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ACCESS INTEGRATED TECHNOLOGIES INC

Form 10QSB

February 13, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED: DECEMBER 31, 2005

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the transition period from --- to ---

COMMISSION FILE NUMBER: 001-31810

ACCESS INTEGRATED TECHNOLOGIES, INC.
(Name of Small Business Issuer in its Charter)

DELAWARE
(State of incorporation or organization) 22-3720962
(I.R.S. Employer Identification No.)

55 MADISON AVENUE, SUITE 300, MORRISTOWN NEW JERSEY 07960
(Address of principal executive offices)

(973-290-0080)
(Issuer's telephone number, including area code)

Check whether the issuer (1) has filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act 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 the filing requirements for the past 90 days.

Yes No

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.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in
Rule 12b-2 of the Exchange Act).

Yes No

As of February 8, 2006, 16,112,128 shares of Class A Common Stock, \$0.001 par

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value, and 925,811 shares of Class B Common Stock, \$0.001 par value, were outstanding.

Transitional Small Business Disclosure Format (check one): Yes No

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

	March 31, 2005	December 2005
ASSETS	----- (Audited)	----- (Unaudited)
Current assets		
Cash and cash equivalents.....	\$ 4,779	\$
Accounts receivable, net.....	947	
Prepaid and other current assets.....	1,312	
	-----	-----
Total current assets	7,038	
Property and equipment, net.....	14,261	
Intangible assets, net.....	3,337	

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Capitalized software costs, net.....	1,622	
Goodwill.....	10,363	
Other assets.....	1,156	
	<hr/>	
Total assets	\$ 37,777	\$
	<hr/>	<hr/>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities		
Accounts payable and accrued expenses.....	\$ 2,415	\$
Notes payable, current portion.....	1,415	
Capital leases, current portion.....	432	
Other current liabilities.....	1,042	
	<hr/>	<hr/>
Total current liabilities	5,304	
Notes payable, net of current portion.....	12,682	
Capital leases, net of current portion.....	6,058	
Other liabilities.....	2,436	
	<hr/>	<hr/>
Total liabilities	26,480	
	<hr/>	<hr/>
Commitments and contingencies (Note 6)		
Redeemable Class A common stock, 53,534 and 0 shares issued and outstanding at March 31, 2005 and December 31, 2005, respectively.....		250
Stockholders' Equity		
Class A common stock, \$0.001 par value per share; 40,000,000 shares authorized; 9,433,328 and 14,658,668 shares issued and 9,381,888 and 14,607,228 shares outstanding at March 31, 2005 and December 31, 2005, respectively.....		9
Class B common stock, \$0.001 par value per share; 15,000,000 shares authorized; 965,811 and 925,811 shares issued and outstanding, at March 31, 2005 and December 31, 2005, respectively.....		1
Additional paid-in capital.....	32,696	
Treasury stock, at cost; 51,440 shares.....	(172)	
Accumulated deficit.....	(21,487)	
	<hr/>	<hr/>
Total stockholders' equity	11,047	
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 37,777	\$
	<hr/>	<hr/>

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(In thousands, except for share data)
(unaudited)

	Three months ended December 31,	
	2004	2005
Revenues:		
Media services.....	\$ 1,300	\$ 2,751
Data center services.....	1,439	1,660
Total revenues	2,739	4,411
Costs of revenues (exclusive of depreciation and amortization):		
Media services.....	570	1,813
Data center services.....	1,062	1,298
Total costs of revenues	1,632	3,111
Gross profit (exclusive of depreciation and amortization):	1,107	1,300
Operating expenses:		
Selling, general and administrative.....	1,303	2,164
Provision for doubtful accounts.....	23	55
Research and development.....	122	37
Non-cash stock-based compensation.....	-	-
Depreciation and amortization.....	895	1,194
Total operating expenses	2,343	3,450
Loss before other expense	(1,236)	(2,150)
Interest income.....	-	97
Interest expense.....	(90)	(313)
Non-cash interest expense.....	(43)	(32)
Debt conversion expense.....	-	(125)
Other (expense) income, net.....	(27)	409
Loss before income tax benefit and minority interest	(1,396)	(2,114)
Income tax benefit.....	77	77
Net loss before minority interest in subsidiary	(1,319)	(2,037)
Minority interest in loss of subsidiary.....	-	-
Net loss	\$ (1,319)	\$ (2,037)
Net loss per common share:		
Basic and diluted.....	\$ (0.13)	\$ (0.13)
Weighted average number of common shares outstanding:		
Basic and diluted.....	10,041,879	15,399,530

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

		For the

	2004	

Cash flows from operating activities		
Net loss	\$	(3,98)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization.....		2,45
Amortization of software development costs.....		22
Amortization of deferred tax liability.....		(23)
Provision for doubtful accounts.....		59
Non-cash stock-based compensation.....		
Non-cash interest expense.....		15
Minority interest.....		(1)
Gain on exchange of minority interest shares.....		(1)
Net fair value change of Class A common stock warrants.....		(9)
Debt conversion expense.....		
Debt issuance costs included in interest expense.....		
Changes in operating assets and liabilities:		
Accounts receivable.....		(80)
Prepays and other current assets.....		(10)
Other assets.....		(35)
Accounts payable and accrued expenses.....		(60)
Other liabilities.....		1

Net cash used in operating activities		(2,75)
Cash flows from investing activities		
Purchases of property and equipment.....		(1,63)
Purchases of intangible assets.....		(3)
Additions to capitalized software costs.....		(30)
Acquisition of FiberSat Global Services LLC, net of cash acquired.		(50)
Restricted short-term investment.....		

