ACCESS INTEGRATED TECHNOLOGIES INC
Form 10-Q
November 07, 2008

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

# FORM 10-Q

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

For the quarterly period ended: September 30, 2008

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

Commission File Number: 000-51910

Access Integrated Technologies, Inc.
(Exact Name of Registrant as Specified in its Charter)

| Delaware | 22-3720962 |
|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

55 Madison Avenue, Suite 300, Morristown New Jersey 07960
(Address of Principal Executive Offices, Zip Code)

(973-290-0080)
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated

filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of November 6, 2008, 26,832,651 shares of Class A Common Stock, $0.001 par value, and 733,811 shares of Class B Common Stock, $0.001 par value, were outstanding.

ACCESS INTEGRATED TECHNOLOGIES, INC.
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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

ACCESS INTEGRATED TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except for share data)

| ASSETS | March 31, 2008 | September 30, 2008 (Unaudited) |
|---|---|---|
| Current assets | | |
| Cash and cash equivalents | $ 29,655 | $ 23,147 |
| Accounts receivable, net | 21,494 | 17,309 |
| Unbilled revenue, current portion | 6,393 | 5,263 |
| Deferred costs, current portion | 3,859 | 3,807 |
| Prepaid and other current assets | 1,316 | 2,851 |
| Note receivable, current portion | 158 | 280 |
| Total current assets | 62,875 | 52,657 |
| | | |
| Property and equipment, net | 269,031 | 254,265 |
| Intangible assets, net | 13,592 | 11,744 |
| Capitalized software costs, net | 2,777 | 2,898 |
| Goodwill | 14,549 | 14,549 |
| Deferred costs, net of current portion | 6,595 | 5,360 |
| Unbilled revenue, net of current portion | 2,075 | 1,887 |
| Note receivable, net of current portion | 1,220 | 1,037 |
| Security deposits | 408 | 425 |
| Accounts receivable, net of current portion | 299 | 299 |
| Restricted cash | 255 | 255 |
| Fair value of interest rate swap | — | 1,565 |
| Total assets | $ 373,676 | $ 346,941 |

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

ACCESS INTEGRATED TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except for share data)
(continued)

| | March 31, 2008 | September 30, 2008 |
|---|---|---|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | (Unaudited) |
| | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | $ 25,213 | $ 11,335 |
| Current portion of notes payable | 16,998 | 24,320 |
| Current portion of deferred revenue | 6,204 | 5,797 |
| Current portion of customer security deposits | 333 | 354 |
| Current portion of capital leases | 89 | 123 |
| Total current liabilities | 48,837 | 41,929 |
| | | |
| Notes payable, net of current portion | 250,689 | 238,609 |
| Capital leases, net of current portion | 5,814 | 5,819 |
| Deferred revenue, net of current portion | 283 | 283 |
| Customer security deposits, net of current portion | 46 | 34 |
| Total liabilities | 305,669 | 286,674 |
| | | |
| Commitments and contingencies (see Note 7) | | |
| | | |
| Stockholders' Equity | | |
| Class A common stock, $0.001 par value per share; 40,000,000 and 65,000,000 shares authorized at March 31, 2008 and September 30, 2008, respectively; 26,143,612 and 26,884,091 shares issued and 26,092,172 and 26,832,651 shares outstanding at March 31, 2008 and September 30, 2008, respectively | 26 | 27 |
| Class B common stock, $0.001 par value per share; 15,000,000 shares authorized; 733,811 shares issued and outstanding at March 31, 2008 and September 30, 2008, respectively | 1 | 1 |
| Additional paid-in capital | 168,844 | 171,684 |
| Treasury stock, at cost; 51,440 Class A shares | (172) | (172) |
| Accumulated deficit | (100,692) | (111,273) |
| Total stockholders' equity | 68,007 | 60,267 |
| Total liabilities and stockholders' equity | $ 373,676 | $ 346,941 |

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

ACCESS INTEGRATED TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except for share and per share data)
(Unaudited)

| | For the Three Months Ended September 30, | | For the Six Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2008 | 2007 | 2008 |
| Revenues | $ 19,466 | $ 21,849 | $ 37,612 | $ 42,419 |
| | | | | |
| Costs and Expenses: | | | | |
| Direct operating (exclusive of depreciation and amortization shown below) | 6,984 | 6,732 | 13,190 | 12,529 |
| Selling, general and administrative | 5,479 | 4,187 | 11,037 | 9,020 |
| Provision for doubtful accounts | 184 | 145 | 370 | 173 |
| Research and development | 100 | 93 | 323 | 100 |
| Stock-based compensation | 112 | 200 | 199 | 358 |
| Depreciation of property and equipment | 6,805 | 8,133 | 12,930 | 16,268 |
| Amortization of intangible assets | 1,069 | 901 | 2,139 | 1,848 |
| Total operating expenses | 20,733 | 20,391 | 40,188 | 40,296 |
| (Loss) income from operations | (1,267) | 1,458 | (2,576) | 2,123 |
| Interest income | 405 | 99 | 726 | 223 |
| Interest expense | (7,083) | (6,990) | (12,827) | (14,166) |
| Debt refinancing expense | (1,122) | — | (1,122) | — |
| Other expense, net | (190) | (176) | (301) | (326) |
| Change in fair value of interest rate swap | — | (687) | — | 1,565 |
| Net loss | $ (9,257) | $ (6,296) | $ (16,100) | $ (10,581) |
| | | | | |
| Net loss per Class A and Class B common share - basic and diluted | $ (0.37) | $ (0.23) | $ (0.64) | $ (0.39) |
| | | | | |
| Weighted average number of Class A and Class B common shares outstanding: | | | | |
| Basic and diluted | 25,338,550 | 27,536,371 | 25,050,081 | 27,202,593 |

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

ACCESS INTEGRATED TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (Unaudited)

| | For the Six Months Ended September 30, | |
|---|---|---|
| | 2007 | 2008 |
| Cash flows from operating activities | | |
| Net loss | $ (16,100) | $ (10,581) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Loss on disposal of property and equipment | 47 | 79 |
| Depreciation of property and equipment and amortization of intangible assets | 15,069 | 18,116 |
| Amortization of software development costs | 295 | 387 |
| Amortization of debt issuance costs included in interest expense | 718 | 749 |
| Provision for doubtful accounts | 370 | 173 |
| Stock-based compensation | 199 | 358 |
| Non-cash interest expense | 2,181 | 3,018 |
| Debt refinancing expense | 1,122 | — |
| Change in fair value of interest rate swap | — | (1,565) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,921) | 4,012 |
| Unbilled revenue | (3,554) | 1,318 |
| Prepaids and other current assets | (282) | (1,535) |
| Other assets | (82) | 150 |
| Accounts payable and accrued expenses | (1,633) | 943 |
| Deferred revenue | 1,566 | (407) |
| Other liabilities | 209 | 9 |
| Net cash (used in) provided by operating activities | (1,796) | 15,224 |
| | | |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (43,656) | (16,008) |
| Deposits paid for property and equipment | (14,600) | — |
| Additions to capitalized software costs | (537) | (508) |
| Acquisition of UniqueScreen Media, Inc. | (121) | — |
| Acquisition of The Bigger Picture | (15) | — |
| Additional purchase price for EZZI.net | (35) | — |
| Maturities and sales of available-for-sale securities | 4,000 | — |
| Purchase of available-for-sale securities | (4,000) | — |
| Net cash used in investing activities | (58,964) | (16,516) |
| | | |
| Cash flows from financing activities | | |
| Repayment of notes payable | (11,762) | (1,100) |
| Proceeds from notes payable | 51,491 | 200 |
| Repayment of credit facilities | — | (3,858) |
| Proceeds from credit facilities | 46,247 | — |
| Payments of debt issuance costs | (2,208) | (368) |
| Principal payments on capital leases | (36) | (53) |
| Costs associated with issuance of Class A common stock | (30) | (37) |
| Net proceeds from issuance of Class A common stock | 35 | — |

