

aVINCI MEDIA CORP
Form 10-K
March 31, 2010

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

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

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

Commission File No.: 333-152869

aVINCI MEDIA CORPORATION
(Exact name of registrant as specified in 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, Utah 84020
(Address of principal executive offices) (Zip Code)

Registrant's telephone Number: (801) 495-5700

Securities registered under Section 12(b) of the Exchange Act: None.

Securities registered under Section 12(g) of the Exchange Act: Common Stock, \$.01 par value

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

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

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained in this form, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Edgar Filing: aVINCI MEDIA CORP - Form 10-K

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.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

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

The aggregate market value of the registrant's common stock held by non-affiliates, computed by reference to the closing price of such common stock as of June 30, 2009, the last business day of the registrant's most recently completed second quarter, was \$5,683,997.

As of March 26, 2010, there were 51,512,227 shares of the Company's common stock, \$0.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

TABLE OF CONTENTS

		Page
PART I		
Item 1.	Business	4
Item 1A	Risk Factors	6
Item 1B	Unresolved Staff Comments	7
Item 2.	Properties	7
Item 3.	Legal Proceedings	7
Item 4.	Submission of Matters to a Vote of Security Holders	7
PART II		
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities	8
Item 6	Selected Financial Data	8
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operation	9
Item 7A	Quantitative and Qualitative Disclosures About Market Risk	18
Item 8.	Financial Statements and Supplementary Data	18
Item 9.	Changes In and Disagreements with Accountants on Accounting and Financial Disclosure	18
Item 9A(T).	Controls and Procedures	18
Item 9B.	Other Information	19
PART III		
Item 10.	Directors, Executive Officers, Promoters and Corporate Governance	20
Item 11.	Executive Compensation	22
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	26
Item 13.	Certain Relationship and Related Transactions, and Director Independence	27
Item 14.	Principal Accountant Fees and Services	28
Item 15.	Exhibits and Financial Statement Schedule	29
SIGNATURES		52

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

Organizational History

aVinci Media Corporation (aVinci, the Company, we, our) (formerly known as Secure Alliance Holdings Corporation) is a Delaware corporation. Between October 2, 2006 and June 6, 2008, we were a shell public company and conducted no business activities other than seeking appropriate merger acquisition candidates. In June 2008, these efforts led to the acquisition of Sequoia Media Group, LC by way of a reverse merger. Sequoia Media Group, LC changed its name to aVinci in July 2008 following the reverse merger. aVinci (referred collectively with aVinci Media Corporation as “aVinci”), is a Utah limited liability company originally organized on March 28, 2003 under the name Life Dimensions, LC.

The Merger was effective on June 6, 2008, upon the filing of Articles of Merger with the Utah Division of Corporations. In connection with the Merger transaction, we amended the Certificate of Incorporation to (i) change our name from Secure Alliance Holdings Corporation to aVinci Media Corporation; (ii) increase our authorized shares of common stock from 100,000,000 to 250,000,000; (iii) authorize a class of preferred stock consisting of 50,000,000 shares of \$.01 per value preferred stock; and (iv) effect a 1-for-2 reverse stock split.

General Business Developments

We have developed and deployed a proprietary technology that employs “Automated Multimedia Object Models,” our patent-pending way of turning consumer captured images, video, and audio into complete digital productions in the form of full-motion movies, DVD’s, photo books, posters and streaming media files. We filed our first provisional patent in early 2004 for patent protection on various aspects of our technology with a full filing occurring in early 2005, and we have filed several patents since that time as part of our intellectual property strategy. All of our patent applications are pending and have not, as yet, been granted. Our technology carries the brand names of “aVinci” and “aVinci Experience.”

Since inception we have continued to develop and refine our technology to be able to provide higher quality products through a variety of distribution models including in-store kiosks, retail kits, and online downloads. Our business strategy has been to develop a product solution that provides users with professionally created templates to automatically create personalized products by simply adding user images. We currently distribute our products through Walmart, Walgreens, Costco.com, Meijer Stores, and online through various partner sites and our own sites.

