

Access Integrated Technologies, Inc. d/b/a Cinedigm Digital Cinema Corp.  
Form 10-Q  
February 09, 2009

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: December 31, 2008

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

For the transition period from --- to ---

Commission File Number: 000-51910

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

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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  No

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

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

As of February 4, 2009, 27,272,875 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.

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

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

|   | March 31,<br>2008 | December<br>31,<br>2008 |
|---|-------------------|-------------------------|
| <b>ASSETS</b>                               |                   | (Unaudited)             |
| <b>Current assets</b>                       |                   |                         |
| Cash and cash equivalents                   | \$ 29,655         | \$ 22,565               |
| Accounts receivable, net                    | 21,494            | 16,400                  |
| Unbilled revenue                            | 6,393             | 5,451                   |
| Deferred costs                              | 3,859             | 3,803                   |
| Prepaid and other current assets            | 1,316             | 1,986                   |
| Note receivable                             | 158               | 913                     |
| Total current assets                        | 62,875            | 51,118                  |
| Property and equipment, net                 | 269,031           | 246,980                 |
| Intangible assets, net                      | 13,592            | 11,473                  |
| Capitalized software costs, net             | 2,777             | 3,001                   |
| Goodwill                                    | 14,549            | 8,024                   |
| Deferred costs, net of current portion      | 6,595             | 4,712                   |
| Unbilled revenue, net of current portion    | 2,075             | 1,755                   |
| Note receivable, net of current portion     | 1,220             | 1,002                   |
| Security deposits                           | 408               | 425                     |
| Accounts receivable, net of current portion | 299               | 299                     |
| Restricted cash                             | 255               | 255                     |
| Total assets                                | \$ 373,676        | \$ 329,044              |

See accompanying notes to 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,<br>2008 | December<br>31,<br>2008 |
|--|-------------------|-------------------------|
| (Unaudited)  |                   |                         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                   |                         |
| <b>Current liabilities</b>   |                   |                         |
| Accounts payable and accrued expenses  | \$ 25,213         | \$ 9,682                |
| Notes payable  | 16,998            | 24,729                  |
| Deferred revenue   | 6,204             | 5,511                   |
| Customer security deposits   | 333               | 358                     |
| Capital leases   | 89                | 128                     |
| <b>Total current liabilities</b>   | <b>48,837</b>     | <b>40,408</b>           |
| Notes payable, net of current portion  | 250,689           | 232,416                 |
| Capital leases, net of current portion   | 5,814             | 5,785                   |
| Deferred revenue, net of current portion   | 283               | 953                     |
| Customer security deposits, net of current portion   | 46                | 34                      |
| Preferred stock subscription proceeds  | —                 | 2,000                   |
| Fair value of interest rate swap   | —                 | 3,846                   |
| <b>Total liabilities</b>   | <b>305,669</b>    | <b>285,442</b>          |
| <b>Commitments and contingencies (see Note 7)</b>  |                   |                         |
| <b>Stockholders' Equity</b>  |                   |                         |
| Class A common stock, \$0.001 par value per share; 40,000,000 and 65,000,000 shares authorized at March 31, 2008 and December 31, 2008, respectively; 26,143,612 and 27,104,091 shares issued and 26,092,172 and 27,052,651 shares outstanding at March 31, 2008 and December 31, 2008, respectively | 26                | 27                      |
| Class B common stock, \$0.001 par value per share; 15,000,000 shares authorized; 733,811 shares issued and outstanding at each of March 31, 2008 and December 31, 2008   | 1                 | 1                       |
| Additional paid-in capital   | 168,844           | 172,460                 |
| Treasury stock, at cost; 51,440 Class A shares   | (172)             | (172)                   |
| Accumulated deficit  | (100,692)         | (128,714)               |
| <b>Total stockholders' equity</b>  | <b>68,007</b>     | <b>43,602</b>           |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 373,676</b> | <b>\$ 329,044</b>       |

See accompanying notes to Condensed Consolidated Financial Statements



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 |             | For the Nine Months Ended |             |
|---|----------------------------|-------------|---------------------------|-------------|
|   | December 31,               |             | December 31,              |             |
|   | 2007                       | 2008        | 2007                      | 2008        |
| Revenues  | \$ 21,480                  | \$ 22,710   | \$ 59,092                 | \$ 65,129   |
| Costs and Expenses:   |                            |             |                           |             |
| Direct operating (exclusive of depreciation and amortization shown below) | 6,608                      | 7,068       | 19,798                    | 19,597      |
| Selling, general and administrative                                       | 6,090                      | 4,691       | 17,127                    | 13,711      |
| Provision for doubtful accounts   | 321                        | 98          | 691                       | 271         |
| Research and development  | 180                        | 107         | 503                       | 207         |
| Stock-based compensation  | 162                        | 295         | 361                       | 653         |
| Impairment of goodwill  | —                          | 6,525       | —                         | 6,525       |
| Depreciation of property and equipment                                    | 8,020                      | 8,126       | 20,950                    | 24,394      |
| Amortization of intangible assets   | 1,071                      | 821         | 3,210                     | 2,669       |
| Total operating expenses  | 22,452                     | 27,731      | 62,640                    | 68,027      |
| Loss from operations  | (972)                      | (5,021)     | (3,548)                   | (2,898)     |
| Interest income   | 448                        | 88          | 1,174                     | 311         |
| Interest expense  | (7,703)                    | (6,935)     | (20,530)                  | (21,101)    |
| Debt refinancing expense  | —                          | —           | (1,122)                   | —           |
| Other expense, net  | (125)                      | (162)       | (426)                     | (488)       |
| Change in fair value of interest rate swap                                | —                          | (5,411)     | —                         | (3,846)     |
| Net loss  | \$ (8,352)                 | \$ (17,441) | \$ (24,452)               | \$ (28,022) |
| Net loss per Class A and Class B common share - basic and diluted         | \$ (0.32)                  | \$ (0.63)   | \$ (0.96)                 | \$ (1.03)   |
| Weighted average number of Class A and Class B common shares outstanding: |                            |             |                           |             |
| Basic and diluted   | 25,931,467                 | 27,566,462  | 25,344,944                | 27,324,324  |

See accompanying notes to 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 Nine Months<br>Ended<br>December 31, |             |
|---|--|-------------|
|   | 2007   | 2008        |
| Cash flows from operating activities  |  |             |
| Net loss  | \$ (24,452)                                  | \$ (28,022) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: |  |             |
| Loss on disposal of property and equipment  | 49   | 164         |
| Loss on impairment of goodwill  | —  | 6,525       |
| Depreciation of property and equipment and amortization of intangible assets              | 24,160                                       | 27,063      |
| Amortization of software development costs  | 448  | 601         |
| Amortization of debt issuance costs included in interest expense                          | 1,065  | 1,134       |
| Provision for doubtful accounts   | 691  | 271         |
| Stock-based compensation  | 361  | 653         |
| Non-cash interest expense   | 3,882  | 3,937       |
| Debt refinancing expense  | 1,122  | —           |
| Gain on available-for-sale securities   | (53)   | —           |
| Change in fair value of interest rate swap  | —  | 3,846       |
| Changes in operating assets and liabilities:  |  |             |
| Accounts receivable   | (8,097)                                      | 4,823       |
| Unbilled revenue  | (4,457)                                      | 1,262       |
| Prepays and other current assets  | (499)  | (670)       |
| Other assets  | (102)  | (434)       |
| Accounts payable and accrued expenses   | 593  | 472         |
| Deferred revenue  | 230  | (23)        |
| Other liabilities   | 210  | 13          |
| Net cash (used in) provided by operating activities                                       | (4,849)                                      | 21,615      |
| Cash flows from investing activities  |  |             |
| Purchases of property and equipment   | (65,653)                                     | (18,115)    |
| Deposits paid for property and equipment  | (20,052)                                     | —           |
| Purchases of intangible assets  | —  | (550)       |
| Additions to capitalized software costs   | (704)  | (825)       |
| Acquisition of UniqueScreen Media, Inc.   | (121)  | —           |
| Acquisition of The Bigger Picture   | (15)   | —           |
| Additional purchase price for EZZI.net  | (35)   | —           |
| Maturities and sales of available-for-sale securities                                     | 6,053  | —           |
| Purchase of available-for-sale securities   | (6,000)                                      | —           |
| Restricted long-term investment   | (75)   | —           |
| Net cash used in investing activities   | (86,602)                                     | (19,490)    |
| Cash flows from financing activities  |  |             |
| Repayment of notes payable  | (12,694)                                     | (1,434)     |
| Proceeds from notes payable   | 51,491                                       | —           |
| Repayment of credit facilities  | —  | (9,676)     |

|  |           |           |
|--|-----------|-----------|
| Proceeds from credit facilities                        | 62,161    | 569       |
| Payments of debt issuance costs                        | (3,054)   | (518)     |
| Principal payments on capital leases                   | (55)      | (83)      |
| Proceeds for subscription of preferred stock           | —         | 2,000     |
| Costs associated with issuance of Class A common stock | (33)      | (73)      |
| Net proceeds from issuance of Class A common stock     | 35        | —         |
| Net cash provided by (used in) financing activities    | 97,851    | (9,215)   |
| Net increase (decrease) in cash and cash equivalents   | 6,400     | (7,090)   |
| Cash and cash equivalents at beginning of period       | 29,376    | 29,655    |
| Cash and cash equivalents at end of period             | \$ 35,776 | \$ 22,565 |

See accompanying notes to Condensed Consolidated Financial Statements

ACCESS INTEGRATED TECHNOLOGIES, INC.  
d/b/a CINEDIGM DIGITAL CINEMA CORP.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2008  
(\$ in thousands, except for per share data)

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 fully managed storage, electronic delivery and software services and technology solutions for owners and distributors of digital content to movie theatres and other venues. The Company has three primary businesses, media services (“Media Services”), media content and entertainment (“Content & Entertainment”) and other (“Other”). The Company’s Media Services business provides software, services and technology solutions to the motion picture and television industries, primarily to facilitate the conversion from analog (film) to digital cinema and positioned the Company at what the Company believes to be the forefront of an industry relating to the delivery and management of digital cinema and other content to entertainment and other remote venues worldwide. The Company’s Content & Entertainment business provides motion picture exhibition to the general public and cinema advertising and film distribution services to movie exhibitors. The Company’s Other business 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 AND CONSOLIDATION

The Company has incurred net losses historically and through the current period, and until recently, has used cash in operating activities, and has an accumulated deficit of \$128,714 as of December 31, 2008. The Company also has significant contractual obligations related to its debt for the remaining part of fiscal year 2009 and beyond. Management expects that the Company will continue to generate net losses for the foreseeable future. Certain of the Company’s costs could be reduced if the Company’s working capital requirements increased. Based on the Company’s cash position at December 31, 2008, and expected cash flows from operations, management believes that the Company has the ability to meet its obligations through December 31, 2009. 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 shareholders. Failure to generate additional revenues, raise additional capital or manage discretionary spending could have a material adverse effect on the Company’s ability to continue as a going concern. 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, 2008, 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"), Vistachiarra Productions, Inc. d/b/a The Bigger Picture ("The Bigger Picture"), 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 various other assumptions that the Company believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ 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, 2008 filed with the SEC on June 16, 2008 and as amended on June 26, 2008 and on September 11, 2008 (the “Form 10-K”).

## REVENUE RECOGNITION

### Media Services

Media Services revenues are generated as follows:

|   |   |
|---|---|
| Revenues consist of:<br>Virtual print fees (“VPFs”) and alternative content fees (“ACFs”).  | Accounted for in accordance with:<br>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”) SAB No. 104                    |
| Customer licenses and application service provider (“ASP Service”) agreements.  |   |

VPFs are earned pursuant to contracts with movie studios and distributors, whereby amounts are payable to AccessIT DC and will be payable to Phase 2 DC according to a fixed fee schedule, when movies distributed by the studio are

displayed on screens utilizing the Company's digital cinema equipment (the "Systems") installed in movie theatres. 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.

ACFs are earned pursuant to contracts with movie exhibitors, whereby amounts are payable to AccessIT DC and will be payable 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.

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 Bigger Picture's participation in box office receipts. The Bigger



Picture 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.

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 The Bigger Picture 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. For the nine months ended December 31, 2007 and 2008, the Company has recorded \$0 and \$1,152, respectively, in net revenues and direct operating expenses with no impact on net loss.

#### 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 consists of facility operating costs such as rent, utilities, real estate taxes, repairs and maintenance, insurance and other related expenses, direct personnel costs, film rent expense, amortization of capitalized software development costs, exhibitors payments for displaying cinema advertising and other deferred expenses, such as advertising production, post production and technical support related to developing and displaying advertising. These other deferred expenses are capitalized and amortized on a straight-line basis over the same period as the related cinema advertising revenues are recognized.

#### STOCK-BASED COMPENSATION

The Company has two stock-based employee compensation plans, which are described more fully in Note 6. Effective April 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004),

“Share-Based Payment” (“SFAS 123(R)”), which is a revision of SFAS No. 123, “Accounting for Stock-Based Compensation”. Under SFAS 123(R), the Company is required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions) and recognize such cost in the statement of operations over the period during which an employee is required to provide service in exchange for the award (usually the vesting period). Pro forma disclosure is no longer an alternative.

For the three months ended December 31, 2007 and 2008, the Company recorded stock-based compensation expense of \$162 and \$295, respectively, and \$361 and \$653, for the nine months ended December 31, 2007 and 2008, respectively. The Company estimated 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 \$950 in fiscal 2009.

The weighted-average grant-date fair value of options granted during the three months ended December 31, 2007 and 2008 was \$2.56 and \$0, respectively, and during the nine months ended December 31, 2007 and 2008 was \$2.90 and \$0.58, respectively. The total intrinsic value of options exercised during the nine months ended December 31, 2007 and 2008 was approximately \$25 and \$0, respectively. There were no stock options exercised during the three months and nine months ended December 31, 2008.

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<br>Ended<br>December 31, |            | For the Nine Months<br>Ended<br>December 31, |            |
|-----------------------------------|---|------------|--|------------|
|                                   | 2007  | 2008       | 2007   | 2008       |
| Range of risk-free interest rates | 3.2-4.2%                                      | 2.5-5.2%   | 3.2-5.0%                                     | 2.5-5.2%   |
| Dividend yield                    | —   | —          | —  | —          |
| Expected life (years)             | 5   | 5          | 5  | 5          |
| Range of expected volatilities    | 52.5-54.6%                                    | 52.5-58.7% | 52.5-54.6%                                   | 52.5-58.7% |

The risk-free interest rate used in the Black-Scholes option pricing model for options granted under Cinedigm's equity incentive plan is the historical yield on U.S. Treasury securities with equivalent remaining lives. The Company does not currently anticipate paying any cash dividends on its common stock in the foreseeable future. Consequently, an expected dividend yield of zero is used in the Black-Scholes option pricing model. The Company estimates the expected life of options granted under the Company's stock option plans using both exercise behavior and post-vesting termination behavior. The Company estimates expected volatility for options granted under Cinedigm's equity incentive plan based on a measure of historical volatility in the trading market for the Company's shares of Class A Common Stock.

## CAPITALIZED SOFTWARE DEVELOPMENT COSTS

### Internal Use Software

The Company accounts for these software development costs under Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 states that there are three distinct stages to the software development process for internal use software. The first stage, the preliminary project stage, includes the conceptual formulation, design and testing of alternatives. The second stage, or the program instruction phase, includes the development of the detailed functional specifications, coding and testing. The final stage, the implementation stage, includes the activities associated with placing a software project into service. All activities included within the preliminary project stage would be considered research and development and expensed as incurred. During the program instruction phase, all costs incurred until the software is substantially complete and ready for use, including all necessary testing, are capitalized and amortized on a straight-line basis over estimated lives ranging from three to five years. The Company has not sold, leased or licensed software developed for internal use to the Company's customers and the Company has no intention of doing so in the future.

