Zacks Small-Cap Research

October 10, 2014

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StationDigital Corp. (SDIG-OTCQB)

SDIG: *Positioning to Benefit From Rapidly Growing Digital Content Streaming Market; Initiating Coverage*

Current Recommendation	**Hold**
Prior Recommendation	N/A
Date of Last Change	10/10/2014
Current Price (10/16/14)	$0.30
Six- Month Target Price	**$0.45**

OUTLOOK

StationDigital is a free internet radio and digital media entertainment platform. The service officially launched one year ago and now has over 4.3 million unique users. The company expects to grow its user base and differentiate itself from competitors by offering a multimedia selection of ad supported, free to consumer music, music videos, movies and TV content and by incentivizing users with a rewards program and e-commerce initiative. These features could position StationDigital well, we believe, as music consumption transitions from physical media and digital downloads to mobile streaming.

SUMMARY DATA

52-Week High	**$0.45**
52-Week Low	**$0.19**
One-Year Return (%)	**NA**
Beta	**NA**
Average Daily Volume (sh)	**7,609**
Shares Outstanding (mil)	**82.3**
Market Capitalization ($mil)	**$24.7**
Short Interest Ratio (days)	**0.6**
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	**N/A**

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 E	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	-$0.03 E	-$0.05 E	-$0.14 E
2015					-$0.15 E

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

Disclosures begin on page 22.

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KEY POINTS

- Start-up digital entertainment service StationDigital is a free Internet radio and digital media distribution platform that launched only about one year ago and now has over 4.3 million unique users.

- While there are many competitors, including market leader Pandora, **we believe the market is still young enough and growing so rapidly that a new entrant with an innovative offering can benefit.** Digital now accounts for 39% of total music industry revenues globally and 60% in the U.S. It is the fastest growing category of music listening, driven primarily by the shift of music consumption to smartphone-based mobile platforms. The company's promotional campaigns focus primarily on the mobile audience, which represents the majority of its users.

- The company expects to grow its user base substantially, as it differentiates itself from competitors by 1) offering a multimedia selection of content, including music, video entertainment and videogames, 2) incentivizing recurring usage through a rewards program and 3) generating e-commerce through its online store.

- **Management believes its rewards program offers consumers a significant inducement to use the service**, as registered users earn reward points when they listen or share StationDigital and redeem the points in the StationDigital online store. The company plans to extend the rewards program to videogames, movies and other content it offers, as well.

- As a development stage digital music business with attractive differentiators versus peers, management believes StationDigital is well positioned, as the music industry transitions from physical media and digital downloads to mobile delivery systems.

OVERVIEW

Headquartered in St. Louis, Missouri, StationDigital (SDIG-OTCQB) is an Internet radio and digital media distribution platform that launched on September 20, 2013 and came public through a reverse merger on April 23, 2014. In one short year, StationDigital has exceeded 4.3 million unique listeners. In order to capture market share in the Internet digital media space, the company offers the *StationDigital Listener Rewards Program (SD Rewards),* which management believes provides consumers with a significant inducement to use the system and redeem these rewards in the StationDigital e-store. Registered users earn reward points when they listen to StationDigital via the internet or a mobile app and when they share StationDigital with friends on social media. The company offers genre-based and artist-based music discovery stations in a broad range of genres. In addition to ad supported content that is free to the consumer, StationDigital also offers direct sales of digital and physical products. Moreover, the company plans to offer rental and subscriptions of movie and TV content, as well as a cloud based DVR and television guide. The service, built on HTML5 and Java, is device agnostic and management has indicated that the technology is ready for global expansion, with launches in certain offshore markets planned for 2015.

Recommendation Service

StationDigital can personalize the music experience and recommend titles based on user preferences. Its recommendation feature learns about its listeners' tastes and likes and suggests content based on their historical listening patterns. The company's playlists are curated by music experts and its service recommends various playlists, based on search and user activity. StationDigital offers playlists for the top artists from its 23 million song catalogue. Users can vote songs up or down and the service will adapt to the user's personal music preferences. Users can find

playlists and stations based on artists, songs or genres, as well as themes, interests, location and musical time periods.

In the past, depth and volume of catalogue were key differentiators among digital services. Today, however, with most large scale music services offering a broad menu of music, recommendation and discovery have become much more important competitive factors, according to Universal Music Group, which believes that services need to offer a well-curated experience in order to be competitive.

StationDigital Rewards Program

Since the service launched in September 2013, StationDigital listeners have earned more than $100,000 in rewards by listening to nearly 22 million songs. Management believes the rewards program incentivizes people to share StationDigital. In turn, this can help grow the membership base, as users earn points by sharing content with friends via social media.

Listeners can redeem StationDigital rewards points through the company's online e-store, which carries over 50 million physical and digital items. Management intends to form partnerships with other virtual currency systems to broaden the item selection available to StationDigital users. Allowing people to trade their StationDigital points for other currencies or for use in other applications such as videogames, for example, would further enhance the rewards program, in their view.

Customer loyalty platforms that allow members to earn points each time they transact are becoming increasingly popular as a way to drive consumer loyalty and stickiness. Many retailers and consumer products companies operate loyalty programs. USA Technologies, for example, has indicated that its "MORE loyalty program … spurs increased purchases and increased employee satisfaction through customer outreach loyalty rewards and cross-promotional opportunities."

According to Business Insider, from 2008 to 2012, U.S. loyalty memberships increased by 10% per annum, reaching 23 memberships per household in 2012. A recent McKinsey study of 55 North American and European publicly traded companies showed that, despite some negative impact on EBITDA margins reflecting that the reward essentially results in discounted pricing, market capitalizations for companies with strong loyalty programs outpaced those of companies that do not offer or emphasize a rewards program.

The company believes its SD Rewards program creates brand awareness and consumer loyalty. As users listen, invite friends, or share music on StationDigital, they earn more and more SD rewards points. We also believe that as the company adds new items, it further enhances the attractiveness of the reward program. The company also expects to lower its average customer acquisition cost, as people refer friends in order to earn reward points.

Advertising Model …

As a free to consumer music streaming service, the company's business model is based on generating advertising and e-commerce revenue. Consumers gain access to the service, in exchange for listening to or watching ads. In addition to banner and display ads, StationDigital's global platform also includes GEO-IP tracking. This technology enables marketers to deliver geo-targeted ads to the company's mobile users. For example, the company's platform can detect if a user is within a few block radius of a Starbucks (SBUX-not rated) store and create an advertising opportunity for Starbucks. Geo-targeted advertising is an emerging channel that is expected to experience rapid growth.

McKinsey notes that:

> Compared with more traditional forms of advertising such as TV or print, geo-targeted campaigns appear to have higher relevance to the consumer at the moment when a purchase decision is likely to be made and therefore boost the potential for an actual sale…. Geo-targeted advertising is emerging as a highly effective marketing vehicle that could represent more than 5 percent of total global advertising spending by 2020.

