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INITIATION REPORT

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Cinedigm Corp. (NASDAQ/CIDM)

BUY $0.855 Price Target: $2.67

October 22, 2018

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Cinedigm is a streaming media company with channels focusing on numerous niche genres. It is majority owned by Chinese media company Bison, giving entre into this key market.

Move Over Netflix – Make Room for Cinedigm

- We initiate coverage of Cinedigm with a Buy rating and $2.67 price target.
- For such a relatively small company, Cinedigm has a relatively complex, diverse revenue stream with a high-growth potential over the top (OTT) video streaming and other content business, currently being funded by a declining cinema equipment business.
- The content business is itself divided into two parts with the video streaming business operating six OTT video channels with one more about to launch and two more set for next year. Cinedigm targets audience niches valued by advertisers such as religious households and millennials and has developed a low-cost, high return model to launch several new OTT channels annually with partners.
- Content also contains a distribution business with around 30,000 movie and TV titles which ranges from licensing to digital platforms such as Netflix, Amazon Prime and iTunes to selling physical DVDs to brick and mortar retailers like Best Buy and Walmart.
- Cinedigm is also a small movie producer leveraging its distribution strength to secure key production slots. Its last movie generated a 144% IRR and it targets a minimum of 25%.
- The cinema equipment business was started over a decade ago to finance the sizable investments cinemas needed to convert from film to digital projectors. These arrangements are winding down, but Cinedigm can likely sell the projectors to the cinemas for an amount we estimate at around $37 million.
- Cinedigm is also a China play with 60% ownership by Bison Media of Hong Kong. Bison has opened doors into the largely government-controlled Chinese media sector with eight key partnerships announced. This should help Cinedigm to distribute content in China, surmounting the 64-movie limit on U.S. movies, and distribute Chinese content into the US to serve this large, affluent and growing segment of the market.
- We value the content business at 3.0x FY2022 revenue, plus another $37 mm for the sale of the equipment businesses projectors. Comps trade at almost double that or 5.5x sales so our valuation multiple provides for significant conservatism given the early stage of the OTT business.

Please find Important Disclosures beginning on Page 17.

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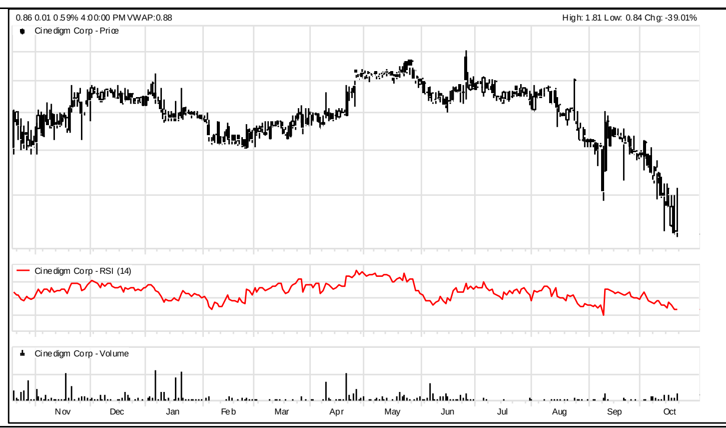
Rating	BUY					
Target Price	$2.67	**Earnings Per Share**	**Normalized to exclude unusual items**			
Ticker Symbol	CIDM	**FYE - March**	**2018**	**2019E**	**2020E**	**2021E**
Market	NASDAQ	1Q - June	($0.48)	($0.09)	($0.09)	($0.07)
Stock Price	$0.855	2Q - September	($0.60)	($0.13)	($0.10)	($0.06)
52 wk High	$1.81	3Q - December	($0.20)	($0.14)	($0.11)	($0.05)
52 wk Low	$0.86	4Q - March	($0.00)	($0.14)	($0.11)	($0.05)
		Year	**($0.81)**	**($0.50)**	**($0.40)**	**($0.23)**
Shares Outstanding:	35.1 M					
Public Market Float:	13.7 M	**Revenue ($mm)**	**$67.7**	**$45.9**	**$33.0**	**$32.8**
Avg. Daily Volume	24,270	EV/Rev	1.2X	1.7X	2.4X	2.4X
Market Capitalization:	$33 M					
Institutional Holdings:	8.5%	**EBITDA ($mm)**	**$23.0**	**($5.5)**	**($1.7)**	**$2.3**
Dividend Yield:	0.0%	EV/EBITDA	NM	NM	NM	34.3X

Senior Executives		**Common Ownership Profile** — **Shareholder**	**Shares ('000)**	**% of Total**
Christtopher J. McGurk	Chairman and CEO	Bison Holdings	21,066.7	60.1%
Jeffrey S. Edell	Chief Financial Officer	Renaissance Technologies LLC	859.4	2.5%
Gary S. Loffredo	President - Digital Cinema	Zazove Associates LLC	851.2	2.4%
William S. Sondheim	President - Cinedigm Ent.	Thrivent Investment Management, Inc.	351.1	1.0%
Erick Opeka	President - Digital Networks	The Vanguard Group, Inc.	253.4	0.7%
		Sabra Capital Partners, LLC	152.4	0.4%
		Directors and Officers	2,519	7.2%

Capitalization

Market Value Basis ('000)	**10/17/2018**	**%**
Long-Term Debt	$63,971	80.5%
Market Value of Equity	33,316	41.9%
Less: cash	-17,820	-22.4%
Enterprise Value	$79,467	100.0%

Book Value Basis ('000)	**06/30/2018**	**%**
Long-Term Debt	$63,971	59.2%
Other Liabilities	68,315	63.2%
Book Value of Equity	-24,226	-22.4%
Total Capital	$108,060	100.0%

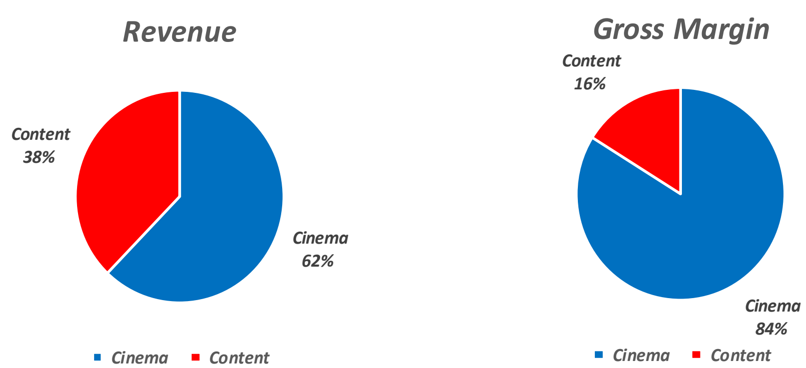


Source: Company reports, FactSet Data Systems and Dawson James estimates.