### Software to be Sold, Licensed or Otherwise Marketed

The Company accounts for these software development costs under SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed" ("SFAS No. 86"). SFAS No. 86 states that software development costs that are incurred subsequent to establishing technological feasibility are capitalized until the product is available for general release. Amounts capitalized as software development costs are amortized using the greater of revenues during the period compared to the total estimated revenues to be earned or on a straight-line basis over estimated lives ranging from three to five years. The Company reviews capitalized software costs for impairment on a periodic basis. To the extent that the carrying amount exceeds the estimated net realizable value of the capitalized software cost, an impairment charge is recorded. No impairment charge was recorded for the nine months ended December 31, 2007 and 2008, respectively. Amortization of capitalized software development costs, included in direct operating costs, for the three months ended December 31, 2007 and 2008 amounted to \$153 and

\$214, respectively and \$448 and \$601 for the nine months ended December 31, 2007 and 2008, respectively. At December 31, 2007 and 2008, unbilled receivables under such customized software development contracts was \$1,528 and \$885, respectively, which is included in unbilled revenue in the consolidated balance sheets. During the three months ended December 31, 2008, the Company reached an agreement with a customer regarding a customized product contract whereby the Company will cease development efforts on the customized product and the customer will complete the development of the product going forward at their sole expense and deliver the completed product back to the Company. The Company will continue to own the product at all times and retains the rights to market the finished product to others. The customer agreed to make certain payments to the Company as settlement of all billed and unbilled amounts. After all such payments have been received, the Company will have approximately \$400 of unbilled amounts remaining. The Company believes this amount will be recoverable from future sales of the product to other customers.

## BUSINESS COMBINATIONS

The Company adopted SFAS No. 141, "Business Combinations" ("SFAS No. 141") which 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. During the nine months ended December 31, 2008, the Company did not enter into any business combinations.

## GOODWILL AND INTANGIBLE ASSETS

The carrying value of goodwill and other intangible assets with indefinite lives are reviewed for possible impairment in accordance with SFAS No. 142 "Goodwill and Other Intangible Assets" ("SFAS No. 142"). SFAS No. 142 addresses the recognition and measurement of goodwill and other intangible assets subsequent to their acquisition. The Company tests its goodwill for impairment annually and in interim periods if certain events occur indicating that the carrying value of goodwill may be impaired. The Company reviews possible impairment of finite lived intangible assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The Company records goodwill and intangible assets resulting from past business combinations.

The Company's process of evaluating goodwill for impairment involves the determination of fair value of its four goodwill reporting units: AccessIT SW, The Pavilion Theatre, USM and The Bigger Picture. Identification of reporting units is based on the criteria contained in SFAS No. 142. The Company normally conducts its annual goodwill impairment analysis during the fourth quarter of each fiscal year, measured as of March 31, unless triggering events occur which require goodwill to be tested as of an interim date. As discussed further below, the Company concluded that one or more triggering events had occurred during the three months ended December 31, 2008 and conducted impairment tests as of December 31, 2008.

Inherent in the fair value determination for each reporting unit are certain judgments and estimates relating to future cash flows, including management's interpretation of current economic indicators and market conditions, and assumptions about the Company's strategic plans with regard to its operations. To the extent additional information arises, market conditions change or the Company's strategies change, it is possible that the conclusion regarding whether the Company's remaining goodwill is impaired could change and result in future goodwill impairment charges that will have a material effect on the Company's consolidated financial position or results of operations.

The discounted cash flow methodology establishes fair value by estimating the present value of the projected future cash flows to be generated from the reporting unit. The discount rate applied to the projected future cash flows to arrive at the present value is intended to reflect all risks of ownership and the associated risks of realizing the stream of projected future cash flows. The discounted cash flow methodology uses our projections of financial performance for a five-year period. The most significant assumptions used in the discounted cash flow methodology are the

discount rate, the terminal value and expected future revenues and gross margins, which vary among reporting units. The discount rates utilized as of the December 31, 2008 testing date range from 16.0% - 27.5% based on the estimated market participant weighted average cost of capital ("WACC") for each unit. The market participant based WACC for each unit gives consideration to factors including, but not limited to, capital structure, historic and projected financial performance, and size.

The market multiple methodology establishes fair value by comparing the reporting unit to other companies that are similar, from an operational or industry standpoint and considers the risk characteristics in order to determine the risk profile relative to the comparable companies as a group. The most significant assumptions are the market

multiplies and the control premium. The Company has elected not to apply a control premium to the fair value conclusions for the purposes of impairment testing.

The Company then assigns a weighting to the discounted cash flows and market multiple methodologies to derive the fair value of the reporting unit. The income approach is weighted 60% to 70% and the market approach is weighted 40% to 30% to derive the fair value of the reporting unit. The weightings are evaluated each time a goodwill impairment assessment is performed and give consideration to the relative reliability of each approach at that time.

Based on the results of our impairment evaluation, the Company recorded an impairment charge of \$6,525 in the quarter ended December 31, 2008 related to our content and entertainment reporting segment.

The changes in the carrying amount of goodwill for the nine months ended December 31, 2008 are as follows:

|                              |           |
|------------------------------|-----------|
| Balance at March 31, 2008    | \$ 14,549 |
| Goodwill impairment          | (6,525)   |
| Balance at December 31, 2008 | \$ 8,024  |

#### PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, less accumulated depreciation. Depreciation expense is recorded using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are being amortized over the shorter of the lease term or the estimated useful life of the improvement. Maintenance and repair costs are charged to expense as incurred. Major renewals, improvements and additions are capitalized. Upon the sale or other disposition of any property and equipment, the cost and related accumulated depreciation are removed from the accounts and the gain or loss is included in the statement of operations.

#### IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews the recoverability of its long-lived assets on a periodic basis in order to identify business conditions, which may indicate a possible impairment. The assessment for potential impairment is based primarily on the Company's ability to recover the carrying value of its long-lived assets from expected future undiscounted cash flows. If the total of expected future undiscounted cash flows is less than the total carrying value of the assets, a loss is recognized for the difference between the fair value (computed based upon the expected future discounted cash flows) and the carrying value of the assets. During the nine months ended December 31, 2007 and 2008, no impairment charge for long-lived assets was recorded.

#### NET LOSS PER SHARE

Computations of basic and diluted net loss per share of the Company's Class A common stock ("Class A Common Stock") and Class B common stock ("Class B Common Stock", and together with the Class A Common Stock, the "Common Stock") have been made in accordance with SFAS No. 128, "Earnings Per Share". Basic and diluted net loss per share have been calculated as follows:

$$\text{Basic and diluted net loss per share} = \frac{\text{Net loss}}{\text{Weighted average number of Common Stock outstanding during the period}}$$

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

The Company incurred net losses for each of the three and nine months ended December 31, 2007 and 2008 and, therefore, the impact of dilutive potential common shares from outstanding stock options, warrants, restricted stock, and restricted stock units, totaling 2,934,168 shares and 4,335,382 shares as of December 31, 2007 and 2008, respectively, were excluded from the computation as it would be anti-dilutive.



## ACCOUNTING FOR DERIVATIVES

In April 2008, the Company executed an interest rate swap agreement (the “Interest Rate Swap”) (see Note 5) to limit the Company’s exposure to changes in interest rates. The Interest Rate Swap is a derivative financial instrument, which the Company accounts for pursuant to Statement of Financial Accounting Standards (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended and interpreted (“SFAS No. 133”). SFAS No. 133 establishes accounting and reporting standards for derivative instruments and requires that all derivatives be recorded at fair value on the balance sheet. Changes in fair value of derivative financial instruments are either recognized in other comprehensive income (a component of stockholders' equity) or in the consolidated statement of operations depending on whether the derivative is being used to hedge changes in cash flows or fair value. The Company has determined that this is not a hedging transaction and changes in the value of its Interest Rate Swap were recorded in the consolidated statement of operations (see Note 5).

### Fair Value of Financial Instruments

On April 1, 2008, the Company adopted SFAS No. 157, “Fair Value Measurements” (SFAS 157), for financial assets and liabilities. The statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The fair value measurement disclosures are grouped into three levels based on valuation factors:

- Level 1 – quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments, market corroborated inputs, etc.)
- Level 3 – significant unobservable inputs (including the Company’s own assumptions in determining the fair value of investments)

Assets and liabilities measured at fair value on a recurring basis use the market approach, where prices and other relevant information is generated by market transactions involving identical or comparable assets or liabilities.

The following table summarizes the levels of fair value measurements of the Company’s financial assets:

|                           | Financial Assets at Fair Value<br>as of December 31, 2008 |            |         |
|---------------------------|---|------------|---------|
|                           | Level 1   | Level 2    | Level 3 |
| Cash and cash equivalents | \$ 22,565   | \$ —       | \$ —    |
| Interest rate swap        | —   | \$ (3,846) | —       |

### 3. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157 “Fair Value Measurements” (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to derivatives and other financial instruments measured at fair value under SFAS No. 133 “Accounting for Derivative Instruments and Hedging Activities” (“SFAS 133”) at initial recognition and in all subsequent periods. Therefore, SFAS 157 nullifies the guidance in footnote 3 of the Emerging Issues Task Force (“EITF”) Issue No. 02-3, “Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities” (“EITF 02-3”). SFAS 157 also amends SFAS 133 to remove the similar guidance to that in EITF 02-3, which was added by SFAS 155. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15,

2007, and interim periods within those fiscal years.

Relative to SFAS 157, the FASB issued FASB Staff Positions (“FSP”) FAS 157-1 and FSP FAS 157-2. FSP FAS 157-1 amends SFAS 157 to exclude SFAS No. 13, “Accounting for Leases” (SFAS 13), and its related interpretive accounting pronouncements that address leasing transactions, while FSP FAS 157-2 delays the effective date of the application of SFAS 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

The Company adopted SFAS 157 as of April 1, 2008, with the exception of the application of the statement to non-recurring nonfinancial assets and nonfinancial liabilities. Non-recurring nonfinancial assets and nonfinancial liabilities for which the Company has not applied the provisions of SFAS 157 include those measured at fair value in goodwill impairment testing, indefinite lived intangible assets measured at fair value for impairment testing, and those non-recurring nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination. The adoption of SFAS 157 did not have a material impact the Company's consolidated financial statements (see Note 2).

In October 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP FAS 157-3"). FSP FAS 157-3 clarifies the application of SFAS No. 157 in a market that is not active. FSP FAS 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application should be accounted for as a change in accounting estimate following the guidance in FASB Statement No. 154, "Accounting Changes and Error Corrections." FSP FAS 157-3 was effective for the financial statements included in the Company's quarterly report for the period ended September 30, 2008, and application of FSP FAS 157-3 had no impact on the Company's condensed consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits entities to elect to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is expected to expand the use of fair value measurement, which is consistent with the FASB's long-term measurement objectives for accounting for financial instruments. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and early adoption is permitted provided the entity also elects to apply the provisions of SFAS 157. The Company adopted SFAS 159 on April 1, 2008 and elected not to measure any additional financial instruments and other items at fair value.

In December 2007, the FASB released SFAS No. 141(R), "Business Combinations (revised 2007)" ("SFAS 141(R)"), which changes many well-established business combination accounting practices and significantly affects how acquisition transactions are reflected in the financial statements. Additionally, SFAS 141(R) will affect how companies negotiate and structure transactions, model financial projections of acquisitions and communicate to stakeholders. SFAS 141(R) must be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS 141(R) will have an impact on the Company's consolidated financial statements related to any future acquisitions.

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51" ("SFAS 160"). SFAS 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. The Company does not believe that SFAS 160 will have a material impact on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133" ("SFAS 161"). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application

encouraged. SFAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company does not believe that SFAS 161 will have a material impact on its consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP FAS 142-3"). FSP FAS 142-3 applies to all recognized intangible assets and its guidance is restricted to estimating the useful life of recognized intangible assets. FSP FAS 142-3 is effective for the first fiscal period beginning after December 15, 2008 and must be applied prospectively to intangible assets acquired after the effective date. The Company will be required to adopt FSP FAS 142-3 to intangible assets acquired beginning with the first quarter of fiscal 2010.

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles,” (“SFAS 162”). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. SFAS 162 is effective 60 days following the SEC’s approval of Public Company Accounting Oversight Board amendments to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.” The Company does not believe that SFAS 162 will have a material impact on its consolidated financial statements.

#### 4. NOTES RECEIVABLE

Notes receivable consisted of the following:

| Note Receivable (as defined below) | As of March 31, 2008 |                   | As of December 31, 2008 |                   |
|------------------------------------|----------------------|-------------------|-------------------------|-------------------|
|                                    | Current Portion      | Long Term Portion | Current Portion         | Long Term Portion |
| Exhibitor Note                     | \$ 50                | \$ 91             | \$ 53                   | \$ 51             |
| Exhibitor Install Notes            | 95                   | 1,002             | 116                     | 930               |
| TIS Note                           | —                    | 100               | 100                     | —                 |
| FiberMedia Note                    | —                    | —                 | 631                     | —                 |
| Other                              | 13                   | 27                | 13                      | 21                |
|                                    | \$ 158               | \$ 1,220          | \$ 913                  | \$ 1,002          |

In March 2006, in connection with AccessIT DC’s Phase I Deployment (see Note 7), a certain motion picture exhibitor issued to the Company a 7.5% note receivable for \$231 (the “Exhibitor Note”), in return for the Company’s payment for certain financed digital projectors. The Exhibitor Note requires monthly principal and interest payments through September 2010. As of December 31, 2008, the outstanding balance of the Exhibitor Note was \$104.

In connection with AccessIT DC’s Phase I Deployment (see Note 7), the Company agreed to provide financing to certain motion picture exhibitors upon the billing to the motion picture exhibitors by Christie Digital Systems USA, Inc. (“Christie”) for the installation costs associated with the placement of digital cinema projection systems (the “Systems”) in movie theatres. In April 2006, certain motion picture exhibitors agreed to issue to the Company two 8% notes receivable for an aggregate of \$1,287 (the “Exhibitor Install Notes”). Under the Exhibitor Install Notes, the motion picture exhibitors are required to make monthly interest only payments through October 2007 and quarterly principal and interest payments thereafter through August 2009 and August 2017, respectively. As of December 31, 2008, the aggregate outstanding balance of the Exhibitor Install Notes was \$1,046.

Prior to the Company’s acquisition of USM, Theatre Information Systems, Ltd. (“TIS”), a developer of proprietary software, issued to USM a 4.5% note receivable for \$100 (the “TIS Note”) to fund final modifications to certain proprietary software and the development and distribution of related marketing materials. Interest accrues monthly on the outstanding principal amount. The TIS Note and all the accrued interest is due in one lump-sum payment in April 2009. Provided that the TIS Note has not been previously repaid, the entire unpaid principal balance and any accrued but unpaid interest may, at USM’s option, be converted into a 10% limited partnership interest in TIS. As of December 31, 2008, the outstanding balance of the TIS Note was \$100.

In November 2008, FiberMedia issued to the Company a 10% note receivable for \$631 (the “FiberMedia Note”) related to certain expenses FiberMedia is required to repay to the Company under a master collocation agreement of the IDCs. FiberMedia is required to make monthly principal and interest payments beginning in January 2009 through July 2009. As of December 31, 2008, the aggregate outstanding balance of the FiberMedia Install Notes was \$631.

The Company has not experienced a default by any party to any of their obligations in connection with any of the above notes.

