

ACCESS INTEGRATED TECHNOLOGIES INC
Form 10KSB
June 29, 2007
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-KSB

(Mark One)

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

For the fiscal year ended: March 31, 2007

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.

(Name of Small Business Issuer 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)

(973) 290-0080

(Issuer's telephone number)

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Securities registered pursuant to Section 12(b) of the Act:

NONE

Securities registered pursuant to Section 12(g) of the Act:

CLASS A COMMON STOCK, PAR VALUE \$0.001 PER SHARE

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

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 No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

Issuer's revenues for the fiscal year ended March 31, 2007 were \$47,109,615.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the issuer based on a price of \$7.60 per share, the closing price of such common equity on the Nasdaq Global Market, as of June 22, 2007, was approximately \$156,466,018. 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 22, 2007, 24,009,073 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.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Items 9, 10, 11, 12 and 14 of Form 10-KSB is incorporated by reference into Part III hereof from the registrant's Proxy Statement for the 2007 Annual Meeting of Stockholders to be held on or about September 18, 2007.

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

ACCESS INTEGRATED TECHNOLOGIES, INC.

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FORWARD-LOOKING STATEMENTS

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This report contains forward-looking statements within the meaning of the federal securities laws. These include statements about our expectations, beliefs, intentions or strategies for the future. Forward-looking statements are based on current expectations and are indicated by words or phrases such as believe, expect, may, will, should, seek, plan, intend or anticipate or the negative thereof or comparable by discussion of strategy. Forward-looking statements represent as of the date of this report our judgment relating to, among other things, future results of operations, growth plans, sales, capital requirements and general industry and business conditions applicable to us. Such forward-looking statements are based largely on our current expectations and are inherently subject to risks and uncertainties. Our actual results could differ materially from those that are anticipated or projected as a result of certain risks and uncertainties, including, but not limited to, a number of factors, such as:

- successful execution of our business strategy, particularly for new endeavors;
- the performance of our targeted markets;
- competitive product and pricing pressures;
- changes in business relationships with our major customers;
- successful integration of acquired businesses;
- economic and market conditions;
- the effect of our indebtedness on our financial condition and financial flexibility, including, but not limited to, the ability to obtain necessary financing for our business; and
- the other risks and uncertainties that are set forth in Item 1, Business and Item 6, Management's Discussion and Analysis of Financial Condition and Results of Operations .

Except as otherwise required to be disclosed in periodic reports required to be filed by public companies with the SEC pursuant to the SEC's rules, we have no duty to update these statements, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, we cannot assure you that the forward-looking information contained in this report will in fact transpire.

In this report, AccessIT, we, us, our and the Company refers to Access Integrated Technologies, Inc. and its subsidiaries unless the context otherwise requires.

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PART I

ITEM 1. BUSINESS

OVERVIEW

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

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from two primary businesses, media services (Media Services) and internet data center (IDC or data center) services (Data Center Services), a business we will no longer operate after May 1, 2007 (see Data Center Services discussion below). 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 Media Services business is currently our primary strategic focus. Our Data Center Services were comprised of three leased IDCs that provided 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. We have decided to realign our resources and to dispose of our Data Center Services other than the businesses operated by Core Technology Services, Inc. (Managed Services) and by AccessIT through its Access Digital Server Assets (as defined below). The disposition of our Data Center Services represents a strategic realignment of our technical and financial resources, thus enabling us to focus on what we believe are more profitable business opportunities for the Company.

Digital Cinema Initiatives, LLC (DCI) was created in March 2002 as a joint venture of seven motion picture studios: Buena Vista Pictures Distribution (Disney), Twentieth Century Fox Film Corporation (Fox), Metro-Goldwyn-Mayer, Paramount Pictures, Sony Pictures Entertainment, Universal Studios, and Warner Bros. Studios. The primary purpose of DCI was to recommend uniform industry-wide specifications for digital cinema, in order to provide real benefits to theater audiences, theater owners, filmmakers and distributors. In June 2005, DCI announced recommendations regarding the final overall system requirements and specifications for digital cinema (the DCI Recommendations). The DCI Recommendations define technical specifications and requirements recommended for the mastering of, distribution of, and theatrical playback of digital cinema content. AccessIT's processes and Systems (as defined below) operate in accordance with the DCI Recommendations.

