Cinedigm Digital Cinema Corp.
Form 10-K
June 14, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended: March 31, 2010

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from --- to ---

Commission File Number: 000-31810

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

Delaware (State or Other Jurisdiction of Incorporation or Organization)	22-3720962 (I.R.S. Employer Identification No.)
55 Madison Avenue, Suite 300, Morristown, New Jersey (Address of principal executive offices)	07960 (Zip Code)

(973) 290-0080
(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 x

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 x

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

Indicate by check mark 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. ¨

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

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the issuer based on a price of $1.40 per share, the closing price of such common equity on the Nasdaq Global Market, as of June 11, 2010, was approximately $31,496,000. 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 11, 2010, 29,258,744 shares of Class A Common Stock, $0.001 par value and 733,811 shares of Class B Common Stock, $0.001 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Items 10, 11, 12, 13 and 14 of Form 10-K is incorporated by reference into Part III hereof from the registrant's Proxy Statement for the 2010 Annual Meeting of Stockholders to be held on or about September 14, 2010.

CINEDIGM DIGITAL CINEMA CORP.
TABLE OF CONTENTS

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,” “inten “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;
- general economic and market conditions in the United States;
- 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” 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 Digital Cinema Corp. and its subsidiaries unless the context otherwise requires.

PART I

ITEM 1. BUSINESS

OVERVIEW

Cinedigm Digital Cinema Corp. was incorporated in Delaware on March 31, 2000 (“Cinedigm”, and collectively with its subsidiaries, the “Company”). On September 30, 2009, the Company’s stockholders approved a change in the Company’s name from Access Integrated Technologies, Inc. to Cinedigm Digital Cinema Corp., and such change was effected October 5, 2009.

Cinedigm is a digital cinema services, specialty finance and content distribution company driving the conversion of the exhibition industry from film to digital technology. The Company provides technology solutions, financial services and advice, software services, electronic delivery and content distribution services to owners and distributors of digital content to movie theatres and other venues. Adjoined to this digital cinema conversion business is a series of business units designed to leverage the new business opportunities created by the transformation of movie theaters into networked entertainment centers. Cinedigm combines its infrastructure, technology and relationships to create a digital content origination, marketing, advertising and distribution business focused on alternative content and independent film. Historically, the conversion of an industry from analog to digital has created new revenue and growth opportunities as well as an opening for new players to emerge to capitalize on this technological shift at the expense of incumbents.

Beginning September 1, 2009, the Company changed its organizational structure which impacted its reportable segments, but did not impact its consolidated financial position, results of operations or cash flows. The Company realigned its focus to five primary businesses as follows: the first digital cinema deployment (“Phase I Deployment”), the second digital cinema deployment (“Phase II Deployment”), services (“Services”), media content and entertainment (“Content & Entertainment”) and other (“Other”). The Company’s Phase I Deployment and Phase II Deployment segments are the non-recourse, financing vehicles and owners of the Company’s digital cinema equipment (the “Systems”) installed in movie theatres nationwide. The Company’s Services segment provides services and support to the Phase I Deployment and Phase II Deployment segments as well as to other third party customers. Included in these services are asset management services for a specified fee via service agreements with Phase I Deployment and Phase II Deployment; software license, maintenance and consulting services; and electronic content delivery services via satellite and hard drive to the motion picture industry. These services primarily facilitate the conversion from analog (film) to digital cinema and have positioned the Company at what it believes to be the forefront of a rapidly developing industry relating to the delivery and management of digital cinema and other content to theatres and other remote venues worldwide. The Company’s Content & Entertainment segment licenses and or owns alternative or independent film content and provides marketing and distribution services to theatrical content owners and also provides pre-show in-theatre advertising. The Company’s Other segment provides motion picture exhibition to the general public, information technology consulting and managed network monitoring services and hosting services and network access for other web hosting services (“Access Digital Server Assets”). In March 2010, the Company decided to realign our technical and financial resources and to discontinue our motion picture exhibition to the general public and this business is no longer included in continuing operations. Overall, the Company’s goal is to aid in the transformation of movie theatres to entertainment centers by providing a platform of hardware, software and content choices. Additional information related to the Company’s reporting segments can be found in Note 10 to the Company’s Consolidated Financial Statements.

DEPLOYMENT

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

Operations of:	Products and services provided:
Christie/AIX, Inc. d/b/a Cinedigm Digital Cinema (“Phase 1 DC”)	Financing vehicles and administrators for the Company’s 3,724 Systems installed nationwide in Phase 1 DC’s deployment to theatrical exhibitors. The Company retains ownership of the residual cash flows related to the Systems after the repayment of all non-recourse debt and The Company retains ownership of the Systems at the expiration of exhibitor master license agreements.
Access Digital Cinema Phase 2 Corp. (“Phase 2 DC”)	Financing vehicles and administrators for the Company’s second digital cinema deployment, through Phase 2 DC (the “Phase II Deployment”). The Company retains no ownership of the residual cash flows and digital cinema equipment after the completion of cost recoupment and at the expiration of the exhibitor master license

agreements.

In June 2005, we formed Phase 1 DC, a wholly-owned subsidiary of AccessDM, to purchase up to 4,000 Systems for our Phase I Deployment, under an amended framework agreement (the "Framework Agreement") with Christie Digital Systems USA, Inc. ("Christie"). In December 2007, Phase 1 DC completed its Phase I Deployment with 3,724 Systems installed.

In October 2007, we formed Phase 2 DC for the administration of up to 10,000 additional Systems for our Phase II Deployment, of which a portion of such Systems will be purchased through an indirectly wholly-owned subsidiary, Access Digital Cinema Phase 2 B/AIX Corp. ("Phase 2 B/AIX").

Digital Cinema

The business of Phase 1 DC and Phase 2 DC consists of the ownership and licensing of digital systems to theatrical exhibitors and the collection of VPFs from motion picture studios and distributors and 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 Phase 1 DC's Phase I Deployment of digital systems, Phase 1 DC has agreements with nine motion picture studios and certain smaller independent studios and exhibitors, allowing Phase 1 DC to collect VPFs and ACFs when content is shown in theatres, in exchange for having facilitated and financed the deployment on 3,724 Systems. Phase 1 DC has agreements with sixteen theatrical exhibitors that license our Systems in order to show digital content distributed by the motion picture studios and other providers, including a Cinedigm subsidiary, Cinedigm Content and Entertainment Group (see Content and Entertainment section below). In connection with the Phase II Deployment, Phase 2 DC has entered into digital cinema deployment agreements with eight motion picture studios for the distribution of digital movie releases to motion picture exhibitors equipped with Systems, and providing for payment of VPFs to Phase 2 DC. As of March 31, 2010, Phase 2 DC also entered into master license agreements with eleven exhibitors covering a total of 1,543 screens, whereby the exhibitors agreed to the placement of Systems as part of the Phase II Deployment. Included in the 1,543 contracted screens are contracts covering 736 screens with five exhibitors who will purchase and own Systems using their own financing, and will pay an upfront installation fee of $2 thousand per screen to the Company's Cinedigm Digital Cinema Services division (the "Exhibitor-Buyer Structure"). The Company will manage the billing and collection of VPFs and will remit all VPFs collected to the exhibitors, less an administrative fee that will approximate 10% of the VPFs collected. For Systems covered under the Exhibitor-Buyer Structure, the Company will have no debt, property and equipment, financing costs or depreciation recorded to its financial statements. For Phase 2 Systems that the Company will own and finance, installation of additional Systems in the Phase II Deployment is contingent upon the completion of financing for the purchase of Systems. For Phase 2 Systems the Company will own and finance, it typically receives a similar $2 thousand installation fee and an ongoing administrative fee that will approximate 10% of VPFs collected. As of March 31, 2010, the Company has 336 Phase 2 Systems installed, including 176 screens under the Exhibitor-Buyer Structure.

VPFs are earned pursuant to the contracts with movie studios and distributors, whereby amounts are payable to Phase 1 DC and to Phase 2 DC according to fixed fee schedules, when movies distributed by the studio are displayed on screens utilizing our Systems installed in movie theatres. One VPF is payable for every movie title displayed per System. The amount of VPF revenue is therefore dependent on the number of movie titles released and displayed using the Systems.

Phase 2 DC's agreements with distributors require the payment of VPFs for 10 years from the date each system is installed, however, Phase 2 DC may no longer collect VPFs once "cost recoupment", as defined in the agreements, is achieved. Cost recoupment will occur once the cumulative VPFs and other cash receipts collected by Phase 2 DC have equaled the total of all cash outflows, including the purchase price of all Systems, all financing costs, all "overhead and ongoing costs", as defined, subject to maximum agreed upon amounts during the three-year rollout period and thereafter, plus a compounded return on any billed but unpaid overhead and ongoing costs, of 15% per year. Furthermore, if cost recoupment occurs before the end of the 8th contract year, a one-time "cost recoupment bonus" is payable by the studios to Phase 2 DC. Any other cash flows, net of expenses, received by Phase 2 DC following the achievement of cost recoupment are required to be returned to the distributors on a pro-rata basis. At this time, the Company cannot estimate the timing or probability of the achievement of cost recoupment.

