Zacks Small-Cap Research

May 13, 2015

Marla Backer
312-265-9211
mbacker@zacks.com

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

StationDigital Corp. (SDIG-OTCQB)

SDIG: *With 2.0 Introduced, Increased Promotional Efforts Planned to Drive Traffic and Growth*

Current Recommendation	**Hold**
Prior Recommendation	N/A
Date of Last Change	10/10/2014
Current Price (5/12/15)	$0.32
Six- Month Target Price	**$0.45**

OUTLOOK

StationDigital recently introduced version 2.0 of its streaming service to improve the interface and customer experience. Management has indicated enthusiasm about the user metric trends since the launch. The company also recently announced that Microsoft has approved its concept application for inclusion on the Xbox platform and that the service will soon be available to Amazon Fire TV users, as well. In addition, with a new Chief Advertising officer on board, the company intends to increase its promotional efforts. We are optimistic about these and other upcoming initiatives.

SUMMARY DATA

52-Week High	**$0.60**
52-Week Low	**$0.19**
One-Year Return (%)	**NA**
Beta	**NA**
Average Daily Volume (sh)	**9,589**
Shares Outstanding (mil)	**83.5**
Market Capitalization ($mil)	**$26.7**
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 2015 Estimate	**N/A**
P/E using 2016 Estimate	**N/A**

Risk Level	**High**
Type of Stock	**Small-Growth**
Industry	**Internet-Services**

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	0.0 E	0.0 E	0.0 E	0.0 E	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	-$0.04 E	-$0.04 E	-$0.04 E	-$0.03 E	-$0.15 E

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

Disclosures begin on page 9.

© Copyright 2015, Zacks Investment Research. All Rights Reserved.

KEY POINTS

- StationDigital launched version 2.0 of its streaming service on March 20, 2015 to improve the interface and customer experience. The company is enthusiastic about the user metrics since 2.0 debuted.
- As StationDigital looks to expand, management also recently announced that its concept application to Microsoft (MSFT-not rated) for inclusion on the Xbox platform has been approved and that the service will soon be available to Amazon Fire TV users, as well.
- Having debuted the next-gen version, the company intends to increase its promotional efforts for the service. Last month, StationDigital engaged John Salley, a former basketball player who is also an actor and producer, as a special consultant to help boost the StationDigital profile.
- Version 2.0 incorporates the SD listener rewards program, which management expects will be a key differentiator to improve user loyalty and stickiness.
- The company believes that innovations such as its multimedia strategy, focus on driving advertising, rewards program and e-commerce initiative position StationDigital to benefit from the rapid growth the streaming media and OTT sector is experiencing.
- We believe this niche is still young enough to reward an innovative new entrant and are optimistic about several of StationDigital's recent initiatives discussed in this report.

OVERVIEW

St. Louis based StationDigital (SDIG-OTCQB) is an emerging Internet radio and digital media platform. In March 2015, the company launched version 2.0 of its streaming service to improve the interface and customer experience. The upgrades are intended to make it easier for users to find, tag, and enjoy StationDigital content, among other advancements. The company is enthusiastic about the user metrics the service has registered since version 2.0 was introduced on March 20 and believes this is another element that increases the competitiveness of the service.

As StationDigital looks to expand and gain further traction with users, the company also recently announced that its concept application to Microsoft for inclusion on the Xbox platform has been approved and that the service will also soon be available to Amazon Fire TV users.

Having debuted the next-gen version, the company also intends to increase its promotional efforts for the service. Last month, StationDigital engaged John Salley, a former basketball player who is also an actor and producer, as a special consultant to help boost the StationDigital profile.

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. Version 2.0 incorporates the SD listener rewards program, which management expects will be a key differentiator to improve user loyalty and stickiness. The streaming media and OTT niche is still young enough, we believe, to reward an innovative new entrant as the overall market expands. We are optimistic about several recent initiatives StationDigital has made, including launching version 2.0, the expected integration with the Xbox and other platforms and the recent hiring of an experienced Chief Advertising officer.