## 5. DEBT AND CREDIT FACILITIES

Notes payable consisted of the following:

| Note Payable (as defined below) | As of March 31, 2008 |                   | As of December 31, 2008 |                   |
|---------------------------------|----------------------|-------------------|-------------------------|-------------------|
|                                 | Current Portion      | Long Term Portion | Current Portion         | Long Term Portion |
| HS Notes                        | \$ 540               | \$ —              | \$ 90                   | \$ —              |
| Boeing Note                     | 450                  | —                 | —                       | —                 |
| First USM Note                  | 414                  | 221               | 221                     | —                 |
| SilverScreen Note               | 113                  | 20                | 47                      | —                 |
| Vendor Note *                   | —                    | 9,600             | —                       | 9,600             |
| 2007 Senior Notes               | —                    | 55,000            | —                       | 55,000            |
| Other                           | 50                   | —                 | 15                      | —                 |
| GE Credit Facility *            | 15,431               | 185,848           | 24,195                  | 167,440           |
| NEC Facility                    | —                    | —                 | 161                     | 376               |
|                                 | \$ 16,998            | \$ 250,689        | \$ 24,729               | \$ 232,416        |

\* The Vendor Note and the GE Credit Facility are not guaranteed by the Company or its other subsidiaries, other than AccessIT DC.

In November 2003, the Company issued two 5-year, 8% notes payable aggregating \$3,000 (the “HS Notes”) to the founders of AccessIT SW as part of the purchase price for AccessIT SW. In March 2007, one of the holders of the HS Notes agreed to reduce their note by \$150 for 30,000 shares of unregistered Class A Common Stock and forego \$150 of principal payments at the end of their note term. During the nine months ended December 31, 2008, the Company repaid principal of \$450 on the HS Notes. As of December 31, 2008, the outstanding principal balance of the HS Notes was \$90.

In March 2004, in connection with the Boeing Digital Asset Acquisition, the Company issued a 4-year, non-interest bearing note payable with a face amount of \$1,800 (the “Boeing Note”). The estimated fair value of the Boeing Note was determined to be \$1,367 on the closing date. Interest was being imputed, at a rate of 12%, over the term of the Boeing Note, and was charged to non-cash interest expense. In April 2008, the Company repaid principal of \$450 and the Boeing Note was repaid in full.

In July 2006, in connection with the acquisition of USM, the Company issued an 8% note payable in the principal amount of \$1,204 (the “First USM Note”) and an 8% note payable in the principal amount of \$4,000 (the “Second USM Note”), both in favor of the stockholders of USM. The First USM Note is payable in twelve equal quarterly installments commencing on October 1, 2006 until July 1, 2009. The Second USM Note was payable on November 30, 2006 or earlier if certain conditions were met, and was paid by the Company in October 2006. The First USM Note may be prepaid in whole or from time to time in part without penalty provided that the Company pays all accrued and unpaid interest. During the nine months ended December 31, 2008, the Company repaid principal of \$414 on the First USM Note. As of December 31, 2008, the outstanding principal balance of the First USM Note was \$221.

Prior to the Company’s acquisition of USM, USM had purchased substantially all the assets of SilverScreen Advertising Incorporated (“SilverScreen”) and issued a 3-year, 4% note payable in the principal amount of \$333 (the “SilverScreen Note”) as part of the purchase price for SilverScreen. The SilverScreen Note is payable in equal monthly installments until May 2009. During the nine months ended December 31, 2008, the Company repaid principal of \$86 on the SilverScreen Note. As of December 31, 2008, the outstanding principal balance of the SilverScreen Note was \$47.

In October 2006, the Company entered into a securities purchase agreement (the “Purchase Agreement”) with the purchasers party thereto (the “Purchasers”) pursuant to which the Company issued 8.5% Senior Notes (the “One Year Senior Notes”) in the aggregate principal amount of \$22,000 (the “October 2006 Private Placement”). The term of the One Year Senior Notes was one year and could be extended for up to two 90-day periods at the discretion of the Company if certain market conditions were met. Interest on the One Year Senior Notes would be paid on a quarterly basis in cash or, at the Company’s option and subject to certain conditions, in shares of its Class A Common Stock (“Interest Shares”). In addition, each quarter, the Company would issue shares of Class A



Common Stock to the Purchasers as payment of interest owed under the One Year Senior Notes based on a formula (“Additional Interest”). The Company also entered into a registration rights agreement with the Purchasers pursuant to which the Company agreed to register the resale of any shares of its Class A Common Stock issued pursuant to the One Year Senior Notes at any time and from time to time. In August 2007, the One Year Senior Notes were repaid in full with a portion of the proceeds from the refinancing which closed in August 2007, which is discussed further below.

In August 2007, AccessIT DC obtained \$9,600 of vendor financing (the “Vendor Note”) for equipment used in AccessIT DC’s Phase I Deployment. The Vendor Note bears interest at 11% and may be prepaid without penalty. Interest is due semi-annually commencing February 2008. The balance of the Vendor Note, together with all unpaid interest is due on the maturity date of August 1, 2016. The Vendor Note is not guaranteed by the Company or its other subsidiaries, other than AccessIT DC. As of December 31, 2008, the outstanding principal balance of the Vendor Note was \$9,600.

In August 2007, the Company entered into a securities purchase agreement (the “Purchase Agreement”) with the purchasers party thereto (the “Purchasers”) pursuant to which the Company issued 10% Senior Notes (the “2007 Senior Notes”) in the aggregate principal amount of \$55,000 (the “August 2007 Private Placement”). The term of the 2007 Senior Notes is three years which may be extended for one 6 month period at the discretion of the Company if certain conditions are met. Interest on the 2007 Senior Notes is payable on a quarterly basis in cash or, at the Company’s option and subject to certain conditions, in shares of its Class A Common Stock (“Interest Shares”). In addition, each quarter, the Company issues shares of Class A Common Stock to the Purchasers as payment of additional interest owed under the 2007 Senior Notes based on a formula (“Additional Interest”). The Company may prepay the 2007 Senior Notes in whole or in part following the first anniversary of issuance of the 2007 Senior Notes, subject to a penalty of 2% of the principal if the 2007 Senior Notes are prepaid prior to the two year anniversary of the issuance and a penalty of 1% of the principal if the 2007 Senior Notes are prepaid thereafter, and subject to paying the number of shares as Additional Interest that would be due through the end of the term of the 2007 Senior Notes. The net proceeds of approximately \$53,200 from the August 2007 Private Placement were used for expansion of digital cinema rollout plans, to pay off the existing obligations under the \$22,000 of One Year Senior Notes, to pay off certain other outstanding debt obligations, for investment in Systems and for working capital and other general corporate purposes. The Purchase Agreement also requires the 2007 Senior Notes to be guaranteed by each of the Company’s existing and, subject to certain exceptions, future subsidiaries (the “Guarantors”), other than AccessIT DC and its respective subsidiaries. Accordingly, each of the Guarantors entered into a subsidiary guaranty (the “Subsidiary Guaranty”) with the Purchasers pursuant to which it guaranteed the obligations of the Company under the 2007 Senior Notes. The Company also entered into a Registration Rights Agreement with the Purchasers pursuant to which the Company agreed to register the resale of any shares of its Class A Common Stock issued pursuant to the 2007 Senior Notes at any time and from time to time. As of December 31, 2007, all shares issued to the holders of the 2007 Senior Notes were registered for resale (see Note 6). Under the 2007 Senior Notes the Company agreed (i) to limit its total indebtedness to an aggregate of \$315,000 until certain conditions were met, which conditions have been met allowing the Company to incur indebtedness in excess of \$315,000 in the aggregate and (ii) not to, and not to cause its subsidiaries (except for AccessIT DC and its subsidiaries) to, incur indebtedness, with certain exceptions, including an exception for \$10,000; provided that no more than \$5,000 of such indebtedness is incurred by AccessDM or AccessIT Satellite or any of their respective subsidiaries except as incurred by AccessDM pursuant to a guaranty entered into in accordance with the GE Credit Facility (see below). At the present time, the Company and its subsidiaries, other than AccessIT DC and its subsidiaries, are prohibited from paying dividends under the terms of the 2007 Senior Notes. Interest expense on the 2007 Senior Notes for the three and nine months ended December 31, 2008 amounted to \$1,375 and \$4,092, respectively. As of December 31, 2008, the outstanding principal balance of the 2007 Senior Notes was \$55,000.

## CREDIT FACILITIES

In August 2006, AccessIT DC entered into an agreement with General Electric Capital Corporation (“GECC”) pursuant to which GECC and certain other lenders agreed to provide to AccessIT DC a \$217,000 Senior Secured Multi Draw Term Loan (the “GE Credit Facility”). Proceeds from the GE Credit Facility were used for the purchase and installation of up to 70% of the aggregate purchase price, including all costs, fees or other expenses associated with the purchase acquisition, receipt, delivery, construction and installation of Systems in connection with AccessIT DC’s Phase I Deployment (see Note 7) and to pay transaction fees and expenses related to the GE Credit Facility, and for certain other specified purposes. The remaining cost of the Systems was funded from other sources of capital including contributed equity. Each of the borrowings by AccessIT DC bears interest, at the option of AccessIT DC and subject to certain conditions, based on the bank prime loan rate in the United States or the

Eurodollar rate, plus a margin ranging from 2.75% to 4.50%, depending on, among other things, the type of rate chosen, the amount of equity contributed into AccessIT DC and the total debt of AccessIT DC. Under the GE Credit Facility, AccessIT DC must pay interest only through July 31, 2008. Beginning August 31, 2008, in addition to the interest payments, AccessIT DC must repay approximately 71.5% of the principal amount of the borrowings over a five-year period with a balloon payment for the balance of the principal amount, together with all unpaid interest on such borrowings and any fees incurred by AccessIT DC pursuant to the GE Credit Facility on the maturity date of August 1, 2013. In addition, AccessIT DC may prepay borrowings under the GE Credit Facility in whole or in part, after July 31, 2007 and before August 1, 2010, subject to paying certain prepayment penalties ranging from 3% to 1%, depending on when the prepayment is made. The GE Credit Facility is required to be guaranteed by each of AccessIT DC's existing and future direct and indirect domestic subsidiaries (the "Guarantors") and secured by a first priority perfected security interest on all of the collective assets of AccessIT DC and the Guarantors, including real estate owned or leased, and all capital stock or other equity interests in AccessIT DC and its subsidiaries, subject to specified exceptions. The GE Credit Facility is not guaranteed by the Company or its other subsidiaries, other than AccessIT DC. During the nine months ended December 31, 2008, the Company repaid principal of \$9,644 on the GE Credit Facility. As of December 31, 2008, the outstanding principal balance of the GE Credit Facility was \$191,635 at a weighted average interest rate of 7.1%.

Under the GE Credit Facility, as amended, AccessIT DC is required to maintain compliance with certain financial covenants. Material covenants include a leverage ratio, and an interest coverage ratio. In September 2007, AccessIT DC entered into the third amendment with respect to the GE Credit Facility to (1) lower the interest reserve from 12 months to 9 months; (2) modify the definition of total equity ratio to count as capital contributions (x) up to \$23,300 of permitted subordinated indebtedness and (y) up to \$4,000 of previously paid and approved expenses that were incurred during the deployment of Systems; (3) change the leverage ratio covenant; (4) add a new consolidated senior leverage ratio covenant; and (5) change the consolidated fixed charge coverage ratio covenant.

At December 31, 2008, the Company was in compliance with these covenants.

In April 2008, AccessIT DC executed the Interest Rate Swap, otherwise known as an "arranged hedge transaction" or "synthetic fixed rate financing" with a counterparty for a notional amount of approximately 90% of the amounts outstanding under the GE Credit Facility or an initial amount of \$180,000. Under the Interest Rate Swap, AccessIT DC will effectively pay a fixed rate of 7.3%, to guard against AccessIT DC's exposure to increases in the variable interest rate under the GE Credit Facility. GE Corporate Financial Services arranged the transaction, which took effect commencing August 1, 2008 as required by the GE Credit Facility and will remain in effect until August 2010. As principal repayments of the GE Credit Facility occur, the notional amount will decrease by a pro rata amount, such that approximately 90% of the remaining principal amount will be covered by the Interest Rate Swap at any time.

Previously, the Interest Rate Swap was classified as an asset, however as a result from the recent decline in Libor rates and the outlook for Libor to remain below the Company's 2.8% fixed Libor rate, the Interest Rate Swap is currently being shown as a liability. Upon any refinance of the GE Credit Facility or other early termination or at the maturity date of the Interest Rate Swap, the fair value of the Interest Rate Swap, whether favorable to the Company or not, would be settled in cash with the counter party. The fair value of the Interest Rate Swap liability was \$3,846 at December 31, 2008 and a loss of \$5,411 and \$3,846 was recorded in the consolidated statement of operations for the three months and nine months ended December 31, 2008, respectively.

In May 2008, AccessDM entered into a credit facility with NEC Financial Services, LLC (the "NEC Facility") to fund the purchase and installation of equipment to enable the exhibition of 3-D live events in movie theatres as part of the Company's CineLive™ product offering. The NEC Facility provides for maximum borrowings of up to approximately \$2,000, repayments over a 47 month period, and interest at annual rates ranging from 8.25-8.44%. As of December 31, 2008, AccessDM has borrowed \$569 and the equipment purchased therewith is included in property

and equipment within the unaudited condensed consolidated balance sheets as of December 31, 2008. During the nine months ended December 31, 2008, the Company repaid principal of \$32 on the NEC Credit Facility. As of December 31, 2008, the outstanding principal balance of the NEC Credit Facility was \$537.

In December 2008, Phase 2 B/AIX, an indirect wholly-owned subsidiary of the Company, entered into a credit facility (the "Barco Related Facility") with a bank to fund the purchase of Systems from Barco N.V., to be installed in movie theatres as part of the Company's Phase II Deployment. The Barco Related Facility provides for borrowings of up to a total of \$8,900 in tranches as necessary through December 31, 2009 (the "Draw Down Period") and requires interest-only payments at 7.3% per annum during the Draw Down Period. The principal is to

be repaid in twenty-eight equal quarterly installments commencing in March 2010 (the "Repayment Period") at an interest rate of 8.5% per annum during the Repayment Period. The Barco Related Facility may be prepaid at any time without penalty and is not guaranteed by the Company or its other subsidiaries. As of December 31, 2008, no funds have been drawn down on the Barco Related Facility.

## 6. STOCKHOLDERS' EQUITY

### CAPITAL STOCK

#### COMMON STOCK

In August 2004, the Company's Board authorized the repurchase of up to 100,000 shares of Class A Common Stock, which may be purchased at prevailing prices from time-to-time in the open market depending on market conditions and other factors. Under the terms of the 2007 Senior Notes (see Note 5), the Company is currently precluded from purchasing shares of its Class A Common Stock. As of December 31, 2008, the Company has repurchased 51,440 shares of Class A Common Stock for an aggregate purchase price of \$172, including fees, which have been recorded as treasury stock.

In April 2007, in connection with the acquisition of USM and the achievement of certain digital cinema deployment milestones, the Company issued 67,906 shares of the Company's Class A Common Stock, with a value of \$512, to the USM Stockholders as additional purchase price. The Company agreed to register the resale of these shares of Class A Common Stock with the SEC. The Company filed a registration statement on Form S-3 on April 27, 2007, which was declared effective by the SEC on May 18, 2007.

In June 2007, the Company issued 74,947 and 72,104 shares of Class A Common Stock as Additional Interest and Interest Shares, respectively, pursuant to the One Year Senior Notes (see Note 5). The Company agreed to register the resale of these shares of Class A Common Stock with the SEC. The Company filed a registration statement on Form S-3 on July 27, 2007, which was declared effective by the SEC on August 9, 2007.

In July 2007, in connection with the acquisition of USM and the achievement of certain digital cinema deployment milestones, the Company issued an additional 77,955 shares of the Company's Class A Common Stock, with a value of \$488, to the USM Stockholders as additional purchase price. The Company agreed to register the resale of these shares of Class A Common Stock with the SEC. The Company filed a registration statement on Form S-3 on July 27, 2007, which was declared effective by the SEC on August 9, 2007.

In August 2007, the Company issued 105,715 shares of Class A Common Stock as Interest Shares pursuant to the One Year Senior Notes (see Note 5) for interest due up through the date refinanced. The Company issued an additional 104,971 shares of Class A Common Stock as an inducement for certain holders of the One Year Senior Notes to invest in the August 2007 Private Placement and \$686 was recorded as debt refinancing expense for the value of such shares. The Company agreed to register the resale of all 210,686 shares of Class A Common Stock with the SEC. The Company filed a registration statement on Form S-3 on September 26, 2007, which was declared effective by the SEC on November 2, 2007.