Current licensed software of Phase 1 DC consists of the following:

Licensed Product:	Purpose:

Cinefence	Detection of audio and video watermarks in content distributed through digital cinema.

In February 2006, Phase 1 DC entered into an agreement with Philips Electronics Nederland B.V. ("Philips") for a non-exclusive, worldwide right to use software license for Philips' software Cinefence (the "Cinefence License"). The Cinefence License is for an initial period of twelve years and renews automatically each year unless terminated by either party upon written notice. Cinefence is a watermarking detector of audio and video watermarks in content distributed through digital cinema. Christie incorporates Cinefence into the Systems deployed with theatrical exhibitors participating in Phase 1 DC's Phase I Deployment, and Systems deployed in Phase 2 DC's Phase II Deployment will also contain this technology.

Customers

Digital Cinema customers are mainly motion picture studios and theatrical exhibitors. For the fiscal year ended March 31, 2010, six customers, 20th Century Fox, Disney Worldwide Services, Paramount Pictures, Sony Pictures Releasing Corporation, Universal Pictures and Warner Brothers, each represented 10% or more of Phase 1 DC's revenues and together generated 78%, 69% and 49% of Phase 1 DC's, Phase 2 DC's and consolidated revenues, respectively, and are also customers for digital content delivery and entertainment software. We expect to continue to conduct business with each of these customers in fiscal 2011.

Seasonality

Deployment revenues derived from the collection of VPFs from motion picture studios are seasonal, coinciding with the timing of releases of movies by the motion picture studios. Generally, motion picture studios release the most marketable movies during the summer and the winter holiday season. The unexpected emergence of a hit movie during other periods can alter the traditional trend. The timing of movie releases can have a significant effect on our results of operations, and the results of one quarter are not necessarily indicative of results for the next quarter or any other quarter. 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

The Services segment provides a variety of services to the Company's Phase 1 and Phase 2 deployments, exhibitor-buyers and other third party customers. Services consist of the following:

Operations of:	Products and services provided:
Digital Cinema Services	Provides monitoring, billing, collection, verification and other management services to the Company's Phase I Deployment, Phase II Deployment as well as to exhibitors who purchase their own equipment. Collects and disburses VPFs from motion picture studios and distributors and ACFs from alternative content providers, movie exhibitors and theatrical exhibitors.
Hollywood Software, Inc. d/b/a Cinedigm Software ("Software")	Develops and licenses software to the theatrical distribution and exhibition industries, provides ASP Service, and provides software enhancements and consulting services.
Access Digital Media, Inc. ("AccessDM") and FiberSat Global Services, Inc. d/b/a Cinedigm Satellite and Support Services, ("Cinedigm	Distributes digital content to movie theatres and other venues having digital cinema equipment and provides satellite-based broadband video, data and Internet transmission, encryption management services, video network origination and

Satellite" and, together with AccessDM, "DMS")	management services and a virtual booking center to outsource the booking and scheduling of satellite and fiber networks and provides forensic watermark detection services for motion picture studios and forensic recovery services for content owners.

Digital Cinema Services

The Digital Cinema Services ("Services") division 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. This division services the Company's 3,724 screens in the Phase 1 deployment for a monthly service fee equal to 5% of the VPFs earned by Phase 1 DC. In the fiscal year ended March 31, 2010, Services earned $1.2 million of service fees from Phase 1 DC, as it did not receive certain fees to ensure covenant compliance. As a result of the Phase 1 refinancing completed on May 6, 2010, Services expects to earn its full 5% service fee in the 2011 fiscal year.

In addition, Services provides services to the 336 Phase 2 Systems deployed as of March 31, 2010 and will service the remaining screens, up to 10,000, in the Phase II Deployment. Services typically receives an activation and installation fee of $2 thousand per Phase 2 System as well as a monthly service fee of up to 10% of the VPFs earned by Phase 2 DC. The total Phase 2 service fees are subject to an annual limitation under the terms of the Company's Phase 2 agreements. Any unpaid services fees in any period remain an obligation of Phase 2 DC in the cost recoupment framework and accrue a 15% cost of capital return until paid. These fees are not recognized as income or accrued as an asset on the Company's balance sheet given the uncertainty of the total number of screens ultimately deployed in Phase 2. Service fees are accrued and recognized only on deployed Phase 2 Systems. As a result, the annual service fee limitation is variable until these fees are paid. In the fiscal year ended March 31, 2010, Services earned $0.5 million of related services fees from Phase 2 DC.

DMS

The DMS division distributes movie features, trailers and other alternative content to movie theaters and other venues with digital cinema equipment via satellite and hard drives and also provides non-theatrical satellite based distribution of content into various out of home networks and other channels. DMS delivers features and trailers on behalf of its customers to all digital locations whether a Cinedigm installed location or non-Cinedigm location and, as a result, expects to benefit from the rapid expansion of the digital cinema deployments during the next 24 months. DMS has installed 271 satellite dishes as of March 31, 2010 and utilizes its high speed hard drive replication technology to deliver to non-satellite enabled locations. DMS intends to expand this satellite network in FY'11. During FY'10, DMS provided feature delivery service for 2 of the 6 major studios and trailer delivery service for a different 2 of 6 major studios.

We entered this business in February 2003, when we organized AccessDM, for the worldwide delivery of digital data, including movies, advertisements and alternative content such as concerts, seminars and sporting events, to movie theaters and other venues having digital cinema equipment.

In November 2003, we acquired all of the capital stock of Software, a leading provider of proprietary transactional support software and consulting services for distributors and exhibitors of filmed entertainment in the United States and Canada (the "Software Acquisition").

In November 2004, we acquired certain assets and liabilities of FiberSat Global Services, LLC (the "FiberSat Acquisition").

In June 2006, we, through an indirectly wholly-owned subsidiary, PLX Acquisition Corp. ("PLX"), purchased substantially all the assets of PLX Systems Inc. ("PLX Acquisition") and Right Track Solutions Incorporated ("Right Track"). PLX provides technology, expertise and core competencies in intellectual property ("IP") rights and royalty management, expanding the Company's ability to bring alternative forms of content, such as non-traditional feature films. PLX's and Right Track's assets have been integrated into the operations of Software.

In October 2007, AccessDM launched CineLiveSM, a hardware product that enables live 2-D and 3-D streaming broadcasts to be converted from satellite feeds into on-screen entertainment, which can then be delivered to and exhibited in digital cinema equipped theatres. CineLiveSM was developed for AccessDM by International Datacasting Corporation and SENSIO Technologies Inc.

Current proprietary software of DMS for digital media delivery consists of the following:

Proprietary Software Product:	Purpose:
Digital Express e-Courier Services SM	Provides worldwide delivery of digital content, including movies, advertisements and alternative content such as concerts, seminars and sporting events to movie theatres and other venues having digital cinema equipment.

The Digital Express e-Courier Services SM software makes interaction between the content originator (such as the motion picture studio) and the theatrical exhibitor easier:

- Programming is viewed, booked, scheduled and electronically delivered through Digital Express e-Courier ServicesSM.
- Once received, digital cinema distribution masters are prepared for distribution employing wrapper technology, including the application of an additional layer of Advanced Encryption Standard encryption, for added security.
- Designed to provide transparent control over the delivery process, Digital Express e-Courier ServicesSM provides comprehensive, real-time monitoring capabilities including a fully customizable, automatic event notification system, delivering important status information to customers through a variety of connected devices including cell phones, e-mail or pagers.

Market Opportunity

According to the Motion Picture Association of America (the “MPAA”), on average, there were approximately 600 new movie releases for each of the past two years with 150-175 of those major movie releases receiving wide distribution to theaters. The average major movie is released to approximately 4,000 screens in the United States and 8,000 screens worldwide. According to the National Association of Theatre Owners, there are approximately 107,000 screens worldwide that play major movie releases, with approximately 39,000 screens located in the United States.

We believe that:

- the demand for digital content delivery will increase as the movie, advertising and entertainment industries continue to convert to a digital format in order to achieve cost savings, greater flexibility and/or improved image quality;
- digital content delivery eventually will replace, or at least become more prevalent than, the current method used for film delivery since existing film delivery generally involves the time-consuming, somewhat expensive and cumbersome process of receiving bulk printed film, rebuilding the film into shipping reels, packaging the film reels into canisters and physically delivering the film reels by traditional ground modes of transportation to movie theatres. The cost to deliver digital movies to movie theatres will be much less than the cost to print and deliver analog movie prints;
- the expanding use of digital content delivery will lead to an increasing need for digital content delivery, as the movie exhibition industry now has the capability to present advertisements, trailers and alternative entertainment in a digital format and in a commercially viable manner;
- theatrical exhibitors may be able to profit from the presentation of new and/or additional advertising in their movie theatres and that alternative entertainment at movie theatres may both expand their hours of operation and increase their occupancy rates; and
- digital content delivery will help reduce the cost of illegal off-the-screen recording of movies with handheld camcorders due to the watermark technology being utilized in content distributed through digital cinema (according to the MPAA, this costs the worldwide movie exhibition industry an estimated $6.1 billion annually).