One of the compelling aspects of geo-targeted advertising is its ability to capture impulse purchases and transactions, reflecting the consumers' proximity to the item or service being advertised. With the above noted Starbucks example, for instance, the technology would allow Starbucks to offer a discount that will expire within a short time span if it is not used and perhaps prompt the user to head to Starbucks.

… Enhanced by e-Commerce Transactions

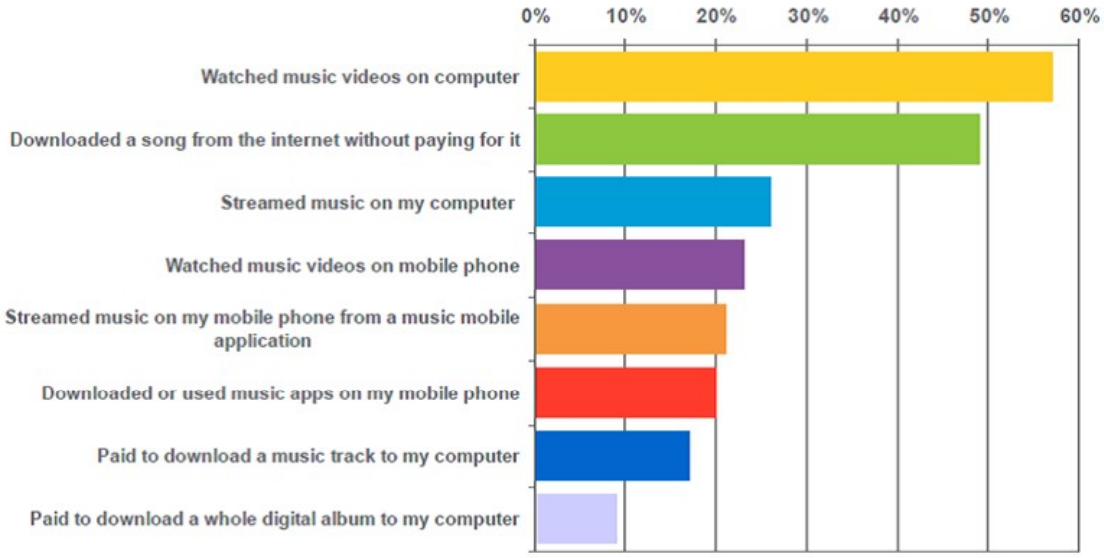
The company also expects to generate e-commerce revenue through its online store. On May 15, 2014, management engaged CloudWebStore to develop a branded StationDigital e-Store to sell and distribute a variety of digital and physical products. The store sells videogames, digital music, movies and posters, among other items. The fee for developing the e-commerce initiative was $1 million and StationDigital will receive 20% of the e-commerce revenue that the store generates. As of June 30, 2014, the company had approximately $206,211 of capitalized software and website development costs related to the eStore development. StationDigital also has a platform agnostic cloud locker in which users can store the media they have purchased.

COMPANY DESCPIPTION

StationDigital is More Than Internet Radio

StationDigital Corporation is a multimedia digital broadcast company that offers free music streaming and other content. The company has a content library that includes more than 23 million songs in a variety of genres and from a broad selection of artists. In addition to music, the company also offers music videos, TV and movie content, eBooks and videogames. We believe this could enhance StationDigital's service compared to other streaming services. For example, a 2011 survey conducted by Nielsen found that watching music videos online is extremely popular.

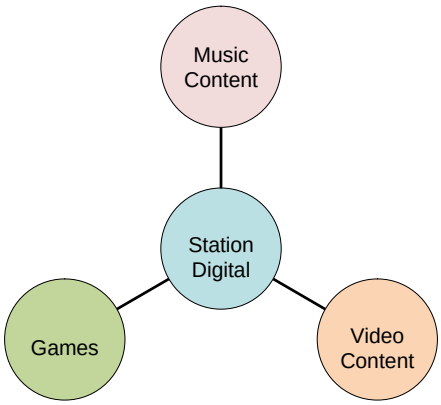
Music Consumption in a Fragmented Space



Source: Nielsen, MIDEM, 2011

StationDigital licenses the rights to most of its content through aggregators and sometimes directly with the artist or label. Management continually expands and refreshes its content selection. The service launched only about a year ago and the company has not generated meaningful revenue yet. StationDigital has a personal recommendation service. Its app learns the listener's habits and tastes and makes recommendations based on their listening history and preferences. In addition to recommendations and playlists curated by music experts, StationDigital also allows users to customize their listening experience themselves by choosing playlists and stations based on themes, interests, favorite artists, songs, genre or other criteria. The company's playlisting and merchandising systems are fully automated.

StationDigital MultiMedia Content



Source: Company reports

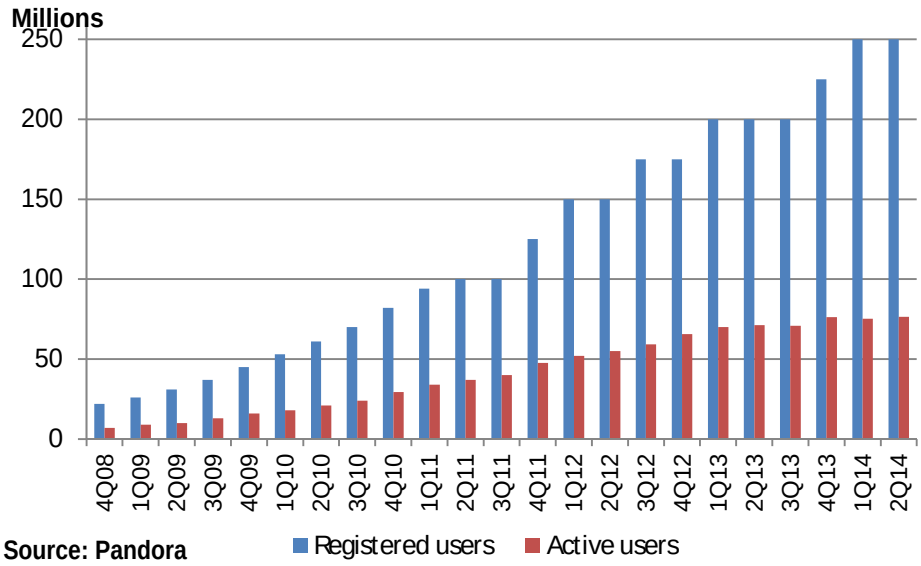
Multimedia Offering Makes This Service Different

Unlike many other digital radio competitors, 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.

In just one short year since launching on September 10, 2013, StationDigital has 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 rewards program and online store position it for rapid user base growth, as it raises awareness of the service.

