Zacks Small-Cap Research

January 22, 2015

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StationDigital Corp. (SDIG-OTCQB)

SDIG: *New Initiatives Could Further Differentiate Company's Service and Help Drive Ad Revenue*

Current Recommendation	**Hold**
Prior Recommendation	N/A
Date of Last Change	10/10/2014
Current Price (1/21/15)	$0.40
Six- Month Target Price	**$0.45**

OUTLOOK

We are optimistic about several recent initiatives StationDigital has made, including hiring an experienced digital ad executive for its new Chief Advertising position and a recent technology acquisition. We believe these could advance the company's goals of differentiating itself as a multimedia streaming platform and also help drive advertising revenue.

SUMMARY DATA

52-Week High	**$0.45**
52-Week Low	**$0.19**
One-Year Return (%)	**NA**
Beta	**NA**
Average Daily Volume (sh)	**7,609**
Shares Outstanding (mil)	**82.5**
Market Capitalization ($mil)	**$33.4**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**71.6**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2014 Estimate	**N/A**
P/E using 2015 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High**
Type of Stock	**Small-Growth**
Industry	**Internet-Services**
Zacks Rank in Industry	**7 of 23**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012					N/A
2013	0.0 A	0.0 A	0.0 E	0.0 E	0.0 E
2014	0.0 A	0.0 A	0.0 A	0.0 E	0.1 E
2015					0.2 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012					N/A
2013	-$0.00 A	-$0.00 A	-$0.00 E	-$0.00 E	-$0.00 E
2014	-$0.02 A	-$0.04 A	-$0.02 A	-$0.05 E	-$0.13 E
2015					-$0.15 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

Disclosures begin on page 8.

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KEY POINTS

- We are optimistic about several recent initiatives StationDigital has made, including hiring a Chief Advertising officer and acquiring new technology to enhance its video offering.
- We believe these could advance the company's goals of differentiating itself as a multimedia streaming platform and also help drive advertising revenue.
- Specifically, the company announced yesterday that it had hired advertising industry veteran Jacob Morris to fill the newly created role of Chief Advertising Officer. He has significant digital media experience, including recently as the COO of WOWIO, with which StationDigital has an ad delivery partnership agreement.
- Earlier this week, the company announced that it has signed a letter of intent to acquire technology that lowers the cost of streaming live broadcast video over the internet. Management expects to achieve a competitive cost advantage in streaming video.

STRATEGY

What Differentiates StationDigital?

St. Louis based StationDigital (SDIG-OTCQB) is an emerging Internet radio and digital media platform. Although there are many content streaming competitors and new entrants, we believe it is still early days and that there is an opportunity for a new service with an innovative offering to build a presence. StationDigital aspires to become the first device agnostic, multimedia global broadcast platform, differentiating its service by providing many other content options in addition to music streaming. Most of the other players focus on one media. Pandora (P-not rated), iHeart Media and Spotify, for example, focus on music, while Netflix (NFLX-not rated) and Hulu focus on video.

Multimedia Business Model

StationDigital's business model is to offer Internet radio, TV and movie content, music videos, books and specialty content such as Latin American telenovelas and videogames. While this seems closer to the Amazon Prime model, StationDigital hopes to provide this breadth of content offerings as an ad-supported free service, with revenue – and the user experience – enhanced by its e-commerce initiative. Moreover, with a digital multimedia platform, management expects to capitalize on the opportunity to cross-promote and cross-merchandise its various services and monetize them all through its online store.

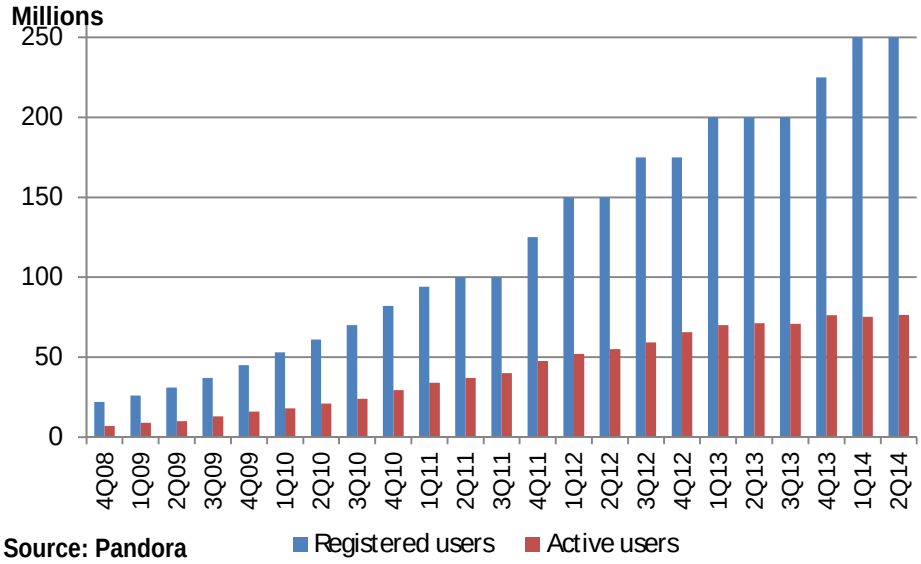
We believe portability will be increasingly important to consumers, who want to consume what they want, how they want, where they want. Management believes StationDigital's multi-media, multi-platform service with the SD rewards program and e-commerce initiative will set it apart from many of the other players in the space.

In its first year of service, StationDigital exceeded 4.3 million unique listeners. Management attributes this to the benefits of the SD Rewards program and to its e-commerce initiative, as well as to the quality of its user interface and the breadth of its content library. The company expects its user base to grow substantially, reflecting these differentiating factors, and as it promotes the service to boost consumer awareness. In success, we would expect a strong upsurge in users and recurring usage.

Looking at Pandora as an example, Pandora was able to grow its base of registered and active users rapidly in its early days, as illustrated below. Pandora had first mover advantage. While StationDigital joins a field that is seeing frequent new entrants, the niche is still young enough, we believe, to reward an innovative new entrant as streaming revenues expand. Management believes that

innovations such as its multimedia strategy, focus on driving advertising, rewards program and online store position it for rapid user base growth, as it raises awareness of the service.

Pandora User Growth, Jan 2009 – Jun 2014



Source: Pandora

We are optimistic about several recent initiatives StationDigital has made, including the hiring of an experienced executive for its newly created Chief Advertising position and a recent technology acquisition. We believe these could help advance the company's goals of differentiating itself by being a multimedia streaming platform and also help drive advertising revenue.

CHIEF ADVERTISING OFFICER

StationDigital continues to lay the groundwork to differentiate its service, in our view. The company announced yesterday that it had hired a veteran advertising industry executive to fill the newly created role of Chief Advertising Officer.

Jacob Morris will head the company's overall advertising efforts, which encompasses, among other responsibilities, the management of distribution channels, the development of advertising product and marketing communications. He has significant digital media experience, including recently as the COO of WOWIO (WWIO-not rated). He was a co-founder of digital ad company Real Media, Inc, and has provided consulting services to companies such as Playboy, Forbes.com, and NYTimes.com, according to management. In 2011, he became the COO of WOWIO, a company with which StationDigital has an ad delivery partnership agreement.

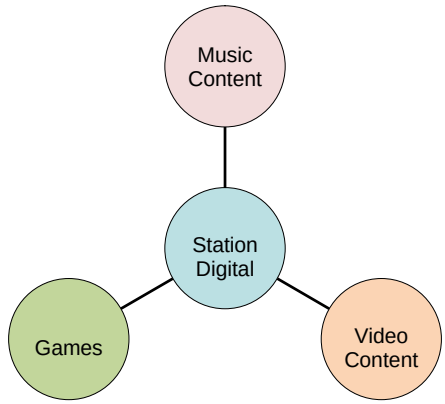
WOWIO will help StationDigital drive ad revenue through digital ad insertions. In its quarterly conference call with investors last month, the company indicated that it was optimistic about driving advertising revenue as well as boosting CPMs through this partnership.

NIFTY TECHNOLOGY ACQUISITION

Earlier this week, the company announced that it has signed a letter of intent to acquire assets from Network Foundation Technologies (NiFTy), including patented technology. This technology lowers the cost of streaming live broadcast TV over the internet, according to NiFTy. The pending acquisition encompasses 16 patents, of which 14 have been issued and two are pending.

StationDigtial management believes the acquisition will enable it to deliver online broadcasting in a cost competitive way, as the technology reduces the amount of bandwidth required for live streaming. As a result, the technology will also enable the company to offer live streaming video targeted at relatively small audiences profitably, according to management. Examples include high school sports events and concerts by rising artists who have relatively small followings. The acquisition is expected to be completed by late February and is another step forward, in our view, in the company's strategy to offer a multimedia selection of content.