Intellectual Property

AccessDM has received United States service mark registrations for the following: AccessDM® and The Courier For The Digital Era®. Cinedigm has received United States service mark registration for Access Digital Media® and Digi-Central®.

DMS currently has intellectual property consisting of unregistered trademarks and service marks, including Digital Express e-Courier ServicesSM, e-Courier ServicesSM and CineLiveSM.

6

Customers

For the fiscal year ended March 31, 2010, DMS's customers comprised 9% of Services' revenues. Three customers, 20th Century Fox , Universal Pictures and Ideacast, Inc. each represented 10% or more of DMS's revenues and together generated 49% and 32% of DMS's and Services' revenues, respectively, and 20th Century Fox and Universal Pictures are both customers for digital cinema and entertainment software. We expect to continue to conduct business with each of these customers in fiscal 2011.

Competition

Companies that have developed forms of digital content delivery to entertainment venues include:

- Technicolor Digital Cinema, an affiliate of the Thomson Company, which has developed distribution technology and support services for the delivery of digital movies to theatrical exhibitors; and
- DELUXE Laboratories, a wholly owned subsidiary of the MacAndrews & Forbes Holdings, Inc., which has developed distribution technology and support services for the physical delivery of digital movies to theatrical exhibitors.

These competitors have significantly greater financial, marketing and managerial resources than we do, have generated greater revenue and are better known than we are. However, we believe that DMS, through its technology and management experience, its development of software capable of delivering digital content electronically worldwide, and the complement of software including the Theatre Command Center® software, differentiate us from our competitors by providing a competitive alternative to their forms of digital content delivery.

We co-market Digital Media Delivery to the current and prospective customers of Software, using marketing and sales efforts and resources of both companies, which would enable owners of digital content to securely deliver such digital content to their customers and, thereafter, to manage and track data regarding the presentation of the digital content, including different forms of audio and/or visual entertainment. As the digital content industry continues to develop, we may engage in other marketing methods, such as advertising and service bundling, and may hire additional sales personnel.

Software Division

Software provides: proprietary software applications and services to support movie exhibition and distribution customers of varying sizes, through software licenses; its ASP Service through which it hosts various applications and provides client access via the Internet; anoutsourced film distribution service, called IndieDirect; and training and installation certification through its workshop and training sessions. Current proprietary software of the Software division consists of the following:

Proprietary Software Product:	Purpose:
Theatre Command Center® ("TCC")	Provides in-theatre management for use by digitally–equipped movie theatres and interfaces with DMS' Digital Express e-Courier Services SM software.
Theatrical Distribution System® ("TDS")	Enables domestic motion picture studios to plan, book and account for movie releases and to collect and analyze related financial operations data and interfaces with DMS' Digital Express e-Courier Services SM software.

Theatrical Distribution System (Global) ("TDSG ")	Enables international motion picture studios to plan, book and account for movie releases and to collect and analyze related financial operations data and interfaces with DMS' Digital Express e-Courier Services SM software.
Exhibition Management System™ ("EMS™")	Manages all key aspects of the theatrical exhibitor for film planning, scheduling, booking and the payment to the motion picture studios.
Royalty Transaction Solution ("RTS")	An enterprise royalty accounting and licensing system built specifically for the entertainment industry.

Our TCC system is installed as a component of all Phase 1 and Phase 2 Systems. It provides in-theatre management for digitally–equipped movie theatres, enabling an exhibitor to control all the screens in a movie theatre, manage content and version review, show building, program scheduling and encryption security key management from a central terminal, whether located in the projection booth, the theatre manager's office or both. Software receives upfront license fees and annual maintenance fees from all TCC installations. In addition to Cinedigm deployments, Software licenses TCC domestically and internationally to other deployment entities and exhibitors.

Domestic Theatrical Distribution Management

Software's TDS product is currently licensed to several motion picture studios and the TDS product comprised 54% and 65% of Software's revenues for the fiscal year ended March 31, 2008 and 2009, respectively. Software also provides outsourced movie distribution services, specifically for independent film distributors and producers, through IndieDirect. The IndieDirect staff uses the TDS distribution software to provide back office movie booking, tracking, reporting, settlement, and receivables management services.

International Theatrical Distribution Management

In 2004, Software began developing TDSG, an international version of our successful TDS application, to support worldwide movie distribution and has the capability to run either from a single central location or multiple locations. In December 2004, Software signed an agreement to license TDSG to 20th Century Fox, who has begun the implementation of the software, targeting fourteen overseas territories, encompassing eighteen foreign offices. As with our North American TDS solution, the TDSG system seamlessly integrates with Cinedigm's digital content delivery, significantly enhancing our international market opportunities. In December 2008, Software reached an agreement with 20th Century Fox regarding TDSG whereby Software will cease development efforts on the TDSG product and 20th Century Fox will complete the development of the product going forward at their sole expense and deliver the completed TDSG product back to Software. Software will continue to own the product at all times and retains the rights to market the finished product to others.

Exhibition Management

We believe that our EMS™ system is one of the most powerful and comprehensive systems available to manage all key elements of theatrical exhibition. This fully supported solution can exchange information with financial, ticketing, point-of-sale, distributor and data systems to eliminate manual processes. Also, EMS™ is designed to create innovative revenue opportunities for theatrical exhibitors from the presentation of new and/or additional advertising and alternative entertainment in their movie theatres due to the expanding use of digital content delivery.

IP Rights and Royalty Management

Software also provides software for the management of IP rights and royalties, called RTS, which was part of the PLX Acquisition.

Research and Development

The Company's recorded research and development expenses of approximately $0.2 million in each of the fiscal years ended March 31, 2009 and 2010, respectively, and was comprised mainly of personnel costs and third party contracted services attributable to research and development efforts at Software related to the development of our digital software applications and various product enhancements to TDS and EMS™.

Market Opportunity

We believe that:

- Software's products are becoming an industry leading method by which motion picture studios and theatrical exhibitors plan, manage and monitor operations and data regarding the presentation of theatrical entertainment. Based upon certain industry figures, distributors using the TDS

software cumulatively managed over one-third of the United States theatre box office revenues each year since 1999;
- by adapting this system to serve the expanding digital entertainment industry, Software's products and services are accepted as an important component in the digital content delivery and management business;
- the continued transition to digital content delivery will require a high degree of coordination among content providers, customers and intermediary service providers;
- producing, buying and delivering media content through worldwide distribution channels is a highly fragmented and inefficient process; and
- technologies created by Software and the continuing development of and general transition to digital forms of media will help the digital content delivery and management business become increasingly streamlined, automated and enhanced.

Intellectual Property

Software currently has intellectual property consisting of:

- licensable software products, including TCC, TDS, TDSG, EMS™, and RTS;
- registered trademarks for the Theatre Command Center®, Theater Command Center®, and Theatrical Distribution System®;
- domain names, including EPayTV.com, EpayTV.net, HollywoodSoftware.com, HollywoodSoftware.net, Indie-Coop.com, Indie-Coop.net, Indiedirect.com, IPayTV.com; PersonalEDI.com, RightsMart.com, RightsMart.net, TheatricalDistribution.com and Vistapos.com;
- unregistered trademarks and service marks, including Coop Advertising V1.04, EMS ASP, Exhibitor Management System, Hollywood SW, Inc., HollywoodSoftware.com, Indie Co-op, Media Manager, On-Line Release Schedule, RightsMart, and TheatricalDistribution.com; and
- logos, including those in respect of Hollywood SW, TDS and EMS™.

Customers

Four customers, 20th Century Fox, CBS Films, Insight and Universal Studios, each represented 10% or more of Software's revenues and together generated 50% and 15% of Software's and Services' revenues, respectively. 20th Century Fox and Universal Studios are also customers for digital cinema and digital content delivery. We expect to continue to conduct business with each of these customers in fiscal 2011.

Competition

Within the major domestic motion picture studios and exhibition circuits, Software's principal competitors for its products are in-house development teams, which generally are assisted by outside contractors and other third-parties. Most domestic motion picture studios that do not use the TDS software use their own in-house developed systems. Internationally, Software is aware of one vendor based in the Netherlands providing similar software. Software's movie exhibition product, EMS™, competes principally with at least one other competitor offering a similar stand-alone application, customized solutions developed by the large exhibition circuits and point of sale system modules attempting to provide comparable functionality. We believe that Software, through its technology and management experience, may differentiate itself by providing a competitive alternative to their forms of digital content delivery and management business.

Government Regulation

Except for the requirement of compliance with United States export controls relating to the export of high technology products, we are not subject to government approval procedures or other regulations for the licensing of our

Entertainment Software products.

The distribution of movies is in large part regulated by federal and state antitrust laws and has been the subject of numerous antitrust cases. Motion picture studios offer and license movies to theatrical exhibitors, on a movie-by-movie and theatre-by-theatre basis. Consequently, theatrical exhibitors cannot assure themselves of a supply of movies by entering into long-term arrangements with motion picture studios, but must negotiate for licenses on a movie-by-movie basis. Cinedigm Satellite maintains Federal Communications Commission ("FCC") broadcast licenses related to our satellite transmission of content and should we violate any FCC laws, we may be subject to fines and or forfeiture of our broadcast licenses.