| | | | | |
|---|---|---|---|---|
| Net cash provided by (used in) financing activities | | 83,737 | | (5,216) |
| Net increase (decrease) in cash and cash equivalents | | 22,977 | | (6,508) |
| Cash and cash equivalents at beginning of period | | 29,376 | | 29,655 |
| Cash and cash equivalents at end of period | $ | 52,353 | $ | 23,147 |

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

ACCESS INTEGRATED TECHNOLOGIES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008
($ in thousands, except for per share data)

## 1. NATURE OF OPERATIONS

Access Integrated Technologies, Inc. ("AccessIT", and collectively with its subsidiaries, the "Company") was incorporated in Delaware on March 31, 2000. The Company provides fully managed storage, electronic delivery and software services and technology solutions for owners and distributors of digital content to movie theatres and other venues. The Company has three primary businesses, media services ("Media Services"), media content and entertainment ("Content & Entertainment") and other ("Other"). The Company's Media Services business provides software, services and technology solutions to the motion picture and television industries, primarily to facilitate the transition from analog (film) to digital cinema and has positioned the Company at what the Company believes to be the forefront of an industry relating to the delivery and management of digital cinema and other content to entertainment and other remote venues worldwide. The Company's Content & Entertainment business provides motion picture exhibition to the general public and cinema advertising and film distribution services to movie exhibitors. The Company's Other business provides hosting services and network access for other web hosting services ("Access Digital Server Assets"). Additional information related to the Company's reporting segments can be found in Note 9.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PRESENTATION AND CONSOLIDATION

The Company has incurred net losses historically and through the current period, and until recently, has used cash in operating activities, and has an accumulated deficit of $111,273 as of September 30, 2008. The Company also has significant contractual obligations related to its debt for the fiscal year 2009 and beyond. Management expects that the Company will continue to generate net losses for the foreseeable future. Certain of the Company's costs could be reduced if the Company's working capital requirements increased. Based on the Company's cash position at September 30, 2008, and expected cash flows from operations, management believes that the Company has the ability to meet its obligations through September 30, 2009. The Company is seeking to raise additional capital to refinance certain outstanding debt, and also for equipment requirements related to the Company's second digital cinema deployment (the "Phase II Deployment") or for working capital as necessary. Although the Company has recently entered into certain agreements related to the Phase II Deployment (see Note 10), there is no assurance that such financings will be completed as contemplated or under terms acceptable to the Company or its existing shareholders. Failure to generate additional revenues, raise additional capital or manage discretionary spending could have a material adverse effect on the Company's ability to continue as a going concern and to achieve its intended business objectives. The accompanying unaudited condensed consolidated financial statements do not reflect any adjustments which may result from the Company's inability to continue as a going concern.

The unaudited condensed consolidated financial statements were prepared following the interim reporting requirements of the Securities and Exchange Commission ("SEC"). As permitted under those rules, annual footnotes or other financial information that are normally required by accounting principles generally accepted in the United States of America ("GAAP"), have been condensed or omitted. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included.

The Company's unaudited condensed consolidated financial statements include the accounts of AccessIT, Access Digital Media, Inc. ("AccessDM"), Hollywood Software, Inc. d/b/a AccessIT Software ("AccessIT SW"), Core

Technology Services, Inc. (“Managed Services”), FiberSat Global Services, Inc. d/b/a AccessIT Satellite and Support Services (“AccessIT Satellite”), ADM Cinema Corporation (“ADM Cinema”) d/b/a the Pavilion Theatre (the “Pavilion Theatre”), Christie/AIX, Inc. d/b/a AccessIT Digital Cinema (“AccessIT DC”), PLX Acquisition Corp., UniqueScreen Media, Inc. d/b/a AccessIT Advertising and Creative Services (“ACS”), Vistachiara Productions, Inc. d/b/a The Bigger Picture (“The Bigger Picture”) and Access Digital Cinema Phase 2 Corp. (“Phase 2 DC Corp”). AccessDM and AccessIT Satellite are together referred to as the Digital Media Services Division (“DMS”). All intercompany transactions and balances have been eliminated.



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The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. On an on-going basis, the Company evaluates its estimates, including those related to the carrying values of its long-lived assets, intangible assets and goodwill, the valuation of deferred tax assets, the valuation of assets acquired and liabilities assumed in purchase business combinations, stock-based compensation expense, revenue recognition and capitalization of software development costs. The Company bases its estimates on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ materially from these estimates under different assumptions or conditions.

The results of operations for the respective interim periods are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in AccessIT's Annual Report on Form 10-K for the fiscal year ended March 31, 2008 filed with the SEC on June 16, 2008 and as amended on June 26, 2008 and on September 11, 2008 (the "Form 10-K").

REVENUE RECOGNITION

Media Services

Media Services revenues are generated as follows:

| Revenues consist of: | Accounted for in accordance with: |
|---|---|
| Virtual print fees ("VPFs") and alternative content fees ("ACFs"). | Staff Accounting Bulletin ("SAB") No. 104 "Revenue Recognition in Financial Statements" ("SAB No. 104"). |
| Software multi-element licensing arrangements, software maintenance contracts, and professional consulting services, which includes systems implementation, training, and other professional services, delivery revenues via satellite and hard drive, data encryption and preparation fee revenues, satellite network monitoring and maintenance fees. | Statement of Position ("SOP") 97-2, "Software Revenue Recognition" |
| Custom software development services. | SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" ("SOP 81-1") |
| Customer licenses and application service provider ("ASP Service") agreements. | SAB No. 104 |

VPFs are earned pursuant to contracts with movie studios and distributors, whereby amounts are payable to AccessIT DC according to a fixed fee schedule, when movies distributed by the studio are displayed on screens utilizing the Company's digital cinema equipment (the "Systems") installed in movie theatres. AccessIT DC is entitled to one VPF for every movie title displayed per System. The amount of VPF revenue is therefore dependent on the number of movie titles released and displayed on the Systems in any given accounting period. VPF revenue is recognized in the period in which the movie first opens for general audience viewing in that digitally-equipped movie theatre, as AccessIT DC's performance obligation has been substantially met at that time.

