executed and delivered a promissory note (the “Advisory Fee Note”) to Société Générale in connection with a capital structure advisory fee owed to Société Générale. The Advisory Fee Note remains outstanding. As of March 31, 2018, the outstanding balance of the Advisory

Fee Note was \$4.0 million. CDF2 Holdings has entered into the CHG Lease pursuant to which CHG provided sale/leaseback financing for digital cinema projection systems that were partially financed by the Phase II Credit Agreement in an amount of approximately \$57.2 million in the aggregate. The Advisory Fee Note and the CHG Lease are non-recourse to Cinedigm and our subsidiaries, excluding our VIEs, CDF2 and CDF2 Holdings, as the case may be. Although the Phase II financing arrangements undertaken by CDF2 and CDF2 Holdings are important to us with respect to the success of our Phase II Deployment, our financial exposure related to the debt of CDF2 and CDF2 Holdings is limited to the \$2.0 million initial investment we made into CDF2 and CDF2 Holdings. CDF2 Holding's total stockholder's deficit at March 31, 2018 was \$26.3 million. We have no obligation to fund the operating loss or the deficit beyond our initial investment, and accordingly, we carried our investment in CDF2 Holdings at \$0 as of March 31, 2018 and 2017.

The obligations and restrictions under the Advisory Fee Note and the CHG Lease could have important consequences for CDF2 and CDF2 Holdings, including:

- Limiting our ability to obtain necessary financing in the future; and
- requiring them to dedicate a substantial portion of their cash flow to payments on their debt obligations, thereby reducing the availability of their cash flow for other uses.

If we are unable to meet our lease and debt obligations, we could be forced to restructure or refinance our obligations, to seek additional equity financing or to sell assets, which we may not be able to do on satisfactory terms or at all. As a result, we could default on those obligations and in the event of such default, our lenders could accelerate our debt or take other actions that could restrict our operations.

The foregoing risks would be intensified to the extent we borrow additional money or incur additional debt.

The agreements governing the financing of part of our Phase II Deployment, the Credit Facility and the Prospect Loan impose certain limitations on us.

The Credit Facility restricts our ability and the ability of our subsidiaries that have guaranteed the obligations under the Credit Facility, subject to certain exceptions, to, among other things:

- make investments;
- incur other indebtedness or liens;
- create or acquire subsidiaries;
- engage in a new line of business;
- pay dividends;
- sell assets;
- acquire, consolidate with, or merge with or into other companies; and
- enter into transactions with affiliates.

One or more of the KBC Agreements governing part of the financing of our Phase II Deployment restrict the ability of Phase II B/AIX to, among other things:

- dispose of or incur other liens on the digital cinema projection systems financed by KBC;
- engage in a new line of business;
- sell assets outside the ordinary course of business or on other than arm's length terms;
- make payments to majority owned affiliated companies; and
- consolidate with, or merge with or into other companies.

The agreements governing the Prospect Loan restrict the ability of DC Holdings LLC and its subsidiaries, and ADCP2 and its subsidiaries, subject to certain exceptions, to, among other things:

- make certain capital expenditures and investments;
- incur other indebtedness or liens;
- engage in a new line of business;
- sell assets;
- acquire, consolidate with, or merge with or into other companies; and

enter into transactions with affiliates.

10

---

The CHG Lease governing part of the financing of other parts of our Phase II Deployment imposes certain limitations, which may affect our Phase II deployment.

The CHG Lease restricts the ability of CDF2 Holdings to, among other things:

- incur liens on the digital cinema projection systems financed; and
- sublease, assign or modify the digital cinema projection systems financed.

We may not be able to generate the amount of cash needed to fund our future operations.

Our ability either to make payments on or to refinance our indebtedness, or to fund planned capital expenditures and research and development efforts, will depend on our ability to generate cash in the future. Our ability to generate cash is in part subject to general economic, financial, competitive, regulatory and other factors that are beyond our control. Based on our current level of operations and in conjunction with the cost reduction measures that we have recently implemented and continue to implement, we believe our cash flow from operations, available borrowings and loan and credit agreement terms will be adequate to meet our future liquidity needs through at least March 31, 2019. Significant assumptions underlie this belief, including, among other things, that there will be no material adverse developments in our business, liquidity or capital requirements. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as:

- reducing capital expenditures;
- reducing our overhead costs and/or workforce;
- reducing research and development efforts;
- selling assets;
- restructuring or refinancing our remaining indebtedness; and
- seeking additional funding.