CONTENT & ENTERTAINMENT

The Content & Entertainment segment consists of the following:

Operations of:	Products and services provided:
UniqueScreen Media, Inc. ("USM")	Provides cinema advertising services and entertainment.
Vistachiara Productions, Inc., f/k/a The Bigger Picture currently d/b/a Cinedigm Content and Entertainment Group ("CEG")	Acquires, distributes and provides the marketing for programs of alternative content and feature films to movie exhibitors.

In July 2006, we purchased all of the outstanding capital stock of USM from USM's stockholders (the "USM Acquisition"). USM is the 3rd largest pre-show advertising business in the United States. As of March 31, 2010, it provides advertising services to 2,685 screens. Most of USM's customers are in middle and small sized advertising markets. USM provides local advertising sales and revenues to its customers through its own salesforce and contracts with Screenvision Exhibition, Inc. ("Screenvision"), the 2nd largest pre-show advertising company, to provide national advertising sales to many of its customers.

In January 2007, through our wholly owned subsidiary, Vistachiara Productions, Inc., we purchased substantially all of the assets of BP/KTF, LLC (the "CEG Acquisition"). CEG provides marketing and distribution services to owners of alternative content, such as live sports, musical concerts, kids programming, cultural events, etc. and to producers of independent films. CEG leverages the exhibition relationships developed by Cinedigm through its digital cinema services division, the delivery infrastructure and technology of DMS and theatrical distribution software services of the Software division to create a unique and valuable marketing and distribution service on top of the digital cinema network. CEG typically provides these services for a fixed upfront fee and a share of box office and downstream content revenues. CEG does not currently invest in production, print or advertising costs of content. In addition to its distribution fees, CEG generates a waterfall of revenues for other Cinedigm divisions: (1) its content either triggers a VPF or ACF for the Phase 1 and 2 Deployments (and resulting service fees for the Services division); (2) CEG retains and pays DMS to deliver its content (recorded or live) via satellite and hard drive; (3) CEG is an Indie Direct customer of the software division; and (4) sells or "trades in kind" USM advertising inventory in exchange for content acquisition rights.

Market Opportunity

We believe that:

- recent surveys have shown that movie goers are becoming more accepting of theatre advertising, and that of the 39,000 screens located in the United States, 24,000 of them show some form of advertising;

- Since 2002, cinema advertising revenue has grown at a 16% compound annual growth rate with the market remaining strong during the recent recession while traditional media has struggled;
- Pre-show advertising is among the most engaging forms of advertising in the market today with surveys showing 87% of moviegoers paying attention to ads prior to the movie and 44% more likely to remember the ad compared to television; and
- Alternative content is a rapidly growing medium with recent industry estimates by Screen Digest expecting the industry to grow to in excess of $500 M of revenues in 2014 from $46M in 2008.

Intellectual Property

There is no intellectual property related to our Content & Entertainment segment.

Customers

For the fiscal years ended March 31, 2009 and 2010, USM comprised 94% and 88%, respectively, of Content & Entertainment revenues. Our advertising business consists mainly of local advertisers, with no one customer representing 10% of in-theatre advertising revenues. A growing percentage of our advertising business are derived from a subcontracting agreement with Screenvision Exhibition, Inc. ("Screenvision"), whereby Screenvision sells national advertising on USM's screen base. For the fiscal years ended March 31, 2009 and 2010, the revenues from this agreement comprised 13% and 17%, respectively, of USM revenues and 12% and 15%, respectively, of Content & Entertainment revenues. The CEG business provides services to owners of alternative content such as sporting events, concerts, children's programming and other content. We expect CEG to contribute a larger percentage of our overall revenues in the future.

Competition

Numerous companies are engaged in various forms of producing and distributing entertainment and alternative content, as well as the sales, production and distribution of commercial advertising. Such forms of competition have historically extended into motion picture exhibition only to a limited degree, except for cinema advertising.

The Company views the following as its principal competition in its content and entertainment segment:

- The Walt Disney Company and Sony Pictures Entertainment, Inc., a subsidiary of Sony Corporation of America, have both demonstrated their intent to continue expanding digital distribution of non-movie alternative content into cinema venues;
- Screenvision US, a joint venture of Thomson and ITV, PLC, which sells and displays national, regional and local cinema advertising in over 15,000 screens in more than 2,500 theatre locations, as well as distributes certain alternative content in select theatres; and
- National CineMedia, LLC (NCM), a venture of AMC, Cinemark USA, Inc. and Regal, which have joined to work on the development of a digital cinema business plan, primarily concentrated on in-theatre advertising, business meetings and non-feature film content distribution in its Fathom Network.

These competitors have significantly greater financial, marketing and managerial resources than we do and have generated greater revenue and are better known than we are. However, we believe this is somewhat mitigated by the exclusive, and to a lesser degree non-exclusive, long and short-term contractual rights we have with our theatrical exhibitor partners, the proprietary nature of certain alternative programming, and the ability to provide cost effective turn-key solutions for intellectual property holders through digital preparation, digital delivery services through DMS, and advertising and marketing services in contracted theatrical exhibitor's theatres.

OTHER

The Other segment consists of the following:

Operations of:	Products and services provided:
Core Technology Services, Inc. ("Managed Services")	Provides information technology consulting services and managed network monitoring services through its global

	network command center (“GNCC”).
Access Digital Server Assets	Provides hosting services and provides network access for other web hosting services.

In February 2005, through ADM Cinema, we acquired substantially all of the assets of the Pavilion Theatre located in the Park Slope section of Brooklyn, New York from Pritchard Square Cinema, LLC (the “Pavilion Theatre Acquisition”).

In January 2004, we acquired all of the capital stock of Managed Services, a managed service provider of information technologies (the "Managed Services Acquisition") which operates a 24x7 GNCC, capable of running the networks and systems of large corporate clients. The three largest customers of Managed Services accounted for approximately 60% of its revenues.

In January 2006, the Company purchased the domain name, website, customer list and the IP address space for Ezzi.net and certain data center related computer equipment of R & S International, Inc. (together the "Access Digital Server Assets") and the acquired assets are used for web-hosting.

Since May 1, 2007, the Company's internet data centers ("IDCs") have been operated by FiberMedia, consisting of unrelated third parties, pursuant to a master collocation agreement. Although the Company is still the lessee of the IDCs, substantially all of the revenues and expenses were being realized by FiberMedia and not the Company and since May 1, 2008, 100% of the revenues and expenses are being realized by FiberMedia. In June 2009, one of the IDC leases expired, leaving two IDC leases with the Company as lessee.

Managed Services

We have developed two distinct Managed Services offerings, Network and Systems Management and Managed Storage Services.

Network and Systems Management

We offer our customers the economies of scale of the GNCC with an advanced engineering staff. Our network and systems management services include:

- network architecture and design;
- systems and network monitoring and management;
- data and voice integration;
- project management;
- auditing and assessment;
- on site support for hardware installation and repair, software installation and update, a 24x7 user help desk;
- a 24x7 Citrix server farm (a collection of computer servers); and
- fully managed hosting services.

Managed Storage Services

Our managed storage services, known as AccessStorage-on-Demand, include:

- hardware and software from such industry leaders as EMC Symmetrix, StorageTek and Veritas;
- pricing on a per-gigabyte of usage basis which provides customers with reliable primary data storage that is connected to their computers;
- the latest storage area network ("SAN") technology and SAN monitoring by our GNCC; and
- a disaster recovery plan for customers that have their computers located within an IDC by providing them with a tape back-up copy of their data that may then be sent to the customer's computer if the customer's data is lost, damaged or inaccessible.

All managed storage services are available separately or may be bundled together with other services. Monthly pricing is based on the type of storage (tape or disk), the capacity used and the level of accessibility required.

Market Opportunity

We believe that:

- this low-cost and customizable alternative to designing, implementing, and maintaining a large scale network infrastructure enables our clients to focus on information technology business development, rather than the underlying communications infrastructure; and
- our ability to offer clients the benefits of a SAN storage system at a fraction of the cost of building it themselves, allows our clients to focus on their core business.

Intellectual Property

Cinedigm has received United States service mark registration for the following service marks: Access Integrated Technologies®, AccessSecure®; AccessSafe®; AccessBackup®; AccessBusinessContinuance®; AccessVault®; AccessContent®; AccessColocenter®; AccessDataVault®; AccessColo®; AccessColo, Inc.®; and AccessStore®.

Customers

Our Managed Services customers mainly include major and mid-level networks and ISPs, various users of network services, traditional voice and data transmission providers, long distance carriers and commercial businesses and the motion picture studio customers of our Media Services. For the fiscal year ended March 31, 2010, three customers, Kelley Drye & Warren LLP ("KDW"), Rothschild, Inc. and the Weinstein Company, each represented 10% or more of Managed Service revenues and together generated 61% and 15% of Managed Service's and Other's segment revenues, respectively. Other than KDW, who is also outside legal counsel for the Company, and the Weinstein Company, who is also a customer of digital cinema and entertainment software, we do not have any other relationships with these customers. We expect to continue to conduct business with these customers in fiscal 2011.