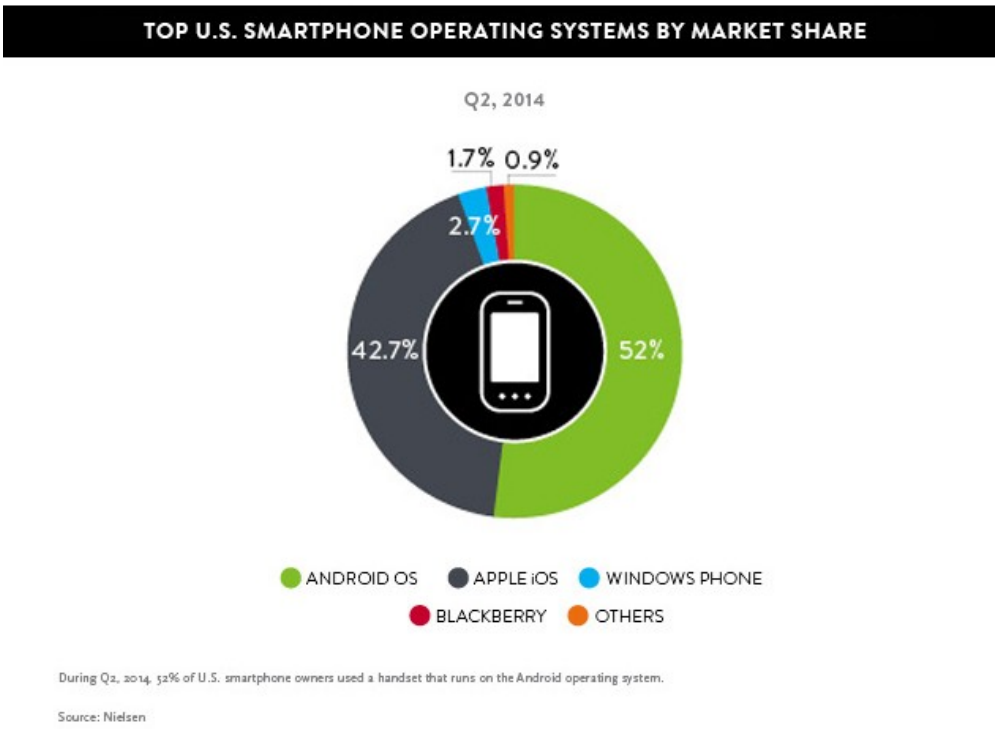
Pandora User Growth, Jan 2009 – Jun 2014



Source: Pandora

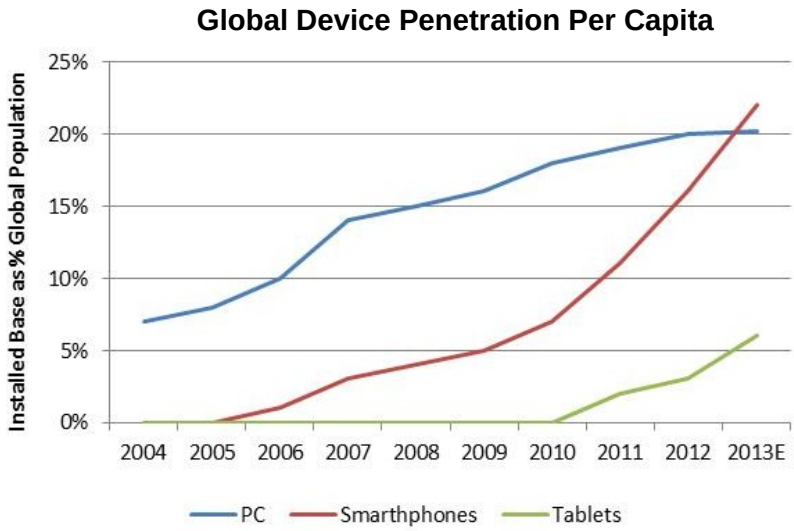
PLATFORM AGNOSTIC AND POSITIONING FOR EMERGING PLATFORMS

The company's offering is platform agnostic. The content is accessible online at stationdigital.com and through its iOS and Android mobile applications. Combined, iTunes and Android represent over 90% of the mobile market, as illustrated below. Increased competition between the Android and Apple iOS platforms has benefited consumers by providing them with broader choices. Android devices have had strong success with streaming services, according to industry metrics. The company expects to have its mobile app available in other app stores soon, as well. Management's goal is to ultimately provide its service to all of the leading mobile devices.



Growing Importance of Mobile

Mobile technology penetration has grown dramatically over the past decade. Adoption rates of mobile devices such as smartphones and tablets are tracking significantly ahead of that of other technology platforms such as PCs or broadband. There were 1.2 billion smartphones and tablets shipped in 2013 according to IDC, with 218 million designated for business use. Smartphone penetration reached 65.2% of the U.S. mobile subscriber market during the fourth quarter of 2013, according to comScore, up more than 11% points from the same time frame a year earlier. Smartphones took only 8-years to reach 20+% penetration globally.



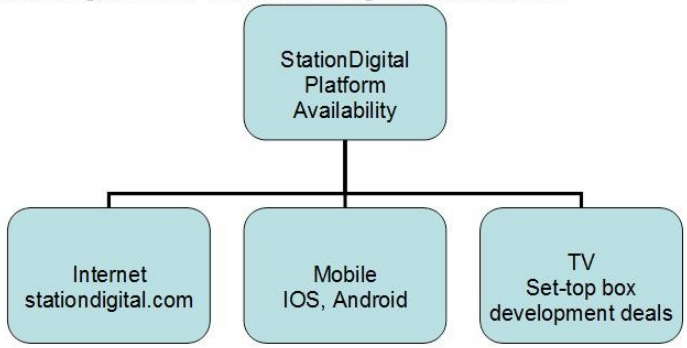
Source: BI Intelligence, Gartner, IDC, Strategy Analytics, World Bank 2013

Mobile device listeners represent the majority of the company's growing user base. Management's promotional campaigns focus primarily on the mobile audience, which is the fastest growing component of the overall digital music audience. In fact, the transition of music consumption to mobile devices is fueling the strong growth in digital music revenue, according to IFPI:

> Underpinning the strong growth in digital music revenue is the global shift of music consumption to smartphone-based mobile platforms. Digital music has moved rapidly from a fixed line desktop PC experience to on-the-go consumption on wireless smartphones and tablet devices…. The smartphones boom is an unprecedented opportunity for the music business.

Management has launched a series of mobile ad campaigns across multiple ad platforms to promote brand awareness and drive mobile app installations. As its mobile user base expands and reaches competitive critical mass, the company's marketing efforts will focus on promoting increased frequency and duration of use in order to continue to engage its users.

StationDigital Can Be Accessed Through Various Platforms



Source: Company reports, Zacks

Additionally, as technology enables digital media consumption in automobiles, as well as in the home, StationDigital aspires to expand its service to these platforms. The company has development deals with several major digital set-top box manufacturers, including Roku, Western Digital and Chromecast. Management is also in 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 and others have done, as well as to expand to international markets.

