YELP INC
Form 4
August 27, 2014

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Donaker Geoffrey L

(Last) (First) (Middle)

C/O YELP INC., 140 NEW MONTGOMERY ST., 9TH FLOOR

(Street)

SAN FRANCISCO, CA 94105

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
YELP INC [YELP]

3. Date of Earliest Transaction (Month/Day/Year)
08/26/2014

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chief Operating Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Class A Common Stock	08/26/2014		C [(1)]		6,000	A	$ 0	6,000	D	
Class A Common Stock	08/26/2014		S [(2)]		6,000	D	$ 81.9164 [(3)]	0	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Employee Stock Option (Right to Buy)	$ 7.16	08/26/2014		M			6,000	(4)	01/05/2021	Class B Common Stock	6,000
Class B Common Stock	(5) (6)	08/26/2014		M		6,000		(5)(6)	(7)	Class A Common Stock	6,000
Class B Common Stock	(5) (6)	08/26/2014		C			6,000	(5)(6)	(7)	Class A Common Stock	6,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Donaker Geoffrey L C/O YELP INC. 140 NEW MONTGOMERY ST., 9TH FLOOR SAN FRANCISCO, CA 94105	X		Chief Operating Officer	

Signatures

/s/ Donna Hammer, Attorney-in-fact	08/27/2014
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Each share of Class A Common Stock was issued upon conversion of one share of Class B Common Stock.

(2) Shares were sold pursuant to a duly adopted 10b5-1 trading plan.

(3) The sales price reported is the weighted average sale price for the number of shares sold. These shares were sold in multiple transactions at prices ranging from $81.59 to $82.07, inclusive. Full information regarding the number of shares sold at each separate price will be

supplied upon request by Securities and Exchange Commission Staff, the Issuer or a security holder of the Issuer.

(4) The shares underlying the stock option vest as follows: (a) for the first 12 months following 11/10/10, 10,191 shares vested monthly; (b) for the second 12 months, 15,624 shares vested monthly; (c) for the third 12 months, 20,669 shares vested monthly; (d) for the fourth 12 months, 26,127 shares vest monthly; and (e) for the next 12 months, the remainder of the shares vest ratably.

(5) Each share of Class B Common Stock is convertible at any time at the option of the Reporting Person into one share of Class A Common Stock and has no expiration date. All Class A and Class B Common Stock will convert automatically into Common Stock on the earlier of (i) the date on which the number of outstanding shares of Class B Common Stock represents less than 10% of the aggregate combined number of outstanding shares of Class A Common Stock and Class B Common Stock and (ii) seven years following the effective date of the issuer's initial public offering.

(6) In addition, each share of Class B Common Stock will convert automatically into one share of Class A Common Stock (i) upon any transfer, whether or not for value (subject to certain exceptions), or (ii) in the event of the death or disability (as defined in the amended and restated certificate of incorporation of the issuer) of the Reporting Person, or (iii) upon such date as is specified by the affirmative vote or written consent of at least 66 2/3% of the outstanding shares of Class B Common Stock.

(7) Not applicable.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. . (5,135) Interest income... 7 Interest expense.. (2,592) Non-cash interest expense................................. (1,004) Other income, net.. 33 ------ Net loss before income taxes............................... (8,691) Income tax benefit... 306 -------- Net loss .... (8,385) Net loss available to common stockholders.................. $(8,385) ======== Net loss per share - basic and diluted .... $(0.83) ======= Weighted average number of common shares for net loss per share computations - basic and diluted .... 10,045,369 ========== 26 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS The following discussion should be read in conjunction with the consolidated financial statements and related notes appearing elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in those forward-looking statements as a result of factors described within this prospectus and other factors. We refer you to the section captioned "Forward-Looking Statements" in this prospectus. OVERVIEW AccessIT was organized on March 31, 2000 and we are in the business of providing software services and technology solutions to the motion picture industry, and operating IDC's. Recently, we have actively expanded into new and interrelated business areas relating to the delivery and management of digital cinema content to entertainment venues worldwide. These businesses, supported by our internet data center business, have become our primary strategic focus. We have two reportable segments: Media Services, which represents the operations of Hollywood SW, AccessDM (including Boeing Digital), the Pavilion Theatre and FiberSat, and the Data Center Services, which comprise the operations of our nine IDCs and the operations of Managed Services. For the fiscal year ended March 31, 2005, we received 38% and 62%, respectively, of our revenue from the Media Services and Data Center Services segments. From our inception through November 3, 2003, all of our revenues have been derived from monthly license fees and fees from other ancillary services provided by us at our IDCs, including fees from various services under the collocation space contract with KMC Telecom, which contract expires on December 15, 2005, which respect to which we have received an indication from KMC Telecom that they will not renew the contract for at least some of the current sites that they are licensing under such contract. Hollywood SW generates revenues from software license fees, ASP fees, enhancements, consulting and maintenance fees. Managed Services generates revenues primarily from managed network services. AccessDM generates revenues from the delivery of movies and other content into movie theaters. We incurred net losses of $4.8 million and $6.8 million in the fiscal years ended March 31, 2004 and 2005, respectively, and we have an accumulated deficit of $21.5 million as of March 31, 2005. We anticipate that, with our recent acquisitions, as well as the operation of AccessDM, our results of operations will improve. As we grow, we expect our operating costs and general and administrative expenses will also increase for the foreseeable future, but as a lower percentage of revenue. In order to achieve and sustain profitable operations, we will need to generate more revenues than we have in prior years and we may need to obtain additional financing. CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES Our discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been

prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Our most significant estimates relate to software revenue recognition, capitalized software costs, depreciation of fixed assets and amortization of intangible assets, recoverability of goodwill and long-lived assets and intangible assets, the valuation of deferred tax liabilities, and the valuation of assets acquired and liabilities assumed in purchase business combinations. Actual results could differ from these estimates. On an on-going basis, we evaluate our estimates, including those related to the carrying values of our fixed assets and intangible assets. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances made, 27 the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates under different assumptions or conditions. We believe that the following critical accounting policies and estimates affect our more significant estimates and judgments used in the preparation of our Consolidated Financial Statements. REVENUE RECOGNITION MEDIA SERVICES Revenues are accounted for in accordance with Statement of Position 97-2 ("SOP 97-2") and Staff Accounting Bulletin ("SAB") No. 104. Our software revenues are generated from the following primary sources: o software licensing, including customer licenses and ASP agreements; o software maintenance contracts; and o professional consulting services, which includes systems implementation, training, custom software development services and other professional services. Software licensing revenue is recognized when the following criteria are met: o persuasive evidence of an arrangement exists; o delivery has occurred and no significant obligations remain; o the fee is fixed or determinable; and o collection is determined to be probable. Significant upfront fees are received in addition to periodic amounts upon achievement of contractual events for licensing of our products. Such amounts are deferred until the revenue recognition criteria have been met, which typically occurs after delivery and acceptance. For arrangements with multiple elements (e.g., delivered and undelivered products, maintenance and other services), the Company separately negotiates each element of the arrangement based on the fair value of the elements. The fair values for ongoing maintenance and support obligations are based upon vendor specific objective evidence. The fair values for services, such as training or consulting, are based upon hourly billing rates of these services when sold separately to other customers. In instances where the Company develops customized software application, the percentage-of-completion accounting is followed to recognize revenue. Customers not wishing to license and operate our software themselves may use the software through an ASP arrangement, in which we host the application and provide customer access via the internet. Annual minimum ASP service fees are recognized ratably over the contract term. Overage revenues for usage in excess of stated minimums are recognized monthly. Maintenance services and website subscription fees are recognized ratably over the contract term. Professional consulting services, sales of third party products and resale hardware revenues are recognized as services are provided. Software development revenues are recognized when delivery has occurred and no significant obligations remain. Deferred revenue is recorded in cases of: 28 o a portion or the entire contract amount cannot be recognized as revenue due to non-delivery or acceptance of licensed software or custom programming; o incomplete implementation of ASP service arrangements; or o 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, this revenue is deferred and amortized over the contract term, or in the case of license fees, recognized in accordance with SOP 97-2 once the Company's commitments to provide the software and other related services to the customer are satisfied. Such amounts are classified as deferred revenue in the Consolidated Balance Sheet and are recognized as revenue in accordance with the Company's revenue recognition policies described above. FiberSat revenues consist of satellite network monitoring and maintenance fees. These fees consist of monthly recurring billings pursuant to contracts with terms ranging from month to month and a maximum of six years including renewals, which are recognized as revenues in the month earned, and other billings which are recognized on a time and materials basis in the period in which the services were provided. Revenues consist of (1) satellite delivery revenues, (2) encryption and preparation fee revenues, (3) landing fees for delivery to each movie theatre. These revenues are recognized upon completion of the related services. DATA CENTER SERVICES Within our Data Center Services segment, IDC revenues consist of license fees for colocation

space, riser access charges, electric and cross-connect fees, and non-recurring equipment installation fees. Revenues from our IDCs, riser access charges, electric and cross-connect fees are billed monthly and, in accordance with SAB 104, are recognized ratably over the terms of the contracts, which is generally one to nine years. Certain customer contracts contain periodic increases in the amount of license fees to be paid, and those amounts are recognized as license fee revenues on a straight-line basis over the term of the contracts. Installation fees are recognized on a time and materials basis in the period in which the services were provided and represent the culmination of the earnings process as no significant obligations remain. Amounts such as prepaid license fees and other amounts, which are collected prior to satisfying the above revenue recognition criteria, are classified as deferred revenues. Amounts satisfying revenue recognition criteria prior to billing are classified as unbilled revenues. In addition, within our Data Center Services segment, Managed Services revenues consist of network monitoring and maintenance fees. These fees consist of monthly recurring billings pursuant to contracts, which are recognized as revenues in the month earned, and other billings which are recognized on a time and materials basis in the period in which the services were provided. CAPITALIZED SOFTWARE COSTS We account for software costs under Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed". Software development costs that are incurred subsequent to establishing technological feasibility are capitalized until the product is available for general release. Amounts capitalized as software development costs are amortized periodically using the greater of revenues during the period compared to the total estimated revenues to be earned or on a straight-line basis over five years. We review capitalized software costs for impairment on an annual 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 was recorded for the fiscal years 29 ended March 31, 2004 and 2005. Amortization of capitalized software development costs, included in costs of revenues, for fiscal years ended March 31, 2004 and 2005 amounted to $118,000 and $369,000, respectively. BUSINESS COMBINATIONS AND INTANGIBLE ASSETS We have adopted SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and other Intangible Assets". SFAS No. 141 requires all business combinations to be accounted for using the purchase method of accounting and that certain intangible assets acquired in a business combination must be recognized as assets separate from goodwill. SFAS No. 142 addresses the recognition and measurement of goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 also addresses the initial recognition and measurement of intangible assets acquired outside of a business combination, whether acquired individually or with a group of other assets. This statement provides that intangible assets with indefinite lives and goodwill will not be amortized but will be tested at least annually for impairment. If an impairment is indicated, then the asset will be written down to its fair value, typically based upon its future expected discounted cash flows. As of March 31, 2005, our finite-lived intangible assets consisted of customer agreements, covenants not to compete, Federal Communications Commission licenses for satellite transmission services, trade names and trademarks, and a liquor license which are estimated to have useful lives of ranging from 2 to 10 years. In addition, we have recorded goodwill in connection with the acquisitions of Hollywood SW, Managed Services, FiberSat, and the Pavilion Theatre. PROPERTY AND EQUIPMENT Property and equipment are stated at cost, less accumulated depreciation. Depreciation is recorded using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements and assets under capital lease 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. IMPAIRMENT OF LONG-LIVED ASSETS We review the recoverability of our 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 our ability to recover the carrying value of our 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. No impairment was recorded for the fiscal years ended March 31, 2004 and 2005. DESCRIPTION OF LINE ITEMS The following is a description of certain line items from our statements of operations: o Media Services revenues include charges for software license fees, ASP service fees, consulting, development and maintenance fees, digital movie delivery fees and satellite delivery services. Media Services revenue are those generated by Hollywood SW, AccessDM, FiberSat and the Pavilion Theatre. Our Data Center Services revenues include charges for monthly license fees for IDC space, electric fees, riser access charges and installation fees, and managed network monitoring fees. o Cost of revenues

consists of facility operating costs such as rent, utilities, real estate taxes, repairs and maintenance, insurance and other related expenses, direct personnel costs and amortization of capitalized software development costs. 30 o Selling, general and administrative expenses consist primarily of salaries and related personnel costs for management and other headquarters office employees, professional fees, advertising and marketing costs and our corporate and divisional headquarters facility costs. o Provision for doubtful accounts represents amounts deemed not probable of collection from customers. o Non-cash, stock-based compensation represents the value of employee and non-employee stock options and restricted stock grants, amortized over the vesting periods (if any). o Non-cash interest expense represents the accretion of the value of warrants attached to our five-year promissory notes, and the imputing of interest on a non-interest bearing note payable. INITIAL PUBLIC OFFERING On November 10, 2003, our registration statement on Form SB-2 was declared effective by the SEC ("IPO"). In connection with the completion of IPO, we issued 1,380,000 shares of Class A common stock, 180,000 of which shares were issued in connection with the lead underwriter's exercise of its over-allotment option, at $5.00 per share. The net proceeds from the IPO after deducting all offering expenses, including underwriting discounts and commissions, the cash portion of the purchase price of Hollywood SW, and the repayment of a note payable, was approximately $1,067,000. In addition to the 1,380,000 shares that were issued in IPO, we also issued warrants to purchase up to 120,000 shares of our Class A common stock, exercisable anytime until November 10, 2007 at $6.25 per share, subject to certain adjustment ("IPO Warrants"), to the lead underwriter and the nominees thereof ("IPO Warrant Holders") in connection with the completion of IPO. In June and July 2005, certain IPO Warrant Holders exercised their IPO Warrants to purchase an aggregate of 40,325 shares for which we received gross proceeds of $243,160. Additionally, in June 2005, certain IPO Warrant Holders exercised their IPO Warrants on a cashless basis, covering 39,367 IPO Warrants, and an aggregate of 17,884 shares of our Class A common stock were issued to such IPO Warrant Holders. We are listed on the AMEX under the symbol "AIX." PRIVATE PLACEMENTS On June 4, 2004, we concluded a private placement with several investors whereby we issued 1,217,500 unregistered shares of our Class A common stock at a sale price of $4.00 per share ("June 2004 Private Placement"). The total net proceeds, including fees and expenses to register the securities were approximately $4.0 million, which is being used for capital investments and working capital. We also issued to investors and to the investment firm in the June 2004 Private Placement warrants to purchase a total of 304,375 shares of our Class A common stock at an exercise price of $4.80 per share, which became exercisable upon receipt. We agreed to file a registration statement for the resale of these shares and the shares underlying the warrants with the SEC by filing a Form SB-2 on or before July 5, 2004. We filed the Form SB-2 on July 2, 2004, and the Form SB-2 was declared effective on July 20, 2004. On October 26, 2004, we entered into a private placement with certain investors whereby we issued 282,776 unregistered shares of our Class A common stock at $3.89 per share to certain accredited investors for gross proceeds of $1.1million. ("October 2004 Private Placement"). These shares carry piggyback and demand registration rights, at the sole expense of the investors. We realized net proceeds of approximately $1.023 million, which were used for the FiberSat Acquisition and for working capital. The investors exercised their piggyback registration rights and we registered the resale of all of the 282,776 shares of Class A common stock on a Form S-3 which was declared effective by the SEC on March 21, 2005. 31 On February 10, 2005, we completed a private placement of $7.6 million, of the Convertible Debentures. The Convertible Debentures bear interest at the rate of 7% per year and are convertible into shares of our Class A common stock at the price of $4.07 per share, subject to possible adjustments from time to time. In connection with the Convertible Debenture offering, we issued the participating institutional investors the Convertible Debentures Warrants, exercisable for up to 560,197 shares of Class A common stock at an initial exercise price of $4.44 per share, subject to adjustments from time to time. The Convertible Debentures Warrants may be exercised beginning on September 9, 2005 until five years thereafter. We agreed to file a registration statement for the resale of the shares underlying the Convertible Debentures and the Convertible Debentures Warrants with the SEC on or before March 14, 2005. We filed such a registration statement on March 11, 2005 and it was declared effective by the SEC on March 21, 2005. On July 19, 2005, we consummated the July 2005 Private Placement of 1,909,115 shares of Class A common stock at $9.50 per share and the July 2005 Warrants to purchase up to 477,275 shares of Class A common stock for an aggregate amount of $18.1 million. The July 2005 Warrants have an exercise price of $11.00 per share of Class A common stock, are exercisable beginning February 19, 2006 until five years thereafter. The July 2005 Warrants are callable by the Company, subject to certain conditions, after the later of (i) February 19, 2006 and (ii) the date on which the registration statement required under the registration rights agreement referenced below is declared effective; provided that the trading price

of the Class A common stock is 200% of the applicable exercise price for 20 consecutive trading days. We have agreed to register the resale of all of the shares sold and the shares underlying the July 2005 Warrants within 30 days of the closing. If, among other things, the registration statement is not filed within 30 days or is not declared effective within 90 days (120 days in the event of an SEC review), then cash delay payments equal to 1% of the offering proceeds per month will apply. ACQUISITIONS On July 17, 2003, we signed a stock purchase agreement with Hollywood SW and its two selling stockholders. On November 3, 2003, we acquired Hollywood SW, after amending the agreement to complete the acquisition on that date, by issuing secured promissory notes (the "Initial Notes"), each in the principal amount of $3.6 million, to the two selling stockholders. On November 10, 2003, we completed our IPO and (1) the Initial Notes were exchanged for the consideration described in clauses (2) and (3) below and cancelled and returned to us by Hollywood SW's selling stockholders, (2) the lead underwriter in the IPO transmitted, in the aggregate, $2.45 million to the selling stockholders and (3) we issued to such selling stockholders $3 million in 8% promissory notes and 400,000 unregistered shares of our Class A common stock. We may pay an additional purchase price in each of the three years following the closing of the Hollywood SW acquisition if certain annual earnings targets are achieved. In the first such year, the earnings targets were not achieved. We also have agreed to issue additional unregistered shares of our Class A common stock if, during the 90 days following the applicable lock-up period, the average value of our Class A common stock during such 90 days declines below an average of $3.60 per share. On December 22, 2003, we signed an agreement to purchase all of the outstanding common stock of Managed Services, and on January 9, 2004, the acquisition of Managed Services was completed. Managed Services is a provider of information technologies; its primary product is managed network services through its global network command center. We believe that the acquisition of Managed Services will expand the existing capabilities and services of our IDCs. The initial purchase price consisted of $250,000 in cash and 100,000 unregistered shares of our Class A common stock. In addition, we may be required to pay a contingent purchase price for any of the three years following the closing in which certain earnings targets are achieved; any additional payment is to be made in the same proportionate combination of cash and unregistered shares of our Class A common stock as the purchase price payable at closing. In the first such year, the earnings targets were not achieved. We have also agreed to a one time issuance of additional unregistered shares of our Class A common stock to the seller up to a maximum of 20,000 shares if, in accordance with an agreed upon formula, the 32 market value of our Class A common stock is less than an average of $4.00 during the final 90 days of the lock up period. On March 29, 2004, we consummated an acquisition of certain assets of Boeing Digital, a division of Boeing, pursuant to an asset purchase agreement of same date. The acquired assets consist of digital projectors, satellite dishes and other equipment installed at 28 screens within 21 theatres in the United States and equipment stored at other locations, and satellite transmission equipment which we installed in Los Angeles, California. The initial purchase price consisted of: $250,000 in cash; 53,534 unregistered shares of our Class A common stock; and a non-interest bearing promissory note payable for $1.8 million payable in equal installments over 4 years. In addition, we agreed to make payments totaling a maximum of $1 million over 4 years, which payments are comprised of 20% of the gross receipts generated by the acquired assets during the 4 year period after the closing. For the fiscal year ended March 31, 2005, a payment of approximately $52,000 was due to Boeing based on such gross receipts. Additionally, at any time during the 90 day period immediately following the first 12 months after the closing, Boeing may sell its 53,534 unregistered shares of our Class A common stock to AccessIT in exchange for $250,000 in cash. Boeing has also agreed to purchase from AccessIT a minimum of $450,000 managed storage services per year for four years from the date of the agreement. On October 19, 2004, we entered into an agreement to purchase substantially all of the assets and assume certain specified liabilities of FiberSat Seller. On November 17, 2004, the FiberSat Acquisition was completed. FiberSat, headquartered in Chatsworth, California, provides services utilizing satellite ground facilities and fiber-optic connectivity to receive, process, store, encrypt and transmit television and data signals globally. FiberSat's Chatsworth facility currently houses the infrastructure operations of the Company's digital cinema satellite delivery services. The initial purchase price for FiberSat consisted of 500,000 unregistered shares of our Class A common stock, and we agreed to repay certain liabilities of FiberSat on or before the closing of the acquisition, with up to $500,000 in cash and 100,000 unregistered shares of our Class A common stock. We had the option to exchange up to 50,000 of such 100,000 unregistered shares of Class A common stock to increase the cash, and thereby decrease the Class A common stock portion of such repayment based on the ratio of one Class A common stock for each $5.00 of additional cash. We repaid these liabilities by paying approximately $381,000 and issuing 40,000 shares of our Class A common stock. In addition, we may be required to

pay a contingent purchase price for any of the three years following the acquisition in which certain earnings targets are achieved. We have also agreed to a one-time issuance of additional unregistered shares to the sellers in accordance with a formula if, during the 90 days following the applicable lock-up period, the average value of our Class A common stock during such 90 days declines below an average of $3.17 per share. In February 2005, we, through ADM Cinema, consummated the acquisition of substantially all of the assets of the Pavilion Theatre. The Pavilion Theatre is an eight-screen movie theatre and cafe and is a component of the Media Services segment. Continuing to operate as a fully functional multiplex, the Pavilion Theatre has also become our showplace to demonstrate our integrated digital cinema solutions to the movie entertainment industry. The purchase price included a cash payment of $3.3 million (less $500,000 held in escrow pending completion of certain construction) and a five-year 8% promissory note for $1.7 million. In addition, we assumed the lease covering the land, building and improvements which is classified as a capital lease on the consolidated balance sheet. Also, we issued 40,000 shares of unregistered Class A common stock to the landlord of the Pavilion Theatre. RECENT ACCOUNTING PRONOUNCEMENTS The Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" (SFAS 150), which became effective July 1, 2003, which establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. There was no impact on AccessIT financial statements due to the adoption of this standard. In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment." This statement revises the original guidance contained in SFAS No. 123 and supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting 33 for Stock Issued to Employees, and its related implementation guidance. Under SFAS No. 123 (revised 2004), a publicly traded entity such as AccessIT will be 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 over the period during which an employee is required to provide service in exchange for the reward (usually the vesting period). For stock options and similar instruments, grant-date fair value will be estimated using option-pricing models adjusted for unique characteristics of instruments (unless observable market prices for the same or similar instruments are available). For small business issuers, including AccessIT, this is effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005, which is our fiscal year beginning April 1, 2006. Upon adoption of this standard, the actual costs of our stock-based payment plans will be based on grant-date fair value, which has not yet been determined. RESULTS OF OPERATIONS FOR THE FISCAL YEAR ENDED MARCH 31, 2004 AND THE FISCAL YEAR ENDED MARCH 31, 2005 REVENUES. Our total revenues were $7.2 million and $10.6 million for the fiscal years ended March 31, 2004 and 2005, respectively, an increase of 47%. The increase was primarily attributable to incremental revenues from the fiscal 2004 acquisitions of Hollywood SW and Managed Services, and revenues from AccessDM , in the aggregate amount of $2.2 million, and $1.1 million resulting from the 2005 acquisitions of FiberSat and the Pavilion Theatre (the "2005 Acquisitions"). Our Internet data center business experienced a slight revenue increase, primarily due to various new customers, offset by the loss of one large data center customer. COST OF REVENUES. Our cost of revenues was $3.7 million and $5.8 million for the fiscal years ended March 31, 2004 and 2005, respectively, an increase of 57%. This increase was primarily attributable to costs associated with increased revenues from our fiscal 2004 activity referenced above, and the 2005 Acquisitions, which resulted in added costs of $1.3 million and $800,000, respectively, and slightly increased utility costs at our IDC's. GROSS PROFIT. Gross profit was $3.5 million and $4.8 million for the fiscal years ended March, 31, 2004 and 2005, respectively, an increase of 37%. Our fiscal 2004 transactions provided an additional $927,000 in gross profit, while the 2005 Acquisitions contributed $350,000 while the IDC's were comparable to in line with the prior year gross profit results. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Our selling, general and administrative expenses were $3.2 million and $5.6 million for the fiscal years ended March 31, 2004 and 2005, respectively, an increase of 75%. The increase is primarily due to higher personnel costs associated with additional headcount compared to the prior year, and increased advertising expenses and professional fees. As of March 31, 2004 and 2005, we had 34 and 93 employees, respectively, and one and 34 of whom were part-time employees, respectively. PROVISION FOR DOUBTFUL ACCOUNTS. Our provision for doubtful accounts was $73,000 and $640,000 for the fiscal years ended March 31, 2004 and 2005, respectively. The increase is primarily due to the recording of a provision of $499,000 related to the bankruptcy of a data center customer in July 2004. The remainder of the increase is due to the increase in overall business activity. RESEARCH AND DEVELOPMENT. We recorded