Competition

Many data center operators offer managed services to clients who co-locate servers in the operator owned data center. Our focus is on delivery of managed services inside the IDCs, now operated by FiberMedia AIT, LLC and Telesource Group, Inc. (together, "FiberMedia"), unrelated third parties, as a lead product for primary data center services and to also offer those services to clients who have servers outside the IDCs allowing us to offer remote server and network monitoring, server and network management and disaster recovery services.

Our competitors have greater financial, technical, marketing and managerial resources than we do. These competitors also generate greater revenue and are better known than we are. However, we believe that offering managed services inside the IDCs, now operated by FiberMedia, along with related data center services, may differentiate us from our competition by providing a competitive bundled solution.

ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Discontinued operations consists of the Pavilion Theatre, which is classified as held for sale following a determination by management to explore its sale.

Operations of:	Products and services provided:
ADM Cinema Corporation ("ADM Cinema") d/b/a the	A nine-screen digital movie theatre and showcase to demonstrate the Company's integrated digital cinema solutions.

Pavilion Theatre (the
“Pavilion Theatre”)

In February 2005, through ADM Cinema, we acquired substantially all of the assets of the Pavilion Theatre located in the Park Slope section of Brooklyn, New York from Pritchard Square Cinema, LLC (the “Pavilion Theatre Acquisition”).

ENVIRONMENTAL

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

EMPLOYEES

As of March 31, 2010, we had 190 employees, of which 5, are part-time and 185 are full-time. Of our full-time employees, 55 are in sales and marketing, 74 are in operations, 8 are in research and development, 22 are in technical services, and 26 are in finance and administration.

As of March 31, 2010, the Pavilion Theatre had 44 employees, of which 38, are part-time and 6 are full-time. The Pavilion Theatre has a collective bargaining agreement with one union which covers three union projectionists, one of whom is a full-time employee.

AVAILABLE INFORMATION

The Company's Internet website address is www.cinedigmcorp.com. The Company will make available, free of charge at the "For Our Shareholders" section of its website, its 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, 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

An inability to obtain necessary financing may have a material adverse effect on our financial position, operations and prospects if unanticipated capital needs arise.

Our capital requirements may vary significantly from what we currently project and be affected by unforeseen delays and expenses. We may experience problems, delays, expenses and difficulties frequently encountered by similarly-situated companies, as well as difficulties as a result of changes in economic, regulatory or competitive conditions. If we encounter any of these problems or difficulties or have underestimated our operating losses or capital requirements, we may require significantly more financing than we currently anticipate. We cannot assure you that we will be able to obtain any required additional financing on terms acceptable to us, if at all. An inability to obtain necessary financing could have a material adverse effect on our financial position, operations and prospects. Our credit agreement (the "Credit Agreement") with Société Générale ("SG") and General Electric Capital Corporation ("GECC") contains certain restrictive covenants that restrict our indirect subsidiary, Cinedigm Digital Funding I, LLC ("CDF I") and its subsidiaries from making certain capital expenditures, incurring other indebtedness, engaging in a new line of business, selling certain assets, acquiring, consolidating with, or merging with or into other companies and entering into transactions with affiliates and is non-recourse to the Company and our subsidiaries. In August 2009, the Company entered into the Sageview Purchase Agreement pursuant to which the Company issued the 2009 Note in the aggregate principal amount of $75.0 million, which was later amended and restated on May 6, 2010 (as so amended and restated, the "2010 Note"). The 2010 Note restricts the Company and its subsidiaries from incurring other indebtedness (with certain specified exceptions), creating or acquiring subsidiaries which do not guarantee such notes, making certain investments and modifying authorized capital.

We have limited experience in our newer business operations, which may negatively affect our ability to generate sufficient revenues to achieve profitability.

We were incorporated on March 31, 2000. We expanded into the following new business areas which are currently our primary focus: (a) placing digital cinema projection systems into movie theatres and collecting virtual print fees in connection with such placements, through our indirect wholly-owned subsidiaries Phase 1 DC and Phase 2 DC; (b) providing satellite delivery services, through our wholly-owned subsidiary Cinedigm Satellite; (c) providing pre-show on-screen advertising and entertainment, through our wholly-owned subsidiary USM; and (d) operating an alternative content distribution company, through our wholly-owned subsidiary, CEG. Although we have retained certain senior management of the acquired businesses and have hired other experienced personnel, we have little experience in these new areas of business and cannot assure you that we will be able to develop and market the services provided thereby. We also cannot assure you that we will be able to successfully operate these businesses. Our efforts to expand into these five business areas may prove costly and time-consuming and have become our primary business focus.

The complexity of the digital cinema industry and providing transactional software for movie distributors and exhibitors could result in:

- increased operating and capital costs;
- an inability to effect a viable growth strategy;
- service interruptions for our customers; and
- an inability to attract and retain customers.

We may not be able to generate sufficient revenues to achieve profitability through the operation of our digital cinema business or our entertainment software business. We cannot assure you that we will be successful in marketing and operating these businesses, which are still developing within the industry, or, even if we are successful in doing so, that we will not experience additional losses.

We face the risks of doing business in new and rapidly evolving markets and may not be able successfully to address such risks and ever be successful or profitable.

We have encountered and will 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;
- insufficient revenues and cash flow to be self-sustaining;
- necessary capital expenditures;
- an unproven business model;
- a changing business focus; and
- difficulties in managing potentially rapid growth.

This is particularly the case with respect to our businesses with less operating history. We cannot assure you that we will ever be successful or profitable.

If the current digital technology changes, demand for DMS' delivery systems and software may be reduced and if use of the current digital presentation requiring electronic delivery does not expand, DMS' business will not experience growth.

Even though we are among the first to integrate software and systems for the delivery of digital content to movie theatres and other venues, there can be no assurance that certain major movie studios or providers of alternative digital content that currently rely on traditional distribution networks to provide physical delivery of digital files will quickly adopt a different method, particularly electronic delivery, of distributing digital content to movie theatres or other venues or that those major movie studios or content providers that currently utilize electronic delivery to distribute digital content will continue to do so. If the development of digital presentations and changes in the way digital files are delivered does not continue to occur, the demand for DMS' delivery systems and software will not grow and if new technology is developed which is adopted by major movie studios or providers of alternative digital content, there may be reduced demand for DMS' delivery systems and software.

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

The demand for our digital media delivery services and entertainment software will be affected, in large part, by future advances in technology and changes in customer demands. Our success will also depend on our ability to address the increasingly sophisticated and varied needs of our existing and prospective customers.

We cannot assure you that there will be a continued demand for the digital cinema software and delivery services provided by DMS. DMS' profitability depends largely upon the continued expansion of digital presentations at theatres. Although we have has entered into digital cinema deployment agreements with various motion picture studios, there can be no assurance that these and other major movie studios which are in part relying on traditional distribution networks to provide physical delivery of digital files will adopt a different method, particularly electronic delivery, of distributing digital content to movie theatres or that they will release all, some or any of their motion pictures using our distribution technology. If the development of digital presentations and changes in the way digital files are delivered does not continue to occur, there may be reduced demand or market for DMS' software and systems.

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 managed services business, the digital cinema business and the entertainment software business, although relatively new, 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 software 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 us, 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. We may not be able to compete successfully with our competitors. 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 successfully complete an acquisition, our assumption of liabilities, dilution of your investment and significant costs.

Although there are no 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 and/or attract and retain customers. We are also subject to limitations on our ability to make acquisitions pursuant to the 2010 Note. Completing an acquisition and integrating an acquired business, including our recently acquired businesses, may require a significant diversion of management time and resources and involves 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 the consideration consists of our capital stock, your equity interest in our 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.

We have made several meaningful acquisitions to expand into new business areas. In July 2006, we acquired all of the capital stock of USM and in January 2007, the Company, through its wholly-owned subsidiary, CEG, purchased substantially all of the assets of BP/KTF, LLC. We cannot assure you that we will be able to effectively market the services provided by USM and CEG. Our acquisition of these businesses and assets also involves 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.

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

We may not be successful in managing our rapid growth. Since November 2003, we have acquired several businesses including most recently the acquisitions of USM and CEG. The number of our employees has grown from 11 in March 2003 to just under 200 in March 2010. 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 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:

- licensable software products;
- rights to certain domain names;
- registered service marks on certain names and phrases;
- various unregistered trademarks and service marks;
- know-how;
- rights to certain logos; and
- a pending patent application with respect to certain of our software.

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.

The success of some of our business operations depends on the proprietary nature of certain software. We do not, however, have patents with respect to much of our software. Because there is no patent protection in respect of much of our software, other companies are not prevented from developing and marketing similar software. We cannot assure you, therefore, that we will not face more competitors or that we can compete effectively against any companies that develop similar software. We also cannot assure you that we can compete effectively or not suffer from pricing pressure with respect to our existing and developing products that could adversely affect our ability to generate revenues. Further, our pending patent application may not be issued and if issued may not be broad enough to protect our rights, or if such patent is issued such patent could be successfully challenged.