In June 2005, in anticipation of the DCI Recommendations, we entered into a digital cinema framework agreement (the Framework Agreement) with Christie Digital Systems USA, Inc. (Christie) through our then-newly formed indirectly wholly-owned subsidiary, Christie/AIX, Inc. (Christie/AIX) to purchase Christie's digital cinema projection systems (the Systems) at agreed-upon prices to be installed nationwide (our Digital Cinema Roll-Out).

Each System, purchased by Christie/AIX from Christie, consists of a Digital Light Processor (or DLP) Cinema 2K projector, capable of both 2-D and 3-D display, a digital cinema server, and such other components and software and any applicable upgrades along with a central library server, with our Theatre Command Center software installed, connecting all Systems within a theatre complex, together with a storage array, computer rack, uninterrupted power source, main switch and patch panel.

Distributors can send us digital cinema movie content or alternative digital content as a digital cinema distribution master (DCDM), which the distributors developed under the DCI Recommendations and are encrypted and transported to exhibitors.

We believe our Digital Cinema Roll-Out requires four key components:

1. Distribution management software
2. Exhibition management software
3. Managed digital media delivery
4. A common platform to make hardware and software work together

Each of these four key components are provided within our Media Services.

MEDIA SERVICES

The Media Services reportable segment of our business consists of two primary activities: Digital Media Delivery and Entertainment Software. Digital Media Delivery is comprised of the operations of FiberSat Global Services, Inc. d/b/a AccessIT Satellite and Support Services, (AccessIT Satellite), Access Digital Media, Inc. (AccessDM and, together with AccessIT Satellite, DMS), ADM Cinema Corporation (ADM Cinema) d/b/a the Pavilion Theatre (the Pavilion Theatre), Christie/AIX, UniqueScreen Media, Inc. (USM) and Vistachiarra Productions, Inc. d/b/a The Bigger Picture (The Bigger Picture). Entertainment Software is comprised of the operations of Hollywood Software, Inc. d/b/a AccessIT Software (AccessIT SW) and certain software of DMS.

Digital Media Delivery

Operations of:	Services provided:
DMS	Stores and distributes digital content to movie theaters and other venues having digital projection equipment and provides satellite-based broadband video, data and Internet transmission, encryption management services, video network origination and management services and a virtual booking center to outsource the booking and scheduling of satellite and fiber networks and provides forensic recovery services for content owners.
Pavilion Theatre	A fully functioning nine-screen movie theatre and digital showcase to demonstrate and test our integrated digital cinema solutions.
Christie/AIX	Financing vehicle and administrator for our Digital Cinema Roll-Out to motion picture exhibitors, collects virtual print fees (VPFs) from motion picture studios and alternative content fees (ACFs) from alternative content providers.
USM	Provides cinema advertising services and entertainment.
The Bigger Picture	Acquires, distributes and provides the marketing for programs of alternative content to theatrical exhibitors.

In March 2004, AccessDM acquired certain digital cinema related assets of the Boeing Company (the Boeing Digital Asset Acquisition).

In November 2004, we acquired certain assets and liabilities of FiberSat Global Services, LLC (the FiberSat Acquisition).

In February 2005, through ADM Cinema, we acquired substantially all of the assets of the Pavilion Theatre located in the Park Slope section of Brooklyn, New York from Pritchard Square Cinema, LLC (the Pavilion Theatre Acquisition).

In June 2005, we formed Christie/AIX to purchase Systems for our Digital Cinema Roll-Out, under the Framework Agreement with Christie. In September 2005, pursuant to a second amendment to the Framework Agreement, Christie and Christie/AIX agreed to extend the number of Systems which may be ordered to 4,000 Systems.

In July 2006, we purchased all of the outstanding capital stock of USM from USM s stockholders.

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In January 2007, through our wholly owned subsidiary, The Bigger Picture, we purchased substantially all of the assets of BP/KTF, LLC (the Bigger Picture Acquisition).

Products

Current proprietary software of DMS for digital media delivery consists of the following:

Proprietary Software Product:

Digital Express e-Courier Services SM	Purpose: Provides worldwide delivery of digital content, including movies, advertisements and alternative content such as concerts, seminars and sporting events to movie theaters and other venues having digital projection equipment.
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The Digital Express e-Courier Services**SM** software makes interaction between the content originator (such as the motion picture studio) and the exhibitor easier:

Programming is viewed, booked, scheduled and electronically delivered through Digital Express e-Courier Services **SM**.