ACFs are earned pursuant to contracts with movie exhibitors, whereby amounts are payable to AccessIT DC, generally as a percentage of the applicable box office revenue derived from the exhibitor's showing of content other than feature films, such as concerts and sporting events (typically referred to as "alternative content"). ACF revenue is recognized in the period in which the alternative content opens for audience viewing.

For software multi-element licensing arrangements that do not require significant production, modification or customization of the licensed software, revenue is recognized for the various elements as follows: Revenue for the licensed software element is recognized upon delivery and acceptance of the licensed software product, as that represents the culmination of the earnings process and the Company has no further obligations to the customer, relative to the software license. Revenue earned from consulting services is recognized upon the performance and

completion of these services. Revenue earned from annual software maintenance is recognized ratably over the maintenance term (typically one year).

Revenues relating to customized software development contracts are recognized on a percentage-of-completion method of accounting in accordance with SOP 81-1.

Deferred revenue is recorded in cases where: (1) a portion or the entire contract amount cannot be recognized as revenue, due to non-delivery or acceptance of licensed software or custom programming, (2) incomplete implementation of ASP Service arrangements, or (3) unexpired pro-rata periods of maintenance, minimum ASP Service fees or website subscription fees. As license fees, maintenance fees, minimum ASP Service fees and website subscription fees are often paid in advance, a portion of this revenue is deferred until the contract ends. Such amounts are classified as deferred revenue and are recognized as revenue in accordance with the Company's revenue recognition policies described above.

Managed Services' revenues, which consist of monthly recurring billings pursuant to network monitoring and maintenance contracts, are recognized as revenues in the month earned, and other non-recurring billings are recognized on a time and materials basis as revenues in the period in which the services were provided.

Content & Entertainment

Content & Entertainment revenues are generated as follows:

| Revenues consist of: | Accounted for in accordance with: |
| --- | --- |
| Movie theatre admission and concession revenues. | SAB No. 104 |
| Cinema advertising service revenues and distribution fee revenues. | SOP 00-2, "Accounting by Producers or Distributors of Films" ("SOP 00-2") |

Movie theatre admission and concession revenues are generated at the Company's nine-screen digital movie theatre, the Pavilion Theatre. Movie theatre admission revenues are recognized on the date of sale, as the related movie is viewed on that date and the Company's performance obligation is met at that time. Concession revenues consist of food and beverage sales and are also recognized on the date of purchase.

ACS has contracts with exhibitors to display pre-show advertisements on their screens, in exchange for certain fees paid to the exhibitors. ACS then contracts with businesses of various types to place their advertisements in select theatre locations, designs the advertisement, and places it on-screen for specific periods of time, generally ranging from three to twelve months. Cinema advertising service revenue, and the associated direct selling, production and support cost, is recognized on a straight-line basis over the period the related in-theatre advertising is displayed, pursuant to the specific terms of each advertising contract. ACS has the right to receive or bill the entire amount of the advertising contract upon execution, and therefore such amount is recorded as a receivable at the time of execution, and all related advertising revenue and all direct costs actually incurred are deferred until such time as the a in-theatre advertising is displayed.

The right to sell and display such advertising, or other in-theatre programs, products and services, is based upon advertising contracts with exhibitors which stipulate payment terms to such exhibitors for this right. Payment terms generally consist of either fixed annual payments or annual minimum guarantee payments, plus a revenue share of the excess of a percentage of advertising revenue over the minimum guarantee, if any. The Company recognizes the cost of fixed and minimum guarantee payments on a straight-line basis over each advertising contract year, and the revenue share cost, if any, in accordance with the terms of the advertising contract.

Distribution fee revenue is recognized for the theatrical distribution of third party feature films and alternative content at the time of exhibition based on the Bigger Picture's participation in box office receipts. The Bigger Picture has the right to receive or bill a portion of the theatrical distribution fee in advance of the exhibition date, and therefore such amount is recorded as a receivable at the time of execution, and all related distribution revenue is deferred until the third party feature films' or alternative content's theatrical release date.

Other

Other revenues, attributable to the Access Digital Server Assets, were generated as follows:

| Revenues consist of: | Accounted for in accordance with: |
| --- | --- |
| Hosting and network access fees. | SAB No. 104 |

Since May 1, 2007, the Company's internet data centers ("IDCs") have been operated by FiberMedia AIT, LLC and Telesource Group, Inc. (together, "FiberMedia"), unrelated third parties, pursuant to a master collocation agreement. Although the Company is still the lessee of the IDCs, substantially all of the revenues and expenses were being realized by FiberMedia and not the Company and effective May 1, 2008, 100% of the revenues and expenses are being realized by FiberMedia.

DEFERRED COSTS

Deferred costs primarily consist of the unamortized debt issuance costs related to the credit facility with General Electric Capital Corporation ("GECC") and the $55,000 of 10% Senior Notes issued in August 2007 (see Note 5), which are amortized on a straight-line basis over the term of the respective debt. Also included in deferred costs is advertising production, post production and technical support costs related to developing and displaying advertising, which are capitalized and amortized on a straight-line basis over the same period as the related cinema advertising revenues are recognized.

DIRECT OPERATING COSTS

Direct operating costs consists of facility operating costs such as rent, utilities, real estate taxes, repairs and maintenance, insurance and other related expenses, direct personnel costs, film rent expense, amortization of capitalized software development costs, exhibitors payments for displaying cinema advertising and other deferred expenses, such as advertising production, post production and technical support related to developing and displaying advertising. These other deferred expenses are capitalized and amortized on a straight-line basis over the same period as the related cinema advertising revenues are recognized.

STOCK-BASED COMPENSATION

The Company has two stock-based employee compensation plans, which are described more fully in Note 6. Effective April 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"), which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. Under SFAS 123(R), the Company is required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions) and recognize such cost in the statement of operations over the period during which an employee is required to provide service in exchange for the award (usually the vesting period). Pro forma disclosure is no longer an alternative.

For the three months ended September 30, 2007 and 2008, the Company recorded stock-based compensation expense of $112 and $200, respectively, and $199 and $358, for the six months ended September 30, 2007 and 2008, respectively. The Company has estimated that the stock-based compensation expense related to current outstanding stock options, using a Black-Scholes option valuation model, and current outstanding restricted stock will be approximately $1,000 in fiscal 2009, which includes the awards which were subject to shareholder approval of the increase in the size of AccessIT's equity incentive plan. Shareholder approval was obtained at the Company's 2008 Annual Meeting of Stockholders held on September 4, 2008 (see Note 6).

The weighted-average grant-date fair value of options granted during the six months ended September 30, 2007 and 2008 was $4.91 and $0.58, respectively. The total intrinsic value of options exercised during the six months ended September 30, 2007 and 2008 was approximately $25 and $0, respectively. There were no options exercised during the six months ended September 30, 2008.