StationDigital MultiMedia Content



Source: Company reports

Multimedia Offering Makes This Service Different

Unlike many other digital radio competitors that focus on one media, the company's offerings include much more than audio content, as noted. Management expects this to be a competitive advantage, as users begin to recognize StationDigital as a **one-stop shopping experience for a variety of media** they want to consume. The StationDigital site and apps provide access to music content, as well as music videos, movies, television programming, specialty programming and video games. The company also intends to extend its rewards program to each additional digital media offering it adds to the platform.

OTT Channels

Management also believes that as it acquires content and launches channels, the NiFTy technology will give the company a substantial cost advantage versus competitors. While relatively new, we believe OTT (over-the-top) video streaming is becoming an increasingly important way for people to consume media. In its *Global Entertainment and Media Outlook for 2013-2017,* Pricewaterhouse Coopers (PwC) forecasts that the OTT market will more than double by 2017, reflecting the growing penetration of smart devices and streaming services. OTT streaming content only accounted for 7% of the total entertainment market in 2013, up from 3% in 2008-09, according to PwC, which estimates that it will reach 16% by 2017 or an estimated $17.4 billion. PwC predicts that the anticipated growth of OTT streaming will outpace that of other entertainment formats over that period.

RECENT NEWS

On November 12, 2014, the company announced that is had entered into an Ad-Delivery partnership with WOWIO.

On January 20, 2015, StationDigital announced that it had entered into a letter of intent with Network Foundation Technologies to purchase certain assets.

The company announced the addition of industry veteran Steven Sjoblad to its board of directors on January 21, 2015.

The company issued a press release announcing the hiring of Jacob Morris on January 22, 2015.

RISKS

We believe risks include the following, among others:

- User adoption of StationDigital could be slower than anticipated or never materialize at all in a meaningful way if the company cannot gain market share from better capitalized competitors.
- The company has indicated that it likely will pursue additional financings, which could be dilutive to current shareholders.
- Increased spending on marketing and development could drive operating losses higher and also delay the company from reaching break-even.
- The company obtains licensing rights to its content primarily through third-party content aggregators whose rate are benchmarked, we believe, to statutory rates set by the CRB (Copyright Royalty Board). This could mean that after 2015, the rates that StationDigital pays will increase.
- StationDigital is essentially a controlled company, with significant related party transactions, and insider interests could conflict with those of outside shareholders. Moreover, despite our attempts, we have not had an opportunity to speak with Digital Trending Investment Fund, although StationDigital management believes the fund is a long-term, friendly shareholder.

PROJECTED INCOME STATEMENT & BALANCE SHEET

StationDigital Corporation Income Statement and Projections ($)