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Once received, DCDMs are prepared for distribution employing wrapper technology, including the application of an additional layer of Advanced Encryption Standard encryption, for added security.

Designed to provide transparent control over the delivery process, Digital Express e-Courier Services **SM** provides comprehensive, real-time monitoring capabilities including a fully customizable, automatic event notification system, delivering important status information to customers through a variety of connected devices including cell phones, e-mail or pagers.

Current licensed software of Christie/AIX consists of the following:

Licensed Product: Cinefence	Purpose: Detection of audio and video watermarks in content distributed through digital cinema.
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In February 2006, Christie/AIX entered into an agreement with Philips Electronics Nederland B.V. (Philips) for a non-exclusive, worldwide right to use software license for Philips software Cinefence (the Cinefence License). The Cinefence License is for an initial period of twelve years and renews automatically each year unless terminated by either party upon written notice. Cinefence is a watermarking detector of audio

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and video watermarks in content distributed through digital cinema. Christie incorporates Cinefence into the Systems deployed with motion picture exhibitors participating in Christie/AIX's Digital Cinema Roll-Out.

Market Opportunity

According to the Motion Picture Association, on average, there were approximately 530 new movie releases for each of the past two years. The average major movie is released to approximately 4,000 screens in the United States and 8,000 screens worldwide. According to the National Association of Theatre Owners, there are approximately 107,000 screens worldwide that play major movie releases, with approximately 38,000 screens located in the United States.

We believe that:

the demand for digital content delivery will increase as the movie, advertising and entertainment industries continue to convert to a digital format in order to achieve cost savings, greater flexibility and/or improved image quality;

digital content delivery eventually will replace, or at least become more prevalent than, the current method used for film delivery since existing film delivery generally involves the time-consuming, somewhat expensive and cumbersome process of receiving bulk printed film, rebuilding the film into shipping reels, packaging the film reels into canisters and physically delivering the film reels by traditional ground modes of transportation to movie theaters;

the expanding use of digital content delivery will lead to an increasing need for digital content delivery, as the movie exhibition industry now has the capability to present advertisements, trailers and alternative entertainment in a digital format and in a commercially viable manner;

motion picture exhibitors may be able to profit from the presentation of new and/or additional advertising in their movie theaters and that alternative entertainment at movie theaters may both expand their hours of operation and increase their occupancy rates;

the demand for our digital content delivery is directly related to the number of movie releases each year, the number of movie screens those movies are shown on and the transition to digital presentations in those movie theatres;

the cost to deliver digital movies to movie theatres will be much less than the cost to print and deliver analog movie prints, and such lesser cost will provide the economic model to drive the conversion from analog to digital cinema (according to Nash Information Services, LLC., the average film print costs \$2,000 per print);

digital content delivery will help reduce the cost of illegal off-the-screen recording of movies with handheld camcorders due to the watermark technology being utilized in content distributed through digital cinema (according to the Motion Picture Association of America, this costs the worldwide movie exhibition industry an estimated \$6.1 billion annually); and

recent surveys have shown that movie goers are becoming more accepting of theatre advertising, and that of the 38,000 screens located in the United States, 24,000 of them show some form of advertising.

To date, in connection with our Digital Cinema Roll-Out, we have entered into digital cinema deployment agreements with seven motion picture studios and a digital cinema agreement with one alternative content provider for the distribution of digital movie releases and alternative content to motion picture exhibitors equipped with Systems, and providing for payment of VPFs and ACFs to Christie/AIX. As of March 31, 2007, we have entered into master license agreements with nine motion picture exhibitors for the placement of Systems in movie theatres covering a total of 3,168 screens (including screens at AccessIT's Pavilion Theatre) and we have installed 2,275 Systems. We expect to complete 4,000 System installations by October 31, 2007.

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Intellectual Property

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AccessDM has received United States service mark registrations for the following: AccessDM® and The Courier For The Digital Era®. AccessIT has received United States service mark registration for Access Digital Media® and AccessIT Satellite has received a United States service mark registration for Theater Command Center®.

