

ACCESS INTEGRATED TECHNOLOGIES INC
Form 10-K/A
June 26, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K/A
(Amendment No. 1)

(Mark One)

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

For the fiscal year ended: March 31, 2008

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
(State or Other Jurisdiction of Incorporation or
Organization)

22-3720962
(I.R.S. Employer Identification No.)

55 Madison Avenue, Suite 300, Morristown, New
Jersey
(Address of principal executive offices)

07960
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:
CLASS A COMMON STOCK, PAR VALUE \$0.001 PER SHARE

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Yes No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 "

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

..

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the issuer based on a price of \$2.11 per share, the closing price of such common equity on the Nasdaq Global Market, as of June 6, 2008, was approximately \$49,186,427. For purposes of the foregoing calculation, all directors, officers and shareholders who beneficially own 10% of the shares of such common equity have been deemed to be affiliates, but the Company disclaims that any of such persons are affiliates.

As of June 6, 2008, 26,137,391 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.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Items 10, 11, 12, 13 and 14 of Form 10-K is incorporated by reference into Part III hereof from the registrant's Proxy Statement for the 2008 Annual Meeting of Stockholders to be held on or about September 4, 2008.

EXPLANATORY NOTE

This Amendment No. 1 on form 10-K/A (the “Amendment”) to the Annual Report on Form 10-K for the year ended March 31, 2008 of Access Integrated Technologies, Inc. (the “10-K”) is being filed solely to revise the Report of Independent Registered Public Accounting Firm located on page F-1, the Report of Independent Registered Public Accounting Firm located on page F-2 and Exhibit 23.1, Consent of Eisner LLP. No other changes to the 10-K are included in this Amendment.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

ACCESS INTEGRATED TECHNOLOGIES, INC.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Access Integrated Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Access Integrated Technologies, Inc. and subsidiaries (the "Company") as of March 31, 2007 and 2008, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the years in the three-year period ended March 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements enumerated above present fairly, in all material respects, the consolidated financial position of Access Integrated Technologies, Inc. and subsidiaries as of March 31, 2007 and 2008, and the consolidated results of their operations and their consolidated cash flows for each of the years in the three-year period ended March 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Access Integrated Technologies, Inc.'s assessment of internal control over financial reporting as of March 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated June 13, 2008 expressed an unqualified opinion thereon.

/s/ Eisner LLP
Florham Park, New Jersey
June 13, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Access Integrated Technologies, Inc.

We have audited Access Integrated Technologies, Inc. and subsidiaries' (the "Company") internal control over financial reporting as of March 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). The Company's management is responsible for maintaining effective control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Access Integrated Technologies, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Access Integrated Technologies, Inc. and Subsidiaries as of March 31, 2007 and 2008, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the years in the three-year period ended March 31, 2008, and our report dated June 13, 2008 expressed an unqualified opinion thereon.

/s/ Eisner LLP

Florham Park, New Jersey
June 13, 2008

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

	March 31,	
	2007	2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 29,376	\$ 29,655
Accounts receivable, net	18,504	21,494
Unbilled revenue, current portion	2,324	6,393
Deferred costs, current portion	2,318	3,859
Prepaid expenses	970	889
Other current assets	23	427
Note receivable, current portion	101	158
Total current assets	53,616	62,875
Deposits on property and equipment	8,513	—
Property and equipment, net	197,452	269,031
Intangible assets, net	19,432	13,592
Capitalized software costs, net	2,840	2,777
Goodwill	13,249	14,549
Accounts receivable, net of current portion	248	299
Deferred costs, net of current portion	3,304	6,595
Note receivable, net of current portion	1,227	1,220
Unbilled revenue, net of current portion	1,221	2,075
Security deposits	445	408
Restricted cash	180	255
Total assets	\$ 301,727	\$ 373,676
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 28,931	\$ 25,213
Current portion of notes payable	2,480	16,998
Current portion of deferred revenue	8,871	6,204
Current portion of customer security deposits	129	333
Current portion of capital leases	75	89
Total current liabilities	40,486	48,837
Notes payable, net of current portion	164,196	250,689
Capital leases, net of current portion	5,903	5,814
Deferred revenue, net of current portion	283	283
Customer security deposits, net of current portion	54	46
Total liabilities	210,922	305,669
Commitments and contingencies (Note 8)		
Stockholders' Equity		
Class A common stock, \$0.001 par value per share; 40,000,000 shares authorized; 23,988,607 and 26,143,612 shares issued and 23,937,167 and 26,092,172 shares outstanding at March 31, 2007 and March 31, 2008, respectively	24	26
Class B common stock, \$0.001 par value per share; 15,000,000 shares	1	1

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authorized; 763,811 and 733,811 shares issued and outstanding, at
March 31, 2007 and March 31, 2008, respectively

Additional paid-in capital	155,957	168,844
Treasury stock, at cost; 51,440 shares	(172)	(172)
Accumulated deficit	(65,005)	(100,692)
Total stockholders' equity	90,805	68,007
Total liabilities and stockholders' equity	\$ 301,727	\$ 373,676

See accompanying notes to Consolidated Financial Statements

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

	For the fiscal years ended March 31,		
	2006	2007	2008
Revenues	\$ 16,795	\$ 47,110	\$ 80,984
Costs and expenses:			
Direct operating (exclusive of depreciation and amortization shown below)	11,550	22,214	26,569
Selling, general and administrative	8,887	18,565	23,170
Provision for doubtful accounts	186	848	1,396
Research and development	300	330	162
Stock-based compensation	—	2,920	453
Loss on disposition of assets	—	2,561	—
Impairment of intangible asset	—	—	1,588
Depreciation of property and equipment	3,693	14,699	29,285
Amortization of intangible assets	1,308	2,773	4,290
Total operating expenses	25,924	64,910	86,913
Loss from operations before other income (expense)	(9,129)	(17,800)	(5,929)
Interest income	316	1,425	1,406
Interest expense	(3,644)	(9,176)	(29,327)
Debt conversion expense	(6,269)	—	—
Debt refinancing expense	—	—	(1,122)
Other income (expense), net	1,603	(448)	(715)
Net loss	\$ (17,123)	\$ (25,999)	\$ (35,687)
Net loss per common share:			
Basic and diluted	\$ (1.22)	\$ (1.10)	\$ (1.40)
Weighted average number of common shares outstanding:			
Basic and diluted	14,086,001	23,729,763	25,576,787