Pursuant to the 2007 Senior Notes, in August 2007 the Company issued 715,000 shares of Class A Common Stock (the "Advance Additional Interest Shares") covering the first 12 months of Additional Interest (see Note 5). The Company registered the resale of these shares of Class A Common Stock and also registered the resale of an additional 1,249,875 shares of Class A Common Stock for future Interest Shares and Additional Interest. The Company filed a registration statement on Form S-3 on September 26, 2007, which was declared effective by the SEC on November 2, 2007. The Company is recording the value of the Advance Additional Interest Shares of \$4,676 to

interest expense over the 36 month term of the 2007 Senior Notes. For the nine months ended December 31, 2007 and 2008, the Company recorded \$267 and \$1,202, respectively, of interest expense in connection with the Advance Additional Interest Shares.

Commencing with the quarter ended December 31, 2008 and through the maturity of the 2007 Senior Notes in the quarter ended September 30, 2010, the Company is obligated to issue a minimum of 132,000 shares or a maximum of 220,000 shares of Class A Common Stock per quarter as Additional Interest (the "Additional Interest Shares"). The Company estimated the value of the Additional Interest Shares to be \$5,244 and is recording that amount over the 36 month term of the 2007 Senior Notes. For the nine months ended December 31, 2007 and 2008, the Company recorded \$0 and \$1,311, respectively, to interest expense in connection with the Additional Interest

Shares. In December 2008, the Company issued 220,000 shares of Class A Common Stock, respectively, as Additional Interest Shares valued at \$81.

In December 2007, March 2008 and June 2008, the Company issued 345,944, 548,572 and 635,847 shares of Class A Common Stock, respectively, as Interest Shares pursuant to the 2007 Senior Notes (see Note 5), which were part of the 1,249,875 shares of Class A Common Stock previously registered for resale on the registration statement on Form S-3 filed on September 26, 2007, which was declared effective by the SEC on November 2, 2007 and part of an additional 500,000 shares of Class A Common Stock the resale of which was registered on the registration statement on Form S-3, which was filed on May 6, 2008, and was declared effective by the SEC on June 30, 2008. The resale of an additional 750,000 shares of Class A Common Stock issued as future Interest Shares and Additional Interest Shares were registered on the registration statement on Form S-3, which was filed on September 12, 2008, and has not yet been declared effective. For the nine months ended December 31, 2007 and 2008, the Company recorded \$1,546 and \$1,342, respectively, as non-cash interest expense in connection with the Interest Shares.

In April 2008, in connection with the acquisition of Managed Services in January 2004, the Company issued 15,219 shares of unregistered Class A Common Stock as additional purchase price based on subsequent performance of the business acquired. The value of such shares was accrued for in the fiscal year ended March 31, 2008. No additional purchase price will be payable in connection with the acquisition of Managed Services.

In April 2008, in connection with the acquisition of the Access Digital Server Assets by the Company in January 2006, the Company issued 30,000 shares of unregistered Class A Common Stock as additional purchase price based on subsequent performance. The value of such shares was accrued for in the fiscal year ended March 31, 2008. No additional purchase price will be payable in connection with the acquisition of the Access Digital Server Assets.

In connection with the acquisition of The Bigger Picture in January 2007, The Bigger Picture entered into a services agreement (the "SD Services Agreement") with SD Entertainment, Inc. ("SDE") to provide certain services, such as the provision of shared office space and certain shared administrative personnel. The SD Services Agreement is on a month-to-month term and requires the Company to pay approximately \$17 per month, of which 70% may be paid periodically in the form of Cinedigm Class A Common Stock, at the Company's option. In June 2008 and September 2008, the Company issued 24,579 and 22,010 shares of unregistered Class A Common Stock with a value of \$60 and \$33, respectively, to SDE as partial payment for such services and resources.

In September 2008, the Company amended its Fourth Amended and Restated Certificate of Incorporation to designate as Class A Common Stock the 25,000,000 shares of undesignated common stock.

In September 2008, the Company issued 12,824 shares of Class A Common Stock for restricted stock awards that vested.

#### PREFERRED STOCK SUBSCRIPTION

In December 2008, the Company received subscription proceeds of \$2,000 from an investor for Series A 10% Non-Voting Cumulative Preferred Stock ("Preferred Stock") to be issued. The Company recorded the \$2,000 as a liability at December 31, 2008. See Note 10 for subsequent events.

#### CINEDIGM'S EQUITY INCENTIVE PLAN

##### Stock Options

Cinedigm's equity incentive plan ("the Plan") provides for the issuance of options and other equity-based awards to purchase up to 3,700,000 shares of Class A Common Stock to employees, outside directors and consultants.

During the nine months ended December 31, 2008, under the Plan, the Company granted stock options to purchase 5,500 and 320,003 shares of its Class A Common Stock to its employees at an exercise price of \$3.87 and \$3.25 per share, respectively. As of December 31, 2008, the weighted average exercise price for outstanding stock options is \$6.11 and the weighted average remaining contractual life is 6.7 years.



The following table summarizes the activity of the Plan:

|                              | Shares Under Option | Weighted Average<br>Fair Value Per<br>Share |
|------------------------------|---------------------|---|
| Balance at March 31, 2008    | 2,076,569(1)        | \$ 4.77                                     |
| Granted                      | 325,503             | .58   |
| Exercised                    | —                   | —   |
| Forfeited                    | (87,750)            | 6.62  |
| Balance at December 31, 2008 | 2,314,322           | \$ 4.11                                     |

- (1) As of March 31, 2008, there were no shares available for issuance under the Plan, due to the number of options and restricted stock currently outstanding along with historical option exercises. An expansion of the number of shares issuable under the Plan was obtained at the Company's 2008 Annual Meeting of Stockholders held on September 4, 2008.

#### Restricted Stock Awards

The Plan also provides for the issuance of restricted stock awards. During the nine months ended December 31, 2008, the Company granted 723,700 restricted stock units. The Company may pay such restricted stock units upon vesting in cash or shares of Class A Common Stock or a combination thereof at the Company's discretion.

The following table summarizes the activity of the Plan related to restricted stock awards:

|                              | Restricted<br>Stock<br>Awards | Weighted Average<br>Fair<br>Value Per Share |
|------------------------------|-------------------------------|---|
| Balance at March 31, 2008    | 102,614                       | \$ 3.78                                     |
| Granted                      | 723,700                       | 1.66  |
| Vested                       | (12,824)                      | 5.56  |
| Forfeitures                  | (19,901)                      | 2.52  |
| Balance at December 31, 2008 | 793,589                       | \$ 1.85                                     |

#### ACCESSDM STOCK OPTION PLAN

AccessDM's separate stock option plan (the "AccessDM Plan") provides for the issuance of options to purchase up to 2,000,000 shares of AccessDM common stock to employees. During the nine months ended December 31, 2008, there were no AccessDM options granted. As of December 31, 2008, the weighted average exercise price for outstanding stock options is \$0.95 and the weighted average remaining contractual life is 5.1 years.

The following table summarizes the activity of the AccessDM Plan:

| Shares<br>Under | Weighted<br>Average |
|-----------------|---------------------|
|-----------------|---------------------|

|                                 | Option       | Fair Value<br>Per Share |
|---------------------------------|--------------|-------------------------|
| Balance at March 31,<br>2008    | 1,055,000(2) | \$ 0.71(1)              |
| Granted                         | —            | —                       |
| Exercised                       | —            | —                       |
| Forfeited                       | —            | —                       |
| Balance at December<br>31, 2008 | 1,055,000(2) | \$ 0.71(1)              |

(1) Since there is no public trading market for AccessDM's common stock, the fair market value of AccessDM's common stock on the date of grant was determined by an appraisal of such options.

(2) As of December 31, 2008, there were 50,000,000 shares of AccessDM's common stock authorized and 19,213,758 shares of AccessDM's common stock issued and outstanding.

## WARRANTS

Warrants outstanding consisted of the following:

| Outstanding Warrant (as defined below) | March 31, 2008 | December 31, 2008 |
|--|----------------|-------------------|
| July 2005 Private Placement Warrants   | 467,275        | 467,275           |
| August 2005 Warrants                   | 760,196        | 760,196           |
|  | 1,227,471      | 1,227,471         |

In July 2005, in connection with the July 2005 Private Placement, the Company issued warrants to purchase 477,275 shares of Class A Common Stock at an exercise price of \$11.00 per share (the "July 2005 Private Placement Warrants"). The July 2005 Private Placement Warrants were exercisable beginning on February 18, 2006 for a period of five years thereafter. The July 2005 Private Placement Warrants are callable by the Company, provided that the closing price of the Company's Class A Common Stock is \$22.00 per share, 200% of the applicable exercise price, for twenty consecutive trading days. The Company agreed to register the resale of the shares of Class A Common Stock underlying the July 2005 Private Placement Warrants with the SEC. The Company filed a Form S-3 on August 18, 2005, which was declared effective by the SEC on August 31, 2005.

In August 2005, in connection with a conversion agreement, certain warrants were exercised for \$2,487 and the Company issued to the investors 560,196 shares of Class A Common Stock and warrants to purchase 760,196 shares of Class A Common Stock at an exercise price of \$11.39 per share (the "August 2005 Warrants"). The August 2005 Warrants were immediately exercisable upon issuance and for a period of five years thereafter. The Company was required to register the resale of the shares of Class A Common Stock underlying the August 2005 Warrants with the SEC. The Company filed a Form S-3 on November 16, 2005, which was declared effective by the SEC on December 2, 2005.

7.

## COMMITMENTS AND CONTINGENCIES

In October 2008, in connection with the Phase II Deployment, Phase 2 DC entered into digital cinema deployment agreements with five motion picture studios for the distribution of digital movie releases to motion picture exhibitors equipped with Systems, and providing for payment of VPFs to Phase 2 DC. Phase 2 DC also entered into master license agreements with three exhibitors covering a total of 493 screens, whereby the exhibitors agreed to the placement of Systems as part of the Phase II Deployment. Installation of Systems in the Phase II Deployment is still contingent upon the completion of appropriate vendor supply agreements and financing for the purchase of Systems. As of December 31, 2008, there were 47 Systems, which had been previously installed by exhibitors and are part of the Phase II Deployment. The Company will purchase these Systems which have an aggregate cost of approximately \$3,400.

In November 2008, in connection with the Phase II Deployment, Phase 2 DC entered into a supply agreement with Christie, for the purchase of up to 10,000 Systems from Christie at agreed upon pricing, as part of the Phase II Deployment. As of December 31, 2008, the Company had not purchased any Systems under this agreement.

In November 2008, in connection with the Phase II Deployment, Phase 2 DC entered into a supply agreement with Barco, Inc. ("Barco"), for the purchase of up to 5,000 Systems from Barco at agreed upon pricing, as part of the Phase II Deployment. As of December 31, 2008, the Company had not purchased any Systems under this agreement.

Litigation

A subsidiary of the Company, ADM Cinema, was named as a defendant in an action filed on May 19, 2008 in the Supreme Court of the State of New York, County of Kings by Pavilion on the Park, LLC (“Landlord”). Landlord is the owner of the premises located at 188 Prospect Park West, Brooklyn, New York, known as the Pavilion Theatre. Pursuant to the relevant lease, ADM Cinema leases the Pavilion Theatre from Landlord and operates it as a movie theatre.

In the complaint, Landlord alleges that ADM Cinema violated its obligations under Article 12 of the lease in that

ADM Cinema failed to comply with an Order of the Fire Department of the City of New York issued on September 24, 2007 calling for the installation of a sprinkler system in the Pavilion Theatre and that such violation constitutes an event of default under the lease. Landlord seeks to terminate the lease and evict ADM Cinema from the premises and to recover its attorneys' fees and damages for ADM Cinema's alleged "holding over" by remaining on the premises. The Company believes that it has meritorious defenses against these claims and the Company intends to defend its position vigorously. However, if the Company does not prevail, any significant loss resulting in eviction may have a material effect on the Company's business, results of operations and cash flows.

#### 8. SUPPLEMENTAL CASH FLOW DISCLOSURE

|  | For the Nine Months<br>ended December 31, |           |
|--|---|-----------|
|  | 2007                                      | 2008      |
| <b>Supplemental disclosure:</b>  |   |           |
| Interest paid  | \$ 14,149                                 | \$ 15,758 |
| <b>Noncash Investing and Financing Activities:</b>   |   |           |
| Equipment purchased from Christie included in accounts payable and accrued expenses at end of period | \$ 29,762                                 | \$ 231    |
| Deposits applied to equipment purchased from Christie  | \$ 23,402                                 | \$ —      |
| Issuance of Class A Common Stock as additional purchase price for USM                                | \$ 1,000                                  | \$ —      |
| Issuance of Class A Common Stock as additional purchase price for Managed Services                   | \$ 29                                     | \$ 82     |
| Note payable issued for customer contract  | \$ 75                                     | \$ —      |
| One Year Senior Notes refinanced into 2007 Senior Notes  | \$ 18,000                                 | \$ —      |
| Legal fees from the holders of the 2007 Senior Notes included in debt issuance costs                 | \$ 109                                    | \$ —      |
| Issuance of Class A Common Stock as additional purchase price for Access Digital Server Assets       | \$ —                                      | \$ 129    |
| Issuance of Class A Common Stock to SDE as payment for services and resources                        | \$ —                                      | \$ 93     |
| Assets acquired under capital lease  | \$ —                                      | \$ 92     |

For the nine months ended December 31, 2007 and 2008, included in purchases of property and equipment on the unaudited condensed consolidated statements of cash flows are payments made on prior period accounts payable and accrued expenses related to equipment additions of \$19,239 and \$15,701, respectively.

#### 9. SEGMENT INFORMATION

Segment information has been prepared in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company is comprised of three primary reportable segments: Media Services, Content & Entertainment and Other. The segments were determined based on the products and services provided by each segment. Accounting policies of the segments are the same as those described in Note 2. Performance of the segments is evaluated on operating income before interest, taxes, depreciation and amortization. Future changes to this organization structure may result in changes to the reportable segments disclosed.



The Media Services segment consists of the following:

| Operations of:   | Products and services provided:   |
|--|---|
| AccessIT DC and Access Digital Cinema Phase 2 Corp. (“Phase 2 DC”) | Financing vehicles and administrators for the Company’s 3,723 Systems installed nationwide in AccessIT DC’s Phase I Deployment and Phase 2 DC’s second digital cinema deployment (the “Phase II Deployment”) to motion picture exhibitors.  |
| AccessIT SW  | Collect VPFs from motion picture studios and distributors and ACFs from alternative content providers and movie exhibitors.   |
| DMS  | Develops and licenses software to the theatrical distribution and exhibition industries, provides ASP Service, and provides software enhancements and consulting services.  |
| Managed Services   | Stores and distributes digital content to movie theatres 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 watermark detection services for motion picture studios and forensic recovery services for content owners. |
|  | Provides information technology consulting services and managed network monitoring services through its global network command center.  |

The Content & Entertainment segment consists of the following:

| Operations of:     | Products and services provided:  |
|--------------------|--|
| Pavilion Theatre   | A nine-screen digital movie theatre and showcase to demonstrate the Company’s integrated digital cinema solutions. |
| USM                | Provides cinema advertising services and entertainment.  |
| The Bigger Picture | Acquires, distributes and provides the marketing for programs of alternative content to movie exhibitors.          |

The Other segment consists of the following:

| Operations of:               | Products and services provided:   |
|------------------------------|---|
| Access Digital Server Assets | Provides hosting services and provides network access for other web hosting services. |

Since May 1, 2007, the Company's IDCs have been operated by FiberMedia, consisting of 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.