INDUSTRY HISTORY

Recorded music generates roughly $15 billion in worldwide revenue for the music industry. The five top markets are the U.S., which is also the largest music exporter, Japan, the U.K., France and Germany. Together, they account for about 75% of total recorded music sales, with the U.S. alone accounting for over 35%. Local music accounts for the lions' share of sales in the U.S. and Japan, while France, the U.K. and Germany consume a higher percentage of music from international artists.

The industry has undergone substantial consolidation since 2004, as standalone music companies have struggled against a dramatically shifting landscape that is transitioning to digital and simultaneously coping with rising piracy and economic uncertainty.

The Record Labels

The world's four largest record labels are Universal, Sony, EMI and Warner Music Group, which account for a combined roughly 76% of worldwide recorded music sales. Universal was the market leader, commanding a roughly 32% market share in 2012, according to Warner Music Group's public filings. Sony followed, with a 22% share. Warner Music held a roughly 15% share and EMI, which sold its recorded music division to Universal in September 2012, accounted for 7%.

Many of the labels grew out of movie studio parents. Warner Music, for example, was created in 1929 when Warner Bros. Pictures founded Music Publishers Holding Company to acquire rights to music for use in Warner Bros. movies. Warner Bros. extended its music industry presence in 1958 with the launch of Warner Bros. Records to distribute Warner Bros. movie soundtracks. The company grew over the years by signing new artists and through mergers and acquisitions such as Frank Sinatra's Reprise Records in 1963, Chappell & Intersong Music Group in 1987, Word Entertainment in 2002, Ryko in 2006 and a majority interest in Roadrunner Music Group in 2007.

Growth During the 1990s

From 1990 to 1999, the U.S. recorded music industry grew at an impressive 7.6% CAGR. This growth was driven primarily by a new replacement cycle, as people built their CD libraries to replace LPs and cassettes, and boosted by price increases. U.S. music sales peaked in 1999 at nearly $15 billion, and subsequently dropped to $11.5 billion by 2006. This contraction largely reflected, we believe, changing consumer habits towards digital consumption, rising Internet piracy and the decline of the specialty music store sales channel, which fell from 56% of total music sales in 1993 to 33% in 2003, while mass-market and other stores' grew their music sales share from 26% to 53%.

Industry's Rapid Transformation

During the early 2000s, the music label industry went through substantial transformation. In 2003, the labels collectively launched an aggressive campaign to curb piracy, focusing on impeding filing sharing by using encryption technologies, educating consumers and tracking both providers and consumers of pirated music to pursue legal remedies. France and the U.K., for example, two of the top five markets for music, have taken aggressive stances with ISPs by asking them to help curb online piracy. France has drafted a graduated response bill asking ISPs to warn abusers and to withhold internet access if they continue to share files. In July 2008 the British government brokered a memorandum of understanding between the recording and film industries and the six largest ISPs to reduce illegal file-sharing.

Battling the problems of piracy and changing distribution methods, the industry underwent substantial ownership transformation in the mid-2000s. In 2004, an investor group led by Edgar Bronfman, Jr., and including Thomas Lee Partners, Bain Capital, Providence Equity Partners and Music Capital Partners acquired Warner Music Group from Time Warner. The same year that Sony and BMG merged to form Sony BMG. In May 2007, private equity firm Terra Firma acquired EMI and in 2011, Access Industries acquired Warner Music Group. Universal purchased EMI's recorded music division in September 2012, as noted, and Warner Music purchased PLG in July 2013.

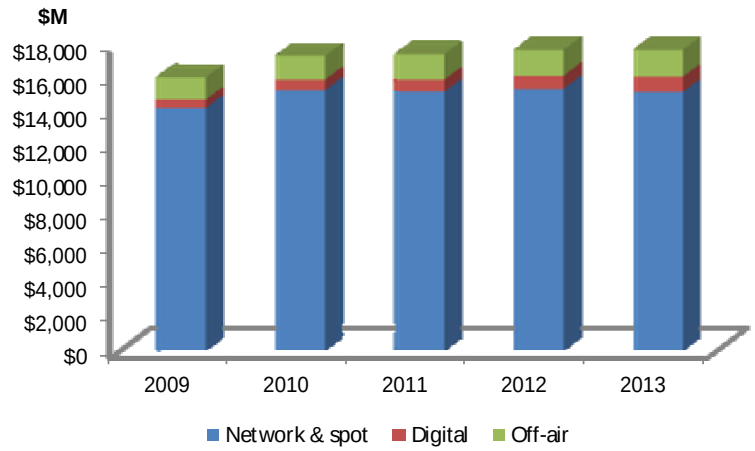
The Radio Industry Has Also Undergone Substantial Transformation

Similarly, the ownership concentration and composition of the radio industry has changed dramatically over the past decade, largely reflecting the growing importance of satellite and digital radio and significant industry consolidation. Although the way audiences listen to radio has changed with introduction of new technologies, radio has maintained a consistent level of consumer usage over the past ten years, according to most studies. On average, people consume more than two hours of radio daily, according to Nielsen. This is consistent with data from Veronis Suhler Stevenson indicating that in 2009, listeners averaged 13 hours a week listening to radio. Radio has accounted for approximately 80% of audio entertainment listening hours every year from 2002 to 2009, according to Veronis, Suhler Stevenson. Approximately 65% of consumer listening is done out-of-home, either during the morning and evening commutes or while in at work.

Despite the fragmentation, with digital and satellite radio impacting the way consumers tune-in, terrestrial radio remains the single most important venue. Radio advertising revenue has stayed fairly stable at roughly 8.0% to 10.0% of the overall domestic ad market, according to RAB, reaching an

industry total of $17.6 billion in 2013. That said, overall ad sales plummeted during the economic recession for media across the board. Radio industry revenue fell by 18% in 2009 and has still not fully recovered to pre-recession levels.

Radio Industry Revenue Trends, 2009-2012



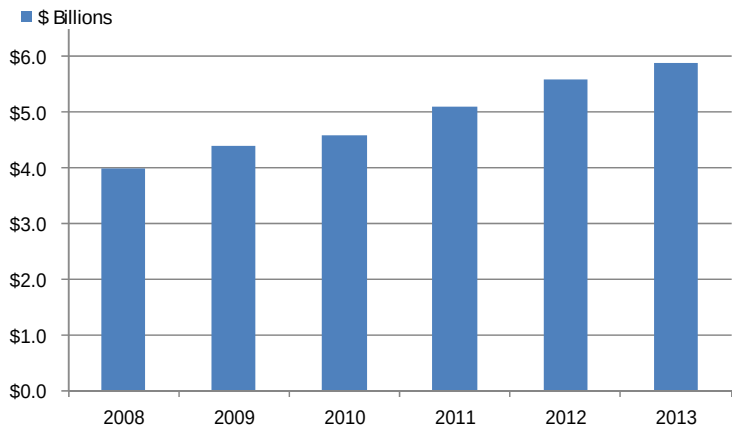
Source: RAB

The growing inroads by digital, overall fragmentation and recession have had a significant impact on the radio industry. Citadel, which had been a leading radio operator, filed for chapter 11 bankruptcy In December of 2009. In June of 2010, its reorganization plan became effective and in March of 2011, Citadel agreed to be acquired by Cumulus. Citadel had assumed significant leverage to finance its 2006 acquisition of the ABC radio stations. Citadel Broadcasting's 2009 filing of Chapter 11 reflected the overall problems facing many terrestrial operators, in our view, with fragmentation and economic recession.