See accompanying notes to Consolidated Financial Statements

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

For the fiscal years ended March 31,

	2006	2007	2008
Cash flows from operating activities			
Net loss	\$ (17,123)	\$ (25,999)	\$ (35,687)
Adjustments to reconcile net loss to net cash used in operating activities:			
Loss on disposal of assets	—	6	172
Loss on disposition of assets	—	2,561	—
Loss on impairment of intangible asset	—	—	1,588
Depreciation of property and equipment and amortization of intangible assets	5,001	17,472	33,575
Amortization of software development costs	547	840	590
Debt issuance costs included in interest expense	730	646	1,211
Provision for doubtful accounts	186	848	1,396
Stock-based compensation	—	2,920	453
Non-cash interest expense	1,407	1,903	7,043
Debt refinancing expense	—	—	1,122
Gain on available-for-sale securities	—	(393)	(148)
Net fair value change of Class A common stock warrants	(1,660)	—	—
Debt conversion expense	6,269	—	—
Changes in operating assets and liabilities:			
Accounts receivable	(832)	(9,451)	(4,437)
Prepays and other current assets	(111)	(289)	(323)
Unbilled revenue	(915)	(3,602)	(4,923)
Other assets	(449)	(119)	472
Accounts payable and accrued expenses	1,662	(5,989)	(76)
Deferred revenues	(145)	(411)	(2,668)
Other liabilities	(55)	(133)	197
Net cash used in operating activities	(5,488)	(19,190)	(443)
Cash flows from investing activities			
Purchases of property and equipment	(17,392)	(118,602)	(76,177)
Deposits paid for property and equipment	(8,673)	(36,887)	(20,052)
Purchases of intangible assets	(21)	(3)	—
Additions to capitalized software costs	(606)	(1,015)	(528)
Payment of additional purchase price related Managed Services	—	(14)	—
Acquisition of PLX Systems	—	(1,640)	—
Acquisition of UniqueScreen Media	—	(1,172)	(121)
Acquisition of The Bigger Picture	—	(337)	(15)
Acquisition of Access Digital Server Assets	—	—	(35)
Purchase of available-for-sale securities	(24,000)	(9,000)	(6,000)
Maturities and sales of available-for-sale securities	—	33,393	6,148
Restricted short-term investment	(180)	—	(75)

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Net cash used in investing activities	(50,872)	(135,277)	(96,855)
Cash flows from financing activities			
Repayment of notes payable	(1,697)	(5,397)	(17,372)
Proceeds from notes payable	—	727	14,600
Repayment of credit facilities	—	(2,943)	—
Proceeds from credit facilities	—	138,077	66,660
Proceeds from One Year Senior Notes	—	22,000	—
Proceeds from 2007 Senior Notes	—	—	36,891
Payments of debt issuance costs	—	(5,054)	(3,114)
Principal payments on capital leases	(424)	(96)	(76)

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Costs associated with prior year issuance of Class A common stock	—	(251)	(47)
Net proceeds from issuance of Class A common stock	90,343	139	35
Net cash provided by financing activities	88,222	147,202	97,577
Net increase (decrease) in cash and cash equivalents	31,862	(7,265)	279
Cash and cash equivalents at beginning of period	4,779	36,641	29,376
Cash and cash equivalents at end of period	\$ 36,641	\$ 29,376	\$ 29,655

See accompanying notes to Consolidated Financial Statements

ACCESS INTEGRATED TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)

	Class A		Class B		Treasury		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Common Stock Shares	Amount	Common Stock Shares	Amount	Stock Shares	Amount			
Balances as of March 31, 2005 as previously reported	9,433,328	\$9	965,811	\$1	(51,440)	\$(172)	\$32,696	\$(21,487)	\$11,047
Cumulative effect of restatement								(396)	(396)
Balances as of March 31, 2005 as restated	9,433,328	\$9	965,811	\$1	(51,440)	\$(172)	\$32,696	\$(21,883)	\$10,651
Issuance of common stock in connection with exercise of warrants and stock options	395,305	—	—	—	—	—	1,801	—	1,801
Issuance of common stock in connection with the July 2005 Private Placement	1,909,115	2	—	—	—	—	16,719	—	16,721
Issuance of common stock in connection with the January 2006 Offering	1,500,000	2	—	—	—	—	14,495	—	14,497
Issuance of common stock in connection with the March 2006 Offering and the March 2006 Second Offering	5,894,999	6	—	—	—	—	54,753	—	54,759
Issuance of common stock in lieu of redeeming the Boeing Shares	53,534	—	—	—	—	—	250	—	250

Issuance of common stock in payment of interest on Convertible Debentures	17,758	—	—	—	—	—	146	—	146
Issuance of common stock in connection with the conversion of the Convertible Debentures	2,507,657	3	—	—	—	—	11,040	—	11,043
Issuance of common stock in connection with the conversion of the 6% Convertible Notes	307,871	—	—	—	—	—	1,699	—	1,699
Conversion of Class B shares to Class A	40,000	—	(40,000)	—	—	—	—	—	—
Transfer to equity of liability relating to warrants upon registration effectiveness	—	—	—	—	—	—	3,330	—	3,330
Net loss as restated	—	—	—	—	—	—	—	(17,123)	(17,123)
Balances as of March 31, 2006	22,059,567	\$22	925,811	\$1	(51,440)	\$(172)	\$136,929	\$(39,006)	\$97,774

See accompanying notes to Consolidated Financial Statements

ACCESS INTEGRATED TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)

	Class A Common Stock		Class B Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Balances as of March 31, 2006	22,059,567	\$22	925,811	\$1	(51,440)	\$(172)	\$136,929	\$(39,006)	\$97,774
Issuance of common stock in connection with exercise of warrants and stock options	15,750	—	—	—	—	—	138	—	138
Issuance of common stock in connection with the purchase of the Access Digital Server Assets	23,445	—	—	—	—	—	308	—	308
Issuance of common stock in connection with the acquisition of ACS	974,184	1	—	—	—	—	9,999	—	10,000
Issuance of common stock in connection with the acquisition of The Bigger Picture	460,000	1	—	—	—	—	3,923	—	3,924
Issuance of common stock in payment of interest on One Year Senior Notes	260,267	—	—	—	—	—	1,811	—	1,811
Issuance of common stock in connection with the additional purchase price of Managed Services	3,394	—	—	—	—	—	30	—	30
	30,000	—	—	—	—	—	150	—	150

