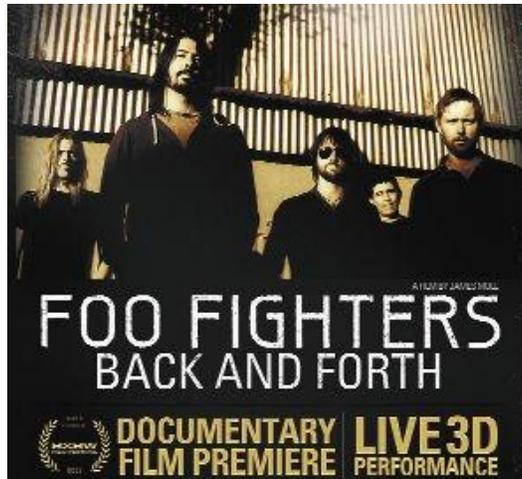


Digital Conversion Opens New Doors for Cinedigm

STRATEGY: Firm to enter emerging markets.

By [Mark Madler](#) Monday, February 20, 2012



Cinedigm: Distributes 3D content.

Cinedigm Digital Cinema Corp., a Woodland Hills entertainment technology firm, is positioning itself to be an independent films distributor and a provider of alternative content for theater chains.

Cinedigm recently formed a partnership with New Video, a New York-based entertainment firm with strong digital and home entertainment distribution channels. Through this alliance, Cinedigm has the ability to distribute independent films to theaters and reach viewers through video-on-demand, Blu-ray discs and television. Company officials and industry observers say the new business strategy will help the company's bottom line and drive its future growth.

At first glance, Cinedigm has the appearance of a company in financial distress. Its stock showed a steady decline from May through October 2011 and the company has reported year after year of net losses, dating back to 2005, when the company started.

But as one of the nation's leading independent financiers for converting movie theaters from using film projection equipment to digital projection equipment, Cinedigm assumes a middle man role and carries the weight of an industry in transition on its books. The company has a total of \$260 million in debt. It is responsible for nearly one-third or about \$85 million of that debt; the bulk of the debt, about \$175 million, is debt that Cinedigm floats as part of its business model. Movie studios are responsible for reimbursing the company, but delays have an impact on the company's bottom line.

"The company, in the not too distant future, will be profitable even with all the accounting headwinds," said Chief Operating Officer and Chief Financial Officer Adam Mizel, who noted that Cinedigm is cash flow positive and rapidly paying down its outstanding debt.

Shaping the company's new direction is CEO Chris McGurk, an entertainment industry executive who joined the company about a year ago and was charged with streamlining certain operations and developing new revenue streams.

When McGurk became chief executive in January 2011, the company had four business units, two of which were break-even at best. The on-screen advertising unit required heavy overhead and many employees. The digital delivery business was capital intensive with a large inventory of hard drives of films and trailers. Under McGurk's leadership, Cinedigm sold off those business units in 2011 to focus on digital conversion and accompanying software services and film and alternative content distribution.

"The potential was much bigger than I thought in those two areas," McGurk said of software and content distribution.

Digital installations

Cinedigm founder Bud Mayo was an early adopter of the digital conversion movement, which opens doors for theaters to show 3D films and host live music and sporting events that carry a premium admission price. Mayo developed a financing method — the virtual print fee model — that has allowed small and medium-sized theater chains across the U.S. to afford expensive digital projectors and studios to eliminate costs associated with film prints. Essentially, the print fee is paid by six Hollywood studios that subsidize purchasing the equipment.

But while the movie theater conversions have been lucrative for Cinedigm, it is a limited revenue stream. The company expects to top out at no more than 13,000 screen installations, McGurk said.

To date, Cinedigm has assisted nearly 200 theater operators totaling 10,000 screens with the digital conversion. More operators are expected to get on board before a Sept. 30 deadline the studios set for exhibitors to use the virtual print fee.

The virtual print fee also makes for a complicated balance sheet that presents a deceiving picture of Cinedigm's finances, analysts and investors said.

The underlying cash from long-term contracts with the studios contributes to paying down the debt at about \$45 million a year, Mizel said. One phase of the debt will be paid off in about three years and a second phase in about seven years, he added. "As they convert theaters they get paid and that will reduce the indebtedness," said Ron Chez, a private investor from Chicago who owns more than 5 percent of Cinedigm shares.

In the third quarter ending Dec. 31, the company reported a net loss of \$10.7 million, or \$0.28 per diluted share, on revenues of \$19.8 million. For the same period a year earlier, Cinedigm reported a net loss of \$4.2 million, or \$0.13 per diluted share, on revenues of \$16.1 million.

When discussing the company's finances, the number McGurk focuses on are earnings before interest, taxes, depreciation and amortization. In the third quarter ending Dec. 31, 2011 Cinedigm had EBITDA of \$14.3 million, an increase of 11.1 percent from \$12.8 million in the same period from a year ago.

As the company moves ahead with implementing its plan, the hope is that in three to five years it will generate \$50 million in EBITDA, McGurk said.

Tapping new opportunity

The market appears to be responding favorably to the company's strategy, or at least appears more confident that the company is thinking about financial performance in the long term, observers say.

The New Video announcement, made on Jan. 23 at the Sundance Film Festival, drove up the price of the shares to a range not seen since spring 2011. On Jan. 23, shares sold at \$1.50 a share; two weeks later, the price was \$2.03. As of Feb. 14, shares sold at \$1.91 a share.

"The partnership with New Video was a solid demonstration of management's commitment to the indie film and alternative content distribution space," said Eric Wold, an analyst with B. Riley & Co., who follows Cinedigm.

To date, Cinedigm has done 200 alternative content events, including a BCS championship college football game, children's films, a 3D Foo Fighters concert, and, in early February, a UFC bout shown in 3D.

The market for this type of programming has proven popular and will continue to grow, said Marty Shindler, a consultant in the entertainment industry. "A major football game or a soccer game like the World Cup are things that people enjoy watching together and in a theater setting they get an amazing picture," Shindler said.

Creating opportunities with that specialty content can be an incentive for investors to purchase Cinedigm shares, Mizer said, adding that a small, entrepreneurial company like Cinedigm is more adept at pursuing those opportunities than a larger company would.

"When you think of the industries that have converted from analog to digital there are new business opportunities," Mizer said. "When innovation has taken place, it is rarely the incumbent (companies)."