aVINCI MEDIA CORP
Form 10-Q
August 16, 2010

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

FORM 10-Q

(Mark One)

T Quarterly Report Pursuant to Section 13 or 15(d) of the SecuritiesExchange Act of 1934

For the quarterly period ended June 30, 2010

or

* Transition Report Pursuant to Section 13 or 15(d) of the SecuritiesExchange Act of 1934

For the transition period from __________ to __________

Commission file Number 000-17288

aVINCI MEDIA CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	75-2193593 (I.R.S. Employer Identification No.)
11781 South Lone Peak Parkway, Suite 270, Draper, UT (Address of principal executive offices)	84020 (Zip Code)

Registrant's telephone number, including area code: (801) 495-5700

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" 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 T

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

The number of shares of common stock outstanding as of the close of business on July 30, 2010 was 52,112,227

aVINCI MEDIA CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

aVINCI MEDIA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	June 30, 2010	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 525,134	$ 28,843
Accounts receivable	132,046	98,192
Marketable securities available-for-sale	10,600	30,585
Inventory	16,070	21,610
Prepaid expenses	26,157	29,862
Deferred costs	13,654	15,887
Deposits and other current assets	11,546	11,396
Total current assets	735,207	236,375
Property and equipment, net	87,004	229,600
Intangible assets, net	88,543	88,543
Restricted cash	27,056	27,056
Other assets	14,990	14,990
Total assets	$ 952,800	$ 596,564
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Accounts payable	$ 85,940	$ 102,669
Accrued liabilities	363,063	182,665
Capital leases	30,212	92,423
Current portion of deferred rent	22,677	27,621
Notes payable	—	100,000
Warrant derivative liability	24,333	—
Deferred revenue	946,464	530,331
Total current liabilities	1,472,689	1,035,709
Other long-term liabilities	27,056	27,056
Convertible notes payable net of debt discount of $97,723	302,277	—
Deferred rent, net of current portion	46,357	92,829
Total liabilities	1,848,379	1,155,594
Commitments and contingencies		
Stockholders' Deficit:		
Preferred stock, $0.01 par value, authorized 50,000,000 shares:		
	12,026	12,026

Series A convertible preferred stock, 1,500,000 designated; shares issued and outstanding: 1,202,627 at June 30, 2010 and at December 31, 2009 (Aggregate liquidation preference of $1,306,943 at June 30, 2010)		
Common stock, $0.01 par value, authorized 250,000,000 shares; shares issued and outstanding: 52,112,227 shares at June 30, 2010 and 51,462,227 shares at December 31, 2009	521,122	514,622
Additional paid-in capital	25,498,777	25,252,244
Accumulated deficit	(26,926,238)	(26,337,922)
Accumulated other comprehensive loss	(1,266)	—
Total stockholders' deficit	(895,579)	(559,030)
Total liabilities and stockholders' deficit	$ 952,800	$ 596,564

See accompanying Notes to Condensed Consolidated Financial Statements.

aVINCI MEDIA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues	$ 440,515	$ 235,427	$ 969,088	$ 359,944
Cost of sales	146,559	181,460	297,167	402,443
Gross profit (loss)	293,956	53,967	671,921	(42,499)
Operating expense:				
Research and development	111,618	186,042	238,900	441,454
Selling and marketing	67,012	262,441	182,227	541,179
General and administrative	522,335	862,912	932,990	1,692,776
Total operating expense	700,965	1,311,395	1,354,117	2,675,409
Loss from operations	(407,009)	(1,257,428)	(682,196)	(2,717,908)
Other income (expense):				
Gain on sale of marketable securities	—	—	5,339	—
Gain on sale of property and equipment	77,470	—	93,900	—
Gain on derivatives	21,994	—	43,053	—
Interest income	1,019	291	1,156	1,983
Interest expense	(26,157)	(6,341)	(49,568)	(12,453)
Total other income (expense)	74,326	(6,050)	93,880	(10,470)
Loss before income taxes	(332,683)	(1,263,478)	(588,316)	(2,728,378)
Income tax benefit	—	—	—	—
Net loss	(332,683)	(1,263,478)	(588,316)	(2,728,378)
Deemed dividend on Series A convertible preferred stock	—	(582,203)	—	(582,203)
Net loss applicable to common stockholders	$ (332,683)	$ (1,845,681)	$ (588,316)	$ (3,310,581)
Basic and diluted loss per common share	$ (0.01)	$ (0.04)	$ (0.01)	$ (0.07)
Weighted average common and common equivalent shares used to calculate loss per share:				
Basic and diluted	51,703,436	49,490,591	51,605,045	49,240,834
Comprehensive Loss				
Net loss applicable to common stockholders	$ (332,683)	$ (1,845,681)	$ (588,316)	$ (3,310,581)
Unrealized gain (loss) on marketable securities available-for-sale	(5,008)	23,496	(1,266)	(14,842)
Comprehensive loss	$ (337,691)	$ (1,822,185)	$ (589,582)	$ (3,325,423)

See accompanying Notes to Condensed Consolidated Financial Statements.