expenses of $55,000 and $666,000 for the fiscal years ended March 31, 2004 and 2005, respectively. The increase is attributable to research and development efforts at Media Services related to the development of TDS International software application and various products including TDS, ITDS and EMS. 34 NON-CASH, STOCK-BASED COMPENSATION. We recorded non-cash, stock-based compensation of $15,000 and $4,000 for the fiscal years ended March 31, 2004 and 2005, respectively. These amounts represent the fair value of stock options granted to non-employees in exchange for goods and services, amortized over the vesting period, which ranges from immediate vesting to three years. The types of services performed by non-employees in exchange for stock options included advisory services on real estate matters, and advertising and marketing. The fair value of these stock options was determined using the Black-Scholes option pricing model. The decrease was due to lower amortization expense from non-employee options, due to the vesting of certain grants made in prior years. DEPRECIATION AND AMORTIZATION. Depreciation and amortization was $2.7 million and $3.6 million for the fiscal years ended March 31, 2004 and 2005, respectively, an increase of 33%. Fiscal 2004 acquisitions resulted increased depreciation and amortization of $1.2 million, while the 2005 Acquisitions resulted in increased deprecation and amortization of $370,000. Partially offsetting these increases was certain data center and corporate computer equipment which became fully depreciated during the year ended March 31, 2005. INTEREST EXPENSE. Interest expense was $542,000 and $605,000, for the fiscal years ended March 31, 2004 and 2005, respectively. The increase was primarily due to the March 2004 exchange of $2.5 million for aggregate principal amount of our 5-Year 8% subordinated promissory notes (the "5-Year Notes") for shares of our Class A common stock and $1.7 million aggregate principal amount of the 5-Year Notes for our 6% subordinated convertible promissory notes (the "Convertible Notes"). In addition, in November 2003, we repaid a 1-year 9% note payable for $1.0 million incurred in connection with the November 2002 acquisition of six IDC's. LOSS ON EARLY EXTINGUISHMENT OF DEBT. The loss on early extinguishment of debt was $126,000 and $0 for the fiscal years ended March 31, 2004 and 2005, respectively. This loss on early extinguishment of debt was due to the March 2004 exchange of the 5-Year Notes for our Class A common stock and the Convertible Notes. NON-CASH INTEREST EXPENSE. Non-cash interest expense was $1.8 million and $832,000 for the fiscal years ended March 31, 2004 and 2005, respectively. Non-cash interest expense results from the imputing of interest on the $1.8 million note payable to Boeing, incurred in the March 2004, and from the accretion of the value of warrants to purchase shares of our Class A common stock (the "5-Year Notes Warrants") attached to the 5-Year Notes (which bear interest at 8% per year). The decrease is primarily due to one-time accretion of $1.4 million recorded in connection with the March 2004 exchange of 5-Year Notes described above. INCOME TAX BENEFIT. Income tax benefit was $212,000 and $311,000 for the fiscal years ended March 31, 2004 and 2005, respectively. The current year amount is related to the amortization of a deferred tax liability related to our acquisition of Hollywood SW and Managed Services. NET LOSS. As a result of the foregoing, we had net losses of $4.8 million and $6.8 million for the fiscal years ended March 31, 2004 and 2005, respectively. 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 IPO, and notes payable and common stock used to fund various acquisitions. We have no borrowings or line of credit arrangements with banks or other financial institutions. On July 19, 2005