We cannot assure you, however, that our business will generate sufficient cash flow from operations, or that we will be able to make future borrowings in amounts sufficient to enable us to pay the principal and interest on our current indebtedness or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all.

We have incurred losses since our inception.

We have incurred losses since our inception in March 2000 and have financed our operations principally through equity investments and borrowings. As of March 31, 2018, we had negative working capital, defined as current assets less current liabilities, of \$2.2 million, and cash, cash equivalents and restricted cash totaling \$19.0 million; we have total stockholders' deficit of \$22.3 million; however, during the fiscal year ended March 31, 2018, we generated \$22.4 million of net cash flows from operating activities.

Our net losses and cash outflows may increase as and to the extent that we increase the size of our business operations, increase our sales and marketing activities, increase our content distribution rights acquisition activities, enlarge our customer support and professional services and acquire additional businesses. These efforts may prove to be more expensive than we currently anticipate which could further increase our losses. We must continue to increase our revenues in order to become profitable. We cannot reliably predict when, or if, we will become profitable. Even if we achieve profitability, we may not be able to sustain it. If we cannot generate operating income or positive cash flows in the future, we will be unable to meet our working capital requirements.

Many of our corporate actions may be controlled by our officers, directors and principal stockholders; these actions may benefit these principal stockholders more than our other stockholders.

As of March 31, 2018, our directors, executive officers and principal stockholders, those known by us to beneficially own more than 5% of the outstanding shares of the Class A common stock, beneficially own, directly or indirectly, in the aggregate, approximately 61.3% of our outstanding Class A common stock. Bison Entertainment Investment Limited, an affiliate of Bison Capital Holdings Company Limited and our largest stockholder ("Bison"), owns 19,666,667 shares of Class A common stock and has warrants to purchase 1,400,000 shares of Class A common stock, all of which are currently exercisable. If all the warrants were exercised, Bison would own 21,066,667 shares or



approximately 54.8% of the then-outstanding Class A common stock.

11

---

This stockholder may have significant influence over our business affairs, with the ability to control matters requiring approval by our security holders, including elections of directors and approvals of mergers or other business combinations. In addition, certain corporate actions directed by our officers may not necessarily inure to the proportional benefit of our other stockholders.

We face risks associated with expanding our business in China.

We expect to expand our business in China. In November 2017, Bison, a Hong Kong-based entity that does business in mainland China as well as other locations, became our majority owner. We anticipate that Bison's presence and relationships in China will provide us with assistance in expanding our business to China. In January 2018, we announced a strategic alliance with Starrise Media Holdings Limited, a leading Chinese entertainment company, to release films in China theatrically and to digital platforms, and to evaluate opportunities to jointly produce Chinese/American film co-productions. Accordingly, we are exposed to risks of doing business in China. As a result, the economic, political, legal and social conditions in China could have a material adverse effect on our business. In addition, the legal system in China has inherent uncertainties that may limit the legal protections available in the event of any claims or disputes that we may have with third parties, including our ability to protect the intellectual property we use in China. As China's legal system is still evolving, the interpretation of many laws, regulations and rules is not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit the remedies available in the event of any claims or disputes with third parties. Some of the other risks related to doing business in China include:

- the Chinese government exerts substantial influence over the manner in which we must conduct our business activities;
- restrictions on currency exchange may limit our ability to receive and use our cash effectively;
- the Chinese government may favor local businesses and make it more difficult for foreign businesses to operate in China on an equal footing, or generally;
- there are increased uncertainties related to the enforcement of contracts with certain parties; and
- more restrictive rules on foreign investment could adversely affect our ability to expand our operations in China

As a result of our growing operations in China, these risks could have a material adverse effect on our business, results of operations and financial condition.

CFIUS may modify, delay, or prevent our future acquisition activities or investments in Cinedigm.