Issuance of
common stock as
payment for the
reduction of
principal due
under the HS
Notes

Costs associated with prior year issuance of common stock	—	—	—	—	—	—	(251)	—	(251)
Conversion of Class B shares to Class A	162,000	—	(162,000)	—	—	—	—	—	—
Stock compensation expense	—	—	—	—	—	—	2,920	—	2,920
Net loss	—	—	—	—	—	—	—	(25,999)	(25,999)
Balances as of March 31, 2007	23,988,607	\$24	763,811	\$1	(51,440	\$(172	\$155,957	\$(65,005	\$90,805

See accompanying notes to Consolidated Financial Statements

ACCESS INTEGRATED TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)

	Class A		Class B		Treasury		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Common Stock Shares	Amount	Common Stock Shares	Amount	Stock Shares	Amount			
Balances as of March 31, 2007	23,988,607	\$24	763,811	\$1	(51,440)	\$(172)	\$155,957	\$(65,005)	\$90,805
Issuance of common stock in connection with exercise of warrants and stock options	6,500	—	—	—	—	—	32	—	32
Issuance of common stock in connection with the additional purchase price of ACS	145,861	—	—	—	—	—	1,000	—	1,000
Issuance of common stock in payment of interest on the One Year Senior Notes	357,737	—	—	—	—	—	2,452	—	2,452
Issuance of common stock in payment of interest on the 2007 Senior Notes	1,609,516	2	—	—	—	—	7,948	—	7,950
Additional Interest on the 2007 Senior Notes to be issued in common stock	—	—	—	—	—	—	1,020	—	1,020
Issuance of common stock in connection with the additional purchase price of Managed Services	5,391	—	—	—	—	—	29	—	29
Costs associated with issuance of common stock	—	—	—	—	—	—	(47)	—	(47)

Conversion of Class B shares to Class A	30,000	—	(30,000)	—	—	—	—	—	—
Stock compensation expense	—	—	—	—	—	—	453	—	453
Net loss	—	—	—	—	—	—	—	(35,687)	(35,687)
Balances as of March 31, 2008	26,143,612	\$26	733,811	\$1	(51,440)	\$(172)	\$168,844	\$(100,692)	\$68,007

See accompanying notes to Consolidated Financial Statements

ACCESS INTEGRATED TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended March 31, 2006, 2007 and 2008
(\$ in thousands, except for per share data)

1. NATURE OF OPERATIONS

Access Integrated Technologies, Inc. (“AccessIT” or 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. In the past, the Company generated revenues from two primary businesses, media services (“Media Services”) and internet data center (“IDC” or “data center”) services (“Data Center Services”), a business the Company no longer operated after May 1, 2007. Beginning April 1, 2007, the Company made changes to its organizational structure which impacted the Company’s reportable segments, but did not impact the Company’s consolidated financial position, results of operations or cash flows. The Company realigned its focus to 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 emerging industry opportunity 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 is attributable to the Data Center Services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND CONSOLIDATION

For the fiscal years ended March 31, 2006, 2007 and 2008, the Company incurred net losses of \$17,123, \$25,999 and \$35,687, respectively, and cash used in operating activities of \$5,488, \$19,190 and \$443, respectively. In addition, the Company has an accumulated deficit of \$100,692 as of March 31, 2008. At March 31, 2008, the Company also has contractual obligations (including interest and excluding non-cash interest) of \$47,854 for the fiscal year 2009. Management expects that the Company will continue to generate losses for the foreseeable future. Certain of these costs could be reduced if working capital decreased. Based on the Company’s cash position at March 31, 2008, and expected cash flows from operations, management believes that the Company has the ability to meet its obligations through June 30, 2009. The Company may attempt to raise additional capital from various sources for equipment requirements related to the Company’s Phase II Deployment or for working capital as necessary. There is no assurance that such financing 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 consolidated financial statements do not reflect any adjustments which may result from the outcome of such uncertainties.

The Company’s 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 Corporation”). AccessDM and AccessIT Satellite will together be known as the Digital Media Services Division (“DMS”). All intercompany transactions and balances have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) 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, the Company evaluates its estimates, including those related to the carrying values of its fixed assets and intangible assets, the valuation of deferred tax assets, and the valuation of assets acquired and liabilities assumed in purchase business combinations. 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 from these estimates under different assumptions or conditions.

Certain reclassifications of prior period data have been made to conform to the current presentation.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with an original maturity of three months or less to be “cash equivalents.” The carrying amount of the Company’s cash equivalents approximates fair value due to the short maturities of these investments and consists primarily of money market funds and other overnight investments. The Company maintains cash deposits with major banks, which from time to time may exceed federally insured limits. The Company periodically assesses the financial condition of the institutions and believes that the risk of any loss is minimal.

INVESTMENT SECURITIES

During the fiscal years ended March 31, 2007 and 2008, the Company held investment securities which were principally auction rate perpetual preferred securities. However, as of each year end date, the Company was not invested in these securities. The Company classified all investment securities as available-for-sale. Securities accounted for as available-for-sale were required to be reported at fair value with unrealized gains and losses, net of taxes, excluded from net income and shown separately as a component of accumulated other comprehensive income within stockholders’ equity. The securities that the Company had classified as available-for-sale generally traded at par and as a result typically did not have any realized or unrealized gains or losses.

DEPOSITS ON PROPERTY AND EQUIPMENT

Deposits on property and equipment represent amounts paid when digital cinema projection systems (the “Systems”) are ordered from Christie Digital Systems USA, Inc. (“Christie”) in connection with AccessIT DC’s Phase I Deployment (see Note 8). During AccessIT DC’s Phase I Deployment, such amounts were classified as long-term assets due to the nature of the assets underlying these deposits, although such deposits were to be offset against invoices from Christie when the associated invoices were paid. As of March 31, 2008, the Company had \$3,802 of unapplied deposits which are combined with accounts payable and accrued expenses, as AccessIT DC’s Phase I Deployment was finalized, and the related projection systems had been delivered and installed.

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 as follows:

Computer equipment	3-5 years
Digital cinema projection systems	10 years
Other projection system equipment	5 years
Machinery and equipment	3-10 years
Furniture and fixtures	3-6 years
Vehicles	5 years

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.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, investment securities, accounts receivable, accounts payable, accrued expenses and other obligations, approximate their fair value due to the short-term maturities of the related instruments.

