ACCESS INTEGRATED TECHNOLOGIES INC
Form 10QSB
August 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

(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, 2006

|_| 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 Small Business Issuer 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)

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

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes |X| No |_|

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

As of August 4, 2006, 23,115,756 shares of Class A Common Stock, $0.001 par value, and 825,811 shares of Class B Common Stock, $0.001 par value, were outstanding.

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

ACCESS INTEGRATED TECHNOLOGIES, INC.
CONTENTS TO FORM 10-QSB

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

	March 31, 2006	June 30, 2006
ASSETS		**(Unaudited)**
Current assets		
Cash and cash equivalents	$ 36,641	$ 5,181
Investment securities, available-for-sale	24,000	24,000
Accounts receivable, net	1,593	2,119
Unbilled revenue, current portion	1,492	1,832
Prepaid and other current assets	700	751
Notes receivable, current portion	43	44
Total current assets	$ 64,469	33,927
Deposits on property and equipment	8,673	10,369
Property and equipment, net	35,878	64,974
Intangible assets, net	2,056	2,074
Capitalized software costs, net	1,680	2,890
Goodwill	9,310	9,440
Accounts receivable, net of current portion		229
Deferred costs	148	267
Notes receivable, net of current portion	1,122	1,464
Unbilled revenue, net of current portion	42	42
Security deposits	389	402
Restricted cash	180	180
Total assets	$ 123,947	$ 126,258

See accompanying notes to Unaudited Consolidated Financial Statements

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

	March 31, 2006	June 30, 2006
		(Unaudited)
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 13,282	$ 19,169
Current portion of notes payable	1,203	1,058
Current portion of customer security deposits	176	154
Current portion of capital leases	89	91
Current portion of deferred revenue	768	472
Current portion of deferred rent expense	100	107
Total current liabilities	15,618	21,051
Notes payable, net of current portion	1,948	1,521
Customer security deposits, net of current portion	40	40
Deferred revenue, net of current portion	66	59
Capital leases, net of current portion	5,978	5,961
Deferred rent expense, net of current portion	918	890
Deferred tax liability	898	820
Total liabilities	25,466	30,342
Commitments and contingencies (see Note 9)		
Stockholders equity		
Class A common stock, $0.001 par value per share; 40,000,000 shares authorized; 22,059,567 and 22,193,012 shares issued and 22,008,127 and 22,141,572 shares outstanding at March 31, 2006 and June 30, 2006, respectively	22	22
Class B common stock, $0.001 par value per share; 15,000,000 shares authorized; 925,811 and 825,811 shares issued and outstanding, at March 31, 2006 and June 30, 2006, respectively	1	1
Additional paid-in capital	136,929	136,888
Treasury stock, at cost; 51,440 shares	(172)	(172)
Accumulated deficit	(38,299)	(40,823)
Total stockholders' equity	98,481	95,916
Total liabilities and stockholders' equity	$ 123,947	$ 126,258

See accompanying notes to Unaudited Consolidated Financial Statements

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

	For the Three Months Ended June 30,	
	2005	**2006**
Revenues	$ 3,971	$ 5,576
Costs and Expenses:		
Direct operating	2,738	3,422
Selling, general and administrative	1,751	2,486
Provision for doubtful accounts	23	19
Research and development	133	23
Depreciation and amortization	1,264	2,043
Total operating expenses	5,909	7,993
Loss from operations	(1,938)	(2,417)
Interest income	3	309
Interest expense	(433)	(303)
Non-cash interest expense	(184)	(23)
Other (expense) income, net	(16)	(168)
Loss before income tax benefit	(2,568)	(2,602)
Income tax benefit	78	78
Net loss	$ (2,490)	$ (2,524)
Net loss per common share:		
Basic and diluted	$ (0.24)	$ (0.11)
Weighted average number of common shares outstanding:		
Basic and diluted	10,405,814	22,960,108

See accompanying notes to Unaudited Consolidated Financial Statements

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

(Unaudited)