COMPANY LAUNCHES NEXT-GEN PLATFORM

In March 2015, StationDigital debuted version 2.0 of its streaming service in order to improve the interface and customer experience. The upgrades are intended to make it easier for users to find, tag, and enjoy StationDigital content and to generally improve the overall user engagement.

The company expects that the new release will also make it easier for users to create and listen to playlists, as well as retain music services. This upgrade to version 2.0 is another element of management's strategy to develop a leading, differentiated digital streaming service. StationDigital expects this next-gen platform to enable developers to add new features with ease, including allowing users to integrate with social media sites more simply, as well as to upgrade to on-demand consumption of music content. Other future planned upgrades include the launch of on-demand video content and cloud based streaming service, among others.

StationDigital 2.0 Upgrades

- Enhanced graphics
- Media Player easy to use and service easier to navigate
- Automated playlists based on artist, song, decade and genre
- Ability to tag and add stations as favorites
- Easy to like or dislike songs
- Facebook Integration

Source: Company reports

Expansion to Additional Platforms

In its first year of service, StationDigital exceeded 4.3 million unique listeners. Management attributes this to the benefits of the StationDigital 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.

To make its service available to as broad a consumer base as possible, management has also initiated negotiations with Apple TV, Xbox, Playstation and Samsung, as well as with the major automobile manufacturers to incorporate StationDigital into those devices and in the car, just as Pandora (P-not rated) and others have done, as well as to expand to international markets.

The company recently announced that Microsoft has approved its concept application for inclusion on the Xbox platform, which we view as a positive development towards the company's goal to be widely obtainable in order to drive usage and traffic. Microsoft had sold over 76 million consoles as of 2013, according to trade publications. StationDigital will be available on the Xbox One and Xbox 360 platforms. Given the Xbox user base, StationDigital believes there is likely to be a high degree of receptivity to its service, as there is probably substantial crossover appeal between gamers and media consumption. Management believes the anticipated integration with Xbox will open up significant revenue opportunities and expects to have the App completed shortly.

In addition, the company announced in February that its content delivery platform will also soon be available to Amazon Fire TV users. As with the Xbox expansion, this is another important step towards making the StationDigital platform available to as many consumers as possible.

Additionally, StationDigital aspires to expand its service to other platforms, as well. The company has indicated that it has development deals with several major digital set-top box manufacturers, including Roku, Western Digital and Chromecast.

POSITIVE TREND IN METRICS

Management Enthusiastic

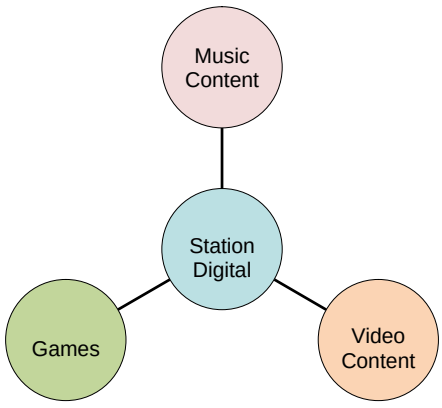
The company is enthusiastic about the user metrics it has registered since the launch of version 2.0.StationDigital is optimistic about the potential, once it boosts its marketing efforts to drive traffic to the site and apps. Management believes that the new interface is easy to use and is also positive about the broad playlist the service makes available to users. StationDigital has roughly 19 million songs licensed in the U.S. alone, with about 30 million songs available worldwide. The company believes this is another element that increases the competitiveness of the service, as StationDigital looks to gain further traction with users. Other factors that differentiate the service, according to management, are the focus on providing multimedia content offerings and the SD rewards program.

Multimedia Offering Makes This Service Different

StationDigital's business plan is to differentiate its service by offering Internet radio, TV and movie content, music videos, books and specialty content such as Latin American telenovelas and videogames. The company 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. The company also plans to offer a premium, subscription based service. 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. 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.

Management expects that once all these media services are available, users will begin to recognize StationDigital as a **one-stop shopping** site for a variety of media. The company also intends to extend its rewards program to each additional digital media offering it adds to the platform.

StationDigital MultiMedia Content



Source: Company reports

Strengthening Technology Position

To support narrowcast and PPV models of its broad content offering, on January 20, 2015, StationDigital announced that it had 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.

StationDigital 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.