During 2009, we launched myESPN Highlights products, under license from ESPN, which includes posters, DVDs, photobooks, and other personal image products bearing “myESPN Highlights” branding. We offer these ESPN products directly to customers, through some of our retail partners, and through independent labs and professional photographers. We generated sales from our myESPN Highlights initiative during 2009 and continue to pursue additional outlets and marketing strategies to increase market awareness.

As part of a new marketing initiative, we developed an online poster maker that we offer for free to generate interest in print and DVD products and customer leads. During a one week period before Christmas in 2009, we created over 10,000 free online posters in our first attempt to prove the viability of our viral poster maker concept. Based upon the success of the myESPN Highlights campaign, we continue to refine our online poster offering and will be offering the product to other markets.

During 2009 we made our myESPN Highlights products available through independent photo labs and professional photographers. Under this independent distributor model, labs can sign up with us to offer myESPN Highlight products directly to their customers and be provided with the right to create print products such as small prints, posters, and trading cards. Several labs have included myESPN Highlights products on their marketing materials circulated to youth sports organizations and schools. Professional photographers can also sign up with us to offer myEPSN Highlights products to their customers and receive a commission on all sales. We have registered more than 80 photographers to carry myESPN Highlights to date.

We first deployed our technology to create our premium production DVDs in retail stores in 2007 with Meijer and believe in-store DVD creation represents a growing opportunity to generate revenues. We, seeing a need for an in-store archival DVD product in addition to our premium DVD product offering, developed archival DVD creation software to fill the need. The archive product offering can be deployed on existing kiosks and photo lab equipment to allow the retailer to create DVD products in-store. Under this model, we place the product builder in the retail stores and the product creation and fulfillment happens in the store. The retailer supplies the raw materials and the labor to build the DVD products.

In November 2008, we delivered our premium and archival DVD product creation software for deployment by Walgreens in domestic stores on kiosks located in the photo department. By June 2009, our products were available in over 6,000 Walgreens locations. Under our agreement with Walgreens, we generate revenues on each DVD product created in Walgreens using our software.

In addition to revenues generated from ongoing Walgreens and Walmart sales and license fees, we continue to generate revenue from existing customers including Meijer, Costco.com, independent online distributors, and our direct online offering. We continue to build our customer base and distribution model to avoid being dependent on any single customer.

Our competitors are offering DVD products similar to ours and new offerings continue to be introduced. Most competitors are focused more intently on personalize print products than on DVDs which allows us to keep ahead of the competition in DVD production. With our moving more aggressively into print products such as posters, we believe our business will become more competitive with photo industry companies. We intend to continue to try to differentiate ourselves from competitors by offering a higher quality product which has enabled us to land and keep mass retail customers in the face of new product offerings by competitors. We also intend to continue to differentiate ourselves through our brand name partnering strategy with entities such as ESPN.

We spent approximately \$0.8 million, and \$1.7 million for the years ended December 31, 2009, and 2008, respectively, on research and development. The majority of these costs are salary costs for those involved in research and development activities associated with introducing our new archive software product and our new myESPN Highlights branded products.

During 2009, we significantly reduced our operating expenses by reducing staff, subleasing a substantial portion of our business office in Draper, Utah, and generally reducing monthly expenses. The full benefit of the sublease will not occur until June 2010 after the initial subsidized rent period expires in May 2010. As a result, we currently employ eight full-time employees and six part-time employees and occupy approximately 5,000 square feet in our business office. Additionally, we have reached the end of our financing period for certain furniture, fixtures, and equipment which helps further reduce operating expenses. The majority of the existing employees and all executive management agreed to salary reductions during February 2010 to help reduce operating expenses. Executive reductions ranged from ten to fifty percent of then-current salaries.

At the beginning of 2010, we entered into a financing agreement with two current shareholders to provide \$350,000 in operating capital. The \$350,000 was provided under a convertible secured promissory note bearing interest at 8% per annum. The note is convertible into senior preferred stock of the Company at any time during the term of the note (set at 2 years) at an equivalent stock price of \$0.06 per share. Additionally the note holders were provided warrants, having a five year term, to purchase additional shares of common stock at \$0.075 per share, all as disclosed in our 8-K filing of January 8, 2010. We anticipate needing to raise additional capital on the same or similar terms during the second quarter of 2010 to continue operations at our present level.