Concentrations of Credit Risk

The Company's customer base is primarily composed of businesses throughout the United States. The Company routinely assesses the financial strength of its customers and the status of its accounts receivable and, based upon factors surrounding the credit risk, establishes an allowance, if required, for uncollectible accounts and, as a result, believes that its accounts receivable credit risk exposure beyond such allowance is limited. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of notes payable and capital lease obligations approximates fair value.

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.

BUSINESS COMBINATIONS AND INTANGIBLE ASSETS

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" ("SFAS No. 141") and SFAS No. 142, "Goodwill and other Intangible Assets" ("SFAS No. 142"). SFAS No. 141 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. SFAS No. 142 addresses the recognition and measurement of goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 also addresses the initial recognition and measurement of intangible assets acquired outside of a business combination, whether acquired individually or with a group of other assets. This statement provides that intangible assets with indefinite lives and goodwill will not be amortized but will be tested at least annually for impairment. If impairment is indicated, then the asset will be written down to its fair value, typically based upon its future expected discounted cash flows. As of March 31, 2008, the Company's finite-lived intangible assets consisted of customer relationships and agreements, theatre relationships, covenants not to compete, trade names and trademarks and Federal Communications Commission licenses (for satellite transmission services), which are estimated to have useful lives ranging from two to ten years. In June 2007, the unamortized balance of the liquor license (for the Pavilion Theatre) was charged to other expense. In connection with The Bigger Picture Acquisition (see Note 3), \$2,071 of the purchase price was allocated to a certain customer contract. During the fiscal year ended March 31, 2008, the customer decided not to continue its contract with The Bigger Picture. As a result, the unamortized balance of \$1,588 was charged to expense and recorded as impairment of intangible asset in the consolidated financial statements. At March 31, 2008, the Company concluded that there was no impairment of any other intangible assets.

In addition, the Company recorded goodwill in connection with the acquisitions of AccessIT SW, Managed Services, AccessIT Satellite, the Pavilion Theatre, PLX, ACS and The Bigger Picture. Goodwill related to the acquisition of the Pavilion Theatre was reduced in September 2005 in connection with the early retirement of the outstanding note payable (see Note 6). In September 2006, the amount of goodwill related to the Pavilion Theatre was reduced by \$107 for the remaining unpaid amount related to the holdback of funds at the time of purchase. At March 31, 2008, the Company concluded that there was no impairment of goodwill.

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Information related to the segments of the Company and its subsidiaries regarding goodwill is detailed below:

	Media Services	Content & Enter-tainment	Other	Corp.	Total
Balance as of March 31, 2006	\$ 3,875	\$ 3,830	\$ —	\$ —	7,705
Additional purchase price related to					
Managed Services	212	—	—	—	212
PLX Acquisition	442	—	—	—	442
ACS Acquisition	—	3,280	—	—	3,280
Bigger Picture Acquisition	—	1,717	—	—	1,717
Reduction due to the holdback of funds related to the Pavilion Theatre	—	(107)	—	—	(107)
Balance as of March 31, 2007	\$ 4,529	\$ 8,720	\$ —	\$ —	13,249
Additional purchase price related to the AccessIT Digital Server Assets	—	—	164	—	164
Additional costs associated with the ACS Acquisition	—	121	—	—	121
Additional purchase price related to the ACS Acquisition	—	1,000	—	—	1,000
Additional costs associated with the Bigger Picture Acquisition	—	15	—	—	15
Balance as of March 31, 2008	\$ 4,529	\$ 9,856	\$ 164	\$ —	14,549

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 fiscal years ended March 31, 2006, 2007 and 2008, respectively. Amortization of capitalized software development costs, included in direct operating costs, for the fiscal years ended March 31, 2006, 2007 and 2008 amounted to \$547, \$840 and \$590, 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. For the fiscal years ended March 31, 2006, 2007 and 2008, unbilled receivables under such customized software development contracts aggregated \$1,492, \$1,405 and \$1,187, respectively.

REVENUE RECOGNITION

Media Services

The Company's Media Services revenues are generated as follows:

Revenues consist of:	Accounted for in accordance with:
Software licensing, including customer licenses and application service provider ("ASP Service") agreements.	Statement of Position ("SOP") 97-2, "Software Revenue Recognition"
Software maintenance contracts, and professional consulting services, which includes systems implementation, training, custom software development services and other professional services, delivery revenues via satellite and hard drive, data encryption and preparation fee revenues, satellite network monitoring and maintenance fees, movie theatre admission and concession revenues, virtual print fees ("VPFs") and alternative content fees ("ACFs").	Staff Accounting Bulletin ("SAB") No. 104 "Revenue Recognition in Financial Statements" ("SAB No. 104").
Cinema advertising service revenues and distribution fee revenues.	SOP 00-2, "Accounting by Producers or Distributors of Films" ("SOP 00-2")

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 upon delivery and acceptance.

Revenues relating to customized software development contracts are recognized on a percentage-of-completion method of accounting.

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.

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 advertising is displayed in-theatre, pursuant to the specific terms of each advertising contract. The Company 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 advertising is displayed in-theatre.

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, as such obligations arise 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 Company's participation in box office receipts. The Company 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.

Data Center Services

The Company's Data Center Services revenues were generated as follows:

Revenues consist of:	Accounted for in accordance with:
License fees for data center space, hosting and network access fees, electric, cross connect fees and riser access charges, non-recurring installation and consulting fees, network monitoring and maintenance fees.	SAB No. 104

Since May 1, 2007, the Company's IDCs have been operated by FiberMedia pursuant to a master collocation agreement. Although the Company is still the lessee of the IDCs, substantially all of the revenues and expenses are being realized by FiberMedia and not the Company.

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 7. Effective April 1, 2006, the Company adopted 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.

Effective March 8, 2006, the compensation committee of the Company's Board of Directors (the "Board") approved the acceleration of the vesting of all unvested stock options awarded under the Company's stock incentive plans. The primary purpose of the acceleration was to eliminate the impact of \$3,098 of future stock-based compensation expense, of which \$1,410 is related to stock options held by the Company's executive officers and members of the Board, that would have been recognized over the next three years as the stock options vested as a result of adopting SFAS No. 123(R). The Company will not be required to recognize future compensation expense for the accelerated stock options under SFAS No. 123(R) unless further modifications are made to the stock options, which are not anticipated.