Move Over Netflix – Make Room for Cinedigm

We initiate coverage of Cinedigm with a Buy rating and a $2.67 price target. The company has a multi-faceted media business. In the U.S., it operates or is starting eight over the top (OTT) video channels either on its own or with partners. Unlike Netflix, with its broad appeal, each of Cinedigm's OTT channels targets an under-served niche. It is also a traditional media distributor, selling either physical or digital movies or TV shows to customers ranging from Walmart to Amazon. It is also a small movie co-producer itself, investing in lower risk films with one or two well-known stars. The company was founded in 2000 as an early data center operator then moved into leasing digital projectors to cinemas, and while this business is still lucrative, generating 180% of consolidated EBITDA, it is rapidly declining as leases expire. We do estimate that the projectors will have a liquidation value of about $37 mm, or 27% of the gross valuation of the company, however.

Cinema Equipment Business is Larger and More Profitable, But Nearing an End, with Content Business Ready to Bloom



Source: Company reports and Dawson James estimates

Cinedigm is a Play on Cross Border U.S.-China Media Demand

Cinedigm is also a unique cross border play on the Chinese media industry, distributing Chinese content into the U.S. and vice versa. Cinedigm is 60% owned by Hong Kong media company Bison Media, which is itself very well connected at the highest levels of the Chinese government. Despite the deteriorating relationship between the two countries and heightened regulatory scrutiny for Chinese investments in the U.S, this transaction was approved early this year by both governments.

Our valuation imparts a 3.0x revenue multiple on the content business and values the equipment business at our expected $37 mm liquidation value of the projectors. Comps trade at 5.5x, so we are conservative. Our conservatism is due the fact that consolidated revenue is likely to continue to decline through FY 2021 (FY ends March) and the market is unlikely to accord a full valuation to a company with declining revenue. This is especially true of the numerous quant models now dominating the market, that are unlikely to unpack Cinedigm's revenue to see the growth potential of the content business.

Management has in the past discussed legal and/or accounting steps it could take to remove the equipment business from its consolidated results. This could take the form of recording it as an asset held for sale or some other structure. While such a step would result in a company with solid, pro forma top line growth, it would also result in a company with a smaller revenue base and presently, negative EBITDA. So it might create more problems than it solves.

A key risk for the company is that the deterioration in China-U.S. relations will negatively impact the company. We do not expect this to occur as the company is set up to look like a Chinese company to the Chinese government with majority Chinese control and numerous corporate and government relationships in China. In the U.S., Cinedigm is likely too small to matter to the Trump administration and the fact that it both exports U.S. content, as well as imports Chinese content, may protect it. Nonetheless, if disaster does strike, precluding cross border business, we note that Cinedigm derives almost no Chinese revenue presently – the risk is more to future growth potential.

From Data Centers, to Digital Projectors to Content Production

Cinedigm was founded in the year 2000 as a data center operator, then called Access Integrated Technologies, and by 2003 it operated nine data centers in eight states. To paraphrase Ted Turner, Cinedigm was into data centers when data centers weren't cool. Long before data centers became as popular with investors as they are now, the company exited this business and renamed itself Cinedigm in 2009. At that time, the company started a new business becoming one of four companies to finance the replacement of traditional projectors in movie theaters which used film, with digital projectors that receive movies via internet connections.

Its content business is a more recent creation built via acquiring content license and acquiring and integrating three smaller distributors:

- April 2012 – New Video Group for $20 mm.
- October 2013 – Gaiam Vivendi Entertainment for $51.5 mm.
- Gaiam had acquired Vivendi Entertainment in March 2012.

Bison Media Brings a Strong Chinese Connection to Cinedigm

On June 29, 2017, Cinedigm agreed to sell 20 mm shares to Bison Entertainment for $30 mm ($1.50 per share) plus warrants to purchase an additional 1.4 mm shares at $1.80 per share. Bison also agreed to lend the company $10 mm. Bison Entertainment is a subsidiary of Bison Capital of Hong Kong and is controlled by Chinese entrepreneur Peixin Xu. Bison is a major investment fund in China and is headquartered in the prestigious Sino Plaza office and shopping mall complex on the Hong Kong harbor waterfront.

Bison opens a world of opportunities for Cinedigm to become the leading cross-cultural media platform. It plans to both distribute U.S. content into China and to distribute Chinese content into the US, with a planned Chinese content OTT entertainment platform coming soon.

While the current rapidly fraying Sino-U.S. relations are certainly a risk factor, we view Cinedigm as being able to rise above them and perhaps serve as a key cultural exchange outlet. Several developments give us optimism. First, the money from Bison has come in the amounts and on the schedule agreed to. This is very often not the case with Chinese investments, especially in the media industry. Second, even as trade tensions built, the transaction sailed through the CFIUS process in Washington. CFIUS stands for the council on foreign investment in the U.S. and its members include nine cabinet members and representatives from five other government councils. The cabinet members include the big three: defense, treasury and state. During the Obama administration, the council was mainly a rubber stamp with few denials. During the Trump administration, the council has been strengthened through new legislation, and deals are getting in-depth scrutiny. Yet the Bison-Cinedigm transaction sailed through with no restrictions.

We think the fact the relationship involves two mid-sized media companies gives some comfort to both governments. We would not imagine, for example, that CFIUS would allow Tencent to acquire Disney, or vice versa. But this transaction was much lower profile and presented much less risk to either country.

Another clue to the clout Bison brings in China is Cinedigm's announced relationship with China Intercontinental Communication Center or CICC. Cinedigm describes them as the National Geographic of China. They are part of the all-controlling media regulator in China, the State Council Information Office or SCIO. SCIO regulates all media content in China and is responsible for censoring internet content including messaging platforms such as WeChat.

On the Chinese side the process is more opaque, but management tells us that Bison has solid support among with the Chinese government. Its founder, Peixin Xu was a lecturer for five years at the People's Liberation Army National University of Defense Science and Technology, their version of West Point, where he lectured on artificial intelligence. The university is ranked number four in China. If he was trusted so much that he was allowed to teach the PLA's officer candidates in one of the technologies identified by the government as critical to China's future, we conclude that he is very well respected and connected. So we base our optimism on events and Mr. Xu's CV.

With Bison, Cinedigm has entered into several partnerships with Chinese media companies and one very highly placed government media outlet. In January 2018, it announced a partnership with Starrise Media whereby each partner will release movies from the other's country into their home country. While selected films will be released theatrically, it is contemplated that most will be released digitally. The partners also expect to collaborate on producing new movies. As noted, Cinedigm has co-produced a small number of movies in the U.S., so it brings Hollywood experience to China. While China has started to make strides in producing internationally popular movies, notably last year's Wolf Warrior 2, for the most part its movies lack international appeal. The agreement also lets Cinedigm avoid the 64-movie limit on the number of American movies allowed to be shown in Chinese theaters annually. This is a major win since the Chinese box office surpassed the U.S. box office for the first time in 1Q 2018. As explained to us by Cinedigm "We are able to operate outside those quotas when our Chinese sister division flows money into a film in pre-production and becomes a producer. In those instances, we are able to structure the deal as a buy out or as MG (minimum guarantee) with backend participation depending on film value."

In April 2018, the company signed agreements with six new Chinese partners, although it offered few details. It is not uncommon in Hollywood for Chinese entities to announce partnership deals that never come to fruition, and that may be the case here with some of the announced partnerships. However, the sheer number of partnerships announced should allow at least one or two to yield tangible results. While some of the parties announced in April are reasonably well known, others are not, even utilizing the Google.