	For the three months ended June 30,	
	2005	2006
Cash flows from operating activities		
Net loss	$ (2,490)	$ (2,524)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,264	2,043
Amortization of software development costs	150	156
Amortization of deferred tax liability	(78)	(78)
Provision for doubtful accounts	23	19
Non-cash interest expense	184	23
Changes in operating assets and liabilities:		
Accounts receivable	(181)	(773)
Prepaids and other current assets	(195)	(51)
Notes receivable for digital projectors, net		(343)
Unbilled revenue	(284)	(340)
Other assets	(88)	(132)
Accounts payable and accrued expenses	(271)	(2,315)
Other liabilities		(347)
Net cash used in operating activities	(1,966)	(4,662)
Cash flows from investing activities		
Purchases of property and equipment	(353)	(22,699)
Deposits on property and equipment		(1,696)
Additions to capitalized software costs	(102)	(229)
Acquisition of PLX Systems Inc.		(1,523)
Net cash used in investing activities	(455)	(26,147)
Cash flows from financing activities		
Repayment of notes payable	(597)	(595)
Principal payments on capital leases	(133)	(15)
Costs associated with prior year issuance of Class A common stock		(151)
Net proceeds from issuance of Class A common stock	71	110
Net cash used in financing activities	(659)	(651)
Net decrease in cash and cash equivalents	(3,080)	(31,460)
Cash and cash equivalents at beginning of period	4,779	36,641
Cash and cash equivalents at end of period	$ 1,699	$ 5,181

See accompanying notes to Unaudited Consolidated Financial Statements

ACCESS INTEGRATED TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006
($ in thousands, except for per share data)
(Unaudited)

1. NATURE OF OPERATIONS

Access Integrated Technologies, Inc. (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. We have generated revenues from two primary businesses, media services (Media Services) and internet data center (IDC or data center) services (Data Center Services). 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. Our Data Center Services are comprised of three leased IDCs that provide corporate customers with secure and fail-safe off-site locations to house their computer and telecommunications equipment, as well as related services such as equipment monitoring and back-up and protection of customers data. These existing businesses have positioned us to deliver and manage digital cinema and other content to entertainment and other remote venues worldwide.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND CONSOLIDATION

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for financial information and in accordance with Regulation S-B. 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. (Christie/AIX) and PLX Acquisition Corp.. 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 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 liabilities, 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 believed 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.

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 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, 2006 filed with the Securities and Exchange Commission (SEC) on June 29, 2006. Certain reclassifications of prior period data have been made to conform to the current presentation.

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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)	Statement of Position (SOP) 97-2, "Software Revenue Recognition"

agreements.

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 and virtual print fees (VPFs).	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.

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Data Center Services

Data Center Services revenues are generated as follows:

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

AccessIT Data Center s revenues are recognized ratably over the term of the contract, generally one to nine years. Certain customer contracts contain periodic increases in the amount of license fees for data center space to be paid, and are recognized as license fee revenues on a straight-line basis over the term of the contracts. Installation fees are recognized on a time and materials basis in the period in which the services were provided and represent the culmination of the earnings process as no significant obligations remain. Amounts collected prior to satisfying revenue recognition criteria are classified as deferred revenue. Amounts satisfying revenue recognition criteria prior to billing are classified as unbilled revenue. 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 which are recognized on a time and materials basis as revenues, in the period in which the services were provided.

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 and amortization of capitalized software development costs.

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 its customers and 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 Statement of Financial Accounting Standards (SFAS) No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed (SFAS No. 86). SFAS No. 86 states 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 periodically 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 during the three months ended June 30, 2005 and 2006, respectively. Amortization of capitalized software development costs, included in costs of revenues, for the three months ended June 30, 2005 and 2006 amounted to $150 and $156, respectively. Revenues relating to customized software development contracts are recognized on a percentage-of-completion method of accounting using the cost to date to

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the total estimated cost approach. Unbilled receivables under such customized software development contracts at June 30, 2005 and 2006 aggregated $845 and $1,832, respectively.

BUSINESS COMBINATIONS AND INTANGIBLE ASSETS

The Company adopted 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 June 30, 2006, the Company's finite-lived intangible assets consisted of covenants not to compete, Federal Communications Commission licenses (for satellite transmission services), trade names and trademarks, and a liquor license (for the Pavilion Theatre) which are estimated to have useful lives ranging from two to ten years.

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

	As of June 30,	
	2005	**2006**
Intangibles, net:		
Media Services	$ 2,255	$ 1,829
Data Center Services	667	232

	As of June 30,	
Corporate	17	13
Total Conso		