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 an additional \$742,500 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 second quarter of 2010. We anticipate that with the funds received in March 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.

Financial Information about Operating Segments

We conduct business within one operating segment in the United States. From 2004 through 2007, we generated revenues (except for a few thousand dollars) with one customer, and as of December 31, 2009 we were generating

revenues from three mass retail customers, more than 80 independent distributors, and directly through online sites including www.avincistudio.com and myESPNhighlights.com. Our long-lived assets are located in the United States.

Software Technology and Products

We make software technology and package it in various forms available to mass retailers, specialty retailers, Internet portals and websites that allow end consumers to use an automated process to create products such as DVD productions, photo books, posters, calendars, and other print media products from consumer photographs, digital pictures, video, and other media.

Generally all of our products require the end consumer to simply supply digital images. We supply preformatted templates for an occasion, event, or style such as a wedding, birthday, or activity that fits a particular style. A template for a DVD generally includes six to eight different scenes that incorporate background images related to that particular template theme. Each scene is built around four to ten digital image frames, or placeholders, where user supplied images are placed to have the appearance of being part of the themed contextual images we supply to support the template theme. We utilize a technique called "layering," (which is the subject of our patent) to stitch together our supplied images with the user-supplied images to produce a themed DVD movie. Scenes may involve panning over the user images as though they are photographs sitting on a table, or having user images appear in frames sitting on a mantle as the camera angle appears to change and move around the mantle piece, to describe a few of the hundreds of scene effects we utilize. Each template also provides a pre-designated position and font for a unique title, and in some instances subtitle and other text, to be added by the end consumer. The scenes are assembled in an order to give the production a feeling of telling a story. Each template also comes with a default sound track selected to match the template theme. In some applications of our software, the consumer can select from one of several music selections fitted to the selected theme. All of the images and music we supply with the themed templates are owned by us or have been fully licensed from the owners of the rights.

Two customers accounted for a total of 81 percent of our revenues for the year ended December 31, 2009 (individually 63 percent and 18 percent) compared to five customers accounting for 93 percent of the revenue for the same period in 2008 (individually 34 percent, 20 percent, 18 percent, 11 percent and 10 percent). No other single customer accounted for more than 10 percent of our total revenues for the years ended December 31, 2009 or 2008. In addition to our current customers, we continue to actively negotiate agreements and relationships with other mass and specialty retailers and other vending partners.

Competitors

Our competitors consist of professional videographers on the high-cost end and slideshow software programs on the low-cost end, with varying software tools in the middle. Unfamiliar evaluators on the surface may attempt to compare the low-end slide show creator products with our products, but we believe when compared side by side differences are readily seen in production quality and detail. Generally only user images are included in the slide show and context; graphics, audio, and music are not included. We believe finished productions are generally poor quality and lack any meaningful emotional impact.

Software providers who supply consumer tools or solutions for consumers to make their own DVD productions include Adobe, Microsoft, Ulead, PhotoShow, Roxio, among others. The closest direct competitive products to our technology are software tools such as iPhoto, iMovie and Final Cut Pro from Apple, each of which require users to spend a significant sum for the software, devote extensive time to master software usage, and significant time to create each individual production. Additional competitors include Simple Star, MuVee, RocketLife, PhotoDex, and Smilebox all of which offer similar products.

Specific competitors in the market for the provision of personalized photo products include MediaClip, Muvue, Animoto, Slide, Roxio PhotoShow, and One True Media. These competitors offer similar product lines including photo slideshows (online and DVD), photo books, and posters which are created through the use of software applications. Certain competitors also make their products available for use on social networking sites such as Facebook and MySpace.

We believe our patent-pending production technology which automates the creation of multiple photo products utilizing the same images without further customer input, along with our proprietary storyboards incorporating licensed content such as popular music and animation and professional transitions gives us an advantage over our competitors. We believe our use of licensed content gives us an additional advantage over our competitors who are still incorporating unlicensed music and other content into their products in that we have established good relationships in the music and film industry and may be able to offer popular titles our competitors cannot.