DIGITAL TRANSITION

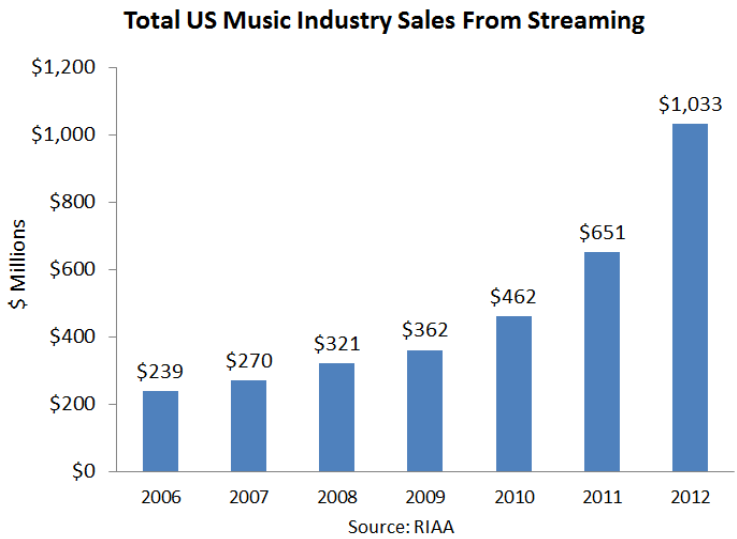
Much of the change in the record label and radio industries can be attributed to the rapid rise of digital consumption of music. While satellite had started to chip away at the traditional terrestrial radio model in the early 2000s, digital began to make an impact beginning in the late 2000s. It has become the fastest growing segment of radio, according to the Radio Advertising Bureau (RAB), as well as the fastest growing mode of consumer consumption of music.

Global Digital Revenue



Source: IFPI

According to IFPI, driven primarily by the shift to mobile consumption, the global music industry's digital revenues grew by 4.3% in 2013 to $5.9 billion, as illustrated in the chart above. Revenues and user numbers for subscription services continued to grow dramatically, as did ad-supported services such as StationDigital, while download sales showed modest increases in most markets. Globally, digital now accounts for 39% of total industry global revenues, up from only 2% in 2004. In three of the world's top 10 markets, digital channels account for the majority of revenues. Although overall revenue was up only modestly in the U.S. in 2013, digital revenues grew by 3.4%. Digital now represents 60% of the domestic market, the world's largest music market, with roughly 15% from streaming music, which includes subscription services, on demand streaming services, and Internet and satellite radio, according to RIAA. As a percentage of total sales, we believe recorded music generates more revenue through digital platforms than newspapers, magazines and movies.



Streaming Helps Grow The Number of Legitimate Paying Listeners

The music industry has sought to develop ways to boost legitimate online and mobile music consumption and subscription services, which have enjoyed strong growth, have helped. The subscription model is leading to more consumers paying for music, many of whom appear to be shifting from pirate services to a licensed model. The number of paying subscribers to subscription services rose to 28 million in 2013, up 40% versus 2012 and up from only eight million in 2010. Revenue from ad-supported streaming services rose 17.6% in 2013. Total revenues from music subscription services, including ad supported services and paid-for subscriptions, grew by 51.3% in 2013, according to IFPI. In the U.S., 2013 music streaming revenue rose 32%, according to Nielsen[1], with digital down 6% and physical music sales down 13%. U.S. subscription revenue passed $1 billion for the first time. The industry now generates 27% of its digital revenues from subscription and ad-supported streaming services, up from 14% in 2011.

But Piracy Persists

Despite the growth in legitimate digital revenue, with rising penetration of broadband Internet usage, online piracy remains a challenge. Digital files can be shared through anonymous P2P file sharing networks or burned onto multiple CDs for illegal physical distribution. Many file sharing networks, such as KaZaA and Limewire, have been closed down but there are still others that contribute to piracy.

[1] U.S. Music Industry Year-End Review: 2013

Royalty Rates

The Copyright Royalty Board's (CRB) sets the fee structure that services such as StationDigital pay to content aggregators and performing rights organizations. The current fee structure remains in place through 2015. Upcoming negotiations will determine the rate schedule for royalties paid from 2016-2020. Earlier this month, SoundExchange, the performance rights organization that administers digital royalties, filed its written case for CRB for the rate-setting proceeding that will determine the rates and terms post-2015. An initial decision is due from the CRB by December 15, 2015.

COMPETITION

Pandora is generally credited with pioneering the music streaming industry. In 2000, Pandora started the Music Genome Project, developing algorithms for building personalized playlists for its listeners, based on its analysis and feedback data from listeners. In July 2005, Pandora launched commercially as a free, ad-supported internet radio service. In May 2007 Pandora introduced the first mobile version of its service, primarily for use on cellphones. StationDigital competes with Pandora, as well as with other streaming services, digital radio operators, satellite and terrestrial radio. Although it is early days for streaming services, there are already a number of players in the market, which is led by Pandora. Management expects its service to stand apart, reflecting its one-stop shopping approach to content, with music videos, TV and movies, in addition to music, combined with the value of its rewards program and the convenience of its online store, which is expected to become another revenue stream for the company.

Reflecting the growing importance of streaming services, in recent months, there has been a flurry of M&A activity in this space. Larger technology companies have sought to gain a presence, as the industry shift continues. For example, Apple purchased Beats, Google acquired Songza and, according to the Financial Times, Twitter has considered buying Soundcloud or Spotify, after it shuttered Twitter Music. Increased M&A interest from well-capitalized companies could have positive implications for StationDigital down the road, we believe, if a larger player finds that its particular innovations would be add value.

Pandora

Pandora (P-not rated) is the domestic leader in internet radio, with a market share above 60%. With its Genome Project, Pandora pioneered the ability for users to customize radio with playlists, discovery and recommendation based on a complex array of coded metrics. The Pandora service launched commercially in 2005 and has grown to over 200 million registered users and 76 million active users. Pandora ranks #1 of internet radio listening time, according to the Radio Advertising Bureau. Pandora introduced its mobile service in In May 2007. It launched a comedy service in May 2011, leveraging similar technology to that of the Music Genome Project. The service allows listeners to choose a favorite comedian or a genre to start a station and then personalize that station through feedback to Pandora. Over 75% of Pandora's usage is from mobile devices.