The Company adopted SFAS 123(R) using the "modified prospective" method in which stock-based compensation cost is recognized beginning with the April 1, 2006 adoption date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after April 1, 2006 and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to April 1, 2006 that remain unvested on the adoption date. There were no unvested stock options as of March 31, 2006, as the compensation committee of the Board approved the acceleration of the vesting of

all unvested stock options awarded under the Company's stock incentive plans as of March 31, 2006. At the Company's 2006 Annual Meeting of Stockholders held on September 14, 2006, the expansion of the Company's stock incentive plan was approved by the shareholders. For the fiscal year ended March 31, 2007, stock-based compensation expense of \$2,920 was recorded, of which \$2,779 related to the 436,747 stock options awarded in excess of options eligible to be granted under the Company's stock incentive plan prior to its expansion and \$141 relates to stock options granted on or after April 1, 2006. For the fiscal year ended March 31, 2008, stock-based compensation expense of \$453 was recorded. The Company has estimated that the stock-based compensation expense, using a Black-Scholes option valuation model, related to such stock options currently outstanding at March 31, 2008, will be approximately \$700 for the fiscal year 2009 (see Note 7 for further discussion of stock options).

Previously, the Company accounted for its stock-based employee compensation plans in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations. As such, stock-based compensation expense was recorded on the date of grant only if the current fair value of the underlying stock exceeds the exercise price. The Company followed the disclosure standards of SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosures", which amended SFAS No. 123, "Accounting for Stock-Based

Compensation” (“SFAS 123”), which required the Company to provide pro forma net loss and net loss per share disclosures for stock option grants made in 1995 and future years as if the fair-value based method of accounting for stock options as defined in SFAS 123 had been applied.

The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair-value recognition provisions of SFAS No. 123 to stock-based compensation for the year ended March 31, 2006:

Net loss as reported	\$ (17,123)
Add: Stock-based compensation expense included in net loss	—
Less: Stock-based compensation expense determined under fair-value based method	(4,866)
Pro forma net loss	\$ (21,989)
Basic and diluted net loss per share:	
As reported	\$ (1.22)
Pro forma	\$ (1.56)

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 fiscal years ended		
	March 31,		
	2006	2007	2008
Weighted-average risk-free interest rate	4.2%	4.7%	3.2%
Dividend yield	—	—	—
Expected life (years)	10	10	5
Weighted-average expected volatility	88.4%	56.3%	55.1%

NET LOSS PER SHARE AVAILABLE TO COMMON STOCKHOLDERS

Computations of basic and diluted net loss per share of the Company's Common Stock have been made in accordance with SFAS No. 128, "Earnings Per Share". Basic and diluted net losses per share have been calculated as follows:

Basic and diluted net loss per share	Net loss
=	
	Weighted average number of common shares outstanding during the period

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

The Company has incurred net losses for the fiscal years ended March 31, 2006, 2007 and 2008 and, therefore, the impact of dilutive potential common shares from outstanding stock options, warrants (prior to the application of the treasury stock method), and convertible notes (on an as-converted basis) were excluded from the computation as it would be anti-dilutive. Potentially dilutive shares excluded from the computations aggregated 2,712,993, 2,827,743 and 3,406,654 for the fiscal years ended March 31, 2006, 2007 and 2008, respectively.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 on April 1, 2007 and had no effect on the consolidated financial statements.

In September 2006, the 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. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including financial statements for an interim period within that fiscal year. 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. The Company plans to adopt SFAS 157 on April 1, 2008, and does not believe it will be affected by its adoption.

In September 2006, the FASB issued SFAS No. 158 “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)” (“SFAS 158”). SFAS 158 requires the recognition of the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as

an asset or liability in the reporting entity's statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. SFAS 158 also requires the reporting entity to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. A reporting entity with publicly traded equity securities is required to recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. The Company adopted SFAS 158 on April 1, 2007 and was not affected by its adoption.

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 plans to adopt SFAS 159 on April 1, 2008, and does not believe it will be affected by its adoption.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141(R)"). SFAS 141(R) will change the accounting for business combinations. Under SFAS No. 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141(R) will change the accounting treatment and disclosure for certain specific items in a business combination. SFAS No. 141(R) applies 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 impact the Company in the event of any future acquisition after the date of adoption.

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

3. ACQUISITIONS

On January 1, 2006, the Company purchased the domain name, website, customer list and the IP address space of Ezzi.net and certain data center-related computer equipment of R & S International, Inc. (together the "Access Digital Server Assets"). The Access Digital Server Assets were acquired to complement the Company's existing Data Center Services business and are primarily used for hosting services and providing network access for other web hosting services. The purchase price of \$448 included a cash payment of \$140 and 23,445 shares of unregistered Class A Common Stock issued in April 2006 valued at \$308. In addition in the fiscal year ended March 31, 2008, the Company paid an additional purchase price of \$164, which consisted of a cash payment of \$35 and 30,000 shares of Class A Common Stock valued at \$129, which were issued in April 2008.

In June 2006, the Company, through its indirect wholly-owned subsidiary, PLX Acquisition Corp., purchased substantially all of the assets of PLX Systems Inc. (“PLX”). The results of PLX’s operations have been included in the consolidated financial statements since June 1, 2006. PLX provides technology, expertise and core competencies in intellectual property (“IP”) rights and royalty management, expanding the Company’s ability to bring alternative forms of content, such as non-traditional feature films, to movie-goers in addition to supporting IP license contract management, royalty processing, revenue reporting and billing.

The total purchase price of \$1,640, including estimated transaction costs, allocated to the net assets acquired based upon the results of an appraisal of fair value, was as follows:

Accounts receivable	\$ 73
Prepaid expenses and other current assets	27
Property and equipment	45
Intangible assets	209
Capitalized software costs	984
Goodwill	442
Total assets acquired	1,780
Deferred revenues	140
Total liabilities assumed	140
Net assets acquired	\$ 1,640

The finite-lived intangible assets of \$209, are estimated to have useful lives ranging from three to five years, and have a weighted-average amortization period of 3.24 years.