Common to software tools are their lack of automation. The user spends a vast amount of time mastering software to produce the same sort of automated results that can otherwise be accomplished very quickly with our products. A software user must first import media, organize it, choose timing and effects, edit music to length then render the production. The rendered production must then be committed to DVD where the user has to then design a DVD interface before burning to DVD to have any navigation capabilities.

Seasonality

Historically our revenues have been seasonal with the majority of revenue coming in the fourth quarter due to higher consumer spending during the holidays.

Available Information

Edgar Filing: aVINCI MEDIA CORP - Form 10-K

We file annual reports, quarterly reports, current reports, and other information with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934 as amended (Exchange Act). Copies of our reports and other information filed with the SEC are available for inspection at the offices of the SEC's Public Reference Room, 100 F Street NE, Washington, D.C. 20549. The SEC may be contacted at 1-800-SEC-0330 for further information. The SEC maintains an Internet site at www.sec.gov where SEC filings can be obtained. We also make available on our corporate website at www.avincimedia.com, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after they are filed electronically with the SEC. The information found on our website is not part of this Form 10-K.

ITEM 1A. RISK FACTORS

N/A

6

ITEM 1B. UNRESOLVED STAFF COMMENTS

N/A

ITEM 2. PROPERTIES.

We currently lease approximately 13,000 square feet of office space at 11781 Lone Peak Parkway, Suite 270, Draper, Utah 84020, of which approximately 8,000 is currently subleased to Public Engines Corporation as of December 2009. Public Engines holds an option right to occupy the balance of the space upon certain notice requirements, sufficient to allow us to relocate. In conjunction with lease concessions offered by the landlord during 2009 to greatly reduce our rent, the current term was extended three years through June 30, 2012. Public Engines' sublease runs through the end of the new lease term and we believe the subtenant has the financial ability to make lease payments through the entire term. With our staff reductions in recent years and our continuing efforts to redirect product fulfillment to retail outlets and vending partners, we can operate effectively with reduced space. We have a good relationship with the landlord and the our subtenant. We conduct our corporate, development, sales, and certain manufacturing operations out of our Draper office. Our main telephone number is (801) 495-5700 and our facsimile number (801) 495-5701. We maintain a corporate web site at www.avincimedia.com and selling web sites at www.avincistudio.com and www.myespnhighlights.com. We lease space in a computer hardware collocation facility in Salt Lake City and have a good relationship with the landlord.

ITEM 3. LEGAL PROCEEDINGS.

On December 17, 2007, Robert L. Bishop, who worked with aVinci in a limited capacity in 2004 and is a current member of a limited liability company, LifeCinema, LLC, that owns an equity interest in aVinci, filed a legal claim in the Third Judicial District Court for Salt Lake County, State of Utah, alleging a right to unpaid wages and/or commissions (with no amount specified) and company equity. The Complaint was served on aVinci on January 7, 2008. aVinci timely filed an answer denying Mr. Bishop's claims and counterclaiming interference by Mr. Bishop with aVinci's capital raising efforts. Discovery in the case is ongoing and aVinci intends to vigorously defend against Mr. Bishop's claims and pursue aVinci's counterclaim.

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

None

7

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS ISSUER PURCHASES OF EQUITY SECURITIES.

MARKET INFORMATION

From February 1998 to March 25, 2003, our common stock traded on the NASDAQ stock market under the symbol "ATMS." From March 26, 2003 to June 18, 2007, our common stock traded over-the-counter on the OTC Pink Sheets under the symbol "ATMS." From June 19, 2007 to June 8, 2008 our common stock traded over-the-counter on the OTC Pink Sheets under the symbol "SAHC.PK." From June 9, 2008 to April 30, 2009, our post-merger, post reverse split trading symbol on the OTC Pink Sheets was "AVMC.PK." Beginning May 1, 2009, our common stock trades on the OTC Bulletin Board under the symbol "AVMC." The following table sets forth the quarterly high and low bid information for our common stock for the two-year period ended December 31, 2009:

	High Bid	Low Bid
Year Ended December 31, 2008		
First Quarter	\$1.36	\$1.06
Second Quarter	2.25	0.60
Third Quarter	1.34	0.81
Fourth Quarter	1.05	0.07
Year Ended December 31, 2009		
First Quarter	\$0.25	\$0.06
Second Quarter	0.51	0.06
Third Quarter	0.35	0.10
Fourth Quarter	0.17	0.02

The market price of our common stock, like that of other thinly traded companies and technology companies, is highly volatile and is subject to fluctuations in response to variations in operating results, announcements of technological innovations or new products, or other events or factors. Our stock price may also be affected by broader market trends unrelated to our performance.

