Access Integrated Technologies, Inc. d/b/a Cinedigm Digital Cinema Corp.
Form 10-Q
August 12, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2009

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

Commission File Number: 000-51910

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

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

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

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

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

Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of August 11, 2009, 28,020,060 shares of Class A Common Stock, $0.001 par value, and 733,811 shares of Class B Common Stock, $0.001 par value, were outstanding.

ACCESS INTEGRATED TECHNOLOGIES, INC.
d/b/a CINEDIGM DIGITAL CINEMA CORP.
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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

ACCESS INTEGRATED TECHNOLOGIES, INC.
d/b/a CINEDIGM DIGITAL CINEMA CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except for share data)

	March 31, 2009	June 30, 2009
ASSETS		(Unaudited)
Current assets		
Cash and cash equivalents	$26,329	$19,009
Accounts receivable, net	13,884	14,270
Deferred costs, current portion	3,936	4,158
Unbilled revenue, current portion	3,082	3,249
Prepaid and other current assets	1,798	2,919
Note receivable, current portion	616	322
Total current assets	49,645	43,927
Property and equipment, net	243,124	242,452
Intangible assets, net	10,707	9,942
Capitalized software costs, net	3,653	3,733
Goodwill	8,024	8,024
Deferred costs, net of current portion	3,967	4,509
Unbilled revenue, net of current portion	1,253	1,163
Note receivable, net of current portion	959	919
Security deposits	424	427
Accounts receivable, net of current portion	386	386
Restricted cash	255	255
Total assets	$322,397	$315,737

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

ACCESS INTEGRATED TECHNOLOGIES, INC.
d/b/a CINEDIGM DIGITAL CINEMA CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except for share data)
(continued)

	March 31, 2009	June 30, 2009
LIABILITIES AND STOCKHOLDERS' EQUITY		(Unaudited)
Current liabilities		
Accounts payable and accrued expenses	$14,954	$15,846
Current portion of notes payable	25,248	26,068
Current portion of deferred revenue	5,535	5,381
Current portion of customer security deposits	314	314
Current portion of capital leases	175	965
Total current liabilities	46,226	48,574
Notes payable, net of current portion	225,957	223,307
Capital leases, net of current portion	5,832	5,833
Fair value of interest rate swap	4,529	3,846
Deferred revenue, net of current portion	1,057	1,813
Customer security deposits, net of current portion	9	9
Total liabilities	283,610	283,382
Commitments and contingencies (see Note 7)		
Stockholders' Equity		
Preferred stock, 15,000,000 shares authorized; issued and outstanding: Series A 10% - $0.001 par value per share; 20 shares authorized; 8 shares issued and outstanding at March 31, 2009 and June 30, 2009, respectively. Liquidation preference $4,050	3,476	3,503
Class A common stock, $0.001 par value per share; 65,000,000 shares authorized; 27,544,315 and 27,871,500 shares issued and 27,492,875 and 27,820,060 shares outstanding at March 31, 2009 and June 30, 2009, respectively	27	27
Class B common stock, $0.001 par value per share; 15,000,000 shares authorized; 733,811 shares issued and outstanding, at March 31, 2009 and June 30, 2009, respectively	1	1
Additional paid-in capital	173,565	174,252
Treasury stock, at cost; 51,440 Class A shares	(172)	(172)
Accumulated deficit	(138,110)	(145,256)
Total stockholders' equity	38,787	32,355
Total liabilities and stockholders' equity	$322,397	$315,737

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

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ACCESS INTEGRATED TECHNOLOGIES, INC.
d/b/a CINEDIGM DIGITAL CINEMA CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except for share and per share data)
(Unaudited)