AccessIT Satellite has applied for service mark registration for the name Theatre Command Center SM. As of March 31, 2007, AccessIT Satellite has not yet received United States service mark registration for this service mark.

Customers

Digital Media Delivery customers are mainly the motion picture studios and in-theatre advertising customers. For the fiscal year ended March 31, 2007, Christie/AIX's and USM's customers comprised 37.2% and 37.2% of the Digital Media Delivery revenues, respectively. Our advertising business consists mainly of local advertisers, with no one customer representing 10% of in-theatre advertising revenues. Five customers, Sony Pictures Releasing Corporation, Disney Worldwide Services, Paramount Pictures, 20th Century Fox and Universal Pictures, each represented 10% or more of Christie/AIX revenues and together generated 73.7% and 27.4% of Christie/AIX and Digital Media Delivery revenues, respectively, and are also customers for Entertainment Software. We expect to continue to conduct business with these customers in fiscal year 2008.

Competition

Companies that have developed forms of digital content delivery to entertainment venues include:

Technicolor Digital Cinema, an affiliate of the Thomson Company, which has developed distribution technology and support services for the physical delivery of digital movies to motion picture exhibitors and is currently testing a rollout plan;
National CineMedia, LLC (NCM), a venture of AMC, Cinemark USA, Inc. and Regal, which have joined to work on the development of a digital cinema business plan, primarily concentrated on in-theatre advertising, business meetings and non-feature film content distribution; and
DELUXE Laboratories, a wholly owned subsidiary of the Rank Group Plc, which has developed distribution technology and support services for the physical delivery of digital movies to motion picture exhibitors.

These competitors have significantly greater financial, marketing and managerial resources than we do, have generated greater revenue and are better known than we are. However, we believe that DMS, through its technology and management experience, its development of software capable of delivering digital content electronically worldwide, its development of the Theatre Command Center software, and the complement of AccessIT SW's software, differentiate us from our competitors by providing a competitive alternative to their forms of digital content delivery.

We expect to co-market Digital Media Delivery to the current and prospective customers of AccessIT SW, using marketing and sales efforts and resources of both companies, which would enable owners of digital content to securely deliver such digital content to their customers and, thereafter, to manage and track data regarding the presentation of the digital content, including different forms of audio and/or visual entertainment. As the digital content industry continues to develop, we may engage in other marketing methods, such as advertising and service bundling, and may hire additional sales personnel.

Seasonality

Digital Media Delivery revenues derived from our Pavilion Theatre and from the collection of VPFs from motion picture studios are seasonal, coinciding with the timing of releases of movies by the motion picture studios. Generally, motion picture studios release the most marketable movies during the summer and the holiday season. The unexpected emergence of a hit movie during other periods can alter the traditional trend. The timing of movie releases can have a significant effect on our results of operations, and the results of one quarter are not necessarily indicative of results for the next quarter or any other quarter. The seasonality of motion picture exhibition, however, has become less pronounced as the motion picture studios are releasing movies somewhat more evenly throughout the year.

Government Regulation

The distribution of movies is in large part regulated by federal and state antitrust laws and has been the subject of numerous antitrust cases. Motion picture studios offer and license movies to motion picture exhibitors, on a movie-by-movie and theatre-by-

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theatre basis. Consequently, motion picture exhibitors cannot assure themselves of a supply of movies by entering into long-term arrangements with motion picture studios, but must negotiate for licenses on a movie-by-movie basis. AccessIT Satellite maintains a Federal Communications Commission (FCC) broadcast license related to our satellite transmission of content and should we violate any FCC laws, we may be subject to fines and or forfeiture of our broadcast license.

Our Pavilion Theatre must comply with Title III of the Americans with Disabilities Act of 1990 (the ADA) to the extent that such property is public accommodations and/or commercial facilities as defined by the ADA. Compliance with the ADA requires that public accommodations reasonably accommodate individuals with disabilities and that new construction or alterations made to commercial facilities conform to accessibility guidelines unless structurally impracticable for new construction or technically infeasible for alterations. Non-compliance with the ADA could result in the imposition of injunctive relief, fines, award of damages to private litigants and additional capital expenditures to remedy such non-compliance. We believe that we are in substantial compliance with all current applicable regulations relating to accommodations for the disabled and we intend to comply with future regulations in that regard.