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

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As of March 31, 2008

|                              | Media<br>Services | Content &<br>Entertainment | Other   | Corporate | Consolidated |
|------------------------------|-------------------|----------------------------|---------|-----------|--------------|
| Total intangible assets, net | \$666             | \$12,924                   | \$—     | \$2       | \$13,592     |
| Total goodwill               | \$4,529           | \$9,857                    | \$163   | \$—       | \$14,549     |
| Total assets                 | \$315,588         | \$39,755                   | \$1,136 | \$17,197  | \$373,676    |

As of December 31, 2008

|                              | Media<br>Services | Content &<br>Entertainment | Other | Corporate | Consolidated |
|------------------------------|-------------------|----------------------------|-------|-----------|--------------|
| Total intangible assets, net | \$757             | \$10,715                   | \$—   | \$1       | \$11,473     |
| Total goodwill               | \$4,529           | \$3,332                    | \$163 | \$—       | \$8,024      |
| Total assets                 | \$288,557         | \$29,465                   | \$711 | \$10,311  | \$329,044    |

Based on the Company's most recent testing at December 31, 2008, the Company concluded that the fair value of its reporting units within the Content & Entertainment segment, was below the carrying amount and recorded an impairment charge of \$6,525 (see Note 2).

| Capital Expenditures                           | Media Services | Content &<br>Entertainment | Other | Corporate | Consolidated |          |
|--|----------------|----------------------------|-------|-----------|--------------|----------|
| For the nine months ended<br>December 31, 2007 |                | \$65,080                   | \$537 | \$13      | \$23         | \$65,653 |
| For the nine months ended<br>December 31, 2008 |                | \$17,816                   | \$275 | \$3       | \$21         | \$18,115 |

|   | For the Three Months Ended December 31, 2007 |                            |         |           |              |
|---|--|----------------------------|---------|-----------|--------------|
|   | Media<br>Services                            | Content &<br>Entertainment | Other   | Corporate | Consolidated |
| Revenues from external customers  | \$15,353                                     | \$5,805                    | \$322   | \$—       | \$21,480     |
| Intersegment revenues   | 99   | —                          | —       | —         | 99           |
| Total segment revenues  | 15,452                                       | 5,805                      | 322     | —         | 21,579       |
| Less Intersegment revenues  | (99)   | —                          | —       | —         | (99)         |
| Total consolidated revenues   | \$15,353                                     | \$5,805                    | \$322   | \$—       | \$21,480     |
| Direct operating (exclusive of depreciation and amortization shown below) | 2,214  | 4,124                      | 270     | —         | 6,608        |
| Selling, general and administrative                                       | 1,835  | 2,330                      | 59      | 1,866     | 6,090        |
| Provision for doubtful accounts   | 135  | 186                        | —       | —         | 321          |
| Research and development  | 180  | —                          | —       | —         | 180          |
| Stock-based compensation  | 68   | 28                         | —       | 66        | 162          |
| Depreciation of property and equipment                                    | 7,459  | 438                        | 106     | 17        | 8,020        |
| Amortization of intangible assets   | 191  | 879                        | —       | 1         | 1,071        |
| Total operating expenses  | 12,082                                       | 7,985                      | 435     | 1,950     | 22,452       |
| Income (loss) from operations   | \$3,271                                      | \$(2,180)                  | \$(113) | \$(1,950) | \$(972)      |
| Interest income   | 227  | 1                          | —       | 220       | 448          |
| Interest expense  | (4,998)                                      | (272)                      | —       | (2,433)   | (7,703)      |
| Debt refinancing expense  | —  | —                          | —       | —         | —            |
| Other expense, net  | (87)   | (2)                        | —       | (36)      | (125)        |
| Net loss  | \$(1,587)                                    | \$(2,453)                  | \$(113) | \$(4,199) | \$(8,352)    |

|   | For the Three Months Ended December 31, 2008 |                         |        |           |              |
|---|--|-------------------------|--------|-----------|--------------|
|   | Media Services                               | Content & Entertainment | Other  | Corporate | Consolidated |
| Revenues from external customers  | \$16,351                                     | \$6,064                 | \$295  | \$—       | \$22,710     |
| Intersegment revenues   | 207  | 12                      | —      | —         | 219          |
| Total segment revenues  | 16,558                                       | 6,076                   | 295    | —         | 22,929       |
| Less Intersegment revenues  | (207)  | (12)                    | —      | —         | (219)        |
| Total consolidated revenues   | \$16,351                                     | \$6,064                 | \$295  | \$—       | \$22,710     |
| Direct operating (exclusive of depreciation and amortization shown below) | 2,102  | 4,739                   | 227    | —         | 7,068        |
| Selling, general and administrative                                       | 1,141  | 1,608                   | 52     | 1,890     | 4,691        |
| Provision for doubtful accounts   | 10   | 88                      | —      | —         | 98           |
| Research and development  | 107  | —                       | —      | —         | 107          |
| Stock-based compensation  | 73   | 27                      | —      | 195       | 295          |
| Impairment of goodwill  | —  | 6,525                   | —      | —         | 6,525        |
| Depreciation of property and equipment                                    | 7,679  | 368                     | 62     | 17        | 8,126        |
| Amortization of intangible assets   | 115  | 706                     | —      | —         | 821          |
| Total operating expenses  | 11,227                                       | 14,061                  | 341    | 2,102     | 27,731       |
| Income (loss) from operations   | \$5,124                                      | \$(7,997)               | \$(46) | \$(2,102) | \$(5,021)    |
| Interest income   | 44   | 1                       | —      | 43        | 88           |
| Interest expense  | (4,149)                                      | (294)                   | —      | (2,492)   | (6,935)      |
| Other expense, net  | (49)   | (87)                    | —      | (26)      | (162)        |
| Change in fair value of interest rate swap                                | (5,411)                                      | —                       | —      | —         | (5,411)      |
| Net loss  | \$(4,441)                                    | \$(8,377)               | \$(46) | \$(4,577) | \$(17,441)   |

|   | For the Nine Months Ended December 31, 2007 |                            |         |            |              |
|---|---|----------------------------|---------|------------|--------------|
|   | Media<br>Services                           | Content &<br>Entertainment | Other   | Corporate  | Consolidated |
| Revenues from external customers  | \$38,309                                    | \$19,807                   | \$976   | \$—        | \$59,092     |
| Intersegment revenues   | 465   | —                          | —       | —          | 465          |
| Total segment revenues  | 38,774                                      | 19,807                     | 976     | —          | 59,557       |
| Less Intersegment revenues  | (465)                                       | —                          | —       | —          | (465)        |
| Total consolidated revenues   | \$38,309                                    | \$19,807                   | \$976   | \$—        | \$59,092     |
| Direct operating (exclusive of depreciation and amortization shown below) | 6,401                                       | 12,728                     | 669     | —          | 19,798       |
| Selling, general and administrative                                       | 5,261                                       | 7,274                      | 156     | 4,436      | 17,127       |
| Provision for doubtful accounts   | 183   | 508                        | —       | —          | 691          |
| Research and development  | 503   | —                          | —       | —          | 503          |
| Stock-based compensation  | 165   | 70                         | —       | 126        | 361          |
| Depreciation of property and equipment                                    | 19,278                                      | 1,305                      | 316     | 51         | 20,950       |
| Amortization of intangible assets   | 576   | 2,631                      | —       | 3          | 3,210        |
| Total operating expenses  | 32,367                                      | 24,516                     | 1,141   | 4,616      | 62,640       |
| Income (loss) from operations   | \$5,942                                     | \$(4,709)                  | \$(165) | \$(4,616)  | \$(3,548)    |
| Interest income   | 737   | 4                          | —       | 433        | 1,174        |
| Interest expense  | (13,821)                                    | (1,037)                    | —       | (5,672)    | (20,530)     |
| Debt refinancing expense  | —   | —                          | —       | (1,122)    | (1,122)      |
| Other expense, net  | (176)                                       | (57)                       | —       | (193)      | (426)        |
| Net loss  | \$(7,318)                                   | \$(5,799)                  | \$(165) | \$(11,170) | \$(24,452)   |

|   | For the Nine Months Ended December 31, 2008 |                         |        |            |              |
|---|---|-------------------------|--------|------------|--------------|
|   | Media Services                              | Content & Entertainment | Other  | Corporate  | Consolidated |
| Revenues from external customers  | \$46,702                                    | \$17,482                | \$945  | \$—        | \$65,129     |
| Intersegment revenues   | 669   | 33                      | —      | —          | 702          |
| Total segment revenues  | 47,371                                      | 17,515                  | 945    | —          | 65,831       |
| Less Intersegment revenues  | (669)                                       | (33)                    | —      | —          | (702)        |
| Total consolidated revenues   | \$46,702                                    | \$17,482                | \$945  | \$—        | \$65,129     |
| Direct operating (exclusive of depreciation and amortization shown below) | 6,502                                       | 12,409                  | 686    | —          | 19,597       |
| Selling, general and administrative                                       | 3,075                                       | 5,255                   | 162    | 5,219      | 13,711       |
| Provision for doubtful accounts   | (40)  | 311                     | —      | —          | 271          |
| Research and development  | 207   | —                       | —      | —          | 207          |
| Stock-based compensation  | 140   | 71                      | —      | 442        | 653          |
| Impairment of goodwill  | —   | 6,525                   | —      | —          | 6,525        |
| Depreciation of property and equipment                                    | 22,966                                      | 1,184                   | 194    | 50         | 24,394       |
| Amortization of intangible assets   | 459   | 2,208                   | —      | 2          | 2,669        |
| Total operating expenses  | 33,309                                      | 27,963                  | 1,042  | 5,713      | 68,027       |
| Income (loss) from operations   | \$13,393                                    | \$(10,481)              | \$(97) | \$(5,713)  | \$(2,898)    |
| Interest income   | 142   | 3                       | —      | 166        | 311          |
| Interest expense  | (13,005)                                    | (822)                   | —      | (7,274)    | (21,101)     |
| Other expense, net  | (191)                                       | (166)                   | —      | (131)      | (488)        |
| Change in fair value of interest rate swap                                | (3,846)                                     | —                       | —      | —          | (3,846)      |
| Net (loss) income   | \$(3,507)                                   | \$(11,466)              | \$(97) | \$(12,952) | \$(28,022)   |

## 10. SUBSEQUENT EVENTS

In January 2009, the Company issued 19,921 shares of Class A Common Stock for restricted stock awards that vested.

In January 2009, the Company issued 129,871 shares of unregistered Class A Common Stock with a value of approximately \$100 as payment for services rendered related to the preferred stock subscription as discussed below.

In January 2009, in connection with the SD Services Agreement (see Note 6) the Company issued 70,432 shares of unregistered Class A Common Stock with a value of \$49 to SDE as partial payment for such services and resources.

In February 2009, the Company issued Preferred Stock and warrants to purchase Class A Common Stock (the "Preferred Warrants") to an investor for total proceeds of \$2,000. The \$2,000 proceeds had been received in December

2008 and was recorded by the Company as a liability as of December 31, 2008. The investor received 4 shares of Preferred Stock and Preferred Warrants to purchase 700,000 shares of Class A Common Stock with an exercise price of \$0.66 per share. Dividends will accrue on the Preferred Stock at a rate of 10% per annum and are payable quarterly after the maturity date of the 2007 Senior Notes in cash or, at the Company's option and subject to certain conditions, in shares of Class A Common Stock. The Preferred Warrants are exercisable beginning in March 2009 until the fifth anniversary of the date of grant.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of the historical results of operations and financial condition of Cinedigm Digital Cinema Corp. (the "Company") and factors affecting the Company's financial resources. This discussion should be read in conjunction with the condensed consolidated financial statements, including the notes thereto, set forth herein under Item 1 "Financial Statements" and the Form 10-K.

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, which are indicated by words or phrases such as "believes," "anticipates," "expects," "intends," "plans," "will," "estimates," and similar words. 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. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, assumptions and other factors, some of which are beyond the Company's control that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Additional information regarding risks to the Company can be found below (see Part II Item 1A under Risk Factors).

In this report, "Cinedigm," "we," "us," "our" refers to Access Integrated Technologies, Inc. d/b/a Cinedigm Digital Cinema Corp. and the "Company" refers to Cinedigm and its subsidiaries unless the context otherwise requires.

### OVERVIEW

Cinedigm was incorporated in Delaware on March 31, 2000 and began doing business as Cinedigm Digital Cinema Corp. on November 25, 2008. We provide fully managed storage, electronic delivery and software services and technology solutions for owners and distributors of digital content to movie theatres and other venues. We have three primary businesses, media services ("Media Services"), media content and entertainment ("Content & Entertainment") and other ("Other"). Our Media Services business provides software, services and technology solutions to the motion picture and television industries, primarily to facilitate the conversion from analog (film) to digital cinema and positioned us at what we believe to be the forefront of an industry 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. Our Other business provides hosting services and network access for other web hosting services ("Access Digital Server Assets"). Overall, our 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 to the Company's Unaudited Condensed Consolidated Financial Statements.

We have three reportable segments: Media Services, Content & Entertainment and Other. The Media Services segment of our business is comprised 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"), Christie/AIX, Inc. ("AccessIT DC"), PLX Acquisition Corp., Core Technology Services, Inc. ("Managed Services") and Access Digital Cinema Phase 2 Corp. ("Phase 2 DC"). The Content & Entertainment segment of our business is comprised of ADM Cinema Corporation ("ADM Cinema") d/b/a the Pavilion Theatre (the "Pavilion Theatre"), UniqueScreen Media, Inc. ("USM") and Vistachiara Productions, Inc. d/b/a The Bigger Picture ("The Bigger Picture"). Our Other segment consists of the operations of our Access Digital Server Assets. In the past our Other segment included the operations of our internet data centers ("IDCs"). However, since May 2007, the IDCs have been operated by FiberMedia, consisting of unrelated third parties, and 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

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realized by FiberMedia.

The following organizational chart provides a graphic representation of our business and our three reporting segments:

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We have incurred net losses historically and through the current period, and until recently, have used cash in operating activities, and have an accumulated deficit of \$128.7 million as of December 31, 2008. We also have significant contractual obligations related to our debt for the remainder of fiscal year 2009 and beyond. We expect to continue generating net losses for the foreseeable future. Certain of our costs could be reduced if our working capital requirements increased. Based on our cash position at December 31, 2008, and expected cash flows from operations, we believe that we have the ability to meet our obligations through December 31, 2009. We are seeking to raise additional capital to refinance certain outstanding debt, to meet equipment requirements related to the Access Digital Cinema Phase 2 Corp. (“Phase 2 DC”) second digital cinema deployment (the “Phase II Deployment”) and for working capital as necessary. Although we recently entered into certain agreements related to the Phase II Deployment, there is no assurance that financing for the Phase II Deployment will be completed as contemplated or under terms acceptable to us or our existing shareholders. Failure to generate additional revenues, raise additional capital or manage discretionary spending could have a material adverse effect on our ability to continue as a going concern. The accompanying unaudited condensed consolidated financial statements do not reflect any adjustments which may result from our inability to continue as a going concern.

#### Goodwill Impairment

The carrying value of goodwill and other intangible assets with indefinite lives are reviewed for possible impairment in accordance with SFAS No. 142 “Goodwill and Other Intangible Assets” (“SFAS No. 142”). SFAS No. 142 addresses the recognition and measurement of goodwill and other intangible assets subsequent to their acquisition. We test our goodwill for impairment annually and in interim periods if certain events occur indicating that the carrying value of goodwill may be impaired. We review possible impairment of finite lived intangible assets in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”. The Company records goodwill and intangible assets resulting from past business combinations.

Our process of evaluating goodwill for impairment involves the determination of fair value of four goodwill reporting units: AccessIT SW, The Pavilion Theatre, USM and The Bigger Picture. Identification of reporting units is based on the criteria contained in SFAS No. 142. We normally conduct an annual goodwill impairment analysis during the fourth quarter of each fiscal year, measured as of March 31, unless triggering events occur which require goodwill to be tested as of an interim date. As discussed further below, we concluded that one or more triggering events had occurred during the three months ended December 31, 2008 and conducted impairment tests as of December 31, 2008.