	For the Three Months Ended June 30,	
	2008	2009
Revenues	$20,570	$18,666
Costs and Expenses:		
Direct operating (exclusive of depreciation and amortization shown below)	5,797	5,462
Selling, general and administrative	4,833	3,869
Provision for doubtful accounts	28	128
Research and development	7	40
Stock-based compensation	158	325
Depreciation of property and equipment	8,135	8,153
Amortization of intangible assets	947	765
Total operating expenses	19,905	18,742
Income (loss) from operations	665	(76)
Interest income	124	40
Interest expense	(7,176)	(7,550)
Other expense, net	(150)	(143)
Change in fair value of interest rate swap	2,252	683
Net loss	$(4,285)	$(7,046)
Preferred stock dividends	—	(100)
Net loss attributable to common stockholders	$(4,285)	$(7,146)
Net loss per Class A and Class B common share - basic and diluted	$(0.16)	$(0.25)
Weighted average number of Class A and Class B common shares outstanding:		
Basic and diluted	26,865,147	28,284,401

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

ACCESS INTEGRATED TECHNOLOGIES, INC.
d/b/a CINEDIGM DIGITAL CINEMA CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (Unaudited)

	For the Three Months Ended June 30, 2008	2009
Cash flows from operating activities		
Net loss	$(4,285)	$(7,046)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss on disposal of assets	3	—
Depreciation and amortization of property and equipment and amortization of intangible assets	9,082	8,918
Amortization of capitalized software costs	194	161
Amortization of debt issuance costs included in interest expense	372	429
Provision for doubtful accounts	28	128
Stock-based compensation	158	325
Non-cash interest expense	2,180	807
Change in fair value of interest rate swap	(2,252)	(683)
Changes in operating assets and liabilities:		
Accounts receivable	4,207	(514)
Unbilled revenue	849	(77)
Prepaids and other current assets	(517)	(1,121)
Other assets	91	357
Accounts payable and accrued expenses	(1,068)	(146)
Deferred revenue	(280)	602
Net cash provided by operating activities	8,762	2,140
Cash flows from investing activities		
Purchases of property and equipment	(12,466)	(5,641)
Additions to capitalized software costs	(210)	(242)
Net cash used in investing activities	(12,676)	(5,883)
Cash flows from financing activities		
Repayment of notes payable	(788)	(128)
Repayment of credit facilities	—	(6,095)
Proceeds from credit facilities	200	4,394
Payments of debt issuance costs	(114)	(1,621)
Principal payments on capital leases	(25)	(111)
Costs associated with issuance of preferred stock	—	(8)
Costs associated with issuance of Class A common stock	(11)	(8)
Net cash used in financing activities	(738)	(3,577)
Net decrease in cash and cash equivalents	(4,652)	(7,320)
Cash and cash equivalents at beginning of period	29,655	26,329
Cash and cash equivalents at end of period	$25,003	$19,009

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

ACCESS INTEGRATED TECHNOLOGIES, INC.
d/b/a CINEDIGM DIGITAL CINEMA CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009
($ in thousands, except for per share data)
(Unaudited)

1. NATURE OF OPERATIONS

Access Integrated Technologies, Inc. d/b/a Cinedigm Digital Cinema Corp. was incorporated in Delaware on March 31, 2000 and began doing business as Cinedigm Digital Cinema Corp. on November 25, 2008 ("Cinedigm", and collectively with its subsidiaries, the "Company"). The Company provides technology solutions, software services, electronic delivery and content distribution services to owners and distributors of digital content to movie theatres and other venues. The Company has three segments, media services ("Media Services"), media content and entertainment ("Content & Entertainment") and other ("Other"). The Company's Media Services segment provides technology solutions, software services, digital content electronic delivery services via satellite and hard drive to the motion picture and television industries, primarily to facilitate the conversion from analog (film) to digital cinema and has positioned the Company at what it believes to be the forefront of an industry relating to the delivery and management of digital cinema and other content to theatres and other remote venues worldwide. The Company's Content & Entertainment segment provides content distribution services to theatrical exhibitors, in-theatre advertising and motion picture exhibition to the general public. The Company's Other segment provides hosting services and network access for other web hosting services ("Access Digital Server Assets"). Overall, the Company's goal is to aid in the transformation of movie theatres to entertainment centers by providing a platform of hardware, software and content choices. Additional information related to the Company's reporting segments can be found in Note 9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION, USE OF ESTIMATES AND CONSOLIDATION