Apple

Apple's (AAPL-not rated) iTunes was the first disruptor of the traditional music consumption model. The company obtained rights from the labels and provided $0.99 music downloads. While Apple dominated the digital landscape for a long time, Pandora changed the industry again when it started the Music Genome Project in 2000 and subsequently launched an ad supported subscription service. Apple recently acquired headphone company Beats for $3 billion. Beats was founded by Dr. Dre. With the Beats acquisition, Apple has acquired an iconic brand. Beats Music launched on January 12, 2014 for a $15 per month family plan exclusively through AT&T and $9.99 individual plan. In addition, Apple also has free to consumer service iRadio.

Spotify

Founded in 2006, Sweden's privately-held Spotify ranks #1 in paid music subscriptions, with six million subscribers. Spotify also offers a free service that promotes user to upgrade to the paid-for service for premium content and services. Spotify has a growing international presence and just launched in Canada. In May 2014, Spotify announced that it had reached 10 million paying subscribers, with 40 million overall, according to trade publications. Earlier this year, Spotify acquired music intelligence company, Echo Nest, in a deal that trade publications have reported at paid a reported $100 million. Echo Nest has developed sophisticated technology to better recommend music based listeners' preferences. The company apparently has sought to hire a U.S. filings expert recently, perhaps in preparation for an IPO down the road.

Amazon Prime

Amazon Prime is an online membership club that offers members access to its various products for a $99 annual fee. It operates on a similar model to club warehouses. Amazon Prime's online membership gives consumers access to free shipping, unlimited content streaming and, through Kindle, eBooks.

IHeartRadio

Clear Channel Communications, the country's largest radio operator, started iHeartRadio in 2008 to develop a presence in the growing digital radio space. Clear Channel's recent name change to iHeartMedia (IHRT-not rated) signals, we believe, the growing importance of digital versus the company's legacy terrestrial radio business. Its ad-supported app provides access to both live terrestrial radio stations and digital streaming stations. It is. It ranks #2 behind Pandora, according to the RAB October 2013 rankings.

Rdio

Launched in August 2010 by Skype co-founder Janus Friis, Rdio is a digital music service that provides on-demand access to more than 20 million songs. In 2013, Rdio signed a deal with Cumulus, giving Cumulus a stake in Rdio in exchange for exclusive content, media and on-air promotional support and Rdio's access to Cumulus' sales team. Cumulus will sell advertising across Rdio's platform for a commission in exchange for a 15% equity stake. Rdio's free service launched last month in the U.S. Rdio also has a subscription service for $9.99 per month.

Rhapsody

Rhapsody was introduced in 2007 as a joint venture between RealNetworks (RNWK-not rated) and MTV, with RealNetworks holding a controlling 51% stake. In 2010, Rhapsody restructured, downsizing its headcount and changing its management. In conjunction with the restructuring, RealNetworks' stake declined and is now about 45%. Rhapsody acquired Napster in 2011. In addition to a subscription streaming service, Rhapsody also recently launched an internet radio service, unRadio, with T-Mobile (TMUS-not rated). Rhapsody offers a 2-week free trial to its paid-for subscription service and has a catalog of more than 32 million songs. In July, Rhapsody announced that it had reached two million subscribers.

Slacker

Led by executives who have experience at Nintendo, Disney and Yahoo, among other media and entertainment companies, Slacker was started in 2004 and officially launched in 2007. Its marketing indicates that it has over 10 times the amount of music that Pandora has. With Slacker, users can create and share their own music stations. Slacker offers both an ad supported free to consumer service, as well as a subscription model.

Songza

Songza launched in 2011, the successor to a prior download service called Amie Street that was created by the same team. Google acquired Songza in July 2014 for an estimated $39+ million, according to trade publications. Songza differentiates itself by offering music playlists for the time of day, the mood, or activity of the listener. It has a deal with the Weather Channel that allows Songza to customize music recommendations to a listener's weather conditions. Google has indicated that, while it has no immediate changes planned, it may begin to incorporate Songza into other Google services such as Google Play Music or YouTube.

Google Play All Access

Google Play Music All Access is a $9.99 per month service that allows users to stream music from its 20 million plus song catalog. Users can create a station with unlimited skips, based on any artist, album or song. Moreover, Google Play All Access allows mobile users to access the music that they have uploaded through their iOS or Android apps, in addition to the service's catalog.

STRATEGY

What Differentiates StationDigital?

It is still early days in music streaming. Although there are many competitors and new entrants, we believe there is still 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, iHeart Media and Spotify, for example, focus on music, while Netflix (NFLX-not rated) and Hulu focus on video. 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.

FUNDING

Similar to many other companies at their early stage of development, StationDigital has funded its operations through short-term financing, including the issuance of equity, debt and convertible notes. Through June 30, 2014, the company had raised $1.4 million through the issuance of equity and debt. Most recently on July 2, 2014, StationDigital issued a convertible note for $500,000 with warrant coverage. Management plans to raise up to an additional $1.5 million using the same deal structure. Some of the projects for which the funds are earmarked include the planned build-out of the executive management team, expansion of the StationDigital content offerings and marketing to grow the subscriber base. The Company had $249,946 cash on its balance sheet, as of June 30, 2104.

FINANCIAL HISTORY

As an emerging company, StationDigital has not generated any meaningful revenue yet, as the company continues to improve its ad publishing platform and build out its direct sales force. The company's advertising revenue was $39,054 in the three months ended June 30, 2014. The service did not launch until September 2013, so there was no revenue registered in the three months ended June 30, 2013. The company's cost of revenue in the quarter ended June 30, 2014 was $215,954, up from $136,794 in the prior year quarter. Operating expenses, comprised of product development costs, sales and marketing and general and administrative expenses, were $3,262,856, up from $50,530. The company recorded a net loss of ($3,455,414) versus a net loss of ($187,324) in the prior year quarter.

For the first six months of 2014, StationDigital's cost of revenue was $428,885 versus $225,090 registered in the comparable period of 2013. Operating expenses were $4,429,281, up from $125,886. As a result, the Company incurred a net loss of ($4,818,263) versus ($350,976) registered in the first six months of 2013. The company has indicated that the newly hired CFO would help execute the growth strategy, while simultaneously reducing operational expenses in order to improve profits.

Outlook

We believe revenue could be lumpy over the next several quarters. For 2014, we project $128,983, growing to an estimated $257,965 in 2015. Our forecasts could prove conservative or aggressive, depending on the timing of accelerated marketing efforts to drive user growth.

VALUATION

StationDigital's founder has extensive industry experience, but the company itself has only a short operating history, as noted. We believe this is one factor that makes comparing it to other companies in the sector difficult. Pandora, for example, has a nearly 10 year history and therefore would not be a direct benchmark for a start-up such as StationDigital, which in success would likely have a higher growth rate in these early years, in our view.