In July 2006, the Company acquired 100% of the issued and outstanding stock of ACS (the “ACS Acquisition”) for a combination of an aggregate of 974,184 shares of the Company’s Class A Common Stock, \$1,000 in cash, and promissory notes issued by the Company in favor of the stockholders of ACS (the “ACS Stockholders”) in the principal amount of \$5,204 (see Note 6). The results of ACS’s operations have been included in the consolidated financial statements since August 1, 2006. The Company also agreed to pay to the ACS Stockholders additional purchase price, up to a maximum of \$1,000 in cash or the equivalent of the Company’s Class A Common Stock, at the Company’s sole discretion. In April 2007 and July 2007, such digital cinema deployment milestones were met, and the Company issued 67,906 and 77,955 shares of the Company’s Class A Common Stock, respectively, with a value of \$1,000 to the ACS Stockholders as additional purchase price (see Note 7). The Company also assumed \$5,914 of ACS’s debt, of which \$5,598 relates to ACS’s revolving credit facility (see Note 6).

The total purchase price of approximately \$16,400, including estimated transaction costs, allocated to the net assets acquired based upon the results of an appraisal of fair value, was as follows:

Accounts receivable	\$ 7,304
Prepaid expenses and other assets	970
Property and equipment	2,849
Customer relationships	9,020
Theatre relationships	6,500
Other intangible assets	1,000
Goodwill	3,280
Deferred Costs	71

Note receivable	100
Total assets acquired	31,094
Accounts payable and accrued expenses	1,300
Deferred revenues	7,498
Notes payable	5,914
Capital leases	7
Total liabilities assumed	14,719
Net assets acquired	\$ 16,375

The finite-lived intangible assets of \$16,520, are estimated to have useful lives ranging from two to ten years, and have a weighted-average amortization period of 6.57 years.

In December 2006, ACS's revolving credit facility, assumed in the ACS Acquisition, was converted into a term loan (see Note 6). In August 2007, the outstanding principal balance of \$6,390 for the Excel Term Note was repaid in full with a portion of the proceeds from the August 2007 Private Placement (see Note 6).

In January 2007, the Company purchased substantially all of the assets and assumed certain liabilities of BP/KTF, LLC, a subsidiary of privately-held Sabella Dern Entertainment ("BP/KTF") for 460,000 shares of the Company's Class A Common Stock. The results of Bigger Picture's operations have been included in the consolidated financial statements since February 1, 2007. The Company also agreed to pay BP/KTF additional purchase price in cash or the equivalent of the Company's Class A Common Stock, at the Company's sole discretion, if certain conditions are met.

The total purchase price of approximately \$4,300, including estimated transaction costs, allocated to the net assets acquired based upon the results of an appraisal of fair value, was as follows:

Unbilled revenue	\$ 1,394
Property and equipment	16
Customer relationships and contracts	3,058
Other intangible assets	360
Goodwill	1,717
Total assets acquired	6,545
Accounts payable and accrued expenses	1,134
Deferred revenues	1,150
Total liabilities assumed	2,284
Net assets acquired	\$ 4,261

Of the \$3,058 of customer relationships and contracts, \$2,071 was allocated to a certain customer contract. During the fiscal year ended March 31, 2008, the customer decided not to continue its contract with The Bigger Picture. As a result, the unamortized balance of \$1,588 was charged to expense and recorded as impairment of intangible asset in the consolidated financial statements and is included in the Content & Entertainment segment. The remaining finite-lived intangible assets of \$1,347 are estimated to have useful lives of five years.

The following pro forma information shows the results of operations for the fiscal years ended March 31, 2006 and 2007, as though the above acquisitions had occurred at the beginning of each respective fiscal year. The pro forma information reflects adjustments for (i) depreciation and amortization of acquired tangible and intangible assets from the acquisitions, (ii) interest expense for promissory notes issued by the Company in favor of the ACS Stockholders in the principal amount of \$5,204 (see Note 6), and (iii) the full year impact of the issuance of 974,184 shares for the ACS Acquisition and 460,000 shares for the Bigger Picture Acquisition. The pro forma financial information below is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have been achieved had the acquisitions been completed as of the dates indicated above or the results that may be obtained in the future.

	For the Fiscal Years ended March 31,	
	2006	2007
	(unaudited)	(unaudited)
Revenues	\$ 35,581	\$ 55,578
Net loss	\$ (19,294)	\$ (28,892)

Basic and diluted net loss per share	\$	(1.24)	\$	(1.18)
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4. CONSOLIDATED BALANCE SHEET COMPONENTS

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following:

	As of March 31,	
	2007	2008
Bank balances	\$ 23,446	\$ 23,161
Money market funds	5,930	6,494
Total cash and cash equivalents	\$ 29,376	\$ 29,655

As of March 31, 2007 and 2008, cost approximated fair value of cash and cash equivalents.

RESTRICTED CASH

The Company had \$180 and \$255 of restricted cash as of March 31, 2007 and 2008, respectively, in the form of a bank certificate of deposit underlying an outstanding bank standby letter of credit for an office space lease for AccessIT SW.

ACCOUNTS RECEIVABLE

Accounts receivable, net consisted of the following:

	As of March 31,	
	2007	2008
Trade receivables	\$ 19,836	\$ 23,800
Allowance for doubtful accounts	(1,332)	(2,306)
Total accounts receivable, net	\$ 18,504	\$ 21,494

The Company determines its allowance by considering a number of factors, including the length of time such receivables are past due, the Company's previous loss history, and the customer's current ability to pay its obligation to the Company. The Company writes off receivables when all collection efforts have been exhausted.

PROPERTY AND EQUIPMENT, NET

Property and equipment, net was comprised of the following:

	As of March 31,	
	2007	2008
Land	\$ 1,500	\$ 1,500
Building and improvements	4,600	4,600
Leasehold improvements	1,482	1,748
Computer equipment and software	6,288	7,050
Digital cinema projection systems	188,577	285,060
Other projection system equipment	3,699	4,021
Machinery and equipment	9,181	9,882

Furniture and fixtures	662	734
Vehicles	125	125
	216,114	314,720
Less - accumulated depreciation	(18,662)	(45,689)
Total property and equipment, net	\$ 197,452	\$ 269,031

Land and building and improvements represent the Company's capital lease for the Pavilion Theatre. Leasehold improvements consist primarily of costs incurred at the Pavilion Theatre and for the new offices of AccessIT SW. Computer equipment and software consists primarily of software used in the Company's Managed Storage Services business, the Cinefence License, the

Access Digital Server Assets and from the AccessIT SW, Managed Services and Boeing Digital Asset Acquisitions. Digital cinema projection systems consist entirely of equipment purchased in connection with AccessIT DC's Phase I Deployment. Other projection system equipment consists entirely of equipment purchased in connection with the ACS Acquisition. Machinery and equipment consists primarily of costs incurred for satellite equipment purchased in connection with AccessIT DC's Phase I Deployment and equipment from the FiberSat Acquisition. For the fiscal years ended March 31, 2006, 2007 and 2008, depreciation expense amounted to \$3,693, \$14,699 and \$29,285, respectively. The amortization of the Company's capital lease for the Pavilion Theatre, and included in depreciation expense, amounted to \$359 for each of the fiscal years ended March 31, 2006, 2007 and 2008.

At March 31, 2007, all the assets related to the Company's IDCs were written-off and included in the loss on disposition of assets, and consisted of the following:

Leasehold improvements	\$ 4,185
Computer equipment and software	326
Machinery and equipment	697
Furniture and fixtures	178
	5,386
Less - accumulated depreciation	(3,120)
Total property and equipment, net	\$ 2,266

INTANGIBLE ASSETS, NET

Intangible assets, net consisted of the following:

	As of March 31,	
	2007	2008
Trademarks	\$ 81	\$ 81
Corporate trade names	889	889
Customer relationships and contracts	13,729	11,348
Theatre relationships	6,500	6,575
Covenants not to compete	2,649	2,509
	23,848	21,402
Less - accumulated amortization	(4,416)	(7,810)
Total intangible assets, net	\$ 19,432	\$ 13,592

For the fiscal years ended March 31, 2006, 2007 and 2008, amortization expense amounted to \$1,308, \$2,773 and \$4,290, respectively.

Amortization expense on intangible assets is estimated as follows:

	For the fiscal years ending March 31,
2009	\$3,412
2010	\$2,931
2011	\$2,842
2012	\$1,531
2013	\$ 674

CAPITALIZED SOFTWARE COSTS, NET

Capitalized software costs, net consisted of the following:

	As of March 31,	
	2007	2008
Capitalized software	\$ 4,715	\$ 5,242
Less - accumulated amortization	(1,875)	(2,465)
Total capitalized software costs, net	\$ 2,840	\$ 2,777

For the years ended March 31, 2006, 2007 and 2008, amortization of software costs, which is included in direct operating costs, amounted to \$547, \$840 and \$590, respectively.

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

	As of March 31,	
	2007	2008
Accounts payable	\$ 20,493	\$ 18,182
Accrued compensation and benefits	1,096	1,075
Accrued taxes payable	553	591
Interest payable	1,191	2,671
Accrued other expenses	5,598	2,694
Total accounts payable and accrued expenses	\$ 28,931	\$ 25,213

For the years ended March 31, 2007 and 2008, amounts ordered from Christie for digital cinema projection systems in connection with AccessIT DC's Phase I Deployment and included in accounts payable amounted to \$19,677 and \$19,734, respectively. In addition, included in accrued other expenses were \$233 and \$0, respectively, for installation costs from Christie. At March 31, 2008, accounts payable has been reduced by \$3,802 related to unapplied deposits paid to Christie for digital cinema projection systems that will be applied on subsequent payments to Christie.

For the years ended March 31, 2007 and 2008, the Company has also included \$1,023 and \$26, respectively, in accrued other expenses, representing the estimated fiscal 2008 IDC operating losses expected as a result of the agreement with FiberMedia.

5. NOTES RECEIVABLE

Notes receivable consisted of the following:

Note Receivable (as defined below)	As of March 31, 2007		As of March 31, 2008	
	Current Portion	Long Term Portion	Current Portion	Long Term Portion
Exhibitor Note	\$ 47	\$ 141	\$ 50	\$ 91
Exhibitor Install Notes	54	986	95	1,002
TIS Note	—	100	—	100
Other	—	—	13	27
	\$ 101	\$ 1,227	\$ 158	\$ 1,220

In March 2006, in connection with AccessIT DC's Phase I Deployment, 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 March 31, 2008, the outstanding balance of the Exhibitor Note was \$141.

In connection with AccessIT DC's Phase I Deployment (see Note 8), the Company agreed to provide financing to certain motion picture exhibitors upon the billing to the motion picture exhibitors by Christie for the installation costs associated with the placement of 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 March 31, 2008, the outstanding balance of the Exhibitor Install Notes was \$1,097.

Prior to the ACS Acquisition (see Note 3), 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 March 31, 2008, the outstanding balance of the TIS Note was \$100.

The aggregate principal repayments to the Company on notes receivable are scheduled to be as follows:

For the fiscal years ending March 31,	
2009	\$ 158
2010	261
2011	143
2012	100
2013	108
Thereafter	608
	\$ 1,378

6. DEBT AND CREDIT FACILITIES

Notes payable consisted of the following:

Note Payable (as defined below)	As of March 31, 2007		As of March 31, 2008	
	Current Portion	Long Term Portion	Current Portion	Long Term Portion
HS Notes	\$ 828	\$ 367	\$ 540	\$ —
Boeing Note	450	402	450	—
First ACS Note	382	634	414	221
SilverScreen Note	100	144	113	20
One Year Senior Notes	—	22,000	—	—
Excel Term Note	720	6,030	—	—
Vendor Note B	—	—	—	9,600
2007 Senior Notes	—	—	—	55,000
Other	—	—	50	—
GE Credit Facility	—	134,619	15,431	185,848
	\$ 2,480	\$ 164,196	\$ 16,998	\$ 250,689

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. During the fiscal years ended March 31, 2007 and 2008, the Company repaid principal of \$595 and \$655 on the HS Notes. On March 31, 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. As of March 31, 2008, the outstanding principal balance of the HS Notes was \$540.

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 is being imputed, at a rate of 12%, over the term of the Boeing Note, and is being charged to non-cash interest expense. During the fiscal years ended March 31, 2007 and 2008, principal repayments of \$450 and \$450, respectively, were made. During the fiscal years ended March 31, 2006, 2007 and 2008, non-cash interest expense resulting from the Boeing Note was \$130, \$91 and \$48, respectively. As of March 31, 2008, the outstanding balance of the Boeing Note, including imputed interest, was \$450.