The Company estimated the fair value of stock options at the date of each grant using a Black-Scholes option valuation model with the following assumptions:

| | For the Three Months Ended September 30 | | For the Six Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2008 | 2007 | 2008 |
| Range of risk-free interest rates | 4.4-5.1% | 2.7-4.4% | 4.3-5.2% | 2.5-5.2% |
| Dividend yield | — | — | — | — |
| Expected life (years) | 10 | 5 | 10 | 5 |
| Range of expected volatilities | 52.6-53.1% | 52.6-58.7% | 52.6-57.1% | 52.5-58.7% |

The risk-free interest rate used in the Black-Scholes option pricing model for options granted under the AccessIT's equity incentive plan is the historical yield on U.S. Treasury securities with equivalent remaining lives. The Company does not currently anticipate paying any cash dividends in the foreseeable future. Consequently, an expected dividend yield of zero is used in the Black-Scholes option pricing model. The Company estimates the expected life of options granted under the Company's stock option plans using both exercise behavior and post-vesting termination behavior, as well as consideration of outstanding options. The Company estimates expected volatility for options granted under the AccessIT's equity incentive plan based on a measure of historical volatility in the trading market for the Company's shares of Class A Common Stock.

CAPITALIZED SOFTWARE DEVELOPMENT COSTS

Internal Use Software

The Company accounts for these software development costs under Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 states that there are three distinct stages to the software development process for internal use software. The first stage, the preliminary project stage, includes the conceptual formulation, design and testing of alternatives. The second stage, or the program instruction phase, includes the development of the detailed functional specifications, coding and testing. The final stage, the implementation stage, includes the activities associated with placing a software project into service. All activities included within the preliminary project stage would be considered research and development and expensed as incurred. During the program instruction phase, all costs incurred until the software is substantially complete and ready for use, including all necessary testing, are capitalized and amortized on a straight-line basis over estimated lives ranging from three to five years. The Company has not sold, leased or licensed software developed for internal use to the Company's customers and the Company has no intention of doing so in the future.

Software to be Sold, Licensed or Otherwise Marketed

The Company accounts for these software development costs under SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed" ("SFAS No. 86"). SFAS No. 86 states that software development costs that are incurred subsequent to establishing technological feasibility are capitalized until the product is available for general release. Amounts capitalized as software development costs are amortized using the greater of revenues during the period compared to the total estimated revenues to be earned or on a straight-line basis over estimated lives ranging from three to five years. The Company reviews capitalized software costs for impairment on a periodic basis. To the extent that the carrying amount exceeds the estimated net realizable value of the capitalized software cost, an impairment charge is recorded. No impairment charge was recorded for the six months ended September 30, 2007 and 2008, respectively. Amortization of capitalized software development costs, included in direct operating costs, for the three and six months ended September 30, 2008 amounted to $193 and $387, respectively. Revenues relating to customized software development contracts are recognized on a

percentage-of-completion method of accounting using the cost to date to the total estimated cost approach. At September 30, 2007 and 2008, unbilled receivables under such customized software development contracts aggregated $1,406 and $985, respectively, which is included in unbilled revenue in the consolidated balance sheets.

BUSINESS COMBINATIONS

The Company adopted SFAS No. 141, “Business Combinations” (“SFAS No. 141”) which requires all business combinations to be accounted for using the purchase method of accounting and that certain intangible assets acquired in a business combination must be recognized as assets separate from goodwill. During the six months ended September 30, 2008, the Company did not enter into any business combinations.

GOODWILL AND INTANGIBLE ASSETS

The Company adopted SFAS No. 142, “Goodwill and other Intangible Assets” (“SFAS No. 142”) which addresses the recognition and measurement of goodwill and other intangible assets subsequent to their acquisition. Carrying values of goodwill and other intangible assets with indefinite lives are reviewed for possible impairment in accordance with SFAS No. 142. The Company tests its goodwill for impairment in accordance with the applicable accounting literature annually and in interim periods if certain events occur indicating that the carrying value of goodwill may be impaired. The Company reviews the value of our fixed assets and intangible assets in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. The Company estimates the fair value of goodwill and intangible assets resulting from business combinations, by reference to estimates of the discounted future cash flows of the associated products and services and by referencing the market multiples of identified peer group companies. It is possible that the estimates and assumptions used in assessing the carrying value of these assets, such as future sales and expense levels, may need to be reevaluated in the case of continued market deterioration, which could result in impairment of these assets. During the six months ended September 30, 2007 and 2008, no impairment charge was recorded.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, less accumulated depreciation. Depreciation expense is recorded using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are being amortized over the shorter of the lease term or the estimated useful life of the improvement. Maintenance and repair costs are charged to expense as incurred. Major renewals, improvements and additions are capitalized. Upon the sale or other disposition of any property and equipment, the cost and related accumulated depreciation are removed from the accounts and the gain or loss is included in the statement of operations.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews the recoverability of its long-lived assets on a periodic basis in order to identify business conditions, which may indicate a possible impairment. The assessment for potential impairment is based primarily on the Company’s ability to recover the carrying value of its long-lived assets from expected future undiscounted cash flows. If the total of expected future undiscounted cash flows is less than the total carrying value of the assets, a loss is recognized for the difference between the fair value (computed based upon the expected future discounted cash flows) and the carrying value of the assets. During the six months ended September 30, 2008, no impairment charge for long-lived assets was recorded.

NET LOSS PER SHARE

Computations of basic and diluted net loss per share of the Company’s Class A common stock (“Class A Common Stock”) and Class B common stock (“Class B Common Stock”, and together with the Class A Common Stock, the “Common Stock”) have been made in accordance with SFAS No. 128, “Earnings Per Share”. Basic and diluted net loss per share have been calculated as follows:

$$\text{Basic and diluted net loss per share} = \frac{\text{Net loss}}{\text{Weighted average number of Common Stock outstanding during the period}}$$

Shares issued and reacquired during the period are weighted for the portion of the period that they are outstanding.

The Company has incurred net losses for each of the three and six months ended September 30, 2007 and 2008 and, therefore, the impact of dilutive potential common shares from outstanding stock options, warrants, restricted stock,

and restricted stock units, totaling 2,873,943 shares and 4,360,882 shares as of September 30, 2007 and 2008, respectively, were excluded from the computation as it would be anti-dilutive.

ACCOUNTING FOR DERIVATIVES

In April 2008, the Company executed an interest rate swap agreement (the “Interest Rate Swap”) (see Note 5) to limit the Company’s exposure to changes in interest rates. The Interest Rate Swap is a derivative financial instrument, which the Company accounts for pursuant to Statement of Financial Accounting Standards (“SFAS”) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivative instruments and requires that all derivatives be recorded at fair value on the balance sheet. Changes in fair value of derivative financial instruments are either recognized in other comprehensive income (a component of stockholders' equity) or net income depending on whether the derivative is being used to hedge changes in cash flows or fair value. The Company has determined that changes in value of its Interest Rate Swap should be recorded as a component of net income or loss (see Note 5).

Fair Value of Financial Instruments

On April 1, 2008, the Company adopted SFAS No. 157, “Fair Value Measurements” (SFAS 157), for financial assets and liabilities. The statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The fair value measurement disclosures are grouped into three levels based on valuation factors:

- Level 1 – quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments, market corroborated inputs, etc.)
- Level 3 – significant unobservable inputs (including the Company’s own assumptions in determining the fair value of investments)

Assets and liabilities measured at fair value on a recurring basis use the market approach, where prices and other relevant information is generated by market transactions involving identical or comparable assets or liabilities.

The following table summarizes the levels of fair value measurements of the Company’s financial assets:

| | Financial Assets at Fair Value as of September 30, 2008 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents | $ 23,147 | $ — | $ — |
| Interest rate swap | — | 1,565 | — |
| Total | $ 23,147 | $ 1,565 | $ — |

3. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157 “Fair Value Measurements” (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to derivatives and other financial instruments measured at fair value under SFAS No. 133 “Accounting for Derivative Instruments and Hedging Activities” (“SFAS 133”) at initial recognition and in all subsequent periods. Therefore, SFAS 157 nullifies the guidance in footnote 3 of the Emerging Issues Task Force (“EITF”) Issue No. 02-3, “Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities”

("EITF 02-3"). SFAS 157 also amends SFAS 133 to remove the similar guidance to that in EITF 02-3, which was added by SFAS 155. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Any transition adjustment, measured as the difference between the carrying amounts and the fair values of those financial instruments at the date SFAS 157 is initially applied, should be recognized as a cumulative-effect adjustment to the opening balance of

retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for the fiscal year in which SFAS 157 is initially applied.

Relative to SFAS 157, the FASB issued FASB Staff Positions ("FSP") FAS 157-1 and FSP FAS 157-2. FSP FAS 157-1 amends SFAS 157 to exclude SFAS No. 13, "Accounting for Leases" (SFAS 13), and its related interpretive accounting pronouncements that address leasing transactions, while FSP FAS 157-2 delays the effective date of the application of SFAS 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

The Company adopted SFAS 157 as of April 1, 2008, with the exception of the application of the statement to non-recurring nonfinancial assets and nonfinancial liabilities. Non-recurring nonfinancial assets and nonfinancial liabilities for which the Company has not applied the provisions of SFAS 157 include those measured at fair value in goodwill impairment testing, indefinite lived intangible assets measured at fair value for impairment testing, and those non-recurring nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination. The adoption of SFAS 157 did not have a material impact the Company's consolidated financial statements (see Note 2).

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits entities to elect to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is expected to expand the use of fair value measurement, which is consistent with the FASB's long-term measurement objectives for accounting for financial instruments. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and early adoption is permitted provided the entity also elects to apply the provisions of SFAS 157. The Company has adopted SFAS 159 and has elected not to measure any additional financial instruments and other items at fair value.

In December 2007, the FASB released SFAS No. 141(R), "Business Combinations (revised 2007)" ("SFAS 141(R)"), which changes many well-established business combination accounting practices and significantly affects how acquisition transactions are reflected in the financial statements. Additionally, SFAS 141(R) will affect how companies negotiate and structure transactions, model financial projections of acquisitions and communicate to stakeholders. SFAS 141(R) must be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS 141(R) will have an impact on the Company's consolidated financial statements related to any future acquisitions.

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51" ("SFAS 160"). SFAS 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. The Company does not believe that SFAS 160 will have a material impact on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133" ("SFAS 161"). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application

encouraged. SFAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company does not believe that SFAS 161 will have a material impact on its consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3,"Determination of the Useful Life of Intangible Assets" ("FSP FAS 142-3"). FSP FAS 142-3 applies to all recognized intangible assets and its guidance is restricted to estimating the useful life of recognized intangible assets. FSP FAS 142-3 is effective for the first fiscal period beginning after December 15, 2008 and must be applied prospectively to intangible assets acquired after the

effective date. The Company will be required to adopt FSP FAS 142-3 to intangible assets acquired beginning with the first quarter of fiscal 2010.

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles,” (“SFAS 162”). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. SFAS 162 is effective 60 days following the SEC’s approval of Public Company Accounting Oversight Board amendments to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.” The Company does not believe that SFAS 162 will have a material impact on its consolidated financial statements.

In October 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active” (“FSP FAS 157-3”). FSP FAS 157-3 clarifies the application of SFAS No. 157 in a market that is not active. FSP FAS 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application should be accounted for as a change in accounting estimate following the guidance in FASB Statement No. 154, “Accounting Changes and Error Corrections.” FSP FAS 157-3 is effective for the financial statements included in the Company’s quarterly report for the period ended September 30, 2008, and application of FSP FAS 157-3 had no impact on the Company’s condensed consolidated financial statements.

## 4. NOTES RECEIVABLE

Notes receivable consisted of the following:

| Note Receivable (as defined below) | As of March 31, 2008 Current Portion | As of March 31, 2008 Long Term Portion | As of September 30, 2008 Current Portion | As of September 30, 2008 Long Term Portion |
|---|---|---|---|---|
| Exhibitor Note | $ 50 | $ 91 | $ 52 | $ 64 |
| Exhibitor Install Notes | 95 | 1,002 | 115 | 952 |
| TIS Note | — | 100 | 100 | — |
| Other | 13 | 27 | 13 | 21 |
| | $ 158 | $ 1,220 | $ 280 | $ 1,037 |

In March 2006, in connection with AccessIT DC’s Phase I Deployment (see Note 7), the Company issued to a certain motion picture exhibitor a 7.5% note receivable for $231 (the “Exhibitor Note”), in return for the Company’s payment for certain financed digital projectors. The Exhibitor Note requires monthly principal and interest payments through September 2010. As of September 30, 2008, the outstanding balance of the Exhibitor Note was $116.

In connection with AccessIT DC’s Phase I Deployment (see Note 7), the Company agreed to provide financing to certain motion picture exhibitors upon the billing to the motion picture exhibitors by Christie Digital Systems USA, Inc. (“Christie”) for the installation costs associated with the placement of digital cinema projection systems (the “Systems”) in movie theatres. In April 2006, certain motion picture exhibitors agreed to issue to the Company two 8% notes receivable for an aggregate of $1,287 (the “Exhibitor Install Notes”). Under the Exhibitor Install Notes, the motion picture exhibitors are required to make monthly interest only payments through October 2007 and quarterly principal and interest payments thereafter through August 2009 and August 2017, respectively. As of September 30, 2008, the aggregate outstanding balance of the Exhibitor Install Notes was $1,067.

Prior to the Company’s acquisition of ACS, Theatre Information Systems, Ltd. (“TIS”), a developer of proprietary software, issued to ACS a 4.5% note receivable for $100 (the “TIS Note”) to fund final modifications to certain

proprietary software and the development and distribution of related marketing materials. Interest accrues monthly on the outstanding principal amount. The TIS Note and all the accrued interest is due in one lump-sum payment in April 2009. Provided that the TIS Note has not been previously repaid, the entire unpaid principal balance and any accrued but unpaid interest may, at ACS's option, be converted into a 10% limited partnership interest in TIS.  As of September 30, 2008, the outstanding balance of the TIS Note was $100.

The Company has not experienced a default by any party to any of their obligations in connection with any of the above notes.