The Company has incurred net losses historically and has an accumulated deficit of $145,256 as of June 30, 2009. The Company also has significant contractual obligations related to its debt for the remaining part of fiscal year 2010 and beyond. Management expects that the Company will continue to generate net losses for the foreseeable future. Based on the Company's cash position at June 30, 2009, and expected cash flows from operations, management believes that the Company has the ability to meet its obligations through June 30, 2010. The Company is seeking to raise additional capital to refinance certain outstanding debt, to meet equipment requirements related to the Company's second digital cinema deployment (the "Phase II Deployment") and for working capital as necessary. Although the Company recently entered into certain agreements related to the Phase II Deployment (see Note 7), there is no assurance that financing for the Phase II Deployment will be completed as contemplated or under terms acceptable to the Company or its existing stockholders. 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. The accompanying unaudited condensed consolidated financial statements do not reflect any adjustments which may result from the Company's inability to continue as a going concern.

The condensed consolidated balance sheet as of March 31, 2009, which has been derived from audited financial statements, and the unaudited condensed consolidated financial statements were prepared following the interim reporting requirements of the Securities and Exchange Commission ("SEC"). As permitted under those rules, certain footnotes or other financial information that are normally required by accounting principles generally accepted in the United States of America ("GAAP"), have been condensed or omitted. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included.

The Company's unaudited condensed consolidated financial statements include the accounts of Cinedigm, 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. ("USM"), Vistachiara Productions, Inc. f/k/a The Bigger Picture, currently d/b/a Cinedigm Content and Entertainment Group ("CEG"), Access Digital Cinema Phase 2 Corp. ("Phase 2 DC") and

Access Digital Cinema Phase 2 B/AIX Corp. ("Phase 2 B/AIX"). AccessDM and AccessIT Satellite are together referred to as the Digital Media Services Division ("DMS"). All intercompany transactions and balances have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. On an on-going basis, the Company evaluates its estimates, including those related to the carrying values of its long-lived assets, intangible assets and goodwill, the valuation of deferred tax assets, the valuation of assets acquired and liabilities assumed in purchase business combinations, stock-based compensation expense, revenue recognition and capitalization of software development costs. The Company bases its estimates on historical experience and on 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. Because of the uncertainty inherent in such estimates, actual results could differ materially from these estimates under different assumptions or conditions.

The results of operations for the respective interim periods are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in Cinedigm's Annual Report on Form 10-K for the fiscal year ended March 31, 2009 filed with the SEC on June 15, 2009 (the "Form 10-K").

REVENUE RECOGNITION

Media Services

Media Services revenues are generated as follows:

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

agreements.

VPFs are earned pursuant to contracts with movie studios and distributors, whereby amounts are payable to AccessIT DC and to Phase 2 DC, when movies distributed by the studio are displayed on screens utilizing the Company’s digital cinema equipment (the “Systems”) installed in movie theatres. VPFs are earned and payable to AccessIT DC based on a fee schedule with a reduced VPF rate year over year until the sixth year where the VPF rate remains unchanged through the tenth year. One VPF is payable for every movie title displayed per System. The amount of VPF revenue is therefore dependent on the number of movie titles released and displayed on the Systems in any given accounting period. VPF revenue is recognized in the period in which the movie first opens for general audience viewing in that digitally-equipped movie theatre, as AccessIT DC’s and Phase 2 DC’s performance obligations have been substantially met at that time.