Inherent in the fair value determination for each reporting unit are certain judgments and estimates relating to future cash flows, including management’s interpretation of current economic indicators and market conditions, and

assumptions about our strategic plans with regard to our operations. To the extent additional information arises, market conditions change or our strategies change, it is possible that the conclusion regarding whether our remaining goodwill is impaired could change and result in future goodwill impairment charges that will have a material effect on our consolidated financial position or results of operations.

The discounted cash flow methodology establishes fair value by estimating the present value of the projected future cash flows to be generated from the reporting unit. The discount rate applied to the projected future cash flows to arrive at the present value is intended to reflect all risks of ownership and the associated risks of realizing the stream of projected future cash flows. The discounted cash flow methodology uses our projections of financial performance for a five-year period. The most significant assumptions used in the discounted cash flow methodology are the discount rate, the terminal value and expected future revenues and gross margins, which vary among reporting units. The discount rates utilized as of the December 31, 2008 testing date range from 16.0% - 27.5% based on the estimated market participant weighted average cost of capital (“WACC”) for each unit. The market participant based WACC for each unit gives consideration to factors including, but not limited to, capital structure, historic and projected financial performance, and size.

The market multiple methodology establishes fair value by comparing the reporting unit to other companies that are similar, from an operational or industry standpoint and considers the risk characteristics in order to determine the risk profile relative to the comparable companies as a group. The most significant assumptions are the market multiples and the control premium. We have elected not to apply a control premium to the fair value conclusions for the purposes of impairment testing.

We assign a weighting to the discounted cash flows and market multiple methodologies to derive the fair value of the reporting unit. The income approach is weighted 40% to 30% and the market approach is weighted 40% to 30% to derive the fair value of the reporting unit. The weightings are evaluated each time a goodwill impairment assessment is performed and give consideration to the relative reliability of each approach at that time.

Based on the results of our impairment evaluation, we recorded an impairment charge of \$6.5 million in the quarter ended December 31, 2008 related to our content and entertainment reporting segment.

#### Results of Operations for the Three Months Ended December 31, 2007 and 2008

##### Revenues

| (\$ in thousands)       | For the Three Months Ended December |             |        |
|-------------------------|-------------------------------------|-------------|--------|
|                         | 2007                                | 31,<br>2008 | Change |
| <b>Revenues:</b>        |                                     |             |        |
| Media Services          | \$ 15,353                           | \$ 16,351   | 7%     |
| Content & Entertainment | 5,805                               | 6,064       | 4%     |
| Other                   | 322                                 | 295         | (8)%   |
|                         | \$ 21,480                           | \$ 22,710   | 6%     |

Revenues increased \$1.2 million or 6%. The increase in revenues was primarily due to an 11% increase in VPF revenues in the Media Service segment, attributable to the increased number of Systems installed in movie theatres, upon the completion of our Phase I Deployment of 3,723 screens, along with a 45% increase in revenues from delivery of movies to digitally equipped theatres, also due to the increase in the number of such theatres over the last year. These gains in the Media Services segment were offset by a 100% decline in Theatre Command Center (“TCC”)

software license fees as there were no TCC fees yet for our Phase II Deployment in addition to a 30% reduction in software related revenues by AccessIT SW. We expect these TCC software license fees to resume upon either the Phase II Deployment, or other deployments of Systems. The Content & Entertainment segment revenues increased 5% mainly due to non-cash barter revenues of \$1.2 million, which represents the fair value of advertising provided to alternative content providers of The Bigger Picture as part of the agreements to distribute alternative content, along with a 124% increase in distribution revenues by The Bigger Picture. These gains were partially offset by a 20% decline in in-theatre advertising revenues, mostly attributable to the elimination of various under-performing customer contracts and economic conditions impacting the advertising industry. We expect consolidated revenues to generally remain near current levels until there is an increase in the number of Systems deployed from our Phase II Deployment. Such revenues will be generated primarily from VPFs and, to a lesser degree, other

revenue sources including content delivery and distribution of alternative content generated from Systems installed at exhibitors in digitally equipped movie theatres.

#### Direct Operating Expenses

| (\$ in thousands)          | For the Three Months Ended December |             |        |
|----------------------------|-------------------------------------|-------------|--------|
|                            | 2007                                | 31,<br>2008 | Change |
| Direct operating expenses: |                                     |             |        |
| Media Services             | \$ 2,214                            | \$ 2,102    | (5)%   |
| Content & Entertainment    | 4,124                               | 4,739       | 15%    |
| Other                      | 270                                 | 227         | (16)%  |
|                            | \$ 6,608                            | \$ 7,068    | 7%     |

Direct operating expenses increased \$0.5 million or 7%. The increase in the Content & Entertainment segment was primarily related to non-cash content acquisition expenses of \$1.2 million for The Bigger Picture related to the fair value of advertising provided by USM offset by reduced staffing levels, reduced minimum guaranteed obligations under theatre advertising agreements with exhibitors for displaying cinema advertising and reduced film rent expense for the Pavilion Theatre. The Media Services segment decreased 5% mainly due to reduced staffing levels and reduced software related cost of sales by AccessIT SW offset by increased property tax expense related to the 3,723 Systems installed. Our Other segment decreased by 16% mainly due to reduced IDC expenses not reimbursable by FiberMedia and reduced staffing levels. Other than these non-cash content acquisition expenses, we expect direct operating expenses to remain near current levels for the near future.

#### Selling, General and Administrative Expenses

| (\$ in thousands)                             | For the Three Months Ended December |             |        |
|---|-------------------------------------|-------------|--------|
|   | 2007                                | 31,<br>2008 | Change |
| Selling, general and administrative expenses: |                                     |             |        |
| Media Services                                | \$ 1,835                            | \$ 1,141    | (38)%  |
| Content & Entertainment                       | 2,330                               | 1,608       | (31)%  |
| Other   | 59                                  | 52          | (12)%  |
| Corporate                                     | 1,866                               | 1,890       | 1%     |
|   | \$ 6,090                            | \$ 4,691    | (23)%  |

Selling, general and administrative expenses decreased \$1.4 million or 23%. The decrease was primarily related to reduced staffing levels in both the Media Services segment and the Content & Entertainment segment. Following the completion of our Phase I Deployment, overall headcount reductions have now stabilized. As of December 31, 2007 and 2008 we had 309 and 251 employees, respectively, of which 38 and 43, respectively, were part-time employees and 64 and 50, respectively, were salespersons. Due to reduced headcount levels primarily from the consolidation of sales territories in USM, resulting in a reduced sales and administrative work force within the Content & Entertainment segment, we expect selling, general and administrative expenses to remain near current levels or to be reduced further, at least for the next twelve months.

#### Impairment of goodwill

Based on the Company's most recent testing at December 31, 2008, the Company concluded that the fair value of its reporting units within the Content & Entertainment segment, was below the carrying amount and recorded an impairment charge of \$6.5 million. This resulted from the continued decline in our market capitalization, the extremely depressed economic conditions generally, the re-evaluation of our forecasts and other assumptions, and the diminished market values of our identified peer companies.

## Interest income

Interest income decreased \$0.4 million or 80%. The decrease was attributable to lower cash balances from the prior year, and lower bank interest rates on deposited funds. We anticipate that interest income will continue to be moderately reduced in future periods.

## Interest expense

| (\$ in thousands)        | For the Three Months Ended December |             |        |
|--------------------------|-------------------------------------|-------------|--------|
|                          | 2007                                | 31,<br>2008 | Change |
| <b>Interest expense:</b> |                                     |             |        |
| Media Services           | \$ 4,998                            | \$ 4,149    | (17)%  |
| Content & Entertainment  | 272                                 | 294         | 8%     |
| Corporate                | 2,433                               | 2,492       | 2%     |
|                          | \$ 7,703                            | \$ 6,935    | (10)%  |

Interest expense decreased \$0.8 million or 10%. Total interest expense included \$6.0 million of interest paid and accrued for each of the three months ended December 31, 2007 and 2008, along with non-cash interest expense of \$1.7 million and \$0.9 million for the three months ended December 31, 2007 and 2008, respectively. The decrease in interest paid and accrued within the Media Services segment relates to the reduced interest rate on the GE Credit Facility in part due to the Interest Rate Swap executed in April 2008, along with less interest related to the reduced outstanding principal balance of the GE Credit Facility. The increase in interest expense within Corporate relates to the interest on the 2007 Senior Notes offset by the elimination of interest expense on the \$22.0 million of One Year Senior Notes, which were repaid with the proceeds from the \$55.0 million of 2007 Senior Notes in August 2007.

The decrease in non-cash interest was due to the value of the shares issued as payment of interest on the 2007 Senior Notes during the three months ended December 31, 2007, offset by increased non-cash interest related to the amortization of the value of the Advance Additional Interest Shares and the amortization of the estimated value of the Additional Interest Shares related to the 2007 Senior Notes. Interest for the three months ended December 31, 2008 on the 2007 Senior Notes was paid in cash. Non-cash interest could increase depending on management's future decisions to pay interest payments on the 2007 Senior Notes in cash or shares of Class A Common Stock.

As a result of the completion of our Phase I Deployment, and the continued payments of principal related to the GE Credit Facility, and, subject to any Phase II Deployment related borrowings, we expect our interest expense to stabilize or decline.

## Change in fair value of interest rate swap

The change in fair value of interest rate swap from \$1.6 million to \$(3.8) million resulted in a loss of \$5.4 million in the Media Services segment for the three months ended December 31, 2008. This resulted from the recent decline in Libor rates and the projected outlook for the Libor rates remaining below the Company's 2.8% fixed Libor rate under the interest rate swap agreement.

## Results of Operations for the Nine Months Ended December 31, 2007 and 2008

## Revenues

| (\$ in thousands)       | For the Nine Months Ended December 31, |           |        |
|-------------------------|--|-----------|--------|
|                         | 2007                                   | 2008      | Change |
| <b>Revenues:</b>        |  |           |        |
| Media Services          | \$ 38,309                              | \$ 46,702 | 22%    |
| Content & Entertainment | 19,807                                 | 17,482    | (12)%  |
| Other                   | 976                                    | 945       | (3)%   |
|                         | \$ 59,092                              | \$ 65,129 | 10%    |

Revenues increased \$6.0 million or 10%. In the Media Service segment, the increase in revenues was primarily due to a 28% increase in VPF revenues, attributable to the increased number of Systems installed in movie theatres, following the completion of our Phase I Deployment with 3,723 screens. We experienced a 52% increase in revenues from delivery of movies to digitally equipped theatres, due to the increase in the number of such theatres over the last year as well as increases in satellite revenues and ACF revenues. We also experienced a 96% decline in software revenues, due to one-time license fees from our TCC software realized during the Phase I Deployment. We expect these software license fees to resume upon either a Phase II Deployment, or an international deployment of Systems. In the Content & Entertainment segment, revenues decreased 12% mainly despite a 23% decline in in-theatre advertising revenues, mostly attributable to the elimination of various under-performing customer contracts and economic conditions impacting the advertising industry, offset by non-cash barter revenues of \$1.2 million, which represents the fair value of advertising provided to alternative content providers of The Bigger Picture, and a 27% increase in distribution revenues by The Bigger Picture. We expect consolidated revenues to generally remain near current levels until there is an increase in the number of Systems deployed from our Phase II Deployment, which will drive VPFs and other revenue sources including content delivery and distribution of alternative content generated from digitally equipped movie theatres. We are dependant on the availability of suitable financing for any large scale Phase II Deployment. To date such sources of financing are still being pursued.

## Direct Operating Expenses

| (\$ in thousands)                 | For the Nine Months Ended December 31, |           |        |
|-----------------------------------|--|-----------|--------|
|                                   | 2007                                   | 2008      | Change |
| <b>Direct operating expenses:</b> |  |           |        |
| Media Services                    | \$ 6,401                               | \$ 6,502  | 2%     |
| Content & Entertainment           | 12,728                                 | 12,409    | (3)%   |
| Other                             | 669                                    | 686       | 3%     |
|                                   | \$ 19,798                              | \$ 19,597 | (1)%   |

Direct operating expenses decreased \$0.2 million or 1%. The decrease in the Content & Entertainment segment was primarily related to reduced staffing levels and reduced minimum guaranteed obligations under theatre advertising agreements with exhibitors for displaying cinema advertising offset by non-cash content acquisition expenses of \$1.2 million for The Bigger Picture related to the fair value of advertising provided by USM. Other than these non-cash content acquisition expenses, we expect direct operating expenses to decrease or remain consistent as compared to prior periods.

Selling, General and Administrative Expenses

|   | For the Nine Months Ended December 31, |          |        |
|---|--|----------|--------|
| (\$ in thousands)                             | 2007                                   | 2008     | Change |
| Selling, general and administrative expenses: |  |          |        |
| Media Services                                | \$ 5,261                               | \$ 3,075 | (42)%  |
| Content & Entertainment                       | 7,274                                  | 5,255    | (28)%  |
| Other   | 156                                    | 162      | 4%     |



|           |           |           |       |
|-----------|-----------|-----------|-------|
| Corporate | 4,436     | 5,219     | 18%   |
|           | \$ 17,127 | \$ 13,711 | (20)% |

Selling, general and administrative expenses decreased \$3.4 million or 20%. The decrease was primarily related to reduced staffing levels in both the Media Services segment and the Content & Entertainment segment, as well as reduced professional fees within Corporate. Following the completion of our Phase I Deployment, overall headcount reductions have now stabilized. As of December 31, 2007 and 2008 we had 309 and 251 employees, respectively, of which 38 and 43, respectively, were part-time employees and 64 and 50, respectively, were salespersons. Due to reduced headcount levels primarily from the consolidation of sales territories in USM, resulting in a reduced sales and administrative work force within the Content & Entertainment segment, we expect selling, general and administrative expenses to stabilize as compared to prior periods until a Phase II Deployment begins.

#### Impairment of goodwill

Based on the Company's most recent testing at December 31, 2008, the Company concluded that the fair value of its reporting units within the Content & Entertainment segment, was below the carrying amount and recorded an impairment charge of \$6.5 million. This resulted from the continued decline in our market capitalization, the extremely depressed economic conditions generally, the re-evaluation of our forecasts and other assumptions, and the diminished market values of our identified peer companies.

#### Interest income

Interest income decreased \$0.9 million or 74%. The decrease was attributable to lower cash balances from the prior year, and lower bank interest rates on deposited funds. We anticipate that interest income will continue to be moderately reduced in future periods.

#### Depreciation Expense on Property and Equipment

| (\$ in thousands)              | For the Nine Months Ended December 31, |           |        |
|--------------------------------|--|-----------|--------|
|                                | 2007                                   | 2008      | Change |
| <b>D e p r e c i a t i o n</b> |  |           |        |
| expense:                       |  |           |        |
| Media Services                 | \$ 19,278                              | \$ 22,966 | 19%    |
| Content & Entertainment        | 1,305                                  | 1,184     | (9)%   |
| Other                          | 316                                    | 194       | (39)%  |
| Corporate                      | 51                                     | 50        | (2)%   |
|                                | \$ 20,950                              | \$ 24,394 | 16%    |

Depreciation expense increased \$3.4 million or 16%. The increase was primarily attributable to the increased amount of assets supporting AccessIT DC's Phase I Deployment. The number of installed Systems being depreciated increased from 2,275 to 3,723 during the nine months ended December 31, 2007. Depreciation for the nine months ended December 31, 2008 included depreciation on all 3,723 Systems.