Bison is the majority owner of our Class A common stock, and therefore Cinedigm is considered a "foreign person" under the regulations relating to the Committee on Foreign Investment in the United States ("CFIUS"). Acquisitions or investments that Cinedigm may wish to pursue in the future may be subject to CFIUS review. In such a case, Cinedigm and the other party may determine to submit to CFIUS review on a voluntary basis, or to proceed with the transaction and take a risk that CFIUS may retroactively require such a review. CFIUS has the authority to review and potentially block certain acquisitions or investments by foreign persons, or impose conditions with respect to such transactions, which may limit our future endeavors or even prevent us from pursuing transactions that we believe would otherwise be beneficial to us and our stockholders.

Our success will significantly depend on our ability to hire and retain key personnel.

Our success will depend in significant part upon the continued performance of our senior management personnel and other key technical, sales and creative personnel. We do not currently have significant "key person" life insurance policies for any of our employees. We currently have employment agreements with our chief executive officer. If we lose one or more of our key employees, we may not be able to find a suitable replacement(s) and our business and results of operations could be adversely affected. In addition, competition for key employees necessary to create and distribute our entertainment content and software products is intense and may grow in the future. Our future success will also depend upon our ability to hire, train, integrate and retain qualified new employees and our inability to do so

may have an adverse impact upon our business, financial condition, operating results, liquidity and prospects for growth.

If we do not respond to future changes in technology and customer demands, our financial position, prospects and results of operations may be adversely affected.

The demand for our Systems and other assets in connection with our digital cinema business (collectively, our “Digital Cinema Assets”) may be affected by future advances in technology and changes in customer demands. We cannot assure you that there will be continued demand for our Digital Cinema Assets. Our profitability depends largely upon the continued use of digital presentations at theatres. Although we have entered into long term agreements with major motion picture studios and independent studios (the “Studio Agreements”), there can be no assurance that these studios will continue to distribute digital content to movie theatres. If the development of digital presentations and changes in the way digital files are delivered does not continue or technology is used that is not compatible with our Systems, there may be no viable market for our Systems and related products. Any reduction in the use of our Systems and related products resulting from the development and deployment of new technology may negatively impact our revenues and the value of our Systems.

The demand for DVD products is declining, and we anticipate that this decline will continue. We anticipate, however, that the distribution of DVD products will continue to generate positive cash flows for the Company for the foreseeable future. Should a decline in consumer demand be greater than we anticipate, our business could be adversely affected.

We have concentration in our digital cinema business with respect to our major motion picture studio customers, and the loss of one or more of our largest studio customers could have a material adverse effect on us.

Our Studio Agreements account for a significant portion of our revenues within Phase 1 DC and Phase 2 DC.

Together these studios generated 16%, 69%, and 16% of Phase 1 DC’s, Phase 2 DC’s and our consolidated revenues, respectively, for the fiscal year ended March 31, 2018.

The Studio Agreements are critical to our business. If some of the Studio Agreements were terminated prior to the end of their terms or found to be unenforceable, or if our Systems are not upgraded or enhanced as necessary, or if we had a material failure of our Systems, it may have a material adverse effect on our revenue, profitability, financial condition and cash flows. The Studio Agreements also generally provide that the VPF rates and other material terms of the agreements may not be more favorable to one studio as compared to the others.

Termination of the MLAs and MLAAs could damage our revenue and profitability.

The master license agreements with each of our licensed exhibitors (the “MLAs”) are critical to our business as are master license administrative agreements (the “MLAAs”). The MLAs have terms, which expire in 2020 through 2022 and provide the exhibitor with an option to purchase our Systems or to renew for successive one-year periods up to ten years thereafter. The MLAs also require our suppliers to upgrade our Systems when technology necessary for compliance with DCI Specification becomes commercially available and we may determine to enhance the Systems, which may require additional capital expenditures. If any one of the MLAs were terminated prior to the end of its term, not renewed at its expiration or found to be unenforceable, or if our Systems are not upgraded or enhanced as necessary, it would have a material adverse effect on our revenue, profitability, financial condition and cash flows. Additionally, termination of MLAAs could adversely impact our servicing business.

We have concentration in our business with respect to our major licensed exhibitors, and the loss of one or more of our largest exhibitors could have a material adverse effect on us.