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aVINCI MEDIA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Cash flows from operating activities:		
Net loss	$ (588,316)	$ (2,728,378)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	134,134	214,732
Accretion of debt discount	32,127	—
Common stock issued for services	19,750	185,700
Equity-based compensation	170,819	368,967
Gain on sale of property and equipment	(93,900)	(49)
Gain on sale of marketable securities	(5,339)	—
Gain on derivatives	(43,053)	—
Decrease (increase) in:		
Accounts receivable	(33,854)	175,973
Inventory	5,540	18,247
Prepaid expenses and other assets	3,555	137,845
Deferred costs	2,233	131,158
Increase (decrease) in:		
Accounts payable	(16,729)	(4,503)
Accrued liabilities	180,398	13,894
Deferred rent	(51,416)	17,273
Deferred revenue	416,133	(138,496)
Net cash provided by (used in) operating activities	132,082	(1,607,637)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	102,362	1,400
Proceeds from sale of marketable securities	24,058	—
Net cash provided by investing activities	126,420	1,400
Cash flows from financing activities:		
Proceeds from convertible notes payable	300,000	—
Proceeds from sale of Series A convertible preferred stock	—	892,000
Principal payments under capital lease obligations	(62,211)	(69,135)
Net cash provided by financing activities	237,789	822,865
Net change in cash and cash equivalents	496,291	(783,372)
Cash and cash equivalents at beginning of period	28,843	1,071,053
Cash and cash equivalents at end of period	$ 525,134	$ 287,681
Cash paid for income taxes	$ —	$ —

Cash paid for interest	$	4,401	$	12,453

See accompanying Notes to Condensed Consolidated Financial Statements.

aVINCI MEDIA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued
(UNAUDITED)

Supplemental schedule of non-cash investing and financing activities:

During the six months ended June 30, 2010:

- We satisfied a $100,000 note payable through the issuance of a new convertible note payable.
- We incurred an unrealized loss on marketable securities available-for-sale of $1,266.
- We allocated $129,851 of the proceeds from the convertible notes payable to the warrants and beneficial conversion feature.

During the six months ended June 30, 2009:

- We incurred an unrealized loss on marketable securities available-for-sale of $14,842.

See accompanying Notes to Condensed Consolidated Financial Statements.

aVINCI MEDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Description of Organization and Summary of Significant Accounting Policies

Organization and Nature of Operations
aVinci Media Corporation (the “Company”, “we”, “us”, “our”) was formed as a result of a merger transaction between Sequoia Media Group, LC (Sequoia), a Utah limited liability company, and Secure Alliance Holdings Corporation (SAH), a publicly held company, on June 6, 2008. We are a Delaware corporation that develops and sells an engaging way for anyone to tell their “Story” with personal digital expressions. Our products simplify and automate the process of creating professional-quality multi-media products using personal photos and videos.

Basis of Presentation
The accompanying condensed consolidated financial statements are presented in accordance with U.S. generally accepted accounting principles (US GAAP).

Unaudited Information
In the opinion of management, the accompanying unaudited condensed consolidated financial statements as of June 30, 2010 and for the three and six months ended June 30, 2010 and 2009 reflect all adjustments (consisting only of normal recurring items) necessary to present fairly the financial information set forth therein. The consolidated balance sheet as of December 31, 2009, presented herein is derived from the audited consolidated balance sheet presented in our annual report on Form 10-K at that date. Certain amounts in the prior periods’ financial statements have been reclassified to conform to the current period presentation. Certain information and note disclosures normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted pursuant to SEC rules and regulations, although we believe that the following disclosures, when read in conjunction with the annual financial statements and the notes included in our Form 10-K for the year ended December 31, 2009, are adequate to make the information presented not misleading. Results for the three and six month periods ended June 30, 2010 are not necessarily indicative of the results to be expected for the year ending December 31, 2010.

Net Loss per Common Share
Basic earnings (loss) per share (EPS) is calculated by dividing income (loss) available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted EPS is similar to Basic EPS except that the weighted-average number of common shares outstanding is increased using the treasury stock method to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. Such potentially dilutive common shares include stock options, warrants, convertible debt, and convertible preferred stock. Shares having an antidilutive effect on periods presented are not included in the computation of dilutive EPS.

As of June 30, 2010 and 2009, we had 23,671,358 and 13,858,435 potentially dilutive shares of common stock, respectively, not included in the computation of diluted net loss per common share because it would have decreased the net loss per common share. Stock options and warrants could be dilutive in the future.

Multiple Element Arrangement
Generally, we recognize revenue when persuasive evidence of an arrangement exists, we have delivered the product or performed the service, the fee is fixed or determinable, and collectability is probable.

In October of 2009 we agreed to enter into an agreement to license our new archival DVD creation software for deployment in Walmart stores and received a nonrefundable initial payment of $247,500. On March 24, 2010, we finalized the agreement, which provides a license to install the software in stores, initial training and annual maintenance (post-contract customer support or “PCS”) for $300 per year per store in which the software is installed. The initial nonrefundable $247,500 payment covers the first 825 annual store licenses. All elements relating to the initial nonrefundable payment were delivered as of March 31, 2010 except for PCS. We do not have vendor specific objective evidence (“VSOE”) for any of the elements of this agreement.

Although we do not have VSOE for the PCS, we meet the following criteria, which allows us to recognize revenue for the PCS upfront with the license revenue:

- The PCS fee is included with the initial licensing fee
- The PCS included with the initial license is for one year or less
- The estimated cost of providing PCS during the arrangement is insignificant
- Unspecified upgrades or enhancements offered during PCS arrangements historically have been and are expected to continue to be minimal and infrequent

We recognized the initial $247,500 payment as revenue during the quarter ended March 31, 2010 and have recorded an accrual of $9,000 for the estimated cost to provide the PCS. Additional payments, including $742,500 received in March 2010 and $22,200 received in June 2010, will be recognized as revenue as the software is installed in additional stores.

Derivative Instruments

In connection with the sale of debt or equity instruments, we may sell warrants to purchase our common stock. In certain circumstances, these warrants may be classified as derivative liabilities, rather than as equity. Additionally, the debt or equity instruments may contain embedded derivative instruments, such as conversion options, which in certain circumstances may be required to be bifurcated from the associated host instrument and accounted for separately as a derivative asset or liability.