5. DEBT AND CREDIT FACILITIES

Notes payable consisted of the following:

| Note Payable (as defined below) | As of March 31, 2008 Current Portion | As of March 31, 2008 Long Term Portion | As of September 30, 2008 Current Portion | As of September 30, 2008 Long Term Portion |
|---|---|---|---|---|
| HS Notes | $ 540 | $ — | $ 191 | $ — |
| Boeing Note | 450 | — | — | — |
| First ACS Note | 414 | 221 | 431 | — |
| SilverScreen Note | 113 | 20 | 77 | — |
| Vendor Note * | — | 9,600 | — | 9,600 |
| 2007 Senior Notes | — | 55,000 | — | 55,000 |
| Other | 50 | — | 15 | — |
| GE Credit Facility * | 15,431 | 185,848 | 23,566 | 173,855 |
| NEC Facility | — | — | 40 | 154 |
| | $ 16,998 | $ 250,689 | $ 24,320 | $ 238,609 |

* The Vendor Note and the GE Credit Facility are not guaranteed by the Company or its other subsidiaries, other than AccessIT DC.

In November 2003, the Company issued two 5-year, 8% notes payable aggregating $3,000 (the "HS Notes") to the founders of AccessIT SW as part of the purchase price for AccessIT SW. In March 2007, one of the holders of the HS Notes agreed to reduce their note by $150 for 30,000 shares of unregistered Class A Common Stock and forego $150 of principal payments at the end of their note term. During the six months ended September 30, 2008, the Company repaid principal of $349 on the HS Notes. As of September 30, 2008, the outstanding principal balance of the HS Notes was $191.

In March 2004, in connection with the Boeing Digital Asset Acquisition, the Company issued a 4-year, non-interest bearing note payable with a face amount of $1,800 (the "Boeing Note"). The estimated fair value of the Boeing Note was determined to be $1,367 on the closing date. Interest was being imputed, at a rate of 12%, over the term of the Boeing Note, and was charged to non-cash interest expense. In April 2008, the Company repaid principal of $450 and the Boeing Note was repaid in full.

In July 2006, in connection with the acquisition of ACS, the Company issued an 8% note payable in the principal amount of $1,204 (the "First ACS Note") and an 8% note payable in the principal amount of $4,000 (the "Second ACS Note"), both in favor of the stockholders of ACS. The First ACS Note is payable in twelve equal quarterly installments commencing on October 1, 2006 until July 1, 2009. The Second ACS Note was payable on November 30, 2006 or earlier if certain conditions were met, and was paid by the Company in October 2006. The First ACS Note may be prepaid in whole or from time to time in part without penalty provided that the Company pays all accrued and unpaid interest. During the six months ended September 30, 2008, the Company repaid principal of $204 on the First ACS Note. As of September 30, 2008, the outstanding principal balance of the First ACS Note was $431.

Prior to the Company's acquisition of ACS, ACS had purchased substantially all the assets of SilverScreen Advertising Incorporated ("SilverScreen") and issued a 3-year, 4% note payable in the principal amount of $333 (the "SilverScreen Note") as part of the purchase price for SilverScreen. The SilverScreen Note is payable in equal monthly installments until May 2009. During the six months ended September 30, 2008, the Company repaid principal of $56 on the SilverScreen Note. As of September 30, 2008, the outstanding principal balance of the SilverScreen Note was $77.

In October 2006, the Company entered into a securities purchase agreement (the "Purchase Agreement") with the purchasers party thereto (the "Purchasers") pursuant to which the Company issued 8.5% Senior Notes (the "One Year Senior Notes") in the aggregate principal amount of $22,000 (the "October 2006 Private Placement"). The term of the One Year Senior Notes was one year and could be extended for up to two 90-day periods at the discretion of the Company if certain market conditions were met. Interest on the One Year Senior Notes would be paid on a quarterly basis in cash or, at the Company's option and subject to certain conditions, in shares of its Class A Common Stock ("Interest Shares"). In addition, each quarter, the Company would issue shares of Class A

Common Stock to the Purchasers as payment of interest owed under the One Year Senior Notes based on a formula ("Additional Interest"). The Company also entered into a registration rights agreement with the Purchasers pursuant to which the Company agreed to register the resale of any shares of its Class A Common Stock issued pursuant to the One Year Senior Notes at any time and from time to time. In August 2007, the One Year Senior Notes were repaid in full with a portion of the proceeds from the refinancing which closed in August 2007, which is discussed further below.

In August 2007, AccessIT DC obtained $9,600 of vendor financing (the "Vendor Note") for equipment used in AccessIT DC's Phase I Deployment. The Vendor Note bears interest at 11% and may be prepaid without penalty. Interest is due semi-annually commencing February 2008. The balance of the Vendor Note, together with all unpaid interest is due on the maturity date of August 1, 2016. The Vendor Note is not guaranteed by the Company or its other subsidiaries, other than AccessIT DC. As of September 30, 2008, the outstanding principal balance of the Vendor Note was $9,600.

In August 2007, the Company entered into a securities purchase agreement (the "Purchase Agreement") with the purchasers party thereto (the "Purchasers") pursuant to which the Company issued 10% Senior Notes (the "2007 Senior Notes") in the aggregate principal amount of $55,000 (the "August 2007 Private Placement"). The term of the 2007 Senior Notes is three years which may be extended for one 6 month period at the discretion of the Company if certain conditions are met. Interest on the 2007 Senior Notes is payable on a quarterly basis in cash or, at the Company's option and subject to certain conditions, in shares of its Class A Common Stock ("Interest Shares"). In addition, each quarter, the Company issues shares of Class A Common Stock to the Purchasers as payment of additional interest owed under the 2007 Senior Notes based on a formula ("Additional Interest"). The Company may prepay the 2007 Senior Notes in whole or in part following the first anniversary of issuance of the 2007 Senior Notes, subject to a penalty of 2% of the principal if the 2007 Senior Notes are prepaid prior to the two year anniversary of the issuance and a penalty of 1% of the principal if the 2007 Senior Notes are prepaid thereafter, and subject to paying the number of shares as Additional Interest that would be due through the end of the term of the 2007 Senior Notes. The net proceeds of approximately $53,200 from the August 2007 Private Placement were used for expansion of digital cinema rollout plans, to pay off the existing obligations under the $22,000 of One Year Senior Notes, to pay off certain other outstanding debt obligations, for investment in Systems and for working capital and other general corporate purposes. The Purchase Agreement also requires the 2007 Senior Notes to be guaranteed by each of the Company's existing and, subject to certain exceptions, future subsidiaries (the "Guarantors"), other than AccessIT DC and its respective subsidiaries. Accordingly, each of the Guarantors entered into a subsidiary guaranty (the "Subsidiary Guaranty") with the Purchasers pursuant to which it guaranteed the obligations of the Company under the 2007 Senior Notes. The Company also entered into a Registration Rights Agreement with the Purchasers pursuant to which the Company agreed to register the resale of any shares of its Class A Common Stock issued pursuant to the 2007 Senior Notes at any time and from time to time. As of December 31, 2007, all shares issued to the holders of the 2007 Senior Notes have been registered for resale (see Note 6). Under the 2007 Senior Notes the Company agreed (i) to limit its total indebtedness to an aggregate of $315,000 unless certain conditions are met, however, these conditions have been met and the $315,000 limit no longer applies and (ii) not to, and not to cause its subsidiaries (except for AccessIT DC and its subsidiaries) to, incur indebtedness, with certain exceptions, including an exception for $10,000; provided that no more than $5,000 of such indebtedness is incurred by AccessDM or AccessIT Satellite or any of their respective subsidiaries except as incurred by AccessDM pursuant to a guaranty entered into in accordance with the GE Credit Facility (see below). At the present time, the Company and its subsidiaries, other than AccessIT DC and its subsidiaries, are prohibited from paying dividends under the terms of the 2007 Senior Notes. Interest expense on the 2007 Senior Notes for the three and six months ended September 30, 2008 amounted to $1,375 and $2,717, respectively. As of September 30, 2008, the outstanding principal balance of the 2007 Senior Notes was $55,000.