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. We had notes payable to third parties with principal amounts aggregating $243.2 million as of March 31, 2010.

We also had capital lease obligations covering facilities and computer network equipment with principal amounts of $6.0 million as of March 31, 2010.

In May 2010, we issued the 2010 Note in the aggregate principal amount of $75.0 million. Additionally, CDF I, our indirect wholly-owned subsidiary that is intended to be a special purpose, bankruptcy remote entity, has entered into the Credit Agreement, pursuant to which it borrowed $172.5 million. As of May 18, 2010, the principal balance under the Credit Agreement was $172.5 million. The obligations and restrictions under the Credit Agreement, the 2010 Note and our other debt obligations could have important consequences for us, including:

- limiting our ability to obtain necessary financing in the future;
- 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;
- limiting our ability to pay dividends to our shareholders;
- making us more vulnerable to a downturn in our business and limiting our flexibility to plan for, or react to, changes in our business; and
- placing us at a competitive disadvantage compared to competitors that might have stronger balance sheets or better access to capital by, for example, limiting our ability to enter into new markets.

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 our Phase I Deployment and our issuance of the 2010 Note impose certain limitations on us.

The agreement governing the financing of our Phase I Deployment restricts the ability of Phase 1 DC and its existing and future subsidiaries to, among other things:

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

The agreements governing our issuance of the 2010 Note in May 2010 restrict the ability of the Company and its subsidiaries, subject to certain exceptions, to, among other things:

- incur other indebtedness or liens;
- create or acquire subsidiaries which do not guarantee the notes;
- make certain investments;
- amend certain agreements;

- pay dividends; and
- modify authorized capital.

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, we believe our cash flow from operations, subsequent borrowings and amended GE Credit Facility terms will be adequate to meet our future liquidity needs through at least March 31, 2011. 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 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, 2010, we had negative working capital, defined as current assets less current liabilities, of $1.4 million and cash and cash equivalents, investment securities and restricted cash totaling $24.2 million; we had an accumulated deficit of $168.0 million and, from inception through such date, and we had provided $10.2 million in cash for operating activities. However, our net losses are likely to continue for the foreseeable future.

Our ability to become profitable is dependent upon us achieving a sufficient volume of business from our customers. If we cannot achieve a high enough volume, we likely will incur additional net and operating losses. We may be unable to continue our business as presently conducted unless we obtain funds from additional financings.

Our net losses and cash outflows may increase as and to the extent that we increase the size of our business operations, increase the purchases of Systems for Phase 1 DC’s Phase I Deployment or Phase 2 DC’s Phase II Deployment, increase our sales and marketing 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 significantly 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 June 11, 2010, our directors, executive officers and principal stockholders, those known by the Company to beneficially own more than 5% of the outstanding shares of the Company’s Common Stock, beneficially own, directly or indirectly, in the aggregate, approximately 39.5% of our outstanding common stock. In particular, A. Dale Mayo, our President and Chief Executive Officer, beneficially holds 633,811 shares of Class B common stock, which represents approximately 86.4% of our outstanding Class B common stock, and 246,888 shares of Class A common stock which, together with the Class B common stock (which is convertible into Class A common stock on a one-for-one basis), represents approximately 2.9% of our outstanding Class A common stock. The 246,888 shares of Class A common stock include 59,761 restricted shares of Class A common stock, 85,000 shares of Class A common stock held by Mr. Mayo's spouse, of which Mr. Mayo disclaims beneficial ownership, and 12,500 shares of Class A common stock held for the account of Mr. Mayo's grandchildren, the custodian of which accounts is Mr. Mayo's spouse, of which Mr. Mayo also disclaims beneficial ownership. Our Class B common stock entitles the holder to ten votes per share. The shares of Class A common stock have one vote per share. Due to the supervoting Class B common stock, Mr. Mayo has approximately 18.5% of our voting power. In addition, Sageview owns warrants to purchase 16,000,000 shares of Class A Common Stock. If such warrants are exercised, Sageview would own approximately 35.4% of the then-outstanding Class A Common Stock. Sageview is also currently entitled to nominate two members to our board of directors (with such nomination right subject to reduction or elimination under certain circumstances).

These stockholders, and Mr. Mayo himself, will 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. Also, certain corporate actions directed by our officers may not necessarily inure to the proportional benefit of other stockholders of our company.

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

Our success will depend in significant part upon the continued services of our key technical, sales and senior management personnel. 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, our future success will depend upon our ability to hire, train, integrate and retain qualified new employees.

We may be subject to environmental risks relating to the on-site storage of diesel fuel and batteries.

Our IDCs contain tanks for the storage of diesel fuel for our generators and significant quantities of lead acid batteries used to provide back-up power generation for uninterrupted operation of our customers' equipment. We cannot assure you that our systems will be free from leaks or that use of our systems will not result in spills. Any leak or spill, depending on such factors as the nature and quantity of the materials involved and the environmental setting, could result in interruptions to our operations and the incurrence of significant costs; particularly to the extent we incur liability under applicable environmental laws. This could have a material adverse effect on our business, financial position and results of operations. Although we are still the lessee of the IDCs, substantially all of the revenues and expenses are being realized by FiberMedia, unrelated third parties, and not the Company.

We may not be successful in the final or ultimate disposal of our Data Center Services.

In connection with the disposition of our Data Center Services, we entered into a MCA with FiberMedia, unrelated third parties, to operate our IDCs. FiberMedia operates a network of geographically distributed IDCs. We have assigned our IDC customer contracts to FiberMedia, and going forward, FiberMedia will be responsible for all customer service issues, including the maintenance of the IDCs, sales, installation of customer equipment, cross connects, electrical and other customer needs. Among such items are certain operating leases which expire from June 2009 through January 2016. As of March 31, 2010, obligations under these operating leases totaled $4.4 million. We will attempt to obtain landlord consents to assign each facility lease to FiberMedia. Until such landlord consents are obtained, we will remain as the lessee and pursuant to the MCA, FiberMedia will reimburse our costs under the facility leases, including rent through the remaining term of each IDC lease. In June 2009, one of the IDC leases expired, leaving two IDC leases with the Company as lessee. One of the remaining IDC leases expires in July 2010, which the Company does not intend to renew. We cannot assure you that the existing landlords would consent to the assignment of these leases to a buyer of our data centers. As a result, we may have continuing obligations under these leases, which could have a material adverse effect on our business, financial position and results of operations.

If the market price of our Class A Common Stock declines, we may not be able to maintain our listing on the NASDAQ Global Market which may impair our financial flexibility and restrict our business significantly.

The stock markets have experienced extreme price and volume fluctuations that have affected the market prices of equity securities of many companies that may be unrelated or disproportionate to the operating results of such companies. These broad market movements may adversely affect the market price of the Company's Class A Common Stock. The Company's Class A Common Stock is presently listed on NASDAQ. Although we are not currently in jeopardy of delisting, we cannot assure you that we will meet the criteria for continued listing and our Class A Common Stock could become delisted. Any such delisting could harm our ability to raise capital through alternative financing sources on terms acceptable to us, or at all, and may result in the loss of confidence in our financial stability by suppliers, customers and employees. If the Company's Class A Common Stock is delisted from the NASDAQ, we may face a lengthy process to re-list the Company's Class A Common Stock, if we are able to re-list the Company's Class A Common Stock at all, and the liquidity that NASDAQ provides will no longer be available to investors.

If the Company's Class A Common Stock were to be delisted from NASDAQ, it could, under certain circumstances, be deemed to be a change of control in the Company and, as a result, the holders of the 2010 Note would have the right to require the Company redeem the outstanding principal of the 2010 Note. As a result, 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. If we default under the 2010 Note obligations, our lenders could take actions that would restrict our operations.

While we believe we currently have effective internal control over financial reporting, we are required to assess our internal control over financial reporting on an annual basis and any future adverse results from such assessment could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 and the accompanying rules and regulations promulgated by the SEC to implement it required us to include in our Form 10-K annual reports by our management and independent auditors regarding the effectiveness of our internal control over financial reporting. The reports included, among other things, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year. These assessments did not result in the disclosure of any material weaknesses in our internal control over financial reporting identified by management. During this process, if our management identified one or more material weaknesses in our internal control over financial reporting that cannot be remediated in a timely manner, we would not be unable to assert such internal control as effective. While we currently believe our internal control over financial reporting is effective, the effectiveness of our internal controls in future periods is subject to the risk that our controls may become inadequate because of changes in conditions, and, as a result, the degree of compliance of our internal control over financial reporting with the applicable policies or procedures may deteriorate. If, in the future, we are unable to conclude that our internal control over financial reporting is effective (or if our independent auditors disagree with our conclusion), we could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price.

New technologies may make our Digital Cinema Assets less desirable to motion picture studios or exhibitors of digital content and result in decreasing revenues.

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. Any reduction in the use of our Systems resulting from the development and deployment of new technology may negatively impact our revenues and the value of our Systems.