The accounting for derivative instruments is complex. Our warrant derivative liability is re-valued at the end of each reporting period, with changes in the fair value of the derivative liability recorded as a charge or credit to other income (expense), in the period in which the changes in fair value occur. For warrants that are accounted for as derivative instrument liabilities, we determine the fair value of these instruments using the Black-Scholes option-pricing model. This model requires assumptions related to the expected term of the instrument and risk-free rates of return, the Company's current common stock price, expected dividend yield and the expected volatility corresponding to the expected life of the instrument.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

At June 30, 2010, management had recorded a full valuation allowance against the net deferred tax assets related to temporary differences and current operating losses because there is significant uncertainty as to the realizability of the deferred tax assets. Based on a number of factors, the currently available, objective evidence indicates that it is more-likely-than-not that the net deferred tax assets will not be realized.

Recently Adopted Accounting Standards

In January 2010, the FASB issued Accounting Standards Update No. 2010-06 (FASB ASU 10-06), "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements." This update requires entities to 1) disclose separately the amounts of significant transfers in and out of level 1 and level 2 fair value measurements and describe the reasons for the transfers and 2) present separately (i.e. on a gross basis rather than as a net amount), information about purchases, sales, issuances, and settlements in the roll forward of changes in level 3 fair value measurements. The update requires fair value disclosures by class of assets and liabilities rather than by major category or line item in the statement of financial position. Disclosures regarding the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for assets and liabilities in both level 2 and level 3 are also required. For all portions of the update except the gross presentation of activity in the level 3 roll forward, this standard is effective for interim and annual reporting periods beginning after December 15, 2009. For the gross presentation of activity in the level 3 roll forward, this guidance is effective for fiscal years beginning after December 15, 2010. We have provided the additional required disclosures effective January 1, 2010.

Recent Accounting Standards Not Yet Adopted

In October 2009, the FASB issued Accounting Standards Update No. 2009-13 (FASB ASU 09-13), "Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements (a consensus of the FASB Emerging Issues Task Force)." FASB ASU 09-13 updates the existing multiple-element arrangement guidance currently in FASB Topic 605-25 (Revenue Recognition – Multiple-Element Arrangements). This new guidance eliminates the requirement that all undelivered elements have objective evidence of fair value before a company can recognize the portion of the overall arrangement fee that is attributable to the items that have already been delivered. Further, companies will be required to allocate revenue in arrangements involving multiple deliverables based on the estimated selling price of each deliverable, even though such deliverables are not sold separately by either the company itself or other vendors. This new guidance also significantly expands the disclosures required for multiple-element revenue arrangements. The revised guidance will be effective for the first annual period beginning on or after June 15, 2010. We may elect to adopt the provisions prospectively to new or materially modified arrangements beginning on the effective date or retrospectively for all periods presented. We are currently evaluating the impact FASB ASU 09-13 will have on our consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Update No. 2009-14 (FASB ASU 09-14), "Certain Revenue Arrangements That Include Software Elements—a consensus of the FASB Emerging Issues Task Force," that reduces the types of transactions that fall within the current scope of software revenue recognition guidance. Existing software revenue recognition guidance requires that its provisions be applied to an entire arrangement when the sale of any products or services containing or utilizing software when the software is considered more than incidental to the product or service. As a result of the amendments included in FASB ASU No. 2009-14, many tangible products and services that rely on software will be accounted for under the multiple-element arrangements revenue recognition guidance rather than under the software revenue recognition guidance. Under this new guidance, the following components would be excluded from the scope of software revenue recognition guidance: the tangible element of the product, software products bundled with tangible products where the software components and non-software components function together to deliver the product's essential functionality, and undelivered components that relate to software that is essential to the tangible product's functionality. FASB ASU 09-14 also provides guidance on how to allocate transaction consideration when an arrangement contains both deliverables within the scope of software revenue guidance (software deliverables) and deliverables not within the scope of that guidance (non-software deliverables). This guidance will be effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We may elect to adopt the provisions prospectively to new or materially modified arrangements beginning on the effective date or retrospectively for all periods presented. However, we must elect the same transition method for this guidance as that chosen for FASB ASU No. 2009-13. We are currently evaluating the impact FASB ASU 09-14 will have on our consolidated financial statements.

Reclassifications
Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 presentation.

2. Going Concern and Liquidity

Our financial statements have been prepared under the assumption that we will continue as a going concern. The report of our independent registered public accounting firm included in our Annual Report on Form 10-K for the year ended December 31, 2009, filed with the Securities and Exchange Commission, includes an explanatory paragraph expressing substantial doubt as to our ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We have operated at a loss since inception and are not currently generating sufficient revenues to cover our operating expenses. We are continuing to work to obtain new customers and to increase revenues from existing customers. During the first quarter of 2010, we entered into a financing agreement with three current shareholders to refinance a $100,000 note payable and to provide new financing of $300,000 for operating capital through the issuance of convertible debt.

In October of 2009 we agreed to enter into an agreement to license our new archival DVD creation software for deployment in Walmart stores during 2010 and received a first payment of $247,500. On March 24, 2010, we finalized the agreement and received additional advance payments of $742,500 in March 2010 and $22,200 in June 2010 to cover an annual per store license fee for stores that deploy the software. This license fee revenue model differs from our past model of generating royalty revenue on each product created. We anticipate the widespread rollout of our archive product in Walmart stores during the third quarter of 2010. We anticipate that with the funds received in March 2010 and June 2010 under this agreement, and our expected monthly sales revenue from other sources throughout 2010 we will be able to fund operations throughout 2010. However, we may need to seek additional sources of financing should our monthly sales revenues be insufficient to fund operations at our current levels through 2010.