- **China International Communication Center** is referred to as the National Geographic of China by Cinedigm, although from its website, it looks like more of a broader documentary producer. CICC is part of SCIO which is the main media arm of the Chinese government, so it looks to be a very credible partner.

Cinedigm Has Multiple Chinese Partners

Chinese Strategic Partners

Bison Finance Group Ltd. http://www.bison.com.hk/
Hong Kong Stock Exchange - listed media and finance company
Owns 60% of Cinedigm

Starrise Media Holdings Limited www.starrise.cn
Hong Kong Stock Exchange - listed media company
Partnership to release movies in each other's countries and produce films.

Six Chinese Partnerships Announced April 20, 2018

China Intercontinental Communication Center
"National Geographic of China" http://www.cicc.tv/
Subsidiary of the State Council of China Information Office (SCIO)

Youku Pictures Inc. www.youku.com
Alibaba subsidiary
Partnership to co-produce movies

V1 Group Limited www.vodone.com
Hong Kong Stock Exchange - listed media company
Partnership to co-produce movies

Ling He Culture Media (Shanghai) Co., Ltd.
http://www.ncmedia.com.cn/
Produces Chinese films, TV shows and commercials.

Youth Studio http://eng.bfa.edu.cn/
A subsidiary of the Beijing Film Academy -
which is a government run film and television production university.

Emei Studio Group Co. Ltd.
One of the seven major government studio groups.

Source: Company reports

- **Youku Pictures** is a subsidiary of Chinese media conglomerate Alibaba and has produced 39 theatrical films with a total box office of $3.1 bn, including the aforementioned Wolf Warrior 2.
- **V1 Group** is a Hong Kong stock exchange listed media company which produces internet news and provides lottery services. It just reported revenue of roughly US$200,000 for the first six months of this year.
- **Ling He Culture Media** is a television and movie production company out of Shanghai.
- **Youth Studio** is part of the Beijing Film Academy which is the government media production university. So again, this partner appears well connected. We would expect that Cinedigm would have a lot to offer the students there and can envision some low cost projects.

- **Emei Studio Group** is one of the seven major government movie studios in China.

A Tale of Two Business Units

As noted, Cinedigm operates two business units. One, its Cinema Equipment business is tremendous source of free cash flow, but it is declining rapidly and will likely cease to generate revenue beyond FY2020. The other is its growth business, Content and Entertainment. In the first quarter of this year it generated 9% revenue growth. The declining cinema equipment business generates 62% of revenue and 84% of the gross margin. So, with the declining business still so much larger than the growth business, consolidated revenue is also declining and is likely to continue to do so until FY2022 when the comps are against FY2021 which should have negligible equipment revenue. Since the company is posting declining revenue, its trading multiple is negatively impacted as investors look at it as if the entire company is in decline, even though its content business has very good growth prospects. Management has discussed making some type of window dressing change which might, for example, classify the declining business as an asset held for sale or a discontinued operation. Doing so would give the company a positive top line comp and would likely artificially boost the trading multiple and share price.

Content and Entertainment is the Growth Driver

The content business is itself composed of two discrete businesses. Its base business holds title to roughly 30,000 movie and television titles (each individual episode of a television program is a separate title). It licenses programming from all major studios, Hallmark, Discovery, Scholastic, the NFL and NHL. It generated $3.8 mm in revenue in the June quarter, which was 63% of the content business and 29% of total revenue. Cinedigm's library includes a wide range of TV shows and movies, as well as sports content from major U.S. sports leagues. Its library is constantly changing as old licenses expire and the company licenses new content to replace it. It distributes this content out to pretty much every type of content consumption channel imaginable. This can include traditional linear cable channels or television stations, as well as streaming video platforms like Netflix, Hulu, Amazon Prime, Google's YouTube, Apple's iTunes, Fandango and the iN Demand cable TV video on demand service. It also includes physical media, particularly DVDs, for distribution in traditional retailers ranging from Walmart, Target, Best Buy, Amazon, Costco, Redbox vending machines and Ingram Micro's distribution channel serving retailers ranging from drugstore chains to small independent retailers. Overall, Cinedigm serves 60,000 physical stores and digital retailers. Surprisingly, there is still a segment of the population that consumes its entertainment content by buying DVDs. Two examples would be children's programming on DVDs and the Super Bowl recap DVDs on sale right after the Super Bowl. Since kids like watching the same program repeatedly, buying a handful of DVDs is an effective way to keep them entertained. After each Super Bowl, rabid fans snap up commemorative DVDs so, for example, Philadelphia Eagles fans can relive the glory of Super Bowl LII again and again. This business unit generates revenue from three main sources:

1. Distribution fees
2. Manufacturing fees
3. Supply chain fees

But the real growth potential is in the OTT streaming business with six operational OTT channels, one more due to kick off this quarter and another two in the pipeline for 2019. Each targets a unique niche that is underserved and they are distributed through multiple platforms including Roku, internet-enabled televisions, Google's Youtube, Amazon's Twitch and Comcast's The Platform. With $2.2 mm in revenue in the June quarter, OTT streaming was responsible for 37% of content revenue and 17% of total revenue. We note that all of the channels are relatively new, with one launched in 2014, two in 2017, two more this year and two about to launch. So they are likely early in their revenue ramps, implying strong growth potential.

- The oldest is **Docurama** which, as the name implies, shows documentaries non-stop 24 hours a day seven days a week. There is a huge audience of documentary fans and a sizable stable of documentaries. This channel was launched in May 2014.
- In March 2015 the company partnered with Wizard World Comic Con to launch **ConTV**. The name ComicCon has not been trademarked and thus is available for general use. Wizard World is one of two major producers of Comic Con conferences around the country. The channel features content from each conference and related TV show and movie content. The Comic Con community is incredibly dedicated and loyal to the craft creating a potentially very loyal viewer base.
- **The Dove Channel**, launched in September 2015, is perhaps the most popular channel with the largest potential audience at around 35 mm religious U.S. households. This channel shows wholesome, family-oriented TV shows and movies from an extensive licensed library of shows such as *Highway to Heaven*. It will not show programming with profanity, sex, drugs, nudity, violence or alcohol. As such it appeals to the large group of middle-American households with strong religious values. Dove Channel does not affiliate itself with any particular religion, and is instead acceptable to Christians, Jews, Muslims and most other religious adherents. It does advertise in religious media. In our meetings with management, they noted that they see this demographic as a sizable, largely untapped market for future growth.
- In May 2017, Dove separated its children's programming into the **Dove Kids** channel featuring 1,440 hours of wholesome children's programming including Disney classics, *The Little Rascals* (original series) and *Babar*.

Cinedigm has also brought in partners to launch channels when it thought they could bring significant value to the table. It is evolving to this model since it presents lower risk and higher potential returns and the experts it partners with can greatly improve the product and market reach. It launched two channels recently in April.

- **CombatGo** is a mixed martial arts channel catering to this dedicated and rapidly growing audience base. It features more types of martial arts than we knew existed including mixed martial arts (MMA), Brazilian Jiu-Jitsu (BJJ), Muay Thai, kick boxing, Philipino stick fighting and more traditional martial arts such as karate. It holds the rights to broadcast major martial arts tournaments around the world. One of the nice things about this channel is that fans of any language can view it. Cinedigm's partner is JungoTV, started by Dr. Oz, which itself provides content to 100 million foreign language speakers around the world in markets containing 2.5 bn people.

- Also in April 2018, Cinedigm launched **WhamNetwork** with focuses on the wildly popular video gaming and esports market. Its partner is The Wham Network Inc. This channel broadcasts gaming tournaments, gaming news and its own original content. We were a bit surprised that gamers will actually put down their game devices to watch other people play video games, but esports is very popular and rapidly growing. As Cinedigm's recently promoted president of Digital Networks Erick Opeka noted in the press release announcing WhamNetwork, esports and gaming is growing into a multi-billion industry, so like the other "niches" Cinedigm serves, this one is quite large. And since this is a revenue sharing arrangement, Cinedigm has no financial risk and only potential revenue upside.

- Launching later this year is a channel called **HallyPop** which again partners with JungoTV and also brings in Korean powerhouse SBS, which is one of four major broadcasters in that country. The channel is named for the word hallyu which means Korean wave. It will feature the incredibly popular K-Pop music as well as other popular Asian music genres. In the U.S. Asians are the fastest growing and wealthiest minority demographic segments and this channel will target younger viewers.

- In early 2019 a new channel called **The Gatherer Network,** which is a channel targeted at middle-aged women, is scheduled to launch. Its partner in this channel is Gatherer Entertainment which is run by Broadway show and movie producer Jenna Segal. Segal previously worked at Viacom's MTV, VH1, Nickelodeon and Nicktoons channels and before that at CNN and CNBC. Its CMO is Heldi Eskenazi who ran her own consulting firm and also had a long career at Viacom. These two leaders are members of the target demo and note that its members control significant purchasing power.

- Lastly, for now, is **Bambu**, a Chinese content OTT to launch in America in 2019, with content from Cinedigm's stable of Chinese media partners. Like the highly successful Japanese content OTT channel CrunchyRoll, this channel is designed to introduce new content to American youth.

Management expects that it can launch about four OTT channels annually and now favors the partnership model where it enjoys low risk and high potential returns. The number of potential sizable niches, like the ones discussed above, are numerous. We also note that Cinedigm is targeting audience segments that are highly favored by advertisers. For example, ConTV, CombatGo, Wham and HallyPop all target the highly elusive but valuable millennial and Gen Z viewers. They are elusive since they don't generally watch traditional linear TV and valuable since they are forming lifelong purchasing habits for consumer products and are nearing the stage where they will make big ticket purchases such as cars, homes, furnishing and everything that comes with starting a family and raising children.

Wholly-Owned Channels

Docurama	www.docurama.com Documentary channel Launched in May 2014
CONtv	www.contv.com ComicCon content Partner: Wizard World Comic Con Launched March 2015
Dove Channel	www.dovechannel.com Netflix without sex, drugs, alcohol, nudity or violence Partner: The Dove Foundation Launched September 2015
Dove Kids	Streams kid's films and TV shows from the Dove Channel. Launched May 2017

Partner Channels

CombatGo	www.twitch.tv/COMBATGO A mixed martial arts combat channel. Partner: Jungo TV Launched April 2018
WHAMNetwork	www.whamnetwork.com A channel that focuses on gaming and e-Sports. Launched April 2018
HallyPop	A channel that focuses on K-pop and other Asian music. Partners: Jungo TV and SBS Korean broadcaster Launches 4Q 18
Bambu	Chinese content targetted at U.S. audiences Launches 1Q 19
The Gatherer Network	https://www.gatherertv.com/ Targetted at 35-54 year old females Launches 2Q 19

Source: Company reports

On the February 2018 earnings call, CFO Jeffrey Edell described the four revenue streams from the company's OTT business:

- Design and development of OTT direct to consumer apps for partners. This carries a 30-35% net margin.
- Ongoing SaaS revenues from these channels also generates a 30-35% net margin.

- Distribution fees that average 20 to 25% of revenue.
- Subscription fees from Cinedigm's own OTT channels.

B Movies With A Talent

Cinedigm is also in the movie production business, leveraging its distribution skills. The company carefully chooses movies in the later stages of development when a script is already set. It is generally a co-producer putting up around $500,000 with other parties funding the rest. Some of its movies are released theatrically but they typically go directly to digital distribution with outlets such as Netflix wielding larger budgets. Because Cinedigm invests later, when the critical details of a movie are set, and because it can use its distribution skills to maximize revenue, it has generated a high rate of return on movie investments. While it typically looks for a minimum 25% IRR on movie investments, its most recent movie, Hickok, generated a 144% return. With its new Chinese partners, we expect that it may increase its movie production schedule, leveraging Chinese capital with its own investments.

Selected Cinedigm Co-Produced Movies

Movies	Date	Stars		
Hickock	2017	Luke Hemsworth	Kris Kristofferson	Trace Adkins
Legendary lawman and gunslinger, Wild Bill Hickok, is tasked with taming the wildest cow-town in the west.				
Song One	2014	Anne Hathaway	Johnny Flynn	Mary Steenburgen
A young woman strikes up a relationship with her ailing brother's favorite musician.				
Life	2015	Robert Pattinson	Dane DeHaan	Peter Lucas
A photographer for Life Magazine is assigned to shoot pictures of James Dean.				
Short Term 12	2013	Brie Larson	Frantz Turner	John Gallagher, Jr.
A 20-something supervising staff member of a residential treatment facility navigates the troubled waters of that world.				
Narco Cultura	2013	Documentary		
To a growing number of Mexicans and Latinos in the Americas, narco traffickers have become iconic outlaws.				
Night Moves	2013	Jesse Eisenberg	Dakota Fanning	Peter Sarsgaard
Three radical environmentalists look to execute the protest of their lives: the explosion of a hydroelectric dam.				
GangsterLand	2010	Henri Pardo	Benz Antoine	Jaquy Bidjeck
Ronald, an eight year-old biracial boy, sees his life turning upside down after witnessing the murder of his mother by his father.				

Source: Company reports

Cinema Equipment is Cinedigm's Fading Cash Cow

The Cinema Equipment business is comprised of two business units known as Phase I and Phase II and revenue is reported as Phase I, Phase II and Services. Services revenue is comprised of administrative fees. When the motion picture industry began to convert from distribution of physical, analog film to digital content distributed over the internet, Cinedigm was one of four companies that raised capital to buy and install the projectors, recouping their investment over time through fees charged to movie studios and theater owners.

Phase I was formed in June 2005 with deployment beginning in 2007 with 3,723 movie screens. Phase II was started in October 2007 with 10,000 screens. The economics of both are different but both are due to fade out to nearly zero in revenue by the end of 2020. Revenue is comprised of collecting virtual print fees, or VPFs, from movie studios distributing their movies over the projectors. The company has agreements with all nine major movie studios and most independent, smaller studios as well as 20 theatrical exhibitors. The digital projectors can show all current movie formats and two can be combined to show IMAX films.

Phase I revenue was $16.8 mm in FY2017, down 48% with most of the revenue, $15.3 mm, flowing through to EBITDA. Revenue declined a further 40% in F1Q ended June 30. Under Phase I, Cinedigm owns the digital projectors. It still has 3,707 projectors from the original 3,723. VPF payment terms were generally for ten years, and began to expire in December 2015, as reflected in the major decline in Phase I revenue. We expect all Phase I VPF terms to expire by the end of calendar FY2020, with no revenue in FY2021.

Under the Phase II agreements, Cinedigm does not own the projectors, and only receives payments until it has earned its pre-agreed return on investment. In FY2017, Phase II revenue was $11.9 mm, down 5%. Phase II projector count is down from 10,000 originally to 7,762 as of the end of the June quarter. This revenue should have a bit of a longer tail, but also end in FY2020 with no revenue in FY2021.

The company also books service revenues on the projectors in Phase I and Phase II which consist of a percentage of VPFs collected. Since VPFs are likely to decline to zero, services revenue should also decline, but with perhaps a small tail into calendar 2021. In FY2017, services revenue was $8.9 mm, declining another 45% to $1.3 mm in the June quarter.

Exhibitors have the right to continue using the Phase 1 equipment through December 2020, at which point they have three options: 1. Return the projectors, 2. Renew their leases or 3. Buy the projectors outright. Cinedigm has sold a small number of projectors already for $15,000 each and could sell additional projectors for between $5,000 and $15,000 each. This would bring in between $18.9 mm and $55.8 mm in revenue, which would be offset by $31.5 mm in debt associated with Phase I and Phase II which bears interest at LIBOR plus 9%.

Debt is being rapidly paid down by cash flow from the business having declined by $8.5 mm in the most recent quarter, so by the time of any asset sale, debt would presumably be much less. At the end of the June quarter, non-recourse debt was $32.0 mm, whereas our model shows $37.3 mm in EBITDA from this business remaining. So even if our estimate is too high, we don't see a significant liability remaining when this business concludes.

Since roughly a quarter of our valuation is ascribed to the terminal value of the projectors, it makes sense to examine the likelihood that the company will be able to realize any value from them. It is important to note that these projectors are in operation today, generating revenue for the cinema owners. Cinedigm owns them, so they can only be used with Cinedigm's permission. This means that the projectors are worthless without Cinedigm, so theater owners will need to work out some arrangement with the company. On the other hand, we think it is highly unlikely that the company will be able to physically repossess so many projectors, so it will need to work out some arrangement with the theaters. While the projectors are fully functional and working today and support all major theater standards, they are now a decade old. However, new digital projectors run in the range of around $30,000 to $50,000. We also see little incentive for theater owners to buy the projectors too far before their terms expire, but we could see some transactions. It is doubtful that cinemas will get to the end of 2020, or even near then, before cutting a deal since they cannot risk being left without working projectors.

The other issue is the available cash flow to acquire the projectors. Cinedigm and its peers were originally set up to finance the high cost to the industry of acquiring all new digital projectors. The assumed price of the now used projectors is now much less, and cinema owners have had a decade to plan for this event.

Revenue Growth Turns Positive in FY2022

Our model shows Cinedigm posting declining revenue through FY2021, with revenue down just 1% that year. The growth in the content business is likely not enough to offset the expected decline in the equipment business from $37.6 mm in FY2018 to zero by the end of FY2020.

We forecast that the basic content distribution business will grow at an 8% clip, while the OTT streaming business grows at 20%. There are a number of factors that go into this forecast. The first is our assumption that management will continue to acquire an attractive enough library of content to generate this revenue, especially on the basic side.

The next assumption is that at least some of the OTT channels are successful. Cinedigm is targeting multiple niche audiences, each of whom appears underserved and eager for content, but media consumption is notoriously difficult to forecast. Cinedigm's diversity, with content ranging from religious households to martial arts fans, should allow its portfolio to grow, even if a few channels do not take off. Given the growing number of low-priced "skinny bundles" such as Dish Network's SlingTV and AT&T's DirecTV Now, there is strong demand for the type of inexpensive content Cinedigm provides, at the expense of expensive content such as Disney's ESPN.

The other unknown is the extent of the Chinese relationship. Done right, this could be a massive home run, with revenue well above our forecast. Done wrong, and with negative effects from the two countries' relationship, it could prove a major disappointment.

We Value CIDM Shares at $2.67

Cinedigm is a complex company considering its $30 mm market cap, and valuation is a somewhat complex process. The content business is very exciting with so many projects in the early stages and with the potential for significant revenue from Chinese partners. Comps trade at around 5.5x revenue, and we use a valuation of roughly half that, or 3.0x to value the content business given the early stage and relative risk.

With the equipment business due to wind down in the next two years, in our model the only real valuation is the residual sale value of the projectors to their current operators. Cinedigm has recently sold a small lot of projectors for $15,000 each, but we use a bit more conservative valuation of $10,000 per projector or $37 mm.

We assume that the equipment business can retire its own debt before it winds down. Subtracting the rest of the debt and dividing by shares outstanding gets us to a valuation of $2.67 per share.

Conservative Valuation Gets Us to a $2.67 Per Share Valuation

Content Business			**Per Share**
FY2021E revenue	32,791		
Multiple	3.0x		
	98,372	72.6%	$2.81
Equipment Business			
Projectors	3,707		
Value per projector	10		
	37,070	27.4%	$1.06
Enterprise value	135,442	100.0%	$3.86
Less: Recourse debt	(41,927)		-$1.20
Equity value	93,515		$2.67
Shares	35,069		

Source: Company reports and Dawson James estimates

CIDM Shares Trade at Less Than Half the Value of Comps

Company Name	Fiscal Period	Price	Shares Outstanding	Market Value	Enterprise Value	Sales	Enterprise Value/ Sales
Cinedigm	06/30/2018	$0.86	35.1	30.0	78.4	65.5	1.2x
CIDM @ F2021E	03/31/20	$0.86	35.1	30.0	78.4	32.8	2.4x
CIDM @ target on F2021E	03/31/20	$1.61	35.1	56.5	104.9	32.8	3.2x
Avid Technology, Inc.	12/31/2017	$5.41	41.8	226.1	389.4	419.0	0.9x
Chicken Soup for the Soul Ente	12/31/2017	$9.16	3.7	106.1	94.4	10.7	8.9x
Digimarc Corporation	12/31/2017	$26.51	11.9	314.9	258.2	25.2	10.2x
Entertainment One Ltd.	03/31/2018	$5.20	427.3	2,705.5	3,378.0	1,384.1	2.4x
IMAX Corporation	12/31/2017	$22.45	62.5	1,403.6	1,379.5	380.8	3.6x
Leaf Group Ltd.	12/31/2017	$9.09	25.0	227.5	195.4	129.0	1.5x
Lions Gate Entertainment Corp	03/31/2018	$22.21	82.0	4,567.2	8,247.3	4,129.1	2.0x
Limelight Networks, Inc.	12/31/2017	$4.25	112.6	478.7	426.1	184.4	2.3x
National CineMedia, Inc.	12/28/2017	$9.04	79.0	2,106.9	3,282.1	426.1	7.7x
Netflix, Inc.	12/31/2017	$332.67	435.5	144,863.8	150,132.9	11,692.7	12.8x
RLJ Entertainment, Inc.	12/31/2017	$6.27	22.7	142.5	212.8	86.3	2.5x
Roku, Inc. Class A	12/31/2017	$54.09	68.4	5,737.8	5,563.6	512.8	10.9x
TiVo Corp.	12/31/2017	$12.88	123.8	1,594.2	2,284.4	826.5	2.8x
World Wrestling Entertainment,	12/31/2017	$82.03	43.4	6,396.7	6,268.8	801.0	7.8x
Average							**5.5x**

Source: Company reports and Dawson James estimates

Cinedigm Corp. Income Forecast

Dollars in thousands, except per share data	FY2018					FY2019E					FY2020E				
Fiscal years ended March 31	1Q	2Q	3Q	4Q	YEAR	1QA	2Q	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR
	June	September	December	March		June	September	December	March		June	September	December	March	
Phase I	4,331	5,329	3,219	3,903	16,782	2,605	2,000	2,000	2,000	8,605	2,000	1,000	-	-	3,000
YoY growth	-52.7%	-44.4%	-55.7%	-35.4%	-47.7%	-39.9%	-62.5%	-37.9%	-48.8%	-48.7%					
Phase II	3,061	2,591	3,193	3,018	11,863	3,180	1,800	1,400	1,000	7,380	-	-	-	-	-
YoY growth	-3.7%	-20.8%	6.6%	-2.3%	-5.4%	3.9%	-30.5%	-56.2%	-66.9%	-37.8%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
Services	2,396	2,105	2,049	2,382	8,932	1,330	1,130	930	730	4,120	530	330	130	-	990
YoY growth	-27.3%	-32.6%	-21.9%	-7.3%	-23.1%	-44.5%	-46.3%	-54.6%	-69.4%	-53.9%	-60.2%	-70.8%	-86.0%	-100.0%	-76.0%
Cinema Equipment Business	9,788	10,025	8,461	9,303	37,577	7,115	4,930	4,330	3,730	20,105	2,530	1,330	130	-	3,990
YoY growth	-37.4%	-37.3%	-34.3%	-20.5%	-33.2%	-27.3%	-50.8%	-48.8%	-59.9%	-46.5%	-64.4%	-73.0%	-97.0%	-100.0%	-80.2%
Content and entertainment	5,452	6,253	10,031	8,370	30,106	5,963	6,301	6,601	6,901	25,766	6,704	7,093	7,441	7,789	29,028
YoY growth	-20.2%	-20.8%	-13.2%	6.1%	-11.9%	9.4%	0.8%	-34.2%	-17.6%	-14.4%	12.4%	12.6%	12.7%	12.9%	12.7%
Revenue	**15,240**	**16,278**	**18,492**	**17,673**	**67,683**	**13,078**	**11,231**	**10,931**	**10,631**	**45,871**	**9,234**	**8,423**	**7,571**	**7,789**	**33,018**
YoY growth	-32.2%	-31.8%	-24.4%	-9.8%	-25.1%	-14.2%	-31.0%	-40.9%	-39.8%	-32.2%	-29.4%	-25.0%	-30.7%	-26.7%	-28.0%
Seq growth	-22.2%	6.8%	13.6%	-4.4%	383.0%	-26.0%	-14.1%	-2.7%	-2.7%	431.5%	-13.1%	-8.8%	-10.1%	2.9%	423.9%
Direct operating costs	4,066	4,041	6,363	5,053	19,523	3,425	3,348	3,342	3,324	13,438	3,051	3,032	2,982	2,960	12,025
As a percent of revenue	26.7%	24.8%	34.4%	28.6%	28.8%	26.2%	29.8%	30.6%	31.3%	29.3%	33.0%	36.0%	39.4%	38.0%	36.4%
Selling general and admin costs	6,318	6,247	9,259	6,630	28,454	6,543	6,535	6,535	6,535	26,148	6,656	6,535	6,535	6,535	26,261
As a percent of revenue	41.5%	38.4%	50.1%	37.5%	42.0%	50.0%	58.2%	59.8%	61.5%	57.0%	72.1%	77.6%	86.3%	83.9%	79.5%
Provision for doubtful accounts	-	949	631	(589)	991	65	180	180	180	716	176	180	180	180	716
Depreciation	4,357	3,645	2,213	2,197	12,412	2,089	2,129	2,129	2,129	8,476	2,089	2,129	2,129	2,129	8,476
Amortization	1,395	1,395	1,395	1,395	5,580	1,395	1,413	1,413	1,413	5,634	1,413	1,413	1,413	1,413	5,652
Operating income	**(896)**	**1**	**(1,369)**	**2,987**	**723**	**(439)**	**(2,374)**	**(2,668)**	**(2,950)**	**(8,541)**	**(4,151)**	**(4,866)**	**(5,667)**	**(5,428)**	**(20,112)**
Operating margin	-5.9%	0.0%	-7.4%	16.9%	1.1%	-3.4%	-21.1%	-24.4%	-27.7%	-18.6%	-45.0%	-57.8%	-74.9%	-69.7%	-60.9%
Interest income				13	13					-					-
Interest expense	(4,041)	(3,975)	(3,147)	(3,043)	(14,206)	(2,695)	(2,586)	(2,399)	(2,211)	(9,892)	(2,024)	(1,836)	(1,836)	(1,836)	(7,533)
Debt conversion expense	-	(3,205)	(1,299)	-	(4,504)	-	-	-	-		-	-	-	-	
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other income	(69)	(133)	(40)	(5)	(247)	-	-	-	-	-	-	-	-	-	-
Gain on termination of capital lease	-	-	44	-	44	-	-	-	-	-	-	-	-	-	-
Change in fair value of derivatives	40	43	-	-	83	(10)	-	-	-	(10)	-	-	-	-	-
Pretax Income	(4,966)	(7,269)	(5,811)	(48)	(18,094)	(3,144)	(4,960)	(5,067)	(5,161)	(18,443)	(6,175)	(6,703)	(7,504)	(7,264)	(27,645)
Taxes	(186)	(196)	(113)	94	(401)	(139)	-	-	-	(139)	-	-	-	-	-
Non-controlling interest	6	11	15	9	41	16	10	10	10	46	10	10	10	10	40
Preferred dividends	(89)	(89)	(89)	(89)	(356)	(89)	(90)	(90)	(90)	(359)	(90)	(90)	(90)	(90)	(360)
Net income to common	**(5,235)**	**(7,543)**	**(5,998)**	**(34)**	**(18,810)**	**(3,356)**	**(5,040)**	**(5,147)**	**(5,241)**	**(18,895)**	**(6,255)**	**(6,783)**	**(7,584)**	**(7,344)**	**(27,965)**
Net income margin	-34.4%	-46.3%	-32.4%	-0.2%	-27.8%	-25.7%	-44.9%	-47.1%	-49.3%	-41.2%	-67.7%	-80.5%	-100.2%	-94.3%	-84.7%
Diluted shares outstanding	10,920	12,651	29,389	37,545	23,105	37,639	37,639	37,639	37,639	37,639	69,853	69,853	69,853	69,853	69,853
Seq change	906.8	1,730.5	16,738.1	8,155.8		94.5	-	-	-		32,213.8	-	-	-	
EPS diluted - continuing	**($0.48)**	**($0.60)**	**($0.20)**	**($0.00)**	**($0.81)**	**($0.09)**	**($0.13)**	**($0.14)**	**($0.14)**	**($0.50)**	**($0.09)**	**($0.10)**	**($0.11)**	**($0.11)**	**($0.40)**
EBITDA															
Net loss	(5,152)	(7,465)	(5,924)	46	(18,495)	(3,283)	(4,960)	(5,067)	(5,161)	(18,582)	(6,175)	(6,703)	(7,504)	(7,264)	(27,645)
Add back:															
Income tax expense	186	196	113	(94)	401	139	-	-	-	139	-	-	-	-	-
Depreciation and amortization of PPE	4,357	3,645	2,213	2,197	12,412	2,089	2,129	2,129	2,129	8,476	2,089	2,129	2,129	2,129	8,476
Amortization of intangibles	1,395	1,395	1,395	1,395	5,580	1,395	1,413	1,413	1,413	5,634	1,413	1,413	1,413	1,413	5,652
Gain on termination of capital lease		-	-	-	-	-	-	1	2	3	-	-	1	2	3
Interest expense	4,041	3,975	3,147	3,030	14,193	2,695	2,586	2,399	2,211	9,892	2,024	1,836	1,836	1,836	7,533
Debt conversion expense		3,205	1,299		4,504					-					-
Other expense	269	233	1,491	35	2,028	10	10	10	10	40	10	10	10	10	40
Change in fair value of derivatives	(40)	(43)	(44)	(30)	(157)	-	-	-	-	-	-	-	-	-	-
Provision for doubtful accounts		393	204	(344)	253					-					-
Stock-based comp	317	330	1,567	65	2,279	86	90	90	90	356	90	90	90	90	360
Restructuring		-	-		-					-					-
Non-controlling	6	11	15	9	41	16	10	10	10	46	10	10	10	10	40
EBITDA	**5,379**	**5,875**	**5,476**	**6,309**	**23,039**	**3,147**	**1,278**	**985**	**704**	**6,004**	**(539)**	**(1,214)**	**(2,014)**	**(1,774)**	**(5,541)**
YoY growth	-49.5%	-59.5%	-52.4%	-2.4%	-46.9%	-41.5%	-78.2%	-82.0%	-88.8%	-73.9%	-117.1%	-195.0%	-304.4%	-351.8%	-192.3%