#### Interest expense

| (\$ in thousands) | For the Nine Months Ended December 31, |      |        |
|-------------------|--|------|--------|
|                   | 2007                                   | 2008 | Change |

|                         |           |           |       |
|-------------------------|-----------|-----------|-------|
| Interest expense:       |           |           |       |
| Media Services          | \$ 13,821 | \$ 13,005 | (6)%  |
| Content & Entertainment | 1,037     | 822       | (21)% |
| Corporate               | 5,672     | 7,274     | 28%   |
|                         | \$ 20,530 | \$ 21,101 | 3%    |

Interest expense increased \$0.6 million or 3%. Total interest expense included \$16.6 million and \$17.2 million of interest paid and accrued along with non-cash interest expense of \$3.9 million and \$3.9 million for the nine months

ended December 31, 2007 and 2008, respectively. The decrease in interest paid and accrued within the Media Services segment relates to the reduced interest rate on the GE Credit Facility in part due to the Interest Rate Swap, along with less interest related to the reduced outstanding principal balance of the GE Credit Facility offset by increased interest for the \$9.6 million of vendor financing. The decrease in interest expense within the Content & Entertainment segment related to reduced interest due to the repayment of an USM term note with a portion of the proceeds from the 2007 Senior Notes in August 2007. The increase in interest expense within Corporate relates to the interest on the 2007 Senior Notes offset by the elimination of interest expense on the \$22.0 million of One Year Senior Notes, which were also repaid with the proceeds from the \$55.0 million of 2007 Senior Notes in August 2007.

Non-cash interest remained flat due to increased non-cash interest for the value of the shares issued as payment of interest on the \$55.0 million of 2007 Senior Notes, offset by reduced non-cash interest for the value of the shares issued as payment of interest on the \$22.0 million of One Year Senior Notes, which were repaid with the proceeds from the \$55.0 million of 2007 Senior Notes in August 2007. Non-cash interest could continue to increase depending on management's future decisions to pay interest payments on the 2007 Senior Notes in cash or shares of Class A Common Stock.

As a result of the completion of our Phase I Deployment and the continued payments of principal related to the GE Credit Facility, and subject to any Phase II Deployment related borrowings, we expect our interest expense to stabilize.

#### Debt refinancing expense

During the nine months ended December 31, 2007, the Corporate segment recorded debt refinancing expense of \$1.1 million, of which \$0.4 million related to the unamortized debt issuance costs of the One Year Senior Notes and \$0.7 million for shares of Class A Common Stock issued to certain holders of the One Year Senior Notes as an inducement for them to enter into a securities purchase agreement for the 2007 Senior Notes with the Company in August 2007.

#### Change in fair value of interest rate swap

The change in fair value of the interest rate swap was \$3.8 million in the Media Services segment for the nine months ended December 31, 2008 due to the recent decline in Libor rates and the projected outlook for Libor rates remaining below the Company's 2.8% fixed Libor rate under the interest rate swap agreement.

#### Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157 "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to derivatives and other financial instruments measured at fair value under SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") at initial recognition and in all subsequent periods. Therefore, SFAS 157 nullifies the guidance in footnote 3 of the Emerging Issues Task Force ("EITF") Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities" ("EITF 02-3"). SFAS 157 also amends SFAS 133 to remove the similar guidance to that in EITF 02-3, which was added by SFAS 155. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years.

Relative to SFAS 157, the FASB issued FASB Staff Positions ("FSP") FAS 157-1 and FSP FAS 157-2. FSP FAS 157-1 amends SFAS 157 to exclude SFAS No. 13, "Accounting for Leases" (SFAS 13), and its related interpretive accounting pronouncements that address leasing transactions, while FSP FAS 157-2 delays the effective date of the application of

SFAS 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

The Company adopted SFAS 157 as of April 1, 2008, with the exception of the application of the statement to non-recurring nonfinancial assets and nonfinancial liabilities. Non-recurring nonfinancial assets and nonfinancial liabilities for which the Company has not applied the provisions of SFAS 157 include those measured at fair value in goodwill impairment testing, indefinite lived intangible assets measured at fair value for impairment testing, and

those non-recurring nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination. The adoption of SFAS 157 did not have a material impact the Company's consolidated financial statements.

In October 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP FAS 157-3"). FSP FAS 157-3 clarifies the application of SFAS No. 157 in a market that is not active. FSP FAS 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application should be accounted for as a change in accounting estimate following the guidance in FASB Statement No. 154, "Accounting Changes and Error Corrections." FSP FAS 157-3 was effective for the financial statements included in the Company's quarterly report for the period ended September 30, 2008, and application of FSP FAS 157-3 had no impact on the Company's condensed consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits entities to elect to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is expected to expand the use of fair value measurement, which is consistent with the FASB's long-term measurement objectives for accounting for financial instruments. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and early adoption is permitted provided the entity also elects to apply the provisions of SFAS 157. The Company adopted SFAS 159 and elected not to measure any additional financial instruments and other items at fair value.

In December 2007, the FASB released SFAS No. 141(R), "Business Combinations (revised 2007)" ("SFAS 141(R)"), which changes many well-established business combination accounting practices and significantly affects how acquisition transactions are reflected in the financial statements. Additionally, SFAS 141(R) will affect how companies negotiate and structure transactions, model financial projections of acquisitions and communicate to stakeholders. SFAS 141(R) must be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS 141(R) will have an impact on the Company's consolidated financial statements related to any future acquisitions.

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51" ("SFAS 160"). SFAS 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. The Company does not believe that SFAS 160 will have a material impact on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133" ("SFAS 161"). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company does not believe that SFAS 161 will have a material impact on its consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP FAS 142-3"). FSP FAS 142-3 applies to all recognized intangible assets and its guidance is restricted to estimating the useful life of recognized intangible assets. FSP FAS 142-3 is effective for the first fiscal period beginning after December 15, 2008 and must be applied prospectively to intangible assets acquired after the effective date. The Company will be required to adopt FSP FAS 142-3 to intangible assets acquired beginning with the first quarter of fiscal 2010.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles," ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in

conformity with GAAP. SFAS 162 is effective 60 days following the SEC's approval of Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." The Company does not believe that SFAS 162 will have a material impact on its consolidated financial statements.

### Liquidity and Capital Resources

We have incurred operating losses in each year since we commenced our operations. Since our inception, we have financed our operations substantially through the private placement of shares of our common and preferred stock, the issuance of promissory notes, our initial public offering and subsequent private and public offerings, notes payable and common stock used to fund various acquisitions.

Our business is primarily driven by the emerging digital cinema marketplace and the primary revenue driver will be the increasing number of digitally equipped screens. There are approximately 38,000 domestic (United States and Canada) movie theatre screens and approximately 107,000 screens worldwide. Approximately 5,200 of the domestic screens are equipped with digital cinema technology, and 3,723 of those screens contain our Systems and software. We anticipate the vast majority of the industry's screens to be converted to digital in the next 5-7 years, and we have announced plans to convert up to an additional 10,000 domestic screens to digital in our Phase II Deployment over the next three years. For those screens that are deployed by us, the primary revenue source will be VPFs, with the number of digital movies shown per screen, per year will be the key factor for earnings and measuring the VPFs, since the studios pay such fees on a per movie, per screen basis. For all new digital screens, whether or not deployed by us, the opportunity for other forms of revenue also increases. We may generate additional software license fee revenues (mainly from the TCC software which is used by exhibitors to aid in the operation of their systems), ACFs (such as concerts and sporting events) and fees from the delivery of content via satellite or hard drive. In all cases, the number of digitally-equipped screens in the marketplace is the primary determinant of our potential revenue streams, although the emerging presence of competitors for software and content distribution and delivery may limit this opportunity.

In August 2006, AccessIT DC entered into a credit agreement (the "Credit Agreement") with General Electric Capital Corporation ("GECC"), as administrative agent and collateral agent for the lenders party thereto, and one or more lenders party thereto. As of December 31, 2008, the outstanding principal balance of the GE Credit Facility was \$191.6 million at a weighted average interest rate of 7.1%. Further borrowings are not permitted under the GE Credit Facility. The Credit Agreement contains certain restrictive covenants that restrict AccessIT DC and its subsidiaries from making certain capital expenditures, incurring other indebtedness, engaging in a new line of business, selling certain assets, acquiring, consolidating with, or merging with or into other companies and entering into transactions with affiliates. The GE Credit Facility is not guaranteed by the Company or its other subsidiaries, other than AccessIT DC.

In August 2007, AccessIT DC received \$9.6 million of vendor financing (the "Vendor Note") for equipment used in AccessIT DC's Phase I Deployment. The Vendor Note bears interest at 11% and may be prepaid without penalty. Interest is due semi-annually commencing February 2008. The balance of the Vendor Note, together with all unpaid interest is due on the maturity date of August 1, 2016. The Vendor Note is not guaranteed by the Company or its other subsidiaries, other than AccessIT DC. As of December 31, 2008, the outstanding principal balance of the Vendor Note was \$9.6 million.

In August 2007, we entered into a securities purchase agreement (the "Purchase Agreement") with the purchasers party thereto (the "Purchasers") pursuant to which we issued 10% Senior Notes (the "2007 Senior Notes") in the aggregate principal amount of \$55.0 million (the "August 2007 Private Placement") and received net proceeds of approximately \$53.0 million. The term of the 2007 Senior Notes is three years which may be extended for one 6 month period at our discretion if certain conditions are met. Interest on the 2007 Senior Notes will be paid on a quarterly basis in cash or,

at our option and subject to certain conditions, in shares of its Class A Common Stock (“Interest Shares”). In addition, each quarter, we will issue shares of Class A Common Stock to the Purchasers as payment of additional interest owed under the 2007 Senior Notes based on a formula (“Additional Interest”). We may prepay the 2007 Senior Notes in whole or in part following the first anniversary of issuance of the 2007 Senior Notes, subject to a penalty of 2% of the principal if the 2007 Senior Notes are prepaid prior to the two year anniversary of the issuance and a penalty of 1% of the principal if the 2007 Senior Notes are prepaid thereafter, and subject to paying the number of shares as Additional Interest that would be due through the end of the term of the 2007 Senior Notes. The Purchase Agreement also requires the 2007 Senior Notes to be guaranteed by each of our existing and, subject to certain exceptions, future subsidiaries (the “Guarantors”), other than AccessIT DC and its



respective subsidiaries. Accordingly, each of the Guarantors entered into a subsidiary guaranty (the "Subsidiary Guaranty") with the Purchasers pursuant to which it guaranteed our obligations under the 2007 Senior Notes. We also entered into a Registration Rights Agreement with the Purchasers pursuant to which we agreed to register the resale of any shares of its Class A Common Stock issued pursuant to the 2007 Senior Notes at any time and from time to time. As of December 31, 2008, all shares issued to the holders of the 2007 Senior Notes were registered for resale. Under the 2007 Senior Notes we agreed (i) to limit our total indebtedness to an aggregate of \$315.0 million unless certain conditions were met, which conditions have been met allowing us to incur indebtedness in excess of \$315.0 million in the aggregate and (ii) not to, and not to cause our subsidiaries (except for AccessIT DC and its subsidiaries) to, incur indebtedness, with certain exceptions, including an exception for \$10.0 million; provided that no more than \$5.0 million of such indebtedness is incurred by AccessDM or AccessIT Satellite or any of their respective subsidiaries except as incurred by AccessDM pursuant to a guaranty entered into in accordance with the GE Credit Facility (see below). Additionally, under the 2007 Senior Notes, AccessIT DC and its subsidiaries may incur additional indebtedness in connection with the deployment of Systems beyond our initial rollout of up to 4,000 Systems, if certain conditions are met. As of December 31, 2008, the outstanding principal balance of the 2007 Senior Notes was \$55.0 million.

As of December 31, 2008, we had cash and cash equivalents of \$22.6 million and our working capital was \$10.7 million.

Operating activities used net cash of \$4.8 million for the nine months ended December 31, 2007, and provided net cash of \$21.6 million for the nine months ended December 31, 2008. The increase in cash provided by operating activities was primarily due to the decreased net loss, an increase of non-cash depreciation and amortization along with improved collections of outstanding accounts receivable, reduced payments for accounts payable and accrued expenses and a reduction of unbilled revenues offset by increased prepaid expenses and deferred revenues.

Investing activities used net cash of \$86.6 million and \$19.5 million for the nine months ended December 31, 2007 and 2008, respectively. The decrease was due to reduced payments for purchases of and deposits paid for property and equipment, as our Phase I Deployment was completed during the quarter ended December 2007. If and when a Phase II Deployment begins, we would expect an increase in capital expenditures resulting in an increase in cash used by investing activities.

Financing activities provided net cash of \$97.9 million for the nine months ended December 31, 2007 due to the proceeds from the 2007 Senior Notes, the GE Credit Facility and the Christie Note. Financing activities used net cash of \$9.2 million for the nine months ended December 31, 2008 due to principal repayments on various notes payable, mainly \$9.6 million on the GE Credit Facility, offset by \$2.0 million of subscription proceeds received from a preferred stock investor. Financing activities are expected to continue using net cash for principal repayments on the GE Credit Facility, which began in August 2008. Although we have engaged a third-party investment banking firm to assist us in seeking to refinance the GE Credit Facility and to finance the Phase II Deployment, the terms of any such refinancing or financing have not yet been determined. If and when a Phase II Deployment begins, we expect an increase in cash provided by financing activities for borrowings under a financing that we intend to enter into in connection with the Phase II Deployment. Our Phase II Deployment would allow for the purchase of up to 10,000 digital cinema projection systems, which together with installation and related costs, could aggregate approximately \$700 million. The cost of such equipment is expected to be funded with a combination of long term debt and payments from exhibitors and other third parties. The Company is currently pursuing various financing options with private parties in connection with the Phase II Deployment. If the Company is not successful in securing funding for its Phase II Deployment from lenders, exhibitors and/or hardware vendors, such deployment would have to be delayed, which would significantly reduce revenue growth.

We have contractual obligations that include long-term debt consisting of notes payable, a revolving credit facility, non-cancelable long-term capital lease obligations for the Pavilion Theatre and computer network equipment for USM, non-cancelable operating leases consisting of real estate leases and minimum guaranteed obligations under theatre advertising agreements between USM and exhibitors for displaying cinema advertising.

The following table summarizes our significant contractual obligations, including interest were applicable, as of December 31, 2008 and each corresponding period thereafter:

| Contractual Obligations (\$<br>in thousands)                 | Total            | 2009            | 2010 &<br>2011   | 2012 &<br>2013   | Thereafter      |
|--|------------------|-----------------|------------------|------------------|-----------------|
| Long-term debt (1)   | \$73,954         | \$1,991         | \$57,501         | \$2,134          | \$12,328        |
| Credit facilities (2)  | 235,818          | 37,445          | 77,512           | 120,861          | —               |
| Capital lease obligations                                    | 15,719           | 1,192           | 2,361            | 2,278            | 9,888           |
| Total debt-related<br>obligations, including<br>interest     | \$325,491        | \$40,628        | \$137,374        | \$125,273        | \$22,216        |
| Operating lease obligations<br>(3)                           | \$8,761          | \$2,815         | \$3,009          | \$1,478          | \$1,459         |
| USM Theatre agreements                                       | 21,539           | 4,280           | 5,434            | 4,357            | 7,468           |
| Total obligations to be<br>included in operating<br>expenses | \$30,300         | \$7,095         | \$8,443          | \$5,835          | \$8,927         |
| Purchase obligations   | 2,034            | 2,034           | —                | —                | —               |
| <b>Grand Total</b>   | <b>\$357,825</b> | <b>\$49,757</b> | <b>\$145,817</b> | <b>\$131,108</b> | <b>\$31,143</b> |

- (1) Excludes interest on the 2007 Senior Notes to be paid on a quarterly basis that may be paid, at the Company's option and subject to certain conditions, in shares of our Class A Common Stock. Interest expense on the 2007 Senior Notes for the three and nine months ended December 31, 2008 amounted to \$1.4 million and \$4.1 million, respectively. The outstanding principal amount of \$55.0 million for the 2007 Senior Notes is due August 2010, but may be extended for one 6 month period at the discretion of the Company to February 2011, if certain conditions are met. Includes the amounts due under the Vendor Note, of which the outstanding principal amount of \$9.6 million is not guaranteed by the Company or its other subsidiaries, other than AccessIT DC.
- (2) Represents the amount due under the GE Credit Facility including interest thereon which is not guaranteed by the Company or its other subsidiaries, other than AccessIT DC.
- (3) Includes operating lease agreements for the IDCs now operated and paid for by FiberMedia, consisting of unrelated third parties, which total aggregates to \$6.8 million. The Company will attempt to obtain landlord consents to assign each facility lease to FiberMedia. Until such landlord consents are obtained, the Company will remain as the lessee.