If new sources of financing are insufficient or unavailable, we will modify our growth and operating plans to the extent of available funding, if any. Any decision to modify our business plans would harm our ability to pursue our growth plans. If we cease or stop operations, our shares could become valueless. Historically, we have funded operating, administrative and development costs through the sale of equity capital or debt financing. If our plans and/or assumptions change or prove inaccurate, or we are unable to obtain further financing, or such financing and other capital resources, in addition to projected cash flow, if any, prove to be insufficient to fund operations, our continued viability could be at risk. To the extent that any such financing involves the sale of our equity, our current stockholders could be substantially diluted. There is no assurance that we will be successful in achieving any or all of these objectives in 2010.

3. Series A Convertible Preferred Stock

In March 2009, we initiated a private offering pursuant to Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 promulgated thereunder to raise up to an additional $1.5 million. The investment was in the form of Series A convertible preferred shares, $0.01 per share par value with a stated value of $1.00 per share, convertible into common shares at the rate of $0.20 per common share. For each Series A convertible preferred share, investors in the offering also received a warrant to purchase 1.25 shares of common stock at $0.25 per share at any time within five years. As of June 30, 2010, we had received proceeds of $1,202,627 from the sale of 1,202,627 Series A convertible preferred shares. The Series A shares also carry a cumulative dividend at an annual rate of 8%. Cumulative dividends not accrued or declared as of June 30, 2010 are $104,316.

4. Equity-Based Compensation

We currently have a stock option plan that allows us to grant stock options, restricted stock and other equity based awards to employees, directors, and consultants.

Equity-based compensation expense, included in general and administrative expense in the consolidated statements of operations, totaled $54,520 and $181,091, respectively for the three months ended June 30, 2010 and 2009; and totaled $170,819 and $368,967, respectively for the six months ended June 30, 2010 and 2009.

As described in Note 6 below (Related Party Transactions), on January 12, 2010 we issued 50,000 shares of common stock to John E. Tyson for services as a director during 2010. These shares had a fair value of $1,750, vested immediately, and were expensed on the date they were issued. On June 1, 2010 we issued 600,000 shares of common stock for professional services. These shares had a fair value of $18,000, vested immediately, and were expensed on the date they were issued. There were no other awards granted during the six months ended June 30, 2009.

As of June 30, 2010, there was approximately $271,430 of unrecognized equity-based compensation expense related to option grants that will be recognized over a weighted average period of 0.2 year.

5. Fair Value

FASB Topic 820, “Fair Value Measurements and Disclosures,” establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. FASB Topic 820 describes three levels of inputs that we use to measure fair value:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

- Level 2: Level 1 inputs for assets or liabilities that are not actively traded. Also consists of an observable market price for a similar asset or liability. This includes the use of “matrix pricing” used to value debt securities absent the exclusive use of quoted prices.

- Level 3: Consists of unobservable inputs that are used to measure fair value when observable market inputs are not available. This could include the use of internally developed models, financial forecasting, etc.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability between market participants at the balance sheet date. When possible we look to active and observable markets to price identical assets or liabilities. When identical assets and liabilities are not traded in active markets, we look to observable market data for similar assets and liabilities. However, when certain assets and liabilities are not traded in observable markets we must use other valuation methods to develop a fair value.

The following table presents financial assets and liabilities measured at fair value as of June 30, 2010:

		Fair Value Measurements at Reporting Date Using		
Description	Balance at June 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Current assets:				
Available-for-sale securities	$10,600	$10,600	—	—
Current liabilities:				
Warrant derivative liability	$24,333	—	—	$ 24,333

The following table presents financial assets and liabilities measured at fair value as of December 31, 2009:

		Fair Value Measurements at Reporting Date Using		
Description	Balance at December 31, 2009	Quoted Prices in Active Markets for	Significant Other Observable Inputs	Significant Unobservable Inputs (Level 3)

		Identical Assets (Level 1)	(Level 2)	
Current assets:				
Available-for-sale securities	$30,585	$30,585	—	—

Our warrant derivative liability is re-valued at the end of each reporting period, with changes in the fair value of the derivative liability recorded as a charge or credit to other income (expense), in the period in which the changes in fair value occur. For warrants that are accounted for as derivative instrument liabilities, we determine the fair value of these instruments using the Black-Scholes option-pricing model. This model requires assumptions related to the expected term of the instrument and risk-free rates of return, the Company's current common stock price, expected dividend yield and the expected volatility corresponding to the expected life of the instrument. The following table presents the fair value reconciliation of Level 3 liabilities measured at fair value during the six months ended June 30, 2010:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) for the six months ended June 30, 2010
Beginning balance, December 31, 2009	$ —
Issuances:	
Warrant derivative issued in conjunction with convertible notes payable	67,386
Gain on derivatives included in earnings	(43,053)
Ending balance, June 30, 2010	$ 24,333

6. Related Party Transactions

Board Compensation
On January 12, 2010 we issued 50,000 shares of common stock to John E. Tyson for services as a director during 2010. These shares had a fair value of $1,750 and vested immediately.

Convertible Notes Payable
During the quarter ended March 31, 2010:

- We converted a $100,000 note payable that was owed to the chairman of the board of directors to a convertible note payable with terms as disclosed in Note 7.
- We issued a $250,000 convertible note payable to a majority shareholder of aVinci and an additional $50,000 convertible note payable to a minority shareholder with terms as disclosed in Note 7.

7. Convertible Notes Payable and Derivatives

During the first quarter of 2010, we entered into a financing agreement with two current shareholders to refinance a $100,000 note payable and to provide new financing of $250,000 for operating capital. The notes bear interest at 8%, mature December 31, 2011 and are secured by our assets. An additional $50,000 note was executed during the quarter ended March 31, 2010 with the same terms as the other notes above except that it is unsecured.