In July 2006, in connection with the ACS Acquisition (see Note 3), 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. As of March 31, 2008, the outstanding principal balance of the First ACS Note was \$635.

Prior to the ACS Acquisition (see Note 3), 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. As of March 31, 2008, the outstanding principal balance of the SilverScreen Note was \$133.

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 is one year and may be extended for up to two 90-day periods at the discretion of the Company if certain market conditions are met. Interest on the One Year Senior Notes will 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 will 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. Pursuant to the One Year Senior Notes, the Company issued 46,750 shares of Class A Common Stock as Additional Interest in payment of the first quarterly interest on the One Year Senior Notes, due December 31, 2006. The Company elected to pay the quarterly interest due December 31, 2006 in shares of its Class A Common Stock and issued 53,029 Interest Shares. The Company filed a registration statement on Form S-3 on January 26, 2007, which was declared effective by the SEC on February 15, 2007. Subsequent Additional Interest payments will be made quarterly in arrears at the end of each quarterly period beginning March 31, 2007. Pursuant to the One Year Senior Notes, the Company issued 81,768 shares of Class A Common Stock as Additional Interest in payment of the quarterly interest on the One Year Senior Notes, due March 31, 2007. The Company elected to pay the quarterly interest due March 31, 2007 in shares of its Class A Common Stock and issued 78,720 Interest Shares. 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. The Company may prepay the One Year Senior Notes in whole or in part, without penalty, subject to paying the Additional Interest. The net proceeds of approximately \$20,965 from the October 2006 Private Placement is expected to be used for the expansion of the Company's digital cinema rollout plans to markets outside of the United States, and any one or more of the following: (i) the payment of certain existing outstanding indebtedness of the Company due within twelve months of the issuance of the One Year Senior Notes, (ii) working capital and (iii) other general corporate purposes, including acquisitions. The Purchase Agreement also requires the One Year 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 ACS and their 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 One Year Senior Notes.

In February 2007, the Company and the Purchasers of the One Year Senior Notes agreed to amend the One Year Senior Notes to: (i) remove the market conditions that would otherwise restrict the Company from extending the term of the One Year Senior Notes for up to two 90-day periods, (ii) provide for an increase in the amount of permitted indebtedness the Company may incur, to up to \$5,000, (iii) provide for additional interest to be paid in either cash or stock, at the Company's option, if the average price of the Company's stock falls below \$7.00 during the 30 days before any quarterly interest due date, and (iv) provide an approximate 1% increase in the value of the Additional Interest Shares payable to the Purchasers annually. 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, the Company recorded debt refinancing expense of \$1,122, of which \$436 related to unamortized debt issuance costs and \$686 for shares of Class A Common Stock issued to certain holders of the One Year Senior Notes (see Note 6) as an inducement for them to enter into a securities purchase agreement with the Company in August 2007.

In May 2007, the Company received \$5,000 of vendor financing (the "Vendor Note A") for equipment used in AccessIT DC's Phase I Deployment. The Vendor Note A bore interest at 15% and was permitted to be prepaid without penalty.

A mandatory principal amount of \$617 plus all accrued and unpaid interest was paid in December 2007. The Vendor Note A and all accrued interest was to become due and payable in July 2008. If the Vendor Note A was repaid in full by March 31, 2008, the interest rate would become 8%, retroactive to the beginning of the note term. In February 2008, the outstanding principal balance of the Vendor Note A of \$4,383 was repaid in full.

In August 2007, AccessIT DC obtained \$9,600 of vendor financing (the "Vendor Note B") for equipment used in AccessIT DC's Phase I Deployment. The Vendor Note B bears interest at 11% and may be prepaid without penalty. Interest is due semi-annually commencing February 2008. The balance of the Vendor Note B, together with all unpaid interest is due on the maturity date of August 1, 2016. As of March 31, 2008, the outstanding balance of the Vendor Note B 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 will 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 will issue 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 are expected to be 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 digital projection 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 7). Under the 2007 Senior Notes the Company agreed (i) to limit its and its subsidiaries' indebtedness to an aggregate of \$315,000 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. Additionally, the Company and its subsidiaries may incur additional indebtedness in connection with the deployment of Systems beyond the Company's initial rollout of up to 4,000 Systems, if certain conditions are met. As of March 31, 2008, the outstanding principal balance of the 2007 Senior Notes was \$55,000.

CREDIT FACILITIES

In July 2006, in connection with the ACS Acquisition (see Note 3), the Company assumed \$5,598 of debt relating to ACS's \$7,500 revolving credit facility with Excel Bank (the "Excel Credit Facility"). The Excel Credit Facility bore interest at a rate between 2.75% to 3.5% over the current one-month London Interbank Offered Rate (LIBOR), depending on ACS's leverage ratio. A quarterly unused line fee was due equal to 0.25% of the excess of \$7,500 over the average outstanding balance of the Excel Credit Facility during the quarter. Under the Excel Credit Facility, ACS would pay interest only through December 31, 2008. The balance of the principal amount, together with all unpaid interest on such borrowings and any fees incurred by ACS pursuant to the Excel Credit Facility are due on the maturity date of December 31, 2008. Pursuant to the Excel Credit Facility, ACS's bank deposits in excess of a minimum balance were swept from time to time by Excel Bank toward the repayment of the Excel Credit Facility. The Excel Credit Facility was repaid in full, as discussed below.

In December 2006, in connection with the conversion of the Excel Credit Facility, ACS issued a 5-year, 8% term note payable to Excel Bank with a face amount of \$6,750 (the "Excel Term Note"). Proceeds from the Excel Term Note were used to repay the Excel Credit Facility, to purchase advertising projection systems and for working capital. Interest is due monthly commencing January 1, 2007 and principal shall be paid in quarterly installments commencing April 1, 2007. The balance of the Excel Term Note, together with all unpaid interest are due on the maturity date of January 1, 2012. ACS may prepay at any time and time from time, all or any portion of the Excel Term Note, without penalty or premium. The Excel Term Note is not guaranteed by the Company or its other subsidiaries, other than ACS. Since

April 1, 2007, the Company paid quarterly installments which repaid principal of \$360 on the Excel Term Note. In August 2007, the outstanding principal balance of \$6,390 for the Excel Term Note was repaid in full with a portion of the proceeds from the August 2007 Private Placement, which is discussed further above.

In August 2