ACCESS INTEGRATED TECHNOLOGIES INC
Form 10-Q
November 09, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2007

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

55 Madison Avenue, Suite 300, Morristown New Jersey 07960

(Address of Principal Executive Offices, Zip Code)

(973-290-0080)

(Registrant's Telephone Number, Including Area Code)

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

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

As of November 5, 2007, 25,167,656 shares of Class A Common Stock, $0.001 par value, and 763,811 shares of Class B Common Stock, $0.001 par value, were outstanding.

ACCESS INTEGRATED TECHNOLOGIES, INC.

CONTENTS TO FORM 10-Q

ACCESS INTEGRATED TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except for share data)

	March 31, 2007	September 30, 2007 (Unaudited)
ASSETS		
Current assets		
Cash and cash equivalents	$ 29,376	$ 52,353
Accounts receivable, net	18,504	20,111
Unbilled revenue	2,324	5,718
Prepaid expenses	845	5,238
Other current assets	1,143	1,349
Note receivable, current portion	101	167
Total current assets	52,293	84,936
Deposits on property and equipment	8,513	1,273
Property and equipment, net	197,452	248,509
Intangible assets, net	19,432	17,331
Capitalized software costs, net	2,840	3,081
Goodwill	13,249	14,420
Accounts receivable, net of current portion	248	192
Deferred costs	4,627	5,647
Note receivable, net of current portion	1,227	1,400
Unbilled revenue, net of current portion	1,221	1,381
Security deposits	445	430
Restricted cash	180	180
Total assets	$ 301,727	$ 378,780

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

ACCESS INTEGRATED TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except for share data)

(continued)

	March 31, 2007	September 30, 2007 (Unaudited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 28,931	$ 25,801
Current portion of notes payable	2,480	10,144
Current portion of deferred revenue	8,871	10,543
Current portion of customer security deposits	129	342
Current portion of capital leases	75	82
Total current liabilities	40,486	46,912
Notes payable, net of current portion	164,196	242,715
Deferred revenue, net of current portion	283	177
Customer security deposits, net of current portion	54	51
Capital leases, net of current portion	5,903	5,861
Total liabilities	210,922	295,716
Commitments and contingencies (see Note 8)		
Stockholders' Equity		
Class A common stock, $0.001 par value per share; 40,000,000 shares authorized; 23,988,607 and 25,219,096 shares issued and 23,937,167 and 25,167,656 shares outstanding at March 31, 2007 and September 30, 2007, respectively	24	25
Class B common stock, $0.001 par value per share; 15,000,000 shares authorized; 763,811 shares issued and outstanding at March 31, 2007 and September 30, 2007	1	1
Additional paid-in capital	155,957	164,315
Treasury stock, at cost; 51,440 Class A shares	(172)	(172)
Accumulated deficit	(65,005)	(81,105)
Total stockholders' equity	90,805	83,064
Total liabilities and stockholders' equity	$ 301,727	$ 378,780

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

ACCESS INTEGRATED TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except for share and per share data)

(Unaudited)

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2006 (Restated)	**2007**	**2006 (Restated)**	**2007**
Revenues	$ 9,965	$ 19,466	$ 15,541	$ 37,612
Costs and Expenses:				
Direct operating (exclusive of depreciation and amortization shown below)	5,194	6,984	8,616	13,190
Selling, general and administrative	3,922	5,479	6,408	11,037
Provision for doubtful accounts	110	184	129	370
Research and development	156	100	179	323
Stock-based compensation	2,779	112	2,779	199
Depreciation of property and equipment	2,923	6,805	4,774	12,930
Amortization of intangible assets	179	1,069	371	2,139
Total operating expenses	15,263	20,733	23,256	40,188
Loss from operations before other income (expense)	(5,298)	(1,267)	(7,715)	(2,576)
Interest income	135	405	444	726
Interest expense	(849)	(5,988)	(1,152)	(10,646)
Non-cash interest expense	(23)	(1,095)	(46)	(2,181)
Debt refinancing expense	—	(1,122)	—	(1,122)
Other (expense) income, net	(61)	(190)	(229)	(301)
Net loss	$ (6,096)	$ (9,257)	$ (8,698)	$ (16,100)
Net loss per common share - basic and diluted	$ (0.26)	$ (0.37)	$ (0.37)	$ (0.64)
Weighted average number of common shares outstanding:				
Basic and diluted	23,613,396	25,338,550	23,288,537	25,050,081

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

ACCESS INTEGRATED TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)

	For the Six Months Ended September 30,	
	2006	**2007**
	(Restated)	
Cash flows from operating activities		
Net loss	$ (8,698)	$ (16,100)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on disposal of assets	—	47
Depreciation and amortization	5,145	15,069
Amortization of software development costs	325	295
Amortization of debt issuance costs included in interest expense	49	718
Provision for doubtful accounts	129	370
Stock-based compensation	2,779	199
Non-cash interest expense	46	2,181
Debt refinancing expense	—	1,122
Changes in operating assets and liabilities:		
Accounts receivable	(3,759)	(1,921)
Prepaids and other current assets	(145)	(282)
Unbilled revenue	(682)	(3,554)
Other assets	(59)	(82)
Accounts payable and accrued expenses (see Note 9)	(8,492)	(1,633)
Deferred revenue	212	1,566
Other liabilities	(63)	209
Net cash used in operating activities	(13,213)	(1,796)
Cash flows from investing activities		
Purchases of property and equipment (see Note 9)	(36,210)	(43,656)
Deposits paid for property and equipment (see Note 9)	(18,415)	(14,600)
Purchase of intangible assets	(1)	—
Additions to capitalized software costs	(463)	(537)
Acquisition of PLX Systems Incorporated	(1,582)	—
Acquisition of UniqueScreen Media, Inc.	(1,135)	(121)
Acquisition of The Bigger Picture	—	(15)
Additional purchase price for EZZI.net	—	(35)
Maturities and sales of available-for-sale securities	24,000	4,000
Purchase of available-for-sale securities	—	(4,000)
Net cash used in investing activities	(33,806)	(58,964)
Cash flows from financing activities		
Repayment of notes payable	(1,116)	(11,762)
Proceeds from notes payable	—	51,491
Proceeds from credit facilities	35,544	46,247
Payments of debt issuance costs	(2,338)	(2,208)