These notes and accrued interest are convertible at any time prior to maturity, at the option of the holder, into Series A convertible preferred stock at $1 per share. The underlying Series A convertible preferred stock is convertible to common stock at $.06 per share.

As part of the Financing, the Company also issued warrants (the “Warrants”) to purchase 3,333,217 shares of the Company’s Common Stock at an exercise price of $0.075 per share with expiration dates from January 5, 2015 to March 5, 2015.

We allocated $67,386 of the $400,000 total proceeds to the warrants and determined that there was a beneficial conversion feature totaling $62,465 for a total debt discount of $129,851. The debt discount is being amortized over the expected term of the loan agreement. Amortization of the debt discount totaled $32,127 for the six months ended June 30, 2010.

The following table summarizes the convertible notes payable balance at June 30, 2010:

	June 30, 2010
Total convertible debt outstanding	$ 400,000
Less debt discount	(97,723)
Net convertible debt outstanding	$ 302,277

The Warrants contain a provision which adjusts the exercise price of the Warrants if the Company issues or sells common stock or securities convertible into common stock at a price per share, or equivalent price per share lower than $0.06. Because of this anti-dilution feature, the Warrants are subject to derivative accounting, and are valued at fair value at the date of issuance and each subsequent reporting period.

Upon issuance, the fair value of the derivatives on the Warrants was $67,386. The Company recorded a warrant derivative liability for this amount. The fair value of the derivatives as of June 30, 2010, was $24,333; therefore, the Company recorded a gain on derivatives of $43,053. The fair values of the derivatives were determined using the Black-Scholes model based on the following assumptions:

Warrant Derivatives

	Upon Issuance		June 30, 2010	
Expected volatility	55.0	%	55.0	%
Expected life, range in years	5.0		4.5 – 4.7	
Expected dividend yield on stock	0.00	%	0.00	%
Risk free interest rate range	2.43 - 2.48	%	2.00	%

8. Legal Proceedings

On December 17, 2007, Robert L. Bishop, who worked with the Company in a limited capacity in 2004 and is a current member of a limited liability company that owns an equity interest in the Company, filed a legal claim alleging a right to unpaid wages and/or commissions (with no amount specified) and Company equity. The complaint was served on the Company on January 7, 2008. The Company is actively defending itself against the action and has filed two motions for summary judgement which the court has deferred ruling on pending the completion of discovery. The parties have agreed to postpone discovery for a time to explore the possibility of resolving the matter to save the time and cost associated with completing discovery and engaging in trial. The Company has accrued an estimated expense to cover a potential settlement.

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

Some of the information in this filing contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue," or similar words. You should read statements that contain these words carefully because they:

- discuss our future expectations;
- contain projections of our future results of operations or of our financial condition; and
- state other "forward-looking" information.

We believe it is important to communicate our expectations. However, there may be events in the future that we are not able to accurately predict or over which we have no control. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements.

Overview

In October of 2009 we agreed to enter into an agreement to license our new archival DVD creation software for deployment in Walmart stores during 2010 and received a first payment of $247,500. On March 24, 2010, we finalized the agreement and received advanced payments of $742,500 in March 2010 and $22,200 in June 2010 to cover an annual per store license fee for stores that deploy the software. This license fee revenue model differs from our past model of generating royalty revenue on each product created. We anticipate the widespread rollout of our archive product in Walmart stores during the third quarter of 2010. We anticipate that with the funds received in March 2010 and June 2010 under this agreement, and our expected monthly sales revenue from other sources throughout 2010 we will be able to fund operations throughout 2010. However, we may need to seek additional sources of financing should our monthly sales revenues be insufficient to fund operations at our current levels through 2010.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Accordingly, actual results could differ from those estimates.

We believe that the assumptions, judgments and estimates involved in the accounting for revenue recognition, and equity-based compensation have the greatest potential impact on our Condensed Consolidated Financial Statements. These areas are key components of our results of operations and are based on complex rules which require us to make judgments and estimates, so we consider these to be our critical accounting policies. Historically, our assumptions, judgments and estimates relative to our critical accounting policies have not differed materially from actual results.

With the exception of a new multiple element arrangement and the issuance of derivative instruments discussed below, there have been no significant changes in our critical accounting policies and estimates during the six months ended June 30, 2010 as compared to the critical accounting policies and estimates disclosed in Management's

Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2009.

Multiple Element Arrangement

Generally, we recognize revenue when persuasive evidence of an arrangement exists, we have delivered the product or performed the service, the fee is fixed or determinable, and collectability is probable.

In October of 2009 we agreed to enter into an agreement to license our new archival DVD creation software for deployment in Walmart stores and received a nonrefundable initial payment of $247,500. On March 24, 2010, we finalized the agreement, which provides a license to install the software in stores, initial training and annual maintenance (post-contract customer support or “PCS”) for $300 per year per store the software is installed. The initial nonrefundable $247,500 payment covers the first 825 annual store licenses. All elements relating to the initial nonrefundable payment were delivered as of March 31, 2010 except for PCS. We do not have vendor specific objective evidence (“VSOE”) for any of the elements of this agreement.

Although we do not have VSOE for the PCS, we meet the following criteria, which allows us to recognize revenue for the PCS upfront with the license revenue:

- The PCS fee is included with the initial licensing fee
- The PCS included with the initial license is for one year or less
- The estimated cost of providing PCS during the arrangement is insignificant
- Unspecified upgrades or enhancements offered during PCS arrangements historically have been and are expected to continue to be minimal and infrequent

We recognized the initial $247,500 payment as revenue during the quarter ended March 31, 2010 and have recorded an accrual of $9,000 for the estimated cost to provide the PCS. Additional payments, including $742,500 received in March 2010 and $22,200 received in June 2010, will be recognized as revenue as the software is installed in additional stores.

Derivative Instruments

In connection with the sale of debt or equity instruments, we may sell warrants to purchase our common stock. In certain circumstances, these warrants may be classified as derivative liabilities, rather than as equity. Additionally, the debt or equity instruments may contain embedded derivative instruments, such as conversion options, which in certain circumstances may be required to be bifurcated from the associated host instrument and accounted for separately as a derivative asset or liability.

The accounting for derivative instruments is complex. Our warrant derivative liability is re-valued at the end of each reporting period, with changes in the fair value of the derivative liability recorded as a charge or credit to other income (expense), in the period in which the changes in fair value occur. For warrants that are accounted for as derivative instrument liabilities, we determine the fair value of these instruments using the Black-Scholes option-pricing model. This model requires assumptions related to the expected term of the instrument and risk-free rates of return, the Company's current common stock price, expected dividend yield and the expected volatility corresponding to the expected life of the instrument.

Results of Operations

For the first six months of 2010, revenues increased 169% and operating losses decreased by 75% over the same period in 2009. For the six months ended June 30, 2010, we had revenues of $969,088, a gross profit of $671,921, an operating loss of $682,196, and a net loss of $588,316. This compares to revenues of $359,944, a gross loss of $42,499, an operating loss of $2,717,908, a net loss of $2,728,378, and a net loss applicable to common stockholders of $3,310,581 for the same period in 2009.

Revenues.

Total revenues increased $205,088, or 87%, to $440,515 for the three months ended June 30, 2010, as compared to $235,427 for the same period in 2009. The increase in revenue during the three months ended June 30, 2010 over the same period in 2009 is primarily due to increased sales in Walgreen's stores as a result of significant marketing efforts surrounding the launch of aVinci products in Walgreen's stores throughout the United States at the end of the second quarter and the start of the third quarter of 2009. For the six months ended June 30, 2010, total revenues increased $609,144 or 169% to $969,088 as compared to $359,944 for the same period in 2009. The increase in revenue for the six months ended is also due the launch of aVinci products in Walgreen's stores throughout the United States during the second quarter and the start of the third quarter of 2009; and due to the sale of our archived software in March

2010 for deployment in Walmart stores, and increased sales volume of ESPN branded products.

Two customers accounted for a total of 82% of aVinci's revenues for the three months ended June 30, 2010 (individually 72%, and 10%) compared to three customers accounting for 84% of the revenue for the same period in 2009 (individually 46%, 27%, and 11%). Two customers accounted for a total of 81%of aVinci's revenues for the six months ending June 30, 2010 (individually 55% and 26%) compared to two customers accounting for 71% of aVinci's revenue for the same period in 2009 (individually 42% and 28%). No other single customer accounted for more than 10% of aVinci's total revenues for the three and six months ended June 30, 2010 or the same period in 2009.

Operating Expenses.

Cost of Goods Sold. Our cost of goods sold decreased $34,901, or 19%, to $146,559 for the three months ended June 30, 2010, compared to $181,460 for the same period in 2009. The decrease in cost of goods sold is primarily due to a $12,000 decrease in depreciation expense as some of the equipment related to fulfillment has reached the end of their depreciable lives. Additional decreases included a $9,000 reduction in prepaid music licenses, a $7,500 reduction in costs associated with product shipped to a specific customer, and a $6,000 reduction in certain license fees. For the six months ended June 30, 2010, cost of goods sold decreased $105,276 or 26% to $297,167 as compared to $402,443 for the same period in 2009. The decrease in cost of goods sold is primarily due to recognizing $69,000 more in license fees during 2009 most of which was for expiring minimum guaranteed license fees that were not renewed. Additional decreases include a $13,000 decrease in deprecation as some of the equipment related to fulfillment has reached the end of their depreciable lives, an $11,000 decrease in consigned inventory costs (all consigned inventory was written off at December 31, 2009), a $7,500 reduction in costs associated with product shipped to a specific customer, and a reduction in labor costs of $5,000 due to having lower paid employees providing customer fulfillment during 2010.

Research and Development. Our research and development expense decreased $74,424, or 40%, to $111,618 for the three months ended June 30, 2010, compared to $186,042 for the same period in 2009. The decrease is primarily due to a decrease in the average employee headcount during this period from year to year. The decrease in employee headcount accounts for a decrease of approximately $80,000. For the six months ended June 30, 2010, research and development decreased $202,554, or 46% to $238,900 as compared to $441,454, for the same period in 2009. The decease in research and development expenses for the six month period is also primarily due to the decrease in average headcount from 2009 to 2010. The decrease in headcount accounts for approximately $211,000 of the decrease. This decrease in headcount caused an increased usage of outside resources which offset the decrease in research and development expense by $9,000.

Selling and Marketing. Our selling and marketing expense decreased $195,429, or 74%, to $67,012 for the three months ended June 30, 2010 compared to $262,441 for the same period in 2009. The decrease is primarily due to a decrease in the average employee headcount during these periods from year to year. For the three months ended June 30, 2010, the decrease in employee headcount accounts for approximately $116,000 of the decrease; and the decrease in the use of outside resources accounts for approximately $51,000 of the decrease from 2009. Finally, advertising costs over this time period decreased by $16,000 due to decreased Internet advertising, and travel related costs decreased by approximately $8,000 due to the reduced headcount and reduced traveling. For the six months ended June 30, 2010, selling and marketing decreased $358,952, or 66% to $182,227 compared to $541,179, for the same period in 2009. For the six months ended June 30, 2010, the decrease in headcount accounts for approximately $188,000 of the decrease; and the decrease in the use of external resources accounts for $87,000 of the decrease in expense. Finally, marketing expenses decreased by approximately $30,000 due to a reduction in expenses associated with attendance at the annual PMA trade show, $27,000 in reduced Internet advertising costs, $12,000 in reduced travel related costs, and $9,000 for some 2009 marketing expenses at a specific retailer.

General and Administrative. Our general and administrative expense decreased $340,577, or 39%, to $522,335 for the three months ended June 30, 2010, compared to $862,912 for the same period in 2009. The decrease is primarily due to decreases in stock-based compensation of $158,000 as this expense for 2009 included expense for former directors, and consulting services of almost $132,000. Other general and administrative expenses decreased including salaries and related company payroll taxes of $52,000 and benefits of $23,000 due to reduced overall headcount, reductions in legal and accounting fees of $26,000 due to reduced services requested. Our facilities expense decreased by $39,000 as a result of subleasing office space beginning in December 2009, and our depreciation and amortization costs have decreased by approximately $35,000 as many of our depreciable assets have reached the end of their depreciable lives. Finally, we recorded an additional $14,000 in expense in 2009 for stock issued to a recruiter; and, primarily as a result of our decreased headcount, travel related expenses have decreased by $13,000. All of these decreases were partially offset by an accrual for estimated settlement costs (see Note 8 above).

For the six months ended June 30, 2010, general and administrative expenses decreased $759,786, or 45% to $932,990 compared to $1,692,776, for the same period in 2009. The decrease is primarily due to a decrease in stock-based compensation of $228,000, a decrease in legal and accounting fees of $130,000 due to higher fees in 2009 and reduced services in 2010, and a decrease in consulting and outside services of $120,000. The general and administrative headcount was reduced from 2009 to 2010 as well as the overall company headcount from year to year. These reductions reduced the general and administrative salaries and company payroll tax expenses by $113,000, and benefits by $55,000. Our facilities expense decreased by $81,000 as a result of subleasing office space beginning in December 2009, and our depreciation and amortization costs have decreased by approximately $68,000 as many of our depreciable assets have reached the end of their depreciable lives. As a result of the decreased headcount, travel related costs decreased by $39,000, and telecommunications costs decreased by $12,000. The costs associated with being a public company decreased by $39,000 as a result of reducing external investor relations services and related costs associated with being a public company. Finally, we recorded an additional $14,000 in expense in 2009 for stock issued to a recruiter. All of these decreases were partially offset by an accrual for estimated settlement costs (see Note 8 above).

Income Tax Expense. For the three and six months ended June 30, 2010 and 2009, no provisions for income taxes were required.

At June 30, 2010, management has recognized a valuation allowance for the net deferred tax assets related to temporary differences and net operating loss carryforwards. The valuation allowance was recorded because there is significant uncertainty as to the realizability of the deferred tax assets. Based on a number of factors, the currently available, objective evidence indicates that it is more-likely-than-not that the net deferred tax assets will not be realized.

Liquidity and Capital Resources

	Unaudited Six Months Ended June 30,	
Statements of Cash Flows	2010	2009
Cash Flows from Operating Activities	$132,082	$(1,607,637)
Cash Flows from Investing Activities	126,420	1,400
Cash Flows from Financing Activities	237,789	822,865
Increase (Decrease) in cash and cash equivalents	496,291	(783,372)

Operating Activities. For the six months ended June 30, 2010, net cash provided by operating activities was $132,082 compared to net cash used of $1,607,637 for the same period in 2009. The change was primarily due to the $742,500 increase in deferred revenue upon the invoicing and receipt of payment for the sale of our archived software to be deployed in Walmart stores (see Multiple Element Arrangement above). The changes were also due to decreased operating expenses for the six months ended June 30, 2010, primarily the result of decreased headcount and a conscious effort to reduce expenses, and increased revenue in 2010.

Investing Activities. For the six months ended June 30, 2010, net cash provided by investing activities was $126,420 compared to $1,400 for the same period in 2009. The change was due to proceeds received from the sale of property and equipment of $102,362, and from the sale of marketable securities of $24,058 in 2010.

Financing Activities. For the six months ended June 30, 2010, financing activities provided $237,789 of cash compared to providing $822,865 for the same period in 2009. During the six months ended June 30, 2010, we received $300,000 from promissory notes, and we used $62,211 for principal payments under capital lease obligations. During the six months ended June 30, 2009, we received $892,000 from the sale of Series A convertible preferred stock and we used $69,135 for principal payments under capital lease obligations.

We have operated at a loss since inception and are not currently generating sufficient revenues to cover our operating expenses. As of June 30, 2010, we have negative working capital of $737,482 compared with negative working capital of $799,334 at December 31, 2009. Based on these factors, among others, the report of our independent registered public accounting firm in our 2009 annual report on Form 10-K includes an explanatory paragraph expressing substantial doubt as to our ability to continue as a going concern. We are continuing to work to obtain new customers and to increase revenues from existing customers. As noted above, in October of 2009 we agreed to enter into an agreement to license our new archival DVD creation software for deployment in Walmart stores during 2010 and received a first payment of $247,500. On March 24, 2010, we finalized the agreement and received advanced payments of $742,500 in March 2010 and $22,200 in June 2010 to cover an annual per store license fee for stores that deploy the software. This license fee revenue model differs from our past model of generating royalty revenue on each product created. We anticipate the widespread rollout of our archive product in Walmart stores during the third quarter of 2010. We anticipate that with the funds received in March 2010 and June 2010 under this agreement, and our expected monthly sales revenue from other sources throughout 2010 we will be able to fund operations throughout 2010. However, we may need to seek additional sources of financing should our monthly sales revenues be insufficient to fund operations at our current levels through 2010.