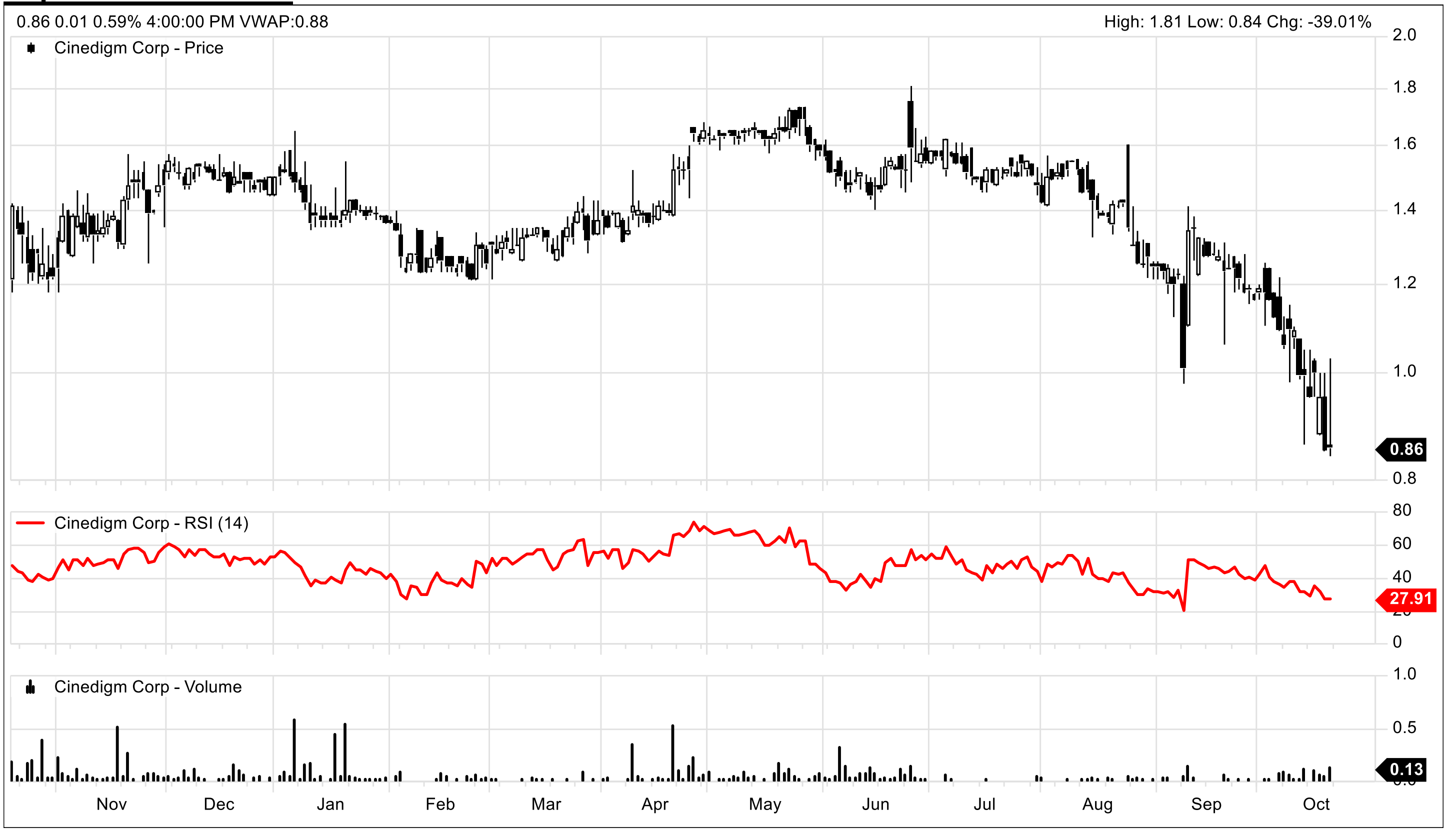
Source: Company reports and Dawson James estimates