Principal payments on capital leases	(34)	(36)
Costs associated with issuance of Class A common stock	(190)	(30)
Net proceeds from issuance of Class A common stock	114	35
Net cash provided by financing activities	31,980	83,737
Net increase (decrease) in cash and cash equivalents	(15,039)	22,977
Cash and cash equivalents at beginning of period	36,641	29,376
Cash and cash equivalents at end of period	$ 21,602	$ 52,353

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

ACCESS INTEGRATED TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

($ in thousands, except for per share data)

(Unaudited)

1. NATURE OF OPERATIONS

AccessIT was incorporated in Delaware on March 31, 2000. We provide fully managed storage, electronic delivery and software services and technology solutions for owners and distributors of digital content to movie theaters and other venues. In the past, we have generated revenues from two primary businesses, media services ("Media Services") and internet data center ("IDC" or "data center") services ("Data Center Services"), a business we no longer operated after May 1, 2007. Beginning April 1, 2007, we made changes to our organizational structure which impacted our reportable segments. These changes did not impact our consolidated financial position, results of operations or cash flows. We have realigned our focus to two primary businesses, media services ("Media Services") and media content and entertainment ("Content & Entertainment"). Our 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 us at what we believe to be the forefront of an emerging industry opportunity relating to the delivery and management of digital cinema and other content to entertainment and other remote venues worldwide. Our Content & Entertainment business provides motion picture exhibition to the general public and cinema advertising and film distribution services to movie exhibitors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND CONSOLIDATION

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

The Company's 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. ("USM") d/b/a AccessIT Advertising and Creative Services ("ACS") and Vistachiara Productions, Inc. d/b/a The Bigger Picture ("The Bigger Picture"). 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 GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. The Company's most significant estimates related to software revenue recognition, capitalization of software development costs, amortization and impairment testing of intangible assets and depreciation of fixed assets. On an on-going basis, we evaluate our estimates, including those related to the carrying values of our fixed assets and intangible assets, the valuation of deferred tax assets, and the valuation of assets acquired and liabilities assumed in purchase business combinations. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, 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.

The results of operations for the respective interim periods are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in AccessIT's Form 10-KSB for the fiscal year ended March 31, 2007 filed with the SEC on June 29, 2007.

RESTATEMENT

During the fiscal year ended March 31, 2004, in connection with the AccessIT SW Acquisition and the Managed Services Acquisition, the Company recorded deferred tax liabilities totaling $1,605, with an offsetting increase to goodwill. In the fiscal year ended March 31, 2007, the Company determined that it was not appropriate to record the offsetting increase to goodwill, as the acquired taxable temporary differences are expected to reverse in the same period that pre-existing deductible temporary differences are expected to reverse. Furthermore, a full valuation allowance has consistently been applied against the gross deferred tax assets related to such deductible temporary differences. As such, the acquisition of taxable temporary differences should have resulted in a corresponding decrease to the valuation allowance, and not have given rise to a net deferred tax liability. The recording of these amounts had the effect of overstating assets and liabilities, and also understating the Company's net losses, due to the amortization of the previously recorded net deferred tax liability that had been shown as an income tax benefit. Therefore, the Company revised its accounting for the transactions and restated its previously issued annual and interim consolidated financial statements to reduce the valuation allowance and reduce goodwill.

The following is a summary of the impact of the restatement on the Company's Condensed Consolidated Statements of Operations and Cash Flows:

For the Three Months Ended September 30, 2006	**As Previously Reported**	**Adjustments**	**As Restated**
Condensed Consolidated Statements of Operations and Cash Flows:			
Income tax benefit	$ 78	$ (78)	$ —
Net loss	$ (6,018)	$ (78)	$ (6,096)
Net loss per common share – basic and diluted	$ (0.26)	$ —	$ (0.26)

For the Six Months Ended September 30, 2006	**As Previously Reported**	**Adjustments**	**As Restated**
Condensed Consolidated Statements of Operations and Cash Flows:			
Income tax benefit	$ 156	$ (156)	$ —
Net loss	$ (8,542)	$ (156)	$ (8,698)
Net loss per common share – basic and diluted	$ (0.37)	$ —	$ (0.37)

REVENUE RECOGNITION

Media Services

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, non-recurring installation and consulting fees, virtual print fees (“VPFs”) and alternative content fees (“ACFs”).	Staff Accounting Bulletin (“SAB”) No. 104 “Revenue Recognition in Financial Statements” (“SAB No. 104”).

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.

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 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 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