Approximately 64% of Phase 1 DC’s Systems and 19% of total systems are under MLA in theatres owned or operated by one large exhibitor. The loss of this exhibitor or another of our major licensed exhibitors could have a negative impact on the aggregate receipt of VPF revenues as a result of the loss of any associated MLAs. Although we do not receive revenues from licensed exhibitors and we have attempted to limit our licenses to only those theatres, which we believe are successful, each MLA with our licensed exhibitors is important, depending on the number of screens, to our business since VPF revenues are generated based on screen turnover at theatres. If the MLA with a significant exhibitor was terminated prior to the end of its term, it would have a material adverse effect on our revenue, profitability, financial condition and cash flows. There can be no guarantee that the MLAs with our licensed exhibitors will not be terminated prior to the end of its term.

An increase in the use of alternative movie distribution channels and other competing forms of entertainment could drive down movie theatre attendance, which, if causing significant theatre closures or a substantial decline in motion

picture production, may lead to reductions in our revenues.

Various exhibitor chains, which are our distributors, face competition for patrons from a number of alternative motion picture distribution channels, such as DVD, network and syndicated television, VOD, pay-per-view television and downloading utilizing

the Internet. These exhibitor chains also compete with other forms of entertainment competing for patrons' leisure time and disposable income such as concerts, amusement parks and sporting events. An increase in popularity of these alternative movie distribution channels and competing forms of entertainment could drive down movie theatre attendance and potentially cause certain of our exhibitors to close their theatres for extended periods of time.

Significant theatre closures could in turn have a negative impact on the aggregate receipt of our VPF revenues, which in turn may have a material adverse effect on our business and ability to service our debt.

An increase in the use of alternative movie distribution channels could also cause the overall production of motion pictures to decline, which, if substantial, could have an adverse effect on the businesses of the major studios with which we have Studio Agreements. A decline in the businesses of the major studios could in turn force the termination of certain Studio Agreements prior to the end of their terms. The Studio Agreements with each of the major studios are critical to our business, and their early termination may have a material adverse effect on our revenue, profitability, financial condition and cash flows.

Our success depends on external factors in the motion picture and television industry.

Our success depends on the commercial success of movies and television programs, which is unpredictable. Operating in the motion picture and television industry involves a substantial degree of risk. Each movie and television program is an individual artistic work, and inherently unpredictable audience reactions primarily determine commercial success. Generally, the popularity of movies and television programs depends on many factors, including the critical acclaim they receive, the format of their initial release, for example, theatrical or direct-to-video, the actors and other key talent, their genre and their specific subject matter. The commercial success of movies and television programs also depends upon the quality and acceptance of movies or programs that our competitors release into the marketplace at or near the same time, critical reviews, the availability of alternative forms of entertainment and leisure activities, general economic conditions and other tangible and intangible factors, many of which we do not control and all of which may change. We cannot predict the future effects of these factors with certainty, any of which could have a material adverse effect on our business, financial condition, operating results, liquidity and prospects. In addition, because a movie's or television program's performance in ancillary markets, such as home video and pay and free television, is often directly related to its box office performance or television ratings, poor box office results or poor television ratings may negatively affect future revenue streams. Our success will depend on the experience and judgment of our management to select and develop new content acquisition and investment opportunities. We cannot make assurances that movies and television programs will obtain favorable reviews or ratings, will perform well at the box office or in ancillary markets or that broadcasters will license the rights to broadcast any of our television programs in development or renew licenses to broadcast programs in our library. The failure to achieve any of the foregoing could have a material adverse effect on our business, financial condition, operating results, liquidity and prospects.

Our business involves risks of liability claims for media content, which could adversely affect our business, results of operations and financial condition.

As a distributor of media content, we may face potential liability for:

- defamation;
- invasion of privacy;
- negligence;
- copyright or trademark infringement (as discussed above); and
- other claims based on the nature and content of the materials distributed.

These types of claims have been brought, sometimes successfully, against producers and distributors of media content. Any imposition of liability that is not covered by insurance or is in excess of insurance coverage could have a material adverse effect on our business, financial condition, operating results, liquidity and prospects.

Our revenues and earnings are subject to market downturns.