Phase 2 DC’s agreements with distributors require the payment of VPFs, according to a fixed fee schedule, for 10 years from the date each system is installed, however, Phase 2 DC may no longer collect VPFs once “cost recoupment”, as defined in the agreements, is achieved. Cost recoupment will occur once the cumulative VPFs and other cash receipts collected by Phase 2 DC have equaled the total of all cash outflows, including the purchase price of all Systems, all financing costs, all “overhead and ongoing costs”, as defined, subject to maximum agreed upon amounts during the three-year rollout period and thereafter, plus a compounded return on any billed but unpaid overhead and ongoing costs, of 15% per year. Further, if cost recoupment occurs before the end of the 8th contract year, a one-time “cost recoupment bonus” is payable by the studios to Phase 2 DC. Any other cash flows, net of expenses, received by Phase 2 DC following the achievement of cost recoupment are required to be returned to the distributors on a pro-rata basis. At this time, the Company cannot estimate the timing or probability of the achievement of cost recoupment.

ACFs are earned pursuant to contracts with movie exhibitors, whereby amounts are payable to AccessIT DC and to Phase 2 DC, generally as a percentage of the applicable box office revenue derived from the exhibitor’s showing of content other than feature films, such as concerts and sporting events (typically referred to as “alternative content”). ACF revenue is recognized in the period in which the alternative content opens for audience viewing.

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

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

Revenue is deferred in cases where: (1) a portion or the entire contract amount cannot be recognized as revenue, due to non-delivery or pre-acceptance of licensed software or custom programming, (2) uncompleted 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 earned revenue in accordance with the Company’s revenue recognition policies described above.

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

Content & Entertainment

Content & Entertainment revenues are generated as follows:

Revenues consist of:	Accounted for in accordance with:
Movie theatre admission and concession revenues.	SAB No. 104
Cinema advertising service revenues and distribution fee revenues.	SOP 00-2, “Accounting by Producers or Distributors of Films” (“SOP 00-2”)
Cinema advertising barter revenues	The Emerging Issues Task Force (“EITF”) 99-17, “Accounting for Advertising Barter Transactions”

(“EITF 99-17”)

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

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

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

Barter advertising revenue is recognized for the fair value of the advertising time surrendered in exchange for alternative content. The Company includes the value of such exchanges in both Content & Entertainment's net revenues and direct operating expenses. There may be a timing difference between the screening of alternative content and the screening of the underlying advertising used to acquire the content. In accordance with EITF 99-17, the acquisition cost is being recorded and recognized as a direct operating expense by CEG when the alternative content is screened, and the underlying advertising is being deferred and recognized as revenue ratably over the period such advertising is screened by USM. The Company has not recorded any net revenues or direct operating expenses related to barter advertising during the three months ended June 30, 2008 and 2009.

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

Other

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

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

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

DEFERRED COSTS

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

DIRECT OPERATING COSTS

Direct operating costs consist 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

For the three months ended June 30, 2008 and 2009, the Company recorded stock-based compensation expense of $158 and $325, respectively. The Company estimates that the stock-based compensation expense related to current outstanding stock options, using a Black-Scholes option valuation model, and current outstanding restricted stock will be approximately $1,300 in fiscal 2010.

The weighted-average grant-date fair value of options granted during the three months ended June 30, 2008 was $2.41. There were no options granted during the three months ended June 30, 2009. There were no stock options exercised during the three months ended June 30, 2008 and 2009.

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

	For the Three Months Ended June 30,	
Assumptions for Option Grants	2008	2009
Range of risk-free interest rates	2.7-4.4 %	—
Dividend yield	—	—
Expected life (years)	5	—
Range of expected volatilities	52.6-57.0%	—

The risk-free interest rate used in the Black-Scholes option pricing model for options granted under the Company's stock option plan awards is the historical yield on U.S. Treasury securities with equivalent remaining lives. The Company does not currently anticipate paying any cash dividends on common stock in the foreseeable future. Consequently, an expected dividend yield of zero is used in the Black-Scholes opt