We have concentration in our 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. Together these studios generated 88%, 76%, 34%, 76%, 48% and 56% of Phase 1 DC's, Phase 2 DC's, Software's, AccessDM's, the Services segment's, and our consolidated revenues, respectively, for the fiscal year ended March 31, 2010.

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 could damage our revenue and profitability.

The master license agreements with each of our licensed exhibitors (the "MLAs") are critical to our business. The MLAs each have a term which expires in 2020 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.

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.

Over 57% of Phase 1 DC's Systems are 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.

We depend on a limited number of suppliers for our Systems, and any delay in supply could affect our ability to grow.

We currently purchase Systems from a limited number of suppliers, and we were dependent on one supplier for our Systems in our Phase II Deployment. The inability to obtain certain components on a timely basis would limit our ability to complete installation of such Systems in a timely manner and would affect the amount of future revenues.

An increase in the use of alternative film 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 the Company's distributors face competition for patrons from a number of alternative motion picture distribution channels, such as DVD, network and syndicated television, video on-demand, 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 film 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 film 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.

The acquisition restrictions contained in our certificate of incorporation and our Tax Benefit Preservation Plan, which are intended to help preserve our net operating losses, may not be effective or may have unintended negative effects.

We have experienced, and may continue to experience, substantial operating losses, and under Section 382 of the Internal Revenue Code of 1986, as amended ("Section 382"), and rules promulgated by the Internal Revenue Service, we may "carry forward" these net operating losses (“NOLs”) in certain circumstances to offset any current and future earnings and thus reduce our federal income tax liability, subject to certain requirements and restrictions. To the extent that the NOLs do not otherwise become limited, we believe that we will be able to carry forward a significant amount of the NOLs, and therefore these NOLs could be a substantial asset to us. If, however, we experience a Section 382 ownership change, our ability to use the NOLs will be substantially limited, and the timing of the usage of the NOLs could be substantially delayed, which could therefore significantly impair the value of that asset.

To reduce the likelihood of an ownership change, we have established acquisition restrictions in our certificate of incorporation and our board of directors (the "Board") adopted a tax benefit preservation plan (the "Tax Benefit Preservation Plan"). The Tax Benefit Preservation Plan is designed to protect shareholder value by attempting to protect against a limitation on our ability to use our existing NOLs. The acquisition restrictions in our certificate of incorporation are also intended to restrict certain acquisitions of our common stock to help preserve our ability to utilize our NOLs by avoiding the limitations imposed by Section 382 and the related Treasury regulations. The acquisition restrictions and the Tax Benefit Preservation Plan are generally designed to restrict or deter direct and indirect acquisitions of our common stock if such acquisition would result in a shareholder becoming a “5-percent shareholder” (as defined by Section 382 and the related Treasury regulations) or increase the percentage ownership of Cinedigm stock that is treated as owned by an existing 5-percent shareholder.

Although the acquisition restrictions and the Tax Benefit Preservation Plan are intended to reduce the likelihood of an ownership change that could adversely affect us, we can give no assurance that such restrictions would prevent all transfers that could result in such an ownership change. In particular, we have been advised by our counsel that, absent a court determination, there can be no assurance that the acquisition restrictions will be enforceable against all of our shareholders, and that they may be subject to challenge on equitable grounds. In particular, it is possible that the acquisition restrictions may not be enforceable against the shareholders who voted against or abstained from voting on the restrictions at our 2009 annual meeting of stockholders.

Under certain circumstances, our Board may determine it is in the best interest of the Company to exempt certain 5-percent shareholders from the operation of the acquisition restrictions or the Tax Benefit Preservation Plan, if a proposed transaction is determined not to be detrimental to the Company’s utilization of its NOLs.

The acquisition restrictions and Tax Benefit Preservation Plan also require any person attempting to become a holder of 5% or more of our common stock, as determined under Section 382, to seek the approval of our Board. This may have an unintended “anti-takeover” effect because our Board may be able to prevent any future takeover. Similarly, any limits on the amount of stock that a stockholder may own could have the effect of making it more difficult for stockholders to replace current management. Additionally, because the acquisition restrictions and the Tax Benefit Preservation Plan have the effect of restricting a stockholder's ability to dispose of or acquire our common stock, the liquidity and market value of our Class A Common Stock might suffer. The Tax Benefit Preservation Plan will remain in effect until the earlier of (a) August 10, 2012, or (b) such other date as our Board in good faith determines it is no longer in the best interests of Cinedigm and its stockholders. The acquisition restrictions may be waived by our Board. Stockholders are advised to monitor carefully their ownership of our common stock and consult their own legal advisors and/or Cinedigm to determine whether their ownership of our common stock approaches the proscribed level.

The occurrence of various events may adversely affect the ability of the Company to fully utilize NOLs.

The Company has a substantial amount of NOLs for U.S. federal income tax purposes that are available both currently and in the future to offset taxable income and gains. Events outside of our control may cause us to experience a Section 382 ownership change, and limit our ability to fully utilize such NOLs.

In general, an ownership change occurs when, as of any testing date, the percentage of stock of a corporation owned by one or more “5-percent shareholders,” as defined in the Section 382 and the related Treasury regulations, has increased by more than 50 percentage points over the lowest percentage of stock of the corporation owned by such shareholders at any time during the three-year period preceding such date. In general, persons who own 5% or more of a corporation’s stock are 5-percent shareholders, and all other persons who own less than 5% of a corporation’s stock are treated, together, as a single, public group 5-percent shareholder, regardless of whether they own an aggregate of 5% or more of a corporation’s stock. If a corporation experiences an ownership change, it is generally subject to an annual limitation, which limits its ability to use its NOLs to an amount equal to the equity value of the corporation multiplied by the federal long-term tax-exempt rate.

If we were to experience an ownership change, we could potentially have, in the future, higher U.S. federal income tax liabilities than we would otherwise have had and it may also result in certain other adverse consequences to us. Therefore, we have adopted the Tax Benefit Preservation Plan and the acquisition restrictions set forth in Article Fourth of our certificate of incorporation in order to reduce the likelihood that we will experience an ownership change under Section 382. There can be no assurance, however, that these efforts will deter or prevent the occurrence of an ownership change and the adverse consequences that may arise therefrom, as described above under the risk factor titled “The acquisition restrictions contained in our certificate of incorporation and our Tax Benefit Preservation Plan, which are intended to help preserve our net operating losses, may not be effective or may have unintended negative effects.”

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 a downturn in the market for our Systems or technology. The recent financial disruption affecting the banking system and financial markets and the concern as to whether investment banks and other financial institutions will continue operations in the foreseeable future have resulted in a tightening in the credit markets, a low level of liquidity in many financial markets and extreme volatility in fixed income, credit and equity markets. The credit crisis may result in our inability to refinance our outstanding debt obligations or to finance our Phase II Deployment. The recent credit crisis may also result in the inability of our studios, exhibitors or other customers to obtain credit to finance operations; a slowdown in global economies which could result in lower consumer demand for films; counterparty failures negatively impacting our Interest Rate Swap; or increased impairments of our assets. The current volatility in the financial markets and overall economic uncertainty increase the risk of substantial quarterly and annual fluctuations in our earnings. Any of these factors could have a material adverse affect on our business, results of operations and could result in significant additional dilution to shareholders.

Economic conditions could materially adversely affect the Company.

The Company’s 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 the Company's 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 the Company's products and services and on the Company's financial condition and operating results. Uncertainty about current global economic conditions could also continue to increase the volatility of the Company's stock price.

The continued threat of terrorism and ongoing military and other actions may result in decreases in our net income, revenue and assets under management and may adversely affect our business.

The continued threat of terrorism, both within the United States of America and abroad, and the ongoing military and other actions and heightened security measures in response to these types of threats, may cause significant volatility and declines in the capital markets in the United States of America, Europe and elsewhere, loss of life, property damage, additional disruptions to commerce and reduced economic activity. An actual terrorist attack could cause losses from a decrease in our business.

The war on terrorism, the threat of additional terrorist attacks, the political and the economic uncertainties that may result and other unforeseen events may impose additional risks upon and adversely affect the cinema industry and our business. We cannot offer assurances that the threats of future terrorist-like events in the United States of America and abroad or military actions by the United States of America will not have a material adverse effect on our business, financial condition or results of operations.

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.

ITEM 2. PROPERTY

Our segments operated from the following leased properties at March 31, 2010.