Our revenues and earnings may fluctuate significantly in the future. General economic or other conditions could cause lower than expected revenues and earnings within our digital cinema, technology or content and entertainment businesses. The global economic turmoil of recent years has caused a general tightening in the credit markets, lower

levels of liquidity, increases in the rates of default and bankruptcy, an unprecedented level of intervention from the U.S. federal government and other foreign governments, decreased consumer confidence, overall slower economic activity and extreme volatility in credit, equity and fixed income markets. While the ultimate outcome of these events cannot be predicted, a decrease in economic activity in the U.S. or in other regions of the world in which we do business could adversely affect demand for our movies, thus reducing our revenue and earnings. While stabilization has continued, it remains a slow process and the global economy remains subject to volatility. Moreover, financial

institution failures may cause us to incur increased expenses or make it more difficult either to financing of any future acquisitions, or financing activities. Any of these factors could have a material adverse effect on our business, results of operations and could result in significant additional dilution to shareholders.

Changes in economic conditions could have a material adverse effect on our business, financial position and results of operations.

Our operations and performance could be influenced by worldwide economic conditions. Uncertainty about current global economic conditions poses a risk as consumers and businesses may postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values, which could have a material negative effect on the demand for our products and services. Other factors that could influence demand include continuing increases in fuel and other energy costs, conditions in the residential real estate and mortgage markets, labor and healthcare costs, access to credit, consumer confidence, and other macroeconomic factors affecting consumer-spending behavior. These and other economic factors could have a material adverse effect on demand for our products and services and on our financial condition and operating results. Uncertainty about current global economic conditions could also continue to increase the volatility of our stock price.

Changes to existing accounting pronouncements or taxation rules or practices may affect how we conduct our business and affect our reported results of operations.

New accounting pronouncements or tax rules and varying interpretations of accounting pronouncements or taxation practice have occurred and may occur in the future. A change in accounting pronouncements or interpretations or taxation rules or practices can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. Changes to existing rules and pronouncements, future changes, if any, or the questioning of current practices or interpretations may adversely affect our reported financial results or the way we conduct our business.

Our ability to utilize our net operating loss carryforwards in the future is subject to substantial limitations and we may not be able to use some identified net operating loss carryforwards, which could result in increased tax payments in future periods.

Under Section 382 of the Internal Revenue Code, if a corporation undergoes an ownership change (generally defined as a greater than 50% change (by value) in its equity ownership over a three-year period), the corporation's ability to use its pre-change net operating loss ("NOL") carryforwards to offset its post-change income may be limited. Similar rules may apply under state tax laws. On November 1, 2018, we experienced an ownership change with respect to the Bison acquisition. Accordingly, our ability to utilize our NOL carryforwards attributable to periods prior to November 1, 2018 is subject to substantial limitations. These limitations could result in increased future tax payments, which could be material.

#### Risks Related to our Class A Common Stock

The liquidity of the Class A common stock is uncertain; the limited trading volume of the Class A common stock may depress the price of such stock or cause it to fluctuate significantly.

Although the Class A common stock is listed on Nasdaq, there has been a limited public market for the Class A common stock and there can be no assurance that a more active trading market for the Common Stock will develop. As a result, you may not be able to sell your shares of Class A common stock in short time periods, or possibly at all. The absence of an active trading market may cause the price per share of the Class A common stock to fluctuate significantly.

Substantial resales or future issuances of our Class A common stock could depress our stock price.

The market price for the Class A common stock could decline, perhaps significantly, as a result of resales or issuances of a large number of shares of the Class A common stock in the public market or even the perception that such resales or issuances could occur. In addition, we have outstanding a substantial number of options and warrants exercisable



for shares of Class A common stock that may be exercised in the future. These factors could also make it more difficult for us to raise funds through future offerings of our equity securities.

You will incur substantial dilution as a result of certain future equity issuances.

We have a substantial number of options and warrants currently outstanding which may be immediately exercised for shares of Class A common stock. To the extent that these options or warrants are exercised, or to the extent we issue additional shares of Class A common stock in the future, as the case may be, there will be further dilution to holders of shares of the Class A common stock.

Our issuance of preferred stock could adversely affect holders of Class A common stock.

Our board of directors is authorized to issue series of preferred stock without any action on the part of our holders of Class A common stock. Our board of directors also has the power, without stockholder approval, to set the terms of any such series of preferred stock that may be issued, including voting rights, dividend rights, preferences over our Class A common stock with respect to dividends or if we liquidate, dissolve or wind up our business and other terms. If we issue preferred stock in the future that has preference over our Class A common stock with respect to the payment of dividends or upon our liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our Class A common stock, the rights of holders of our Class A common stock or the price of our Class A common stock could be adversely affected.