Cinedigm Corp. Income Forecast

Dollars in thousands, except per share data			FY2021E					FY2022E		
Fiscal years ended March 31	1Q	2Q	3Q	4Q	YEAR	1Q	2Q	3Q	4Q	YEAR
	June	September	December	March		June	September	December	March	
Cinema Equipment Business	-	-	-	-	-	-	-	-	-	-
YoY growth										
Content and entertainment	7,557	8,006	8,411	8,816	32,791	8,542	9,062	9,533	10,005	37,142
YoY growth	12.7%	12.9%	13.0%	13.2%	13.0%	13.0%	13.2%	13.3%	13.5%	13.3%
Revenue	**7,557**	**8,006**	**8,411**	**8,816**	**32,791**	**8,542**	**9,062**	**9,533**	**10,005**	**37,142**
YoY growth	-18.2%	-4.9%	11.1%	13.2%	-0.7%	13.0%	13.2%	13.3%	13.5%	13.3%
Seq growth	-3.0%	5.9%	5.1%	4.8%	372.0%	-3.1%	6.1%	5.2%	4.9%	371.2%
Direct operating costs	2,721	2,722	2,692	2,645	10,779	2,563	2,719	2,860	3,001	11,143
As a percent of revenue	36.0%	34.0%	32.0%	30.0%	32.9%	30.0%	30.0%	30.0%	30.0%	30.0%
Selling general and admin costs	6,123	6,000	6,000	6,000	24,123	6,123	6,000	6,000	6,000	24,123
As a percent of revenue	81.0%	74.9%	71.3%	68.1%	73.6%	71.7%	66.2%	62.9%	60.0%	64.9%
Provision for doubtful accounts	-	-	-	-	-	-	-	-	-	-
Depreciation	129	129	129	129	516	129	129	129	129	516
Amortization	1,401	1,401	1,401	1,401	5,604	1,401	1,401	1,401	1,401	5,604
Operating income	**(2,816)**	**(2,246)**	**(1,810)**	**(1,359)**	**(8,232)**	**(1,673)**	**(1,187)**	**(857)**	**(527)**	**(4,243)**
Operating margin	-37.3%	-28.0%	-21.5%	-15.4%	-25.1%	-19.6%	-13.1%	-9.0%	-5.3%	-11.4%
Interest income					-					-
Interest expense	(1,836)	(1,836)	(1,836)	(1,836)	(7,346)	(1,836)	(1,836)	(1,836)	(1,836)	(7,346)
Debt conversion expense	-	-	-	-		-	-	-	-	
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	-	-
Other income	-	-	-	-	-	-	-	-	-	-
Gain on termination of capital lease	-	-	-	-		-	-	-	-	
Change in fair value of derivatives	-	-	-	-	-	-	-	-	-	-
Pretax Income	(4,653)	(4,082)	(3,647)	(3,195)	(15,577)	(3,510)	(3,023)	(2,693)	(2,363)	(11,589)
Taxes	-	-	-	-	-	-	-	-	-	-
Non-controlling interest	10	10	10	10	40	10	10	10	10	40
Preferred dividends	(90)	(90)	(90)	(90)	(360)	(90)	(90)	(90)	(90)	(360)
Net income to common	**(4,733)**	**(4,162)**	**(3,727)**	**(3,275)**	**(15,897)**	**(3,590)**	**(3,103)**	**(2,773)**	**(2,443)**	**(11,909)**
Net income margin	-62.6%	-52.0%	-44.3%	-37.2%	-48.5%	-42.0%	-34.2%	-29.1%	-24.4%	-32.1%
Diluted shares outstanding	69,853	69,853	69,853	69,853	69,853	69,853	69,853	69,853	69,853	69,853
Seq change	-	-	-	-		-	-	-	-	
EPS diluted - continuing	**($0.07)**	**($0.06)**	**($0.05)**	**($0.05)**	**($0.23)**	**($0.05)**	**($0.04)**	**($0.04)**	**($0.03)**	**($0.17)**
EBITDA										
Net loss	(4,653)	(4,082)	(3,647)	(3,195)	(15,577)	(3,510)	(3,023)	(2,693)	(2,363)	(11,589)
Add back:										
Income tax expense	-	-	-	-	-	-	-	-	-	-
Depreciation and amortization of PPE	129	129	129	129	516	129	129	129	129	516
Amortization of intangibles	1,401	1,401	1,401	1,401	5,604	1,401	1,401	1,401	1,401	5,604
Gain on termination of capital lease	-	-	1	2	3	-	-	1	2	3
Interest expense	1,836	1,836	1,836	1,836	7,346	1,836	1,836	1,836	1,836	7,346
Debt conversion expense					-					-
Other expense	10	10	10	10	40	10	10	10	10	40
Change in fair value of derivatives	-	-	-	-	-	-	-	-	-	-
Provision for doubtful accounts					-					-
Stock-based comp	90	90	90	90	360	90	90	90	90	360
Restructuring					-					-
Non-controlling	10	10	10	10	40	10	10	10	10	40
EBITDA	**(1,176)**	**(606)**	**(169)**	**283**	**(1,669)**	**(33)**	**453**	**784**	**1,115**	**2,320**
YoY growth	118.3%	-50.1%	-91.6%	-116.0%	-69.9%	-97.2%	-174.8%	-562.8%	294.2%	-239.0%

Source: Company reports and Dawson James estimates

Important Disclosures:



Source: Metastock

Price target and ratings changes over the past 3 years:

Initiated – Buy – October 22, 2018 – Price Target $2.67

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Although the statements in this report have been obtained from and are based upon recognized statistical services, issuer reports or communications, or other sources that the Firm believes to be reliable, we cannot guarantee their accuracy. All opinions and estimates included in this report constitute the analyst's judgment as of the date of this report and are subject to change without notice.

VALUATION

Our $2.67 price target is based on a multiple of 3.0x our FY2021 EBITDA estimate, plus $37 mm for the estimated disposal of the cinema equipment business's projectors at the end of their lease term.

RISK FACTORS

1. Cinedigm is a relatively small player selling to much larger corporate entities, so sales can be unpredictable and volatile.
2. Consumer tastes in media are highly fickle and unpredictable. While Cinedigm hedges its bets with content appealing to a wide range of demographics, if most fail to gain traction with audiences, the company will miss our projections.
3. Cinedigm is 60% by a Chinese company and expects to generate significant growth from its eight announced Chinese partners. Should the growing SINO-U.S. frictions negatively impact its ability to do so, the company will miss our projections, although little current revenue is at risk.

The securities of the company discussed in this report may be unsuitable for investors depending on their specific investment objectives and financial position. This report is offered for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such would be prohibited. Additional information is available upon request.

Ratings Definitions:

1) **Buy**: the analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months;
2) **Neutra**l: the analyst believes the price of the stock is fairly valued for the next 12-18 months;
3) **Sel**l: the analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

The following chart reflects the range of current research report ratings for all companies followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services in the last twelve months.

	Company Coverage		**Company Coverage**	
Ratings Distribution	# of Companies	% of Total	# of Comp	% of Total
Market Outperform (Buy)	33	92%	10	100%
Market Perform (Neutral)	3	8%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	**36**	**100%**	**10**	**100%**

Analyst Certification:

The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his (their) personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) all Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.