StationDigital Peer Analysis

		10/9/2014	52-Week		Revenue ($M)			EPS		
Company	Ticker	Price	High	Low	2013A	2014E	2015E	2013A	2014E	2015E
Amazon	AMZN	315.37	408.06	284.38	74,450	90,900	109,220	0.59	(0.10)	1.92
Apple	AAPL	101.02	103.74	68.33	170,910	180,370	202,410	5.68	6.33	7.29
Cumulus Media	CMLS	3.37	8.19	3.34	1,030	1,290	1,310	0.29	0.23	0.44
iHeart Media	IHRT	8.36	9.40	5.00	6,240	6,360	6,420	(7.80)	(9.16)	(6.39)
Pandora	P	22.72	40.44	21.47	648	912	1,200	0.06	0.18	0.51
Sirius/XM	SIRI	3.28	4.18	2.98	3,800	4,150	4,460	0.06	0.08	0.11

		Mkt	EV / Revenue			P/E		
	FY	Cap ($M)						
Amazon	Dec	145,714	1.9x	1.6x	1.3x	534.5x	nm	164.3x
Apple	Sep	605,110	3.6x	3.4x	3.0x	17.8x	16.0x	13.9x
Cumulus Media	Dec	782	3.2x	2.6x	2.5x	11.6x	14.7x	7.7x
iHeart Media	Dec	743	3.3x	3.2x	3.2x	nm	nm	nm
Pandora	Dec	4,691	6.6x	5.1x	3.9x	378.7x	126.2x	44.5x
Sirius/XM	Dec	18,598	5.7x	4.5x	4.2x	54.7x	41.0x	29.8x

Source: Company reports, Yahoo Finance, Zacks

In the near-term, we believe this expected growth might be lumpy, reflecting the timing of the company's marketing campaigns. Therefore, we initiate coverage with a Hold rating and $0.45 price target, despite our favorable view of the company's opportunity to penetrate a young, rapidly growing market with its differentiated product. We also believe the shares are attractive on an EV / user basis. On this metric, our $0.45 price target equates to only about $9.40, which would put SDIG shares well below Pandora's roughly $17.00 on that metric, despite what we would expect to be substantially higher near-term growth, in success.

StationDigital is still a "show me" story at this early stage, in our view. Nevertheless, we believe the content streaming market is still young enough and growing rapidly, so that a new entrant with an innovative offering can benefit. In our view, **the shares represent an option on the company's ability to capitalize on this rapid growth.** Interest from larger companies underscores the niche's attractive growth prospects, in our view. There are only a few ways for investors to gain exposure to this space and SDIG represents one of the few pure plays, we believe. At the current price, we believe the risk / reward ratio on SDIG shares could be attractive for investors who want exposure to this niche and have a higher than average risk tolerance and longer time horizon.

MANAGEMENT

Founder Tim Roberts, the company's founder, has more than 20 years of technology industry experience, having held various executive positions at several different firms and launching several prior start-ups. Before starting StationDigital, he founded a company called Savvis Communications, which was sold to Century Link in 2011 for $2.5 billion. He also founded Intira Corporation, which sold enterprise hosting/data centers. On June 13, 2014, he resigned as CEO and Chairman of StationDigital and assumed a non-officer, employee role as Founder and Master Digital Architect. At the same time, he also divested his ownership stake to less than 10% of the company's shares, selling a 38.8% stake in the common shares to Digital Trending Investing Fund.

CEO When the founder stepped down, Lou Rossi was hired to assume the role of Chairman of the Board and CEO. He is a technology industry veteran, who held prior CEO positions with CCPrep.com and Qoncert. During his time as CEO of CCPrep.com, he negotiated and closed the sale of CCPrep.com to Earthweb Incorporated for $3.25 million. In 2003 he repurchased CCPrep.com from Earthweb and formed a sister company, Qoncert, an IT Integration firm. In 2013, he broke the company apart and sold the various operating units to other firms. He has also authored several books revolving around Cisco Certification and LAN Switching.

CFO Steve Marr has more than 30-years of experience in finance. He was the CFO engagement director for St. Louis-based Stone Carlie, a wealth management and consulting company, prior to joining StationDigital. Before that, he held positions as controller of a $700 million global automobile components manufacturing company and finance director of a $750 million printing and electronic media company.

RELATED FINANCIAL TRANSACTIONS

Similar to many other companies under private control, there were significant inter-company and/or services that one related company provided to another. In this particular case, the company's founder, Tim Roberts, had borrowed funds from StationDigital. He had completely repaid the loan by June 2014.

In addition, the company that StationDigital has engaged to develop its eStore, CloudWebStore, is a related company that is controlled by its founder and former CEO.

As of June 30, 2014, the company owed GoldenHeart Holdings and GHH Commerce, two companies that are also controlled by Tim Roberts, $2,662,539 (down from $5,676,478, as of December 31, 2013) and $367,890 (down from $416,183, as of December 31, 2013), respectively.

RECENT NEWS

On June 12, 2014, the company's founder, Tim Roberts, sold 1.68 million of his common shares and 56 of preferred shares to Digital Trending Investment Fund, LLC. This led to a change of control whereby Digital Trending Investment Fund has become the company's single largest shareholder and controls 63% of the vote. Digital Trending Fund is controlled by John Landino, Sr.

On June 16, 2014, the company appointed Lou Rossi to replace founder Tim Roberts as CEO.

On June 30, 2014, StationDigital moved its corporate headquarters from Los Angeles to St. Louis

On July 2, 2014, SDGI issued a convertible note for $500,000 and indicated that it intends to raise up to an additional $1.5 million via this deal structure for an aggregate of $2.0 million.

On July 8, 2014, the company engaged a new auditor, De Joya Griffith, LLC.

On August 21, 2014, StationDigital announced that FINRA had approved a 17.6471 for 1 stock split. For each share held, shareholders received 16.6471 additional shares.

On September 2, 2014, the company appointed Steve Marr to be its Chief Financial Officer.

INSIDE OWNERSHIP

Insider Ownership

	Share Class	Number of Shares Owned	% of Class
Digital Trending Investment Fund	Common Stock	1,683,000	38.8%
	Series A Preferred Stock	56	100.0%
Sir Michael Marshall	Common Stock	705,612	16.3%
Lou Rossi	Common Stock	175,666	4.0%
Terrance Taylor	Common Stock	119,000	2.7%
Edward Storm	Common Stock	30,033	
Timothy M. Roberts	Common Stock	426,894	9.8%
All Officers and Directors as a Group (3 persons)		324,699	7.5%

When StationDigital applied for FINRA approval for a name change, ticker symbol change and 17.6471 forward stock split, FINRA indicated that the company's founder needed to divest his holdings as majority shareholder and could not serve as an officer or director. He resigned on June 13, 2014 and assumed a non-officer role. He also divested his ownership stake to under 10%, by selling to Digital Investment Fund.