Deployment

Operations of:	Location:	Facility Type:	Expires:	Square Feet:
Phase 1 DC (3)				
Phase 2 DC (3)				

Services

Operations of:	Location:	Facility Type:	Expires:	Square Feet:
DMS	Chatsworth, California	Administrative offices, technical operations	March 2012 (2)	13,455

		center, and warehouse (1)		
Software	Auburn Hills, Michigan	Administrative offices	October 2010 (4)	1,203
	Hollywood, California	Administrative and technical offices	December 2010 (5)	9,412

Content & Entertainment

Operations of:	Location:	Facility Type:	Expires:	Square Feet:
USM	Waite Park, Minnesota	Administrative and Sales staff offices	October 2013 (12)	11,544
CEG	Sherman Oaks, California	Administrative offices	January 2012 (9)	3,015

Other

Operations of:	Location:	Facility Type:	Expires:	Square Feet:
Managed Services (6)	Manhattan Borough of New York City	Technical operations offices	June 2013 (8)	3,000
Data Centers (13)	Manhattan Borough of New York City	IDC facility	July 2010 (10)	11,450
	Brooklyn Borough of New York City	IDC facility	January 2016 (8)	30,520
Access Digital Server Assets (14)				

Corporate

Operations of:	Location:	Facility Type:	Expires:	Square Feet:
Cinedigm	Morristown, New Jersey	Executive offices	May 2012 (11)	5,237

Assets held for sale and discontinued operations

Operations of:	Location:	Facility Type:	Expires:	Square Feet:
Pavilion Theatre	Brooklyn Borough of New York City	Nine-screen digital movie theatre	July 2022 (7)	31,120

(1) Location contains a data center which we use as a dedicated digital content delivery site.

(2) Lease has an option to renew for an additional five years with six months prior written notice at the then prevailing market rental rate.

(3) Employees share office space with Software in Hollywood, California.

(4) Lease has an option to renew for up to an additional five years with 180 days prior written notice at 95% of the then prevailing market rental rate.

(5) Lease has an option to renew for one additional three-year term with nine months prior written notice at the then prevailing market rental rate.

(6) Operations of Managed Services are based in the IDCs now operated by FiberMedia. Effective July 1, 2008, a portion of the operations of Managed Services operate at the new location in New York indicated above.

(7) Lease has options to renew for two additional ten-year terms and contains a provision for the payment of additional rent if box office revenues exceed certain levels. To date, no additional rent has been paid.

(8) There is no lease renewal provision.

(9) In addition to this office, employees of CEG currently share office space with BP/KTF, LLC in Woodland Hills, California, which charges CEG for a pro-rated share of office space used. This office is currently being sub-leased to an unrelated third party through the remaining period of this lease.

(10) Although the lease has options to renew for two additional five-year terms with twelve months prior written notice at the then prevailing market rental rate, the Company does not intend to renew.

(11) Lease was renewed in February 2009 with a commencement date in June 2009. Lease has an option to renew for one additional five-year term with nine months prior written notice at the then prevailing market rental rate.
(12) USM's previous administrative office lease expired during the fiscal year ended March 31, 2009. As a result, USM combined their administrative and sales staff offices. Lease has an option to renew for up to an additional five years with 90 days prior written notice at the then prevailing market rental rate.
(13) Since May 1, 2007, the IDC facility has been operated by FiberMedia pursuant to a master collocation agreement. The Company and FiberMedia are attempting to have the IDC facility leases assigned to FiberMedia by the landlords, and FiberMedia is attempting to extend the term of the lease for the Jersey City IDC Facility. In June 2009, one of the IDC leases expired, leaving two IDC leases with the Company as lessee. One of the remaining IDC leases expires in July 2010, which the Company does not intend to renew.
(14) Operations of the Access Digital Server Assets are based in the IDC located in the Brooklyn Borough of New York City, now operated by FiberMedia.

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.

PART II

ITEM 5. MARKET FOR 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 years ended March 31,			
	2009		2010	
	HIGH	LOW	HIGH	LOW
April 1 – June 30	$ 4.15	$ 1.89	$ 1.72	$ 0.63
July 1 – September 30	$ 2.68	$ 1.02	$ 1.61	$ 0.81
October 1 – December 31	$ 1.50	$ 0.25	$ 1.52	$ 1.02
January 1 – March 31	$ 0.94	$ 0.31	$ 1.89	$ 1.15

The last reported closing price per share of our Class A Common Stock as reported by NASDAQ on March 31, 2010 was $1.65 per share. As of March 31, 2010, there were approximately 140 holders of record of our Class A Common Stock, not including beneficial owners of our Class A Common Stock whose shares are held in the names of various dealers, clearing agencies, banks, brokers and other fiduciaries.

CLASS B COMMON STOCK

There is no public trading market for our Class B common stock ("Class B Common Stock"). Each outstanding share of Class B Common Stock may be converted into one share of Class A Common Stock at any time, and from time to time, at the option of the holder and the holder of Class B Common Stock is entitled to ten (10) votes for each share of Class B Common Stock held. As of March 31, 2010, there were five holders of our Class B Common Stock.

DIVIDEND POLICY

We have never paid any cash dividends on our Class A Common Stock or Class B Common Stock (together, the "Common Stock") and do not anticipate paying any on our Common Stock in the foreseeable future. Any future payment of dividends on our Common Stock will be in the sole discretion of our board of directors (the "Board"). Previously, the Company and its subsidiaries, other than Phase 1 DC and its subsidiaries, were prohibited from paying dividends under the terms of the 10% Senior Notes (the "2007 Senior Notes"). The holders of our Series A 10% Non-Voting Cumulative Preferred Stock are entitled to receive dividends; however, such dividends will accrue and will not be paid until the Company is permitted under the terms of the 2010 Note to make such payments.

SALES OF UNREGISTERED SECURITIES

None.

PURCHASE OF EQUITY SECURITIES

There were no purchases of shares of our Class A Common Stock made by us or on our behalf during the three months ended March 31, 2010. Although we were previously, but are no longer, precluded from purchasing shares of our Class A Common Stock under the terms of the 2007 Senior Notes, we do not anticipate purchasing any shares of our Class A Common Stock in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth our historical selected financial and operating data for the periods indicated. The selected financial and operating data should be read together with the other information contained in this document, including "Management's Discussion and Analysis of Financial Condition and Results of Operations," in Item 7 and the audited historical financial statements and the notes thereto included elsewhere in this document. The historical results here are not necessarily indicative of future results.

Statement of Operations Data related to Continuing Operations:	For the fiscal years ended March 31, (In thousands, except per share data)				
	2006	2007	2008	2009	2010
Revenues	$11,851	$42,216	$75,464	$77,466	$72,205
Direct operating (exclusive of depreciation and amortization shown below)	7,788	18,223	22,154	21,423	19,217
Gross margin	4,063	23,993	53,310	56,043	52,988
Selling, general and administrative	8,598	18,402	22,995	17,818	15,426
Provision for doubtful accounts	186	848	1,396	587	535
Research and development.	300	330	162	188	218
Stock-based compensation	-	2,920	453	943	1,479
Loss on disposition of assets	-	2,561	-	-	-
Impairment of intangible asset	-	-	1,588	-	-
Impairment of goodwill	-	-	-	4,565	-
Depreciation and amortization of property and equipment	3,230	14,225	28,744	32,016	32,540
Amortization of intangible assets	1,303	2,768	4,289	3,434	2,977
Loss from operations	(9,554)	(18,061)	(6,317)	(3,508)	(187)
Interest income	303	1,420	1,406	371	313
Interest expense – cash portion	(1,246)	(6,207)	(21,231)	(21,736)	(30,743)
Interest expense – non-cash	(1,407)	(1,903)	(7,043)	(4,745)	(2,934)
Debt conversion expense	(6,269)	-	-	-	-
Debt refinancing expense	-	-	(1,122)	-	-
Extinguishment of debt	-	-	-	-	10,744
Other (expense) income, net	1,603	(446)	(677)	(753)	(734)
Change in fair value of interest rate swap	-	-	-	(4,529)	2,994
Change in fair value of warrant liability	-	-	-	-	(8,463)
Net loss from continuing operations	$(16,570)	$(25,197)	$(34,984)	$(34,900)	$(29,010)
Loss from discontinued operations	(553)	(802)	(703)	(2,468)	(498)
Net loss	$(17,123)	$(25,999)	$(35,687)	$(37,368)	$(29, 508)
Preferred stock dividends	-	-	-	(50)	(400)
Net loss attributable to common shareholders	$(17,123)	$(25,999)	$(35,687)	$(37,418)	$(29,908)
Basic and diluted net loss per share from continuing operations	$(1.18)	$(1.06)	$(1.37)	$(1.27)	$(1.03)
Shares used in computing basic and diluted net loss per share (1)	14,086	23,730	25,577	27,476	28,624

29

(1) For all periods presented, the Company has incurred net losses and, therefore, the impact of dilutive potential common stock equivalents and convertible notes are anti-dilutive and are not included in the weighted shares.

	For the fiscal years ended March 31, (In thousands, except per share data)				
Balance Sheet Data (At Period End):	2006	2007	2008	2009	2010
Cash and cash equivalents, investment securities and restricted cash	$36,821	$29,556	$29,910	$26,584	$24,193
Working capital	$48,851	$13,130	$14,038	$(5,399)	$(1,430)
Total assets	$122,342	$301,727	$373,676	$322,397	$297,147
Notes payable, net of current portion	$1,948	$164,196	$250,689	$225,957	$216,462
Total stockholders' equity	$97,774	$90,805	$68,007	$38,787	$11,292
Other Financial Data (At Period End):					
Net cash (used in) provided by operating activities					