CREDIT FACILITIES

In August 2006, AccessIT DC entered into an agreement with General Electric Capital Corporation ("GECC") pursuant to which GECC and certain other lenders agreed to provide to AccessIT DC a $217,000 Senior Secured Multi Draw Term Loan (the "GE Credit Facility"). Proceeds from the GE Credit Facility were used for the purchase and installation of up to 70% of the aggregate purchase price, including all costs, fees or other expenses associated with the purchase acquisition, receipt, delivery, construction and installation of Systems in connection with AccessIT DC's Phase I Deployment (see Note 7) and to pay transaction fees and expenses related to the GE Credit Facility, and for certain other specified purposes. The remaining cost of the Systems has been funded from other sources of capital including contributed equity. Each of the borrowings by AccessIT DC bears interest, at the option of AccessIT DC and subject to certain conditions, based on the bank prime loan rate in the United States or the

Eurodollar rate, plus a margin ranging from 2.75% to 4.50%, depending on, among other things, the type of rate chosen, the amount of equity contributed into AccessIT DC and the total debt of AccessIT DC. Under the GE Credit Facility, AccessIT DC must pay interest only through July 31, 2008. Beginning August 31, 2008, in addition to the interest payments, AccessIT DC must repay approximately 71.5% of the principal amount of the borrowings over a five-year period with a balloon payment for the balance of the principal amount, together with all unpaid interest on such borrowings and any fees incurred by AccessIT DC pursuant to the GE Credit Facility on the maturity date of August 1, 2013. In addition, AccessIT DC may prepay borrowings under the GE Credit Facility in whole or in part, after July 31, 2007 and before August 1, 2010, subject to paying certain prepayment penalties ranging from 3% to 1%, depending on when the prepayment is made. The GE Credit Facility is required to be guaranteed by each of AccessIT DC's existing and future direct and indirect domestic subsidiaries (the "Guarantors") and secured by a first priority perfected security interest on all of the collective assets of AccessIT DC and the Guarantors, including real estate owned or leased, and all capital stock or other equity interests in AccessIT DC and its subsidiaries, subject to specified exceptions. The GE Credit Facility is not guaranteed by the Company or its other subsidiaries, other than AccessIT DC. During the six months ended September 30, 2008, the Company repaid principal of $3,858 on the GE Credit Facility. As of September 30, 2008, the outstanding principal balance of the GE Credit Facility was $197,421 at a weighted average interest rate of 7.3%.

In August 2006, the GE Credit Facility was amended to allow borrowings by AccessIT DC to be in aggregate amounts not in exact multiples of $1,000.

Under the GE Credit Facility, as amended, AccessIT DC is required to maintain compliance with certain financial covenants. Material covenants include a leverage ratio, and an interest coverage ratio. In September 2007, AccessIT DC entered into the third amendment with respect to the GE Credit Facility to (1) lower the interest reserve from 12 months to 9 months; (2) modify the definition of total equity ratio to count as capital contributions (x) up to $23,300 of permitted subordinated indebtedness and (y) up to $4,000 of previously paid and approved expenses that were incurred during the deployment of Systems; (3) change the leverage ratio covenant; (4) add a new consolidated senior leverage ratio covenant; and (5) change the consolidated fixed charge coverage ratio covenant.

At September 30, 2008, the Company was in compliance with these covenants.

In April 2008, AccessIT DC executed the Interest Rate Swap, otherwise known as an "arranged hedge transaction" or "synthetic fixed rate financing" with a counterparty for a notional amount of approximately 90% of the amounts outstanding under the GE Credit Facility or an initial amount of $180,000. Under the Interest Rate Swap, AccessIT DC will effectively pay a fixed rate of 7.3%, to guard against AccessIT DC's exposure to increases in the variable interest rate under the GE Credit Facility. GE Corporate Financial Services arranged the transaction, which took effect commencing August 1, 2008 as required by the GE Credit Facility and will remain in effect until August 2010. As principal repayments of the GE Credit Facility occur, the notional amount will decrease by a pro rata amount, such that approximately 90% of the remaining principal amount will be covered by the Interest Rate Swap at any time.

The Interest Rate Swap did not qualify as a fair value hedge under SFAS No. 133, since the terms of the GE Credit Facility and the Interest Rate Swap agreement did not fully agree at inception. Accordingly, all changes in the fair value of the Interest Rate Swap will be recorded to results of operations each period starting in April 2008. Upon any refinance of the GE Credit Facility or other early termination or at the maturity date of the Interest Rate Swap, the fair value of the Interest Rate Swap, whether favorable to the Company or not, would be settled in cash with the counter party. As of September 30, 2008, the fair value of the Interest Rate Swap was $1,565 and a loss of $687 was recorded in the consolidated statement of operations for the three months ended September 30, 2008.

In May 2008, AccessDM entered into a credit facility with NEC Financial Services, LLC (the "NEC Facility") to fund the purchase and installation of equipment to enable the exhibition of 3-D live events in movie theatres as part of the

Company's CineLiveTM product offering. The NEC Facility provides for maximum borrowings of up to $2,000, repayments over a 47 month period, and interest at an annual rate of 8.25%. As of September 30, 2008, AccessDM has borrowed $200 and the equipment purchased therewith is included in property and equipment within the condensed consolidated balance sheets as of September 30, 2008. As of September 30, 2008, the outstanding principal balance of the NEC Credit Facility was $194.

## 6. STOCKHOLDERS' EQUITY

CAPITAL STOCK

In August 2004, the Company's Board authorized the repurchase of up to 100,000 shares of Class A Common Stock, which may be purchased at prevailing prices from time-to-time in the open market depending on market conditions and other factors. As of September 30, 2008, the Company has repurchased 51,440 shares of Class A Common Stock for an aggregate purchase price of $172, including fees, which have been recorded as treasury stock.

In April 2007, in connection with the acquisition of ACS and the achievement of certain digital cinema deployment milestones, the Company issued 67,906 shares of the Company's Class A Common Stock, with a value of $512, to the ACS Stockholders as additional purchase price. The Company agreed to register the resale of these shares of Class A Common Stock with the SEC. The Company filed a registration statement on Form S-3 on April 27, 2007, which was declared effective by the SEC on May 18, 2007.