Net cash used in investing activities		(2,48)
Cash flows from financing activities		
Repayment of notes payable.....		(44)
Principal payments on capital leases.....		(15)
Repurchase of Class A common stock.....		(3)
Net proceeds from issuance of Class A common stock.....		5,06

Net cash provided by financing activities		4,42

Net (decrease) increase in cash and cash equivalents		(81)
Cash and cash equivalents at beginning of period		2,33

Cash and cash equivalents at end of period	\$	1,51

ACCESS INTEGRATED TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(\$ in thousands, except for per share data)
(Unaudited)

NOTE 1. NATURE OF OPERATIONS

Access Integrated Technologies, Inc. ("AccessIT") was organized on March 31, 2000 and is a leading provider of fully managed storage, electronic delivery and software services and technology solutions for owners and distributors of digital content to movie theaters and other venues. In these notes, the terms "Company", "we," "us," and "our" refer to AccessIT and its subsidiaries unless the context otherwise requires. To date, we have generated revenues from two primary businesses, Media Services and Internet Data Center ("IDC" or "data center") services. Our Media Services business provides software, services and technology solutions to the television and motion picture industries, primarily to facilitate the transition from analog (film) to digital cinema. Our nine leased IDCs provide corporate customers with secure and fail-safe off-site locations to house their computer and telecommunications equipment, as well as related services such as equipment monitoring and back-up and protection of customers' data. These existing businesses have positioned us at what we believe to be the forefront of an emerging industry opportunity relating to the delivery and management of digital cinema and other content to entertainment and other remote venues worldwide. This is currently our primary strategic focus.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND CONSOLIDATION

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with Regulation S-B. Accordingly, they do not include all of the financial information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included.

Our 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") and Christie/AIX, Inc. ("Christie/AIX"). We have eliminated all intercompany transactions and balances.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company's most significant estimates related to software revenue recognition, capitalization of software development costs, amortization and impairment testing of intangible assets and depreciation of fixed assets. On an on-going basis, we evaluate our estimates, including those related to the carrying values of our fixed assets and intangible assets, the valuation of deferred tax liabilities, and the valuation

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of assets acquired and liabilities assumed in purchase business combinations. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances made, 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 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 consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in AccessIT's Form 10-KSB for the fiscal year ended March 31, 2005 filed with the Securities and Exchange Commission ("SEC") on June 29, 2005. Certain reclassifications of prior period data have been made to conform to the current presentation.

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REVENUE RECOGNITION

MEDIA SERVICES

Our Media Services revenues are generated as follows:

OPERATIONS OF:	REVENUES CONSIST OF:	ACCOUNTED FOR IN ACCORDANCE W
AccessIT SW	(1) software licensing, including customer licenses and ASP agreements,	Statement of Position ("SOP") "Software Revenue Recogniti
	(2) software maintenance contracts, and (3) professional consulting services, which includes systems implementation, training, custom software development services and other professional services	Staff Accounting Bulletin ("SA "Revenue Recognition in Fin Statements" ("SAB No. 10
AccessIT Satellite	(1) satellite network monitoring and (2) maintenance fees	SAB No. 104
AccessDM	(1) satellite delivery revenues, (2) data encryption and preparation fee revenues, and (3) landing fees for delivery to each movie theatre	SAB No. 104
Pavilion Theatre	(1) movie theatre admission revenues and (2) concession food and beverage revenues	SAB No. 104
Christie/AIX	(1) virtual print fees and other fees	SAB No. 104

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Software licensing revenue is recognized when the following criteria are met: (a) persuasive evidence of an arrangement exists, (b) delivery has occurred and no significant obligations remain, (c) the fee is fixed or determinable and (d) collection is determined to be probable. Significant upfront fees are received in addition to periodic amounts upon achievement of contractual events for licensing of the Company's products. Such amounts are deferred until the revenue recognition criteria have been met, which typically occurs after delivery and acceptance.

In instances where the Company develops customized software applications, the percentage-of-completion method of accounting is followed to recognize revenue.

Deferred revenue is recorded in cases of: (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.

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DATA CENTER SERVICES

Our Data Center Services revenues are generated as follows:

OPERATIONS OF:	REVENUES CONSIST OF:	ACCOUNTED FOR IN ACCORDANCE
AccessIT	(1) license fees for colocation, (2) riser access charges, (3) electric and cross connect fees, and (4) non-recurring installation and consulting fees	SAB No. 104
Managed Services	(1) network monitoring, (2) maintenance fees, and (3) non-recurring installation and consulting fees	SAB No. 104

AccessIT's revenues are recognized ratably over the term of the contract, generally one to nine years. Certain customer contracts contain periodic increases in the amount of license fees to be paid, and those amounts are recognized as license fee revenues on a straight-line basis over the term of the contracts. Installation fees are recognized on a time and materials basis in the period in which the services were provided and represent the culmination of the earnings process as no significant obligations remain. Amounts collected