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.

We believe it is still early days for content streaming companies and that there is an opportunity for a new service with an innovative offering to build a presence. StationDigital, which aspires to become the first device agnostic, multimedia global broadcast platform, is differentiating its service by providing multimedia content options in addition to music streaming. Most of the other players focus on one media. Pandora, iHeart Media and Spotify, for example, focus on music, while Netflix (NFLX-not rated) and Hulu focus on video.

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.

INCREASED PROMOTIONAL ACTIVITIES PLANNED

The company recently hired the former COO of WOWIO (WWIO-not rated) to be its Chief Advertising officer. We believe this set the foundation for a planned acceleration in the promotional activities for the StationDigital service. With the next-gen version out, the company intends to increase its marketing efforts. Last month, StationDigital announced a new addition to its board that is expected to help with this strategy. The StationDigital board added John Salley, a former basketball player who has also acted in television and movies such as *Bad Boys, Bad Boys 2, Eddie* and *Confessions of a Shopaholic,* as well as hosted several television and radio shows**.** John Salley will provide services to the company as a consultant and Special Advisor to the StationDigital board. Management has indicated that he may be the first of several "strategic influencers" it engages to help raise the profile of the service.

Leveraging Social Media

The company also intends to make it easier for users to share their music through social media, which we believe could be another source of grassroots marketing. The company intends to implement the social media integration of its music discovery platform to enable users to share what they are listening to with friends in real time and also learn what their friends are listening to, along with the ability for both to post comments about the content.

RECENT NEWS

On February 24, 2015, StationDigital announced that its content delivery platform would soon be available to Amazon Fire TV users.

The company launched version 2.0 of its service on March 20, 2015.

StationDigital announced on March 23, 2015 that, in tandem with the re-launch of its service, it had also launched an improved investor relations site to make it easier for existing and potential shareholders to navigate.

The company announced that its concept application to Microsoft for inclusion on the Xbox platform had been approved on March 26, 2015.

StationDigital added John Salley to its Board of Directors on April 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.
- It may be more difficult than anticipated to launch some of the upcoming initiatives management has planned.
- 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 ($)