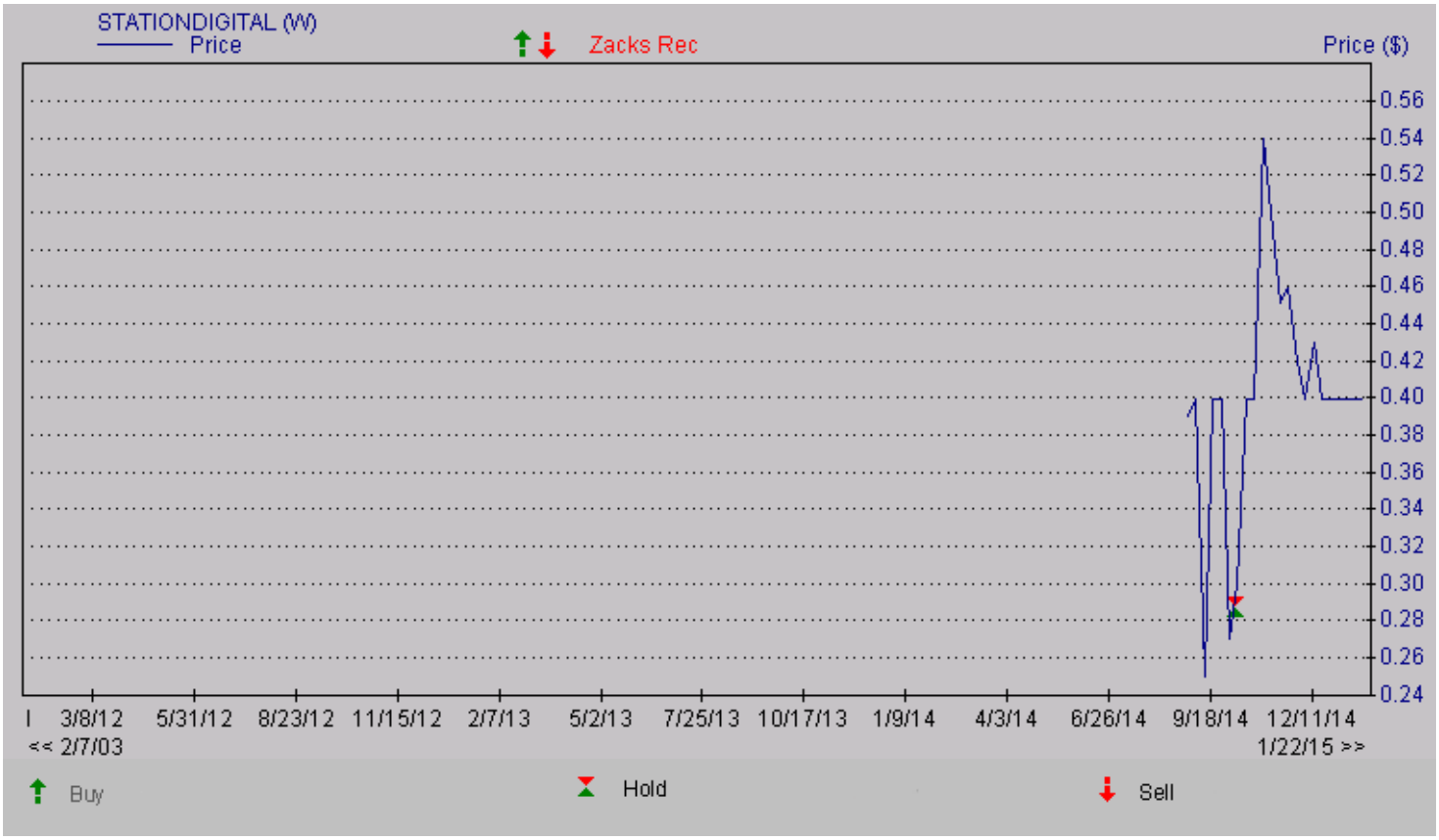
	1Q14	2Q14	3Q14A	4Q14E	2014E	2015E
Advertising revenue	$16,507	$39,054	$8,442	$42,178	$106,181	$257,965
Cost of revenue	212,931	215,954	58,884	233,230	720,999	773,895
Gross loss	(196,424)	(176,900)	(50,442)	(191,052)	(614,818)	(515,930)
Product development cost	89,549	405,270	305,302	437,692	1,237,813	1,382,399
Sales and marketing	945,432	2,041,636	344,049	2,204,967	5,536,084	7,507,878
General and administrative	131,444	815,950	984,903	881,226	2,813,523	2,729,518
Total operating expenses	1,166,425	3,262,856	1,634,254	3,523,884	9,587,419	11,619,795
Loss from operations	(1,362,849)	(3,439,756)	(1,684,696)	(3,714,936)	(10,202,237)	(12,135,725)
Other expense	-	(15,658)	(236,002)	(21,561)	(273,221)	(56,382)
Net loss	(1,362,849)	(3,455,414)	(1,920,698)	(3,736,498)	(10,475,459)	(12,192,107)
LPS	($0.02)	($0.04)	($0.02)	($0.05)	($0.13)	($0.15)
Avg. shares out	82,341,826	82,341,826	79,106,609	82,341,826	82,341,826	82,341,826

StationDigital Corporation Balance Sheet ($)

	4Q13	2Q14	3Q14
Cash	5,687	249,946	32,129
Prepaid consulting services	-	168,167	98,820
Financing cost			67,483
Deposit	1,000	-	47,840
Receivables	-	9,200	10,098
Total current assets	6,687	427,313	256,370
Property & equipment	41,865	34,374	68,239
Website development costs	229,884	394,252	170,119
Trademarks	-	-	25,180
Total assets	**$278,436**	**$855,939**	**$519,908**
Accounts payable	634,097	3,789,269	4,738,234
Advances from stockholder	-	85,837	85,837
Payroll Liabilities	-	96,307	157,908
Accrued expenses			94,347
Accrued interest			17,630
Derivative liability	-	8,308	168,469
Convertible note payable	-	491,692	653,440
Notes Payable			301,937
Payable to GHH Commerce	416,183	367,890	142,559
Related party oayable			6,360,361
Total current liabilities	1,050,280	4,839,303	6,360,361
Note Payable - GoldenHeart Hold'gs	5,676,478	2,662,539	-
Total Liabilities	**6,726,758**	**7,501,842**	**6,360,361**
Total stockholders' deficit	(6,448,322)	(6,645,903)	(5,840,453)
Liabilities & stockholders' deficit	**$278,436**	**$855,939**	**$519,908**

Source: Company reports, Zacks

HISTORICAL ZACKS RECOMMENDATIONS



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