Digital Media Delivery is also subject to federal, state and local laws governing such matters as wages, working conditions, citizenship and health and sanitation requirements. We believe that we are in substantial compliance with all of such laws.

The nature of Digital Media Delivery does not subject us to environmental laws in any material manner.

Entertainment Software

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Operations of:

AccessIT SW

Services provided:

Develops and licenses software to the motion picture distribution and exhibition industries, provides services as an Application Service Provider (ASP Service), and provides software enhancements and consulting services.

DMS

Provides software for in-theatre management of movies and other content.

In November 2003, we acquired all of the capital stock of AccessIT SW, a leading provider of proprietary transactional support software and consulting services for distributors and exhibitors of filmed entertainment in the United States and Canada (the AccessIT SW Acquisition).

In June 2006, the Company, through its indirectly wholly-owned subsidiary, PLX Acquisition Corp. (PLX Acquisition), purchased substantially all the assets of PLX Systems Inc. (PLX) and Right Track Solutions Incorporated (Right Track). PLX Acquisition 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. PLX s and Right Track s assets have been integrated into the operations of AccessIT SW.

Products

AccessIT SW provides proprietary software applications and services to support customers of varying sizes, through software licenses, its ASP Service which it hosts the application through Managed Services and client access via the Internet and provides outsourced film distribution services, called IndieDirect. Current proprietary software of AccessIT SW consists of the following:

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Proprietary Software Product:

	Purpose:
Theatrical Distribution System (TDS)	Enables United States motion picture studios to plan, book and account for movie releases and to collect and analyze related financial operations data and interfaces with DMS Digital Express e-Courier Services software.
Theatrical Distribution System (Global) (TDSG)	Enables international motion picture studios to plan, book and account for movie releases and to collect and analyze related financial operations data and interfaces with DMS Digital Express e-Courier Services software.
Exhibition Management System (EMS)	Manages all key aspects of film planning, scheduling, booking and motion picture studios payment for exhibitors.
EMSa	Web-enabled version of EMS .
Motion Picture Planning System (MPPS)	Plans and initiates movie release strategies using various movie criteria and historical performance data.
Media Manager System (MMS)	Facilitates the planning and tracking of newspaper advertising campaigns.
Digi-Central	Online marketplace in which buyers can search for available digital content, initiate transactions and coordinate delivery via DMS.

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Royalty Transaction Solution (RTS) An enterprise royalty accounting and licensing system built specifically for the entertainment industry.

Patent Asset Solution (PAS) An enterprise software suite designed specifically to automate licensing and IP management activities.

Publishing Transaction Solution (PTS) Manages music copyrights and licenses, provides song catalogs, status reporting, subpublishing process administration and royalty tracking and processing.

Distributed Software Product:

Purpose:

Vista Cinema Software (Vista) Theatre ticketing software.

Current proprietary software of DMS for exhibition management consists of the following:

Proprietary Software Product:

Purpose:

Theatre Command Center (TCC) provides in-theatre management for use by digitally equipped movie theaters and interfaces with DMS Digital Express e-Courier Services software.

Exhibition Management

We believe that our EMS system is one of the most powerful and comprehensive systems available to manage all key elements of motion picture exhibition. This fully supported solution can exchange information with every financial, ticketing, point-of-sale, distributor and data system to eliminate manual processes. Also, EMS is designed to create innovative revenue opportunities for motion picture exhibitors from the presentation of new and/or additional advertising and alternative entertainment in their movie theaters due to the expanding use of digital content delivery.

Our TCC system, provides in-theatre management for digitally equipped movie theaters, enabling one to control all the screens in a movie theatre, manage content and version review, show building, program scheduling and encryption security key management from a central terminal, whether located in the projection booth, the theatre manager's office or both.

Domestic Theatrical Distribution Management

AccessIT SW's TDS product is currently licensed to several motion picture studios, including 20th Century Fox, Universal Studios, Lionsgate and the Weinstein Company. These studios comprised approximately 22.9%, 5.7%, 4.2% and 3.1%, respectively, of AccessIT SW's revenues for the fiscal year ended March 31, 2007. Several distributors utilize AccessIT SW's products through its ASP Service, including IDP, First Look, IFC Films, Magnolia Pictures, Freestyle Releasing, Maple Pictures, Director's Limited and IFS. In addition, AccessIT SW licenses to customers other distribution-related software, including MPPS and MMS, which further automate and manage related aspects of movie distribution, including advertising, strategic theater selection and competitive release planning.