If new sources of financing are insufficient or unavailable, we will modify our growth and operating plans to the extent of available funding, if any. Any decision to modify our business plans would harm our ability to pursue our aggressive growth plans. If we cease or stop operations, our shares could become valueless. Historically, we have funded operating, administrative and development costs through the sale of equity capital or debt financing. If our plans and/or assumptions change or prove inaccurate, or we are unable to obtain further financing, or such financing and other capital resources, in addition to projected cash flow, if any, prove to be insufficient to fund operations, our continued viability could be at risk. To the extent that any such financing involves the sale of our common stock or common stock equivalents, our current stockholders could be substantially diluted. There is no assurance that we will be successful in achieving any or all of these objectives in 2010.

New Accounting Standards

In January 2010, the FASB issued Accounting Standards Update No. 2010-06 (FASB ASU 10-06), “Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements.” This update requires entities to 1) disclose separately the amounts of significant transfers in and out of level 1 and level 2 fair value measurements and describe the reasons for the transfers and 2) present separately (i.e. on a gross basis rather than as a net amount), information about purchases, sales, issuances, and settlements in the roll forward of changes in level 3 fair value measurements. The update requires fair value disclosures by class of assets and liabilities rather than by major category or line item in the statement of financial position. Disclosures regarding the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for assets and liabilities in both level 2 and level 3 are also required. For all portions of the update except the gross presentation of activity in the level 3 roll forward, this standard is effective for interim and annual reporting periods beginning after December 15, 2009. For the gross presentation of activity in the level 3 roll forward, this guidance is effective for fiscal years beginning after December 15, 2010. We have provided the additional required disclosures effective January 1, 2010.

In October 2009, the FASB issued Accounting Standards Update No. 2009-13 (FASB ASU 09-13), “Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements (a consensus of the FASB Emerging Issues Task Force).” FASB ASU 09-13 updates the existing multiple-element arrangement guidance currently in FASB Topic 605-25 (Revenue Recognition – Multiple-Element Arrangements). This new guidance eliminates the requirement that all undelivered elements have objective evidence of fair value before a company can recognize the portion of the overall arrangement fee that is attributable to the items that have already been delivered. Further, companies will be required to allocate revenue in arrangements involving multiple deliverables based on the estimated selling price of each deliverable, even though such deliverables are not sold separately by either company itself or other vendors. This new guidance also significantly expands the disclosures required for multiple-element revenue arrangements. The revised guidance will be effective for the first annual period beginning on or after June 15, 2010. We may elect to adopt the provisions prospectively to new or materially modified arrangements beginning on the effective date or retrospectively for all periods presented. We are currently evaluating the impact FASB ASU 09-13 will have on our consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Update No. 2009-14 (FASB ASU 09-14), “Certain Revenue Arrangements That Include Software Elements—a consensus of the FASB Emerging Issues Task Force,” that reduces the types of transactions that fall within the current scope of software revenue recognition guidance. Existing software revenue recognition guidance requires that its provisions be applied to an entire arrangement when the sale of any products or services containing or utilizing software when the software is considered more than incidental to the product or service. As a result of the amendments included in FASB ASU No. 2009-14, many tangible products and services that rely on software will be accounted for under the multiple-element arrangements revenue recognition guidance rather than under the software revenue recognition guidance. Under this new guidance, the following components would be excluded from the scope of software revenue recognition guidance: the tangible element of the product, software products bundled with tangible products where the software components and non-software components function together to deliver the product’s essential functionality, and undelivered components that relate to software that is essential to the tangible product’s functionality. FASB ASU 09-14 also provides guidance on how to allocate transaction consideration when an arrangement contains both deliverables within the scope of software revenue guidance (software deliverables) and deliverables not within the scope of that guidance (non-software deliverables). This guidance will be effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We may elect to adopt the provisions prospectively to new or materially modified arrangements beginning on the effective date or retrospectively for all periods presented. However, we must elect the same transition method for this guidance as that chosen for FASB ASU No. 2009-13. We are currently evaluating the impact FASB ASU 09-14 will have on our consolidated financial statements.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital resources that is material to investors.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”)) designed to provide reasonable assurance that the information required to be disclosed in our reports under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial and Accounting Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial and Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on this evaluation, Chett P. Paulsen, our Principal Executive Officer, and Edward B. Paulsen, our Principal Financial and Accounting Officer, concluded that these disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2010.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) or Rule 15d-15(d) under the Exchange Act that occurred during the quarter ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II-OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not aware of any material pending or threatened legal proceedings, other than the litigation referenced below.

On December 17, 2007, Robert L. Bishop, who worked with the Company in a limited capacity in 2004 and is a current member of a limited liability company that owns an equity interest in the Company, filed a legal claim alleging a right to unpaid wages and/or commissions (with no amount specified) and Company equity. The complaint was served on the Company on January 7, 2008. The Company is actively defending itself against the action and has filed two motions for summary judgement which the court has deferred ruling on pending the completion of discovery. The parties have agreed to postpone discovery for a time to explore the possibility of resolving the matter to save the time and cost associated with completing discovery and engaging in trial. The Company has accrued an estimated expense to cover a potential settlement.

ITEM 1A. RISK FACTORS

Not applicable.

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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit Number	Description of Exhibit
31.1	Certification of the Principal Executive Officer pursuant to Exchange Act Rule 13a-14(a)
31.2	Certification of the Principal Financial and Accounting Officer pursuant to Exchange Act Rule 13a-14(a)
32	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002

SIGNATURES

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

	aVinci Media Corporation	
Date: August 16, 2010	By:	/s/ Chett B. Paulsen Chett B. Paulsen Principal Executive Officer
Date: August 16, 2010	By:	/s/ Edward B. Paulsen Edward B. Paulsen Principal Financial and Accounting Officer