In June 2007, the Company issued 74,947 and 72,104 shares of Class A Common Stock as Additional Interest and Interest Shares, respectively, pursuant to the One Year Senior Notes (see Note 5). The Company agreed to register the resale of these shares of Class A Common Stock with the SEC. The Company filed a registration statement on Form S-3 on July 27, 2007, which was declared effective by the SEC on August 9, 2007.

In July 2007, in connection with the acquisition of ACS and the achievement of certain digital cinema deployment milestones, the Company issued an additional 77,955 shares of the Company's Class A Common Stock, with a value of $488, to the ACS Stockholders as additional purchase price. The Company agreed to register the resale of these shares of Class A Common Stock with the SEC. The Company filed a registration statement on Form S-3 on July 27, 2007, which was declared effective by the SEC on August 9, 2007.

In August 2007, the Company issued 105,715 shares of Class A Common Stock as Interest Shares pursuant to the One Year Senior Notes (see Note 5) for interest due up through the date refinanced. The Company issued an additional 104,971 shares of Class A Common Stock as an inducement for certain holders of the One Year Senior Notes to invest in the August 2007 Private Placement and $686 was recorded as debt refinancing expense for the value of such shares. The Company agreed to register the resale of all 210,686 shares of Class A Common Stock with the SEC. The Company filed a registration statement on Form S-3 on September 26, 2007, which was declared effective by the SEC on November 2, 2007.

Pursuant to the 2007 Senior Notes, in August 2007 the Company issued 715,000 shares of Class A Common Stock (the "Advance Additional Interest Shares") covering the first 12 months of Additional Interest (see Note 5). The Company registered the resale of these shares of Class A Common Stock and also registered an additional 1,249,875 shares of Class A Common Stock for future Interest Shares and Additional Interest. The Company filed a registration statement on Form S-3 on September 26, 2007, which was declared effective by the SEC on November 2, 2007. The Company is recording the value of the Advance Additional Interest Shares of $4,676 to interest expense over the 36 month term of the 2007 Senior Notes. For the three months ended September 30, 2007 and 2008, the Company recorded $0 and $401, respectively, of interest expense in connection with the Advance Additional Interest Shares.

Commencing with the quarter ended December 31, 2008 and through the maturity of the 2007 Senior Notes in the quarter ended September 30, 2010, the Company is obligated to issue a minimum of 132,000 shares of Class A Common Stock per quarter as Additional Interest (the "Minimum Additional Interest Shares"). The Company has estimated the value of the Minimum Additional Interest Shares to be $5,244 and is recording that amount over the 36 month term of the 2007 Senior Notes. For the three months ended September 30, 2007 and 2008, the Company recorded $0 and $437, respectively, to interest expense in connection with the Minimum Additional Interest Shares.

In December 2007, March 2008 and June 2008, the Company issued 345,944, 548,572 and 635,847 shares of Class A Common Stock, respectively, as Interest Shares pursuant to the 2007 Senior Notes (see Note 5), which were part of the 1,249,875 shares previously registered for resale on the registration statement on Form S-3 filed on September 26, 2007, which was declared effective by the SEC on November 2, 2007 and part of an additional 500,000 shares that were registered on the registration statement on Form S-3 to register the resale by selling stockholders of an additional 500,000 shares of Class A Common Stock for future interest payments on the 2007 Senior Notes, which was filed on May 6, 2008, and was declared effective by the SEC on June 30, 2008. An additional 750,000 shares were included on the registration statement on Form S-3 to register the resale by selling stockholders of an

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additional 750,000 shares of Class A Common Stock for future interest payments on the 2007 Senior Notes, which was filed on September 12, 2008. For the six months ended September 30, 2007 and 2008, the Company recorded $360 and $1,342, respectively, as non-cash interest expense in connection with the Interest Shares.

In April 2008, in connection with the acquisition of Managed Services in January 2004, the Company issued 15,219 shares of unregistered Class A Common Stock as additional purchase price based on subsequent performance of the business acquired. The value of such shares was accrued for in the fiscal year ended March 31, 2008. No additional purchase price will be payable in connection with the acquisition of Managed Services.

In April 2008, in connection with the acquisition of the Access Digital Server Assets by the Company in January 2006, the Company issued 30,000 shares of unregistered Class A Common Stock as additional purchase price based on subsequent performance. The value of such shares was accrued for in the fiscal year ended March 31, 2008. No additional purchase price will be payable in connection with the acquisition of the Access Digital Server Assets.

In connection with the acquisition of The Bigger Picture in January 2007, The Bigger Picture entered into a services agreement (the “SD Services Agreement”) with SD Entertainment, Inc. (“SDE”) to provide certain services, such as the provision of shared office space and certain shared administrative personnel. The SD Services Agreement is on a month-to-month term and requires the Company to pay approximately $17 per month, of which 70% may be paid periodically in the form of AccessIT Class A Common Stock, at the Company’s option. In June 2008 and September 2008, the Company issued 24,579 and 22,010 shares of unregistered Class A Common Stock with a value of $60 and $33, respectively, to SDE as partial payment for such services and resources.

In September 2008, the Company amended its Fourth Amended and Restated Certificate of Incorporation to designate as Class A Common Stock the 25,000,000 shares of undesignated common stock.

In September 2008, the Company issued 12,824 shares of Class A Common Stock for restricted stock awards that vested.

ACCESSIT EQUITY INCENTIVE PLAN

Stock Options

AccessIT’s equity incentive plan (“the Plan”) provides for the issuance of options and other equity-based awards to purchase up to 2,200,000 shares of Class A Common Stock to employees, outside directors and consultants. The Company obtained shareholder approval to expand the size of the Plan to 3,700,000 shares of Class A Common Stock at the Company’s 2008 Annual Meeting of Stockholders held on September 4, 2008.

During the six months ended September 30, 2008, under the Plan, the Company granted stock options to purchase 5,500 and 320,003 shares of its Class A Common Stock to its employees at an exercise price of $3.87 and $3.25 per share, respectively. As of September 30, 2008, the weighted average exercise price for outstanding stock options is $6.13 and the weighted average remaining contractual life is 7 years.

The following table summarizes the activity of the Plan:

| | Shares Under Option | Weighted Average Fair Value Per Share |
|---|---|---|
| Balance at March 31, 2008 | 2,076,569(1) | $4.77 |

| | | |
|---|---|---|
| Granted | 325,503(2) | .58 |
| Exercised | — | — |
| Forfeited | (67,750) | 6.80 |
| Balance at September 30, 2008 | 2,334,322 | $4.13 |

(1) As of March 31, 2008, there were no shares available for issuance under the Plan, due to the number of options and restricted stock currently outstanding along with historical option exercises. An expansion of the number of shares issuable under the Plan was obtained at the Company's 2008 Annual Meeting of Stockholders held on September 4, 2008.

(2) Includes an additional 320,003 stock options granted in March 2008 which were subject to shareholder approval. Shareholder approval was obtained at the Company's 2008 Annual Meeting of Stockholders, held on September 4, 2008.

Restricted Stock Awards

The Plan also provides for the issuance of restricted stock awards. During the six months ended September 30, 2008, the Company granted 723,700 restricted stock units. The Company may pay such restricted stock units upon vesting in cash or shares of Class A Common Stock or a combination thereof at the Co