AccessIT SW also provides outsourced movie distribution services, specifically for independent film distributors and producers, through IndieDirect. The IndieDirect staff uses the TDS distribution software to provide back office movie booking, tracking, reporting, settlement, and receivables management services.

International Theatrical Distribution Management

In 2004, AccessIT SW began developing TDSG, an international version of our successful TDS application, to support worldwide movie distribution and has the capability to run either from a single central location or multiple locations. In December 2004, AccessIT SW signed an agreement to license TDSG to 20th Century Fox, who will implement the software in fourteen overseas territories, encompassing eighteen foreign offices. As with our North American TDS solution, the TDSG system seamlessly integrates with AccessIT's digital content delivery, significantly enhancing our international market opportunities.

IP Rights and Royalty Management

AccessIT SW also provides software for the management of IP rights and royalties, called RTS, PAS and PTS, which were acquired in the acquisition of PLX.

Distributed Software

AccessIT SW also distributes Vista, a theatre ticketing solution, developed by Vista Entertainment Solutions Limited (Vista Entertainment) which is based in New Zealand. AccessIT SW is currently the only United States-based distributor of Vista to the United States theatre market. Under our distribution agreement with Vista Entertainment, AccessIT SW earns a percentage of license fees, maintenance fees and consulting fees generated from each Vista product we sell.

Research and Development

The Company's research and development was \$300 thousand and \$330 thousand for the fiscal years ended March 31, 2006 and 2007, respectively, and was comprised mainly of personnel costs and third party contracted services attributable to research and development efforts at AccessIT SW related to the development of our digital software applications and various product enhancements to TDS and EMS .

Market Opportunity

The customers for AccessIT SW's existing software and consulting services consist principally of worldwide motion picture studios and North American motion picture exhibitor chains. Upon the completion of TDSG, our international version of TDS, we will have the ability to support

worldwide movie distribution.

We believe that:

AccessIT SW's products are becoming the industry standard method by which motion picture studios and exhibitors plan, manage and monitor operations and data regarding the presentation of theatrical entertainment. Based upon certain industry figures, distributors using AccessIT SW's TDS software, cumulatively managed 44.2% and 46.5% of the calendar year 2005 and 2006 United States theater box office revenues, respectively;

by adapting this system to serve the expanding digital entertainment industry, AccessIT SW's products and services will be accepted as an important component in the digital content delivery and management business;

the continued transition to digital content delivery will require a high degree of coordination among content providers, customers and intermediary service providers;

producing, buying and delivering media content through worldwide distribution channels is a highly fragmented and inefficient process; and

technologies created by AccessIT SW and the continuing development of and general transition to digital forms of media will help the digital content delivery and management business become increasingly streamlined, automated and enhanced.

Intellectual Property

AccessIT SW currently has intellectual property consisting of:

licensable software products, including TDS, TDSG, EMS, MPPS, MMS, RTS, PAS and PTS;

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domain names, including EPayTV.com, EpayTV.net, HollywoodSoftware.com, HollywoodSoftware.net, Indie-Coop.com, Indie-Coop.net, Indiedirect.com, IPayTV.com; PersonalEDI.com, RightsMart.com, RightsMart.net, TheatricalDistribution.com and Vistapos.com;

unregistered trademarks and service marks, including Coop Advertising V1.04, EMS ASP, Exhibitor Management System, Hollywood SW, Inc., HollywoodSoftware.com, Indie Co-op, Media Manager, On-Line Release Schedule, RightsMart, TDS and TheatricalDistribution.com; and

logos, including those in respect of Hollywood SW, TDS and EMS.

Customers

Entertainment Software customers are principally worldwide motion picture studios. For the fiscal year ended March 31, 2007, three customers, Carmike Theatres, Twentieth Century Fox and Pacific Theatres, each represented 10% or more of Entertainment Software revenues and together generated 56.2% of Entertainment Software revenues. Twentieth Century Fox and Pacific Theatres together generated 42.0% of AccessIT SW's revenues and Carmike Theatres generated 80.5% of DMS TCC revenues. Twentieth Century Fox is also a customer for Digital Media Delivery. We expect to continue to conduct business with both of these customers in fiscal ye