Our stock price has been volatile and may continue to be volatile in the future; this volatility may affect the price at which you could sell our Class A common stock.

The trading price of the Class A common stock has been volatile and may continue to be volatile in response to various factors, some of which are beyond our control. Any of the factors listed below could have a material adverse effect on an investment in the Class A common stock:

- actual or anticipated fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;
- changes in the market's expectations about our operating results;
- success of competitors;
- our operating results failing to meet the expectation of securities analysts or investors in a particular period;
- changes in financial estimates and recommendations by securities analysts concerning us, the market for digital and physical content, content distribution and entertainment in general;
- operating and stock price performance of other companies that investors deem comparable to us;
- our ability to market new and enhanced products on a timely basis;
- changes in laws and regulations affecting our business or our industry;
- commencement of, or involvement in, litigation involving us;
- changes in our capital structure, such as future issuances of securities or the incurrence of additional debt;
- the volume of shares of the Class A common stock available for public sale;
- any major change in our board of directors or management;
- sales of substantial amounts of Class A common stock by our directors, executive officers or significant stockholders or the perception that such sales could occur; and
- general economic and political conditions such as recessions, interest rates, international currency fluctuations and acts of war or terrorism.

Broad market and industry factors may materially harm the market price of the Class A common stock irrespective of our operating performance. The stock market in general, and Nasdaq in particular, have experienced price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of the particular companies affected. The trading prices and valuations of these stocks, and of the Class A common stock, may not be predictable. A loss of investor confidence in the market for retail stocks or the stocks of other companies that investors perceive to be similar to us could depress our stock price regardless of our business, prospects, financial conditions or results of operations. A decline in the market price of the Class A common stock also could adversely affect our

ability to issue additional securities and our ability to obtain additional financing in the future.

Anti-takeover provisions contained in our certificate of incorporation and bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

Our fifth amended and restated certificate of incorporation and bylaws, as amended, contain provisions that could have the effect of delaying or preventing changes in control or changes in our management without the consent of our board of directors. These provisions include:

- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death, or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- the ability of our board of directors to determine to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;
- the requirement that an annual meeting of stockholders may be called only by the board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors;
- limiting the liability of, and providing indemnification to, our directors and officers;
- controlling the procedures for the conduct and scheduling of stockholder meetings; and
- providing that directors may be removed prior to the expiration of their terms by the Board of Directors only for cause.

These provisions, alone or together, could delay hostile takeovers and changes in control of the Company or changes in our management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the DGCL, which prevents some stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock. Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for the Class A common stock. We have no present intention of paying dividends on our Class A common stock.

We have never paid any cash dividends on our Class A common stock and have no present plans to do so. In addition, certain of our credit facilities restrict our ability to pay dividends on the Class A common stock. As a result, you may not receive any return on an investment in our Class A common stock unless you sell the shares for a price greater than that which you paid for them.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

#### ITEM 2. PROPERTIES

We operated from the following leased properties at March 31, 2018.

Location	Square Feet (Approx.)	Lease Expiration Date	Primary Use
----------	--------------------------	-----------------------------	-------------

Sherman Oaks, California	11,600	March 2022	Primary operations, sales, marketing and administrative offices for our Content & Entertainment Group. In addition, certain operations and administration for our other business segments.
Borough of Manhattan, City of New York, New York	10,500	April 2021	Corporate executive and administrative headquarters. Shared between all business segments.

We believe that we have sufficient space to conduct our business for the foreseeable future. All of our leased properties are, in the opinion of our management, in satisfactory condition and adequately covered by insurance.

We do not own any real estate or invest in real estate or related investments.

### ITEM 3. LEGAL PROCEEDINGS

None.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### CLASS A COMMON STOCK

Our Class A Common Stock trades publicly on the Nasdaq Global Market ("Nasdaq"), under the trading symbol "CIDM". The following table shows the high and low sales prices per share of our Class A Common Stock as reported by Nasdaq for the periods indicated:

	For the Fiscal Year Ended			
	March 31,			
	2018		2017	
	HIGH	LOW	HIGH	LOW
April 1 – June 30	\$2.26	\$1.38	\$2.70	\$1.21
July 1 – September 30	\$1.75	\$1.41	\$2.40	