This made Digital Trending Investment Fund the largest holder of SDIG shares, with a 38.8% stake. In addition, the fund also owns all of the series A preferred shares, which have super-voting rights. As a result, Digital Trending Investment Fund controls the deciding 63% of the vote. Behind Digital Trending Investment Fund's leading ownership stake, Sir Michael Marshall holds a 16.3% stake of StationDigital capital. He is the Chairman of privately held Marshall of Cambridge Limited, which includes Marshall Aerospace and Marshall Specialist Vehicles.

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	3Q14E	4Q14E	2014E	2015E
Advertising revenue	$16,507	$39,054	$31,243	$42,178	$128,983	$257,965
Cost of revenue	212,931	215,954	172,763	233,230	834,879	773,895
Gross loss	(196,424)	(176,900)	(141,520)	(191,052)	(705,896)	(515,930)
Product development cost	89,549	405,270	324,216	437,692	1,256,727	1,382,399
Sales and marketing	945,432	2,041,636	1,633,309	2,204,967	6,825,344	7,507,878
General and administrative	131,444	815,950	652,760	881,226	2,481,380	2,729,518
Total operating expenses	1,166,425	3,262,856	2,610,285	3,523,884	10,563,450	11,619,795
Loss from operations	(1,362,849)	(3,439,756)	(2,751,805)	(3,714,936)	(11,269,346)	(12,135,725)
Other expense	-	(15,658)	(15,971)	(21,561)	(53,190)	(56,382)
Net loss	(1,362,849)	(3,455,414)	(2,767,776)	(3,736,498)	(11,322,537)	(12,192,107)
LPS	($0.02)	($0.04)	($0.03)	($0.05)	($0.14)	($0.15)
Avg. shares out	82,341,826	82,341,826	82,341,826	82,341,826	82,341,826	82,341,826

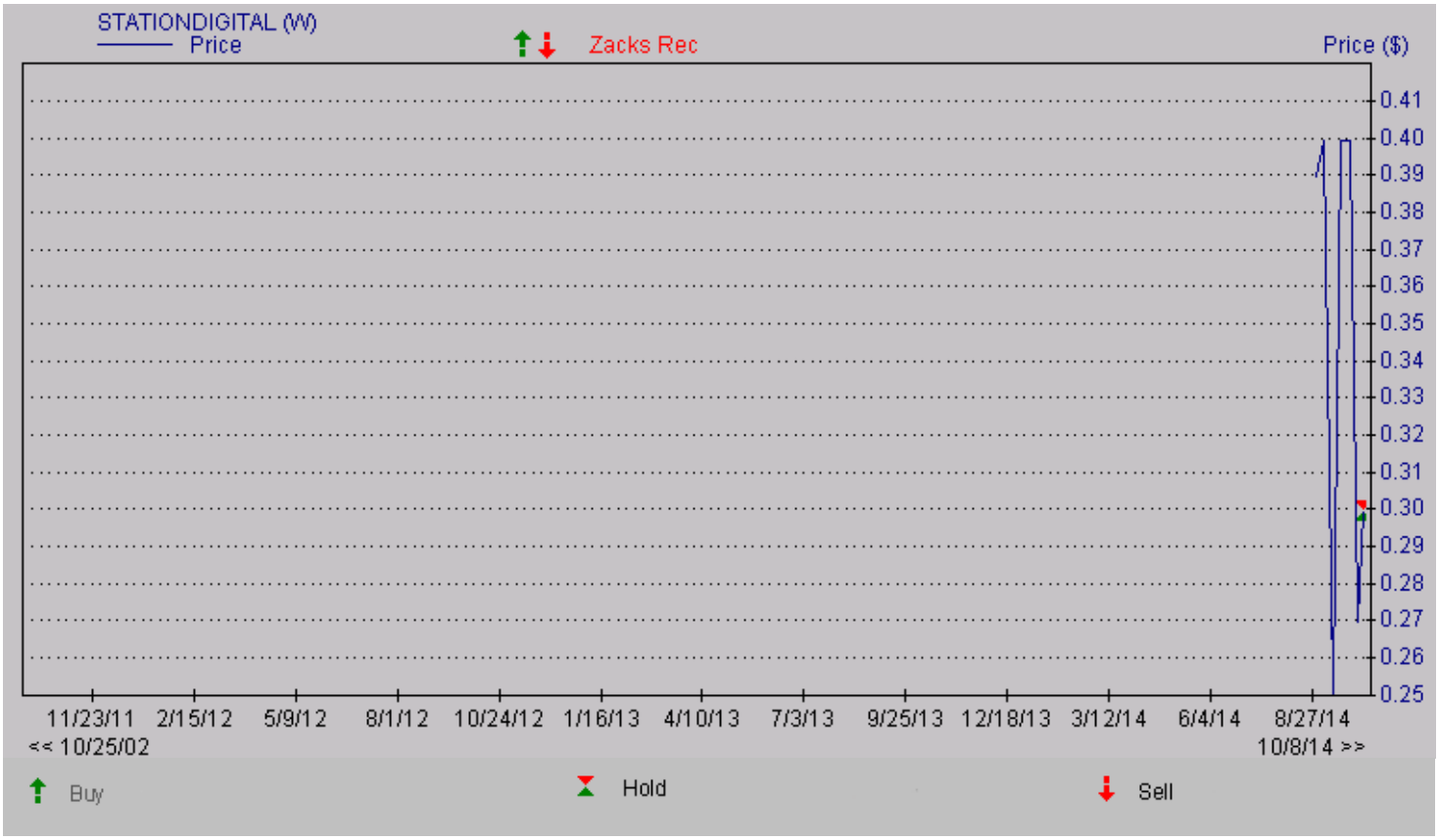
Pro forma for 17.6471 stock split

StationDigital Corporation Balance Sheet ($)

	4Q13	2Q14
Cash	5,687	249,946
Prepaid consulting services	-	168,167
Deposit	1,000	-
Accounts receivable	-	9,200
Total current assets	6,687	427,313
Property & equipment	41,865	34,374
Website development costs	229,884	394,252
Total assets	**$278,436**	**$855,939**
Accounts payable	634,097	3,789,269
Advances from stockholder	-	85,837
Payroll Liabilities	-	96,307
Derivative liability	-	8,308
Convertible note payable	-	491,692
Payable to GHH Commerce	416,183	367,890
Total current liabilities	1,050,280	4,839,303
Note Payable - GoldenHeart Hold'gs	5,676,478	2,662,539
Total Liabilities	**6,726,758**	**7,501,842**
Total stockholders' deficit	(6,448,322)	(6,645,903)
Liabilities & stockholders' deficit	**$278,436**	**$855,939**

Source: Company reports, Zacks

HISTORICAL ZACKS RECOMMENDATIONS



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