We have incurred net losses historically and through the current period, and until recently, have used cash in operating activities, and have an accumulated deficit of \$128.7 million as of December 31, 2008. We also have significant contractual obligations related to our debt for the remainder of fiscal year 2009 and beyond. We expect to continue generating net losses for the foreseeable future. Certain of our costs could be reduced if our working capital requirements increased. We are seeking to raise additional capital to refinance certain outstanding debt, and also for equipment requirements related to our Phase II Deployment or for working capital as necessary. Although we recently entered into certain agreements with studio and exhibitors related to the Phase II Deployment, there is no assurance that financing for the Phase II Deployment will be completed as contemplated or under terms acceptable to us or our existing shareholders. Failure to generate additional revenues, raise additional capital or manage discretionary spending could have a material adverse effect on our ability to continue as a going concern and to achieve our intended business objectives. The accompanying unaudited condensed consolidated financial statements do not reflect any adjustments which may result from our inability to continue as a going concern.

Based on our cash position at December 31, 2008, and expected cash flows from operations, our management believes that the cash on hand and cash receipts from existing operations will be sufficient to permit us to meet our obligations through December 31, 2009.

#### Seasonality

Media Services revenues derived from the collection of VPFs from motion picture studios and Content & Entertainment revenues derived from our Pavilion Theatre 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. We believe the seasonality of motion picture exhibition, however, is becoming less pronounced as the motion picture studios are releasing movies somewhat more evenly throughout the year.

#### Subsequent Events

In January 2009, the Company issued 19,921 shares of Class A Common Stock for restricted stock awards that vested.

In January 2009, we issued 129,871 shares of unregistered Class A Common Stock with an approximate value of \$100 thousand as payment for services rendered related to the preferred stock subscription as discussed below.

In January 2009, in connection with the SD Services Agreement, we issued 70,432 shares of unregistered Class A Common Stock with a value of \$49 thousand to SDE as partial payment for such services and resources.

In February 2009, we issued Series A 10% Non-Voting Cumulative Preferred Stock ("Preferred Stock") and warrants to purchase Class A Common Stock (the "Preferred Warrants") to an investor for total proceeds of \$2.0 million. The \$2.0 million had been received in December 2008 and was recorded by us as a liability as of December 31, 2008. The investor received 4 shares of Preferred Stock and Preferred Warrants to purchase 700,000 shares of Class A Common Stock with an exercise price of \$0.66 per share. Dividends will accrue on the Preferred Stock at a rate of 10% per annum and are payable quarterly after the maturity date of the 2007 Senior Notes in cash or, at our option and subject to certain conditions, in shares of Class A Common Stock. The Preferred Warrants are exercisable beginning in March 2009 until the fifth anniversary of the date of grant.

#### Off-balance sheet arrangements

We are not a party to any off-balance sheet arrangements, other than operating leases in the ordinary course of business, which is disclosed above in the table of our significant contractual obligations.

#### Impact of Inflation

The impact of inflation on our operations has not been significant to date. However, there can be no assurance that a high rate of inflation in the future would not have an adverse impact on our operating results.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk for changes in interest rates relates primarily to our GE Credit Facility and cash equivalents. The interest rate on certain advances under the GE Credit Facility fluctuates with the bank's prime rate. As of December 31, 2008, the outstanding principal balance of the GE Credit Facility was \$191.6 million at a weighted average interest rate of 7.1%.

Interest to be paid by us on our GE Credit Facility is our only debt with a floating interest rate. In April 2008, the Company executed an Interest Rate Swap whereby we fixed a portion (90%) of our interest with respect to the GE Credit Facility at 7.3%. The Interest Rate Swap will remain in effect until August 2010. Additionally, at December 31, 2008, the remaining portion of the GE Credit Facility that is subject to variable interest rates is approximately \$19.2 million. While we have a fixed interest rate of 7.3% on 90% of the amounts outstanding under the GE Credit Facility, an increase or decrease in current and forecasted interest rates will cause the fair value of the Interest Rate Swap to increase or decrease, respectively, with a corresponding non-cash gain or loss recorded in the consolidated statement of operations.

Our customer base is primarily composed of businesses throughout the United States. We routinely assess the financial strength of our customers and the status of our accounts receivable and, based upon factors surrounding the credit risk, we establish an allowance, if required, for uncollectible accounts and, as a result, we believe that our accounts receivable credit risk exposure beyond such allowance is limited.

All sales and purchases are denominated in U.S. dollars.

#### ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934 (the “Exchange Act”). Our disclosure controls and procedures are designed to provide reasonable assurance of achieving our objectives and our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective at that reasonable assurance level.

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

### PART II. OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

Our subsidiary, ADM Cinema, was named as a defendant in an action filed on May 19, 2008 in the Supreme Court of the State of New York, County of Kings by Pavilion on the Park, LLC (“Landlord”). Landlord is the owner of the premises located at 188 Prospect Park West, Brooklyn, New York, known as the Pavilion Theatre. Pursuant to the relevant lease, ADM Cinema leases the Pavilion Theatre from Landlord and operates it as a movie theatre.

In the complaint, Landlord alleges that ADM Cinema violated its obligations under Article 12 of the lease in that ADM Cinema failed to comply with an Order of the Fire Department of the City of New York issued on September 24, 2007 calling for the installation of a sprinkler system in the Pavilion Theatre and that such violation constitutes an event of default under the lease. Landlord seeks to terminate the lease and evict ADM Cinema from the premises and to recover its attorneys’ fees and damages for ADM Cinema’s alleged “holding over” by remaining on the premises. We believe that we have meritorious defenses against these claims and we intend to defend our position vigorously. However, if we do not prevail, any significant loss resulting in eviction may have a material effect on our business, results of operations and cash flows.

#### ITEM 1A. RISK FACTORS

The information regarding certain factors which could materially affect our business, financial condition or future results set forth under Item 1A. “Risk Factors” in the Form 10-K, should be carefully reviewed and considered. There have been no material changes from the factors disclosed in the Form 10-K for the fiscal year ended March 31, 2008, other than as set forth below, although we may disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC.

New technologies may make our Digital Cinema Assets less desirable to motion picture studios or exhibitors of digital content and result in decreasing revenues.

The demand for our Systems and other assets in connection with our digital cinema business (collectively, our “Digital Cinema Assets”) may be affected by future advances in technology and changes in customer demands. We cannot

assure you that there will be continued demand for our Digital Cinema Assets. Our profitability depends largely upon the continued use of digital presentations at theatres. Although we have entered into long term agreements with major motion picture studios and independent studios (the "Studio Agreements"), there can be no assurance that these studios will continue to distribute digital content to movie theatres. If the development of digital presentations and changes in the way digital files are delivered does not continue or technology is used that is not compatible with our Systems, there may be no viable market for our Systems. Any reduction in the use of our Systems resulting from the development and deployment of new technology may negatively impact our revenues and the value of our Systems.



We have concentration in our business with respect to our major motion picture studio customers, and the loss of one or more of our largest studio customers could have a material adverse effect on us.

Our Studio Agreements account for a significant portion of our revenues. Together these studios generated 80.6%, 80.8%, 39.5%, 65.3%, 72.6% and 52.2% of AccessIT DC's, Phase 2 DC's, AccessIT SW's, AccessDM's, the Media Service segment's, and consolidated revenues, respectively, for the nine months ended December 31, 2008.

The Studio Agreements are critical to our business. If some of the Studio Agreements were terminated prior to the end of their terms or found to be unenforceable, or if our Systems are not upgraded or enhanced as necessary, or if we had a material failure of our Systems, it may have a material adverse effect on our revenue, profitability, financial condition and cash flows. The Studio Agreements also generally provide that the VPF rates and other material terms of the agreements may not be more favorable to one studio as compared to the others.

Termination of the MLAs could damage our revenue and profitability.

The master license agreements with each of our licensed exhibitors (the "MLAs") are critical to our business. The MLAs each have a term which expires in 2020 and provide the exhibitor with an option to purchase our Systems or to renew for successive one year periods up to ten years thereafter. The MLAs also require our suppliers to upgrade our Systems when technology necessary for compliance with DCI Specification becomes commercially available and we may determine to enhance the Systems which may require additional capital expenditures. If any one of the MLAs were terminated prior to the end of its term, not renewed at its expiration or found to be unenforceable, or if our Systems are not upgraded or enhanced as necessary, it would have a material adverse effect on our revenue, profitability, financial condition and cash flows.

We have concentration in our business with respect to our major licensed exhibitors, and the loss of one or more of our largest exhibitors could have a material adverse effect on us.

Over 60% of our Systems are in theatres owned or operated by one large exhibitor. The loss of this exhibitor or another of our major licensed exhibitors could have a negative impact on the aggregate receipt of VPF revenues as a result of the loss of any associated MLAs. Although we do not receive revenues from licensed exhibitors and we have attempted to limit our licenses to only those theatres which we believe are successful, each MLA with our licensed exhibitors is important, depending on the number of screens, to our business since our VPF revenues are generated based on screen turnover at theatres. If the MLA with a significant exhibitor was terminated prior to the end of its term, it would have a material adverse effect on our revenue, profitability, financial condition and cash flows. There can be no guarantee that the MLAs with our licensed exhibitors will not be terminated prior to the end of its term.

An increase in the use of alternative film distribution channels and other competing forms of entertainment could drive down movie theatre attendance, which, if causing significant theatre closures or a substantial decline in motion picture production, may lead to reductions in our revenues.

Various exhibitor chains which are the Company's distributors face competition for patrons from a number of alternative motion picture distribution channels, such as DVD, network and syndicated television, video on-demand, pay-per-view television and downloading utilizing the internet. These exhibitor chains also compete with other forms of entertainment competing for patrons' leisure time and disposable income such as concerts, amusement parks and sporting events. An increase in popularity of these alternative film distribution channels and competing forms of entertainment could drive down movie theatre attendance and potentially cause certain of our exhibitors to close their theatres for extended periods of time. Significant theatre closures could in turn have a negative impact on the aggregate receipt of our VPF revenues, which in turn may have a material adverse effect on our business and ability to service our debt.

An increase in the use of alternative film distribution channels could also cause the overall production of motion pictures to decline, which, if substantial, could have an adverse effect on the businesses of the major studios with which we have Studio Agreements. A decline in the businesses of the major studios could in turn force the termination of certain Studio Agreements prior to the end of their terms. The Studio Agreements with each of the major studios are critical to our business, and their early termination may have a material adverse effect on our revenue, profitability, financial condition and cash flows.

Our revenues and earnings are subject to market downturns.

Our revenues and earnings may fluctuate significantly in the future. General economic or other conditions could cause a downturn in the market for our Systems or technology. The recent financial disruption affecting the banking system and financial markets and the concern as to whether investment banks and other financial institutions will continue operations in the foreseeable future have resulted in a tightening in the credit markets, a low level of liquidity in many financial markets and extreme volatility in fixed income, credit and equity markets. The credit crisis may result in our inability to refinance our outstanding debt obligations or to finance our Phase II Deployment. The recent credit crisis may also result in the inability of our studios, exhibitors or other customers to obtain credit to finance operations; a slowdown in global economies which could result in lower consumer demand for films; counterparty failures negatively impacting our Interest Rate Swap; or increased impairments of our assets. The current volatility in the financial markets and overall economic uncertainty increase the risk of substantial quarterly and annual fluctuations in our earnings. Any of these factors could have a material adverse effect on our business, results of operations and could result in significant additional dilution to shareholders.

Economic conditions could materially adversely affect the Company.

The Company's operations and performance could be influenced by worldwide economic conditions. Uncertainty about current global economic conditions poses a risk as consumers and businesses may postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values, which could have a material negative effect on the demand for the Company's products and services. Other factors that could influence demand include continuing increases in fuel and other energy costs, conditions in the residential real estate and mortgage markets, labor and healthcare costs, access to credit, consumer confidence, and other macroeconomic factors affecting consumer spending behavior. These and other economic factors could have a material adverse effect on demand for the Company's products and services and on the Company's financial condition and operating results. Uncertainty about current global economic conditions could also continue to increase the volatility of the Company's stock price.

If the market price of our common stock declines, we may not be able to maintain our listing on the NASDAQ Global Market which may impair our financial flexibility and restrict our business significantly.

The stock markets have experienced extreme price and volume fluctuations that have affected the market prices of equity securities of many companies that may be unrelated or disproportionate to the operating results of such companies. These broad market movements may adversely affect the market price of the Company's Common Stock. The Company's Common Stock is presently listed on NASDAQ. Although we are not currently in jeopardy of delisting, we cannot assure you that NASDAQ will continue its suspension of the continued listing requirement relating to minimum bid prices of securities currently scheduled to expire on April 20, 2009. If NASDAQ discontinues such suspension and our Common Stock continues to trade at current prices, we cannot assure you that we will meet the criteria for continued listing and our Common Stock could become delisted. Any such delisting could harm our ability to raise capital through alternative financing sources on terms acceptable to us, or at all, and may result in the loss of confidence in our financial stability by suppliers, customers and employees. If the Company's Common Stock is delisted from the NASDAQ, we may face a lengthy process to re-list the Company's Common Stock, if we are able to re-list the Company's Common Stock at all, and the liquidity that NASDAQ provides will no longer be available to investors.

If the Company's Common Stock were to be delisted from NASDAQ, the holders of the 2007 Senior Notes would have the right to redeem the outstanding principal of the 2007 Senior Notes plus interest. As a result, we could be forced to restructure or refinance our obligations, to seek additional equity financing or to sell assets, which we may not be able to do on satisfactory terms or at all. If we default under the 2007 Senior Notes obligations, our lenders

could take actions that would restrict our operations.

The continued threat of terrorism and ongoing military and other actions may result in decreases in our net income, revenue and assets under management and may adversely affect our business

The continued threat of terrorism, both within the United States of America and abroad, and the ongoing military and other actions and heightened security measures in response to these types of threats, may cause significant volatility and declines in the capital markets in the United States of America, Europe and elsewhere, loss of life, property damage, additional disruptions to commerce and reduced economic activity. An actual terrorist attack could cause losses from a decrease in our business.

The war on terrorism, the threat of additional terrorist attacks, the political and the economic uncertainties that may result and other unforeseen events may impose additional risks upon and adversely affect the cinema industry and our business. We cannot offer assurances that the threats of future terrorist-like events in the United States of America and abroad or military actions by the United States of America will not have a material adverse effect on our business, financial condition or results of operations.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 6. EXHIBITS**

The exhibits are listed in the Exhibit Index on page 47 herein.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ACCESS INTEGRATED TECHNOLOGIES, INC.  
(Registrant)

Date: February 9, 2009

By: /s/ A. Dale Mayo  
A. Dale Mayo  
President and Chief Executive Officer and  
Director  
(Principal Executive Officer)

Date: February 9, 2009

By: /s/ A. Dale Mayo  
Brian D. Pflug  
Senior Vice President – Accounting &  
Finance  
(Principal Financial Officer)

EXHIBIT INDEX

| Exhibit Number | Description of Document  |
|----------------|--|
| 3.1            | Fourth Amended and Restated Certificate of Incorporation of Access Integrated Technologies, Inc., as amended.                                      |
| 31.1           | Officer's Certificate Pursuant to 15 U.S.C. 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                            |
| 31.2           | Officer's Certificate Pursuant to 15 U.S.C. 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                            |
| 32.1           | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2           | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