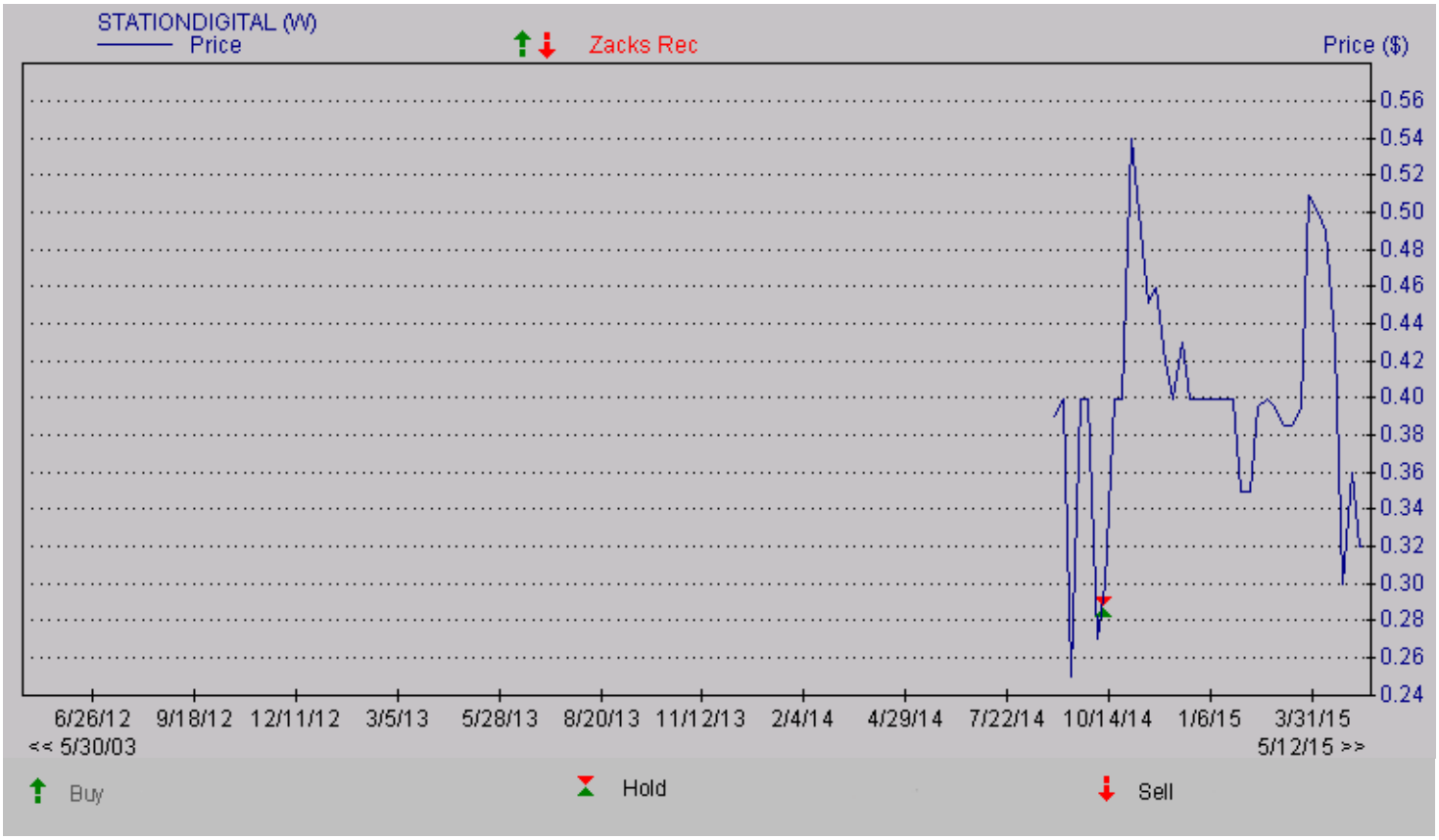
	1Q14	2Q14	3Q14A	4Q14E	2014E	2015E
Advertising revenue	$16,507	$39,054	$8,442	$42,178	$106,181	$257,965
Cost of revenue	212,931	215,954	58,884	233,230	720,999	773,895
Gross loss	(196,424)	(176,900)	(50,442)	(191,052)	(614,818)	(515,930)
Product development cost	89,549	405,270	305,302	437,692	1,237,813	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



DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, Marla Backer, CFA, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESMENT BANKING, REFERRALS, AND FEES FOR SERVICE

Zacks SCR does not provide nor has received compensation for investment banking services on the securities covered in this report. Zacks SCR does not expect to receive compensation for investment banking services on the Small-Cap Universe. Zacks SCR may seek to provide referrals for a fee to investment banks. Zacks & Co., a separate legal entity from ZIR, is, among others, one of these investment banks. Referrals may include securities and issuers noted in this report. Zacks & Co. may have paid referral fees to Zacks SCR related to some of the securities and issuers noted in this report. From time to time, Zacks SCR pays investment banks, including Zacks & Co., a referral fee for research coverage.

Zacks SCR has received compensation for non-investment banking services on the Small-Cap Universe, and expects to receive additional compensation for non-investment banking services on the Small-Cap Universe, paid by issuers of securities covered by Zacks SCR Analysts. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, equity research, investment management, non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per client basis and are subject to the number of services contracted. Fees typically range between ten thousand and fifty thousand USD per annum.

POLICY DISCLOSURES

Zacks SCR Analysts are restricted from holding or trading securities placed on the ZIR, SCR, or Zacks & Co. restricted list, which may include issuers in the Small-Cap Universe. ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Each Zacks SCR Analyst has full discretion on the rating and price target based on his or her own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for services described above. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but are not guaranteed as to be accurate nor do we purport to be complete. Because of individual objectives, this report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

ZACKS RATING & RECOMMENDATION

ZIR uses the following rating system for the 1113 companies whose securities it covers, including securities covered by Zacks SCR:
Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters.
Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters.
Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution is as follows: Buy/Outperform- 25.6%, Hold/Neutral- 58.0%, Sell/Underperform – 14.1%. Data is as of midnight on the business day immediately prior to this publication.