Holders

As of March 26, 2010 there were 51,512,227 shares of common stock outstanding and approximately 1,042 stockholders of record.

Transfer Agent and Registrar

Our transfer agent is Island Stock Transfer, 100 Second Avenue South, Suite 705S, St. Petersburg, FL 33701; telephone (727) 289-0010.

Dividend Policy

Except for the \$2,000,000 Dividend that we paid to our stockholders of record as of April 16, 2008, we have not paid any cash dividends on our common stock to date and do not anticipate we will pay dividends on common stock in the

foreseeable future. The payment of dividends in the future will be contingent upon revenues and earnings, if any, capital requirements, and our general financial condition. The payment of any dividends will be within the discretion of the then Board of Directors. It is the present intention of the Board of Directors to retain all earnings, if any, for use in the business operations. Accordingly, the Board does not anticipate declaring any dividends in the foreseeable future on common stock. We raised approximately \$1.2 million through a private equity round of capital in 2009. For the capital, investors received Series A convertible preferred shares which have an 8% per annum cumulative dividend to be paid when declared by the Board. We do not anticipate declaring payment of the preferred dividend until we have significant consistent positive cash flows from operations.

RECENT SALES OF UNREGISTERED SECURITIES

None.

ITEM 6. SELECTED FINANCIAL DATA

N/A

8

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.

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: (i) discuss our future expectations; (ii) contain projections of our future results of operations or of our financial condition; and (iii) 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 as a result of certain factors, including those set forth under “Risk Factors,” “Business” and elsewhere in this report.

Overview

Because sales through retail and online outlets have been lower than anticipated, we have experienced negative cash flows from operations which impacts liquidity. In an effort to continue operations at a meaningful level, we took action through 2009 to raise approximately \$1.2 million in additional outside capital, to reduce staff and salaries of remaining staff, and to reduce monthly lease and other operating expenses. Because we continue to experience negative cash flows from operations each month, additional outside investment is needed to continue operations at the present level. We are also actively working to secure additional contracts and commitments from customers, both existing and potential and to further reduce monthly expenses to help generate positive cash flows from operations. Our executives voluntarily took salary reductions in 2009 and in the first quarter of 2010 of between 10% and 50% to help ease our cash outflow. We believe that with our current customer agreements and operations we can make necessary changes to continue operations into the future; although, we can provide no assurance we will be successful in our efforts. Our material activities during 2009 are outlined below.

During 2009, we launched myESPN Highlights products, under license from ESPN, which includes posters, DVDs, photobooks, and other personal image products bearing “myESPN Highlights” branding. We offer these ESPN products directly to customers, through some of our retail partners, and through independent labs and professional photographers. We generated sales from our myESPN Highlights initiative during 2009 and continue to pursue additional outlets and marketing strategies to increase market awareness.

As part of a new marketing initiative, we developed an online poster maker that we offer for free to generate interest in print and DVD products and customer leads. During a one week period before Christmas in 2009, we created over 10,000 free online posters in our first attempt to prove the viability of our viral poster maker concept. Based upon the success of the myESPN Highlights campaign, we continue to refine our online poster offering and will be offering the product to other markets. Online poster initiatives for both myESPN Highlights and other potential brands are anticipated to be launched during the second quarter of 2010.

During 2009 we made our myESPN Highlights products available through independent photo labs and professional photographers. Under this independent distributor model, labs can sign up with us to offer myESPN Highlight products directly to their customers and be provided with the right to create print products such small prints, posters, and trading cards. Several labs have included myESPN Highlights products on their marketing materials circulated to youth sports organizations and schools. Professional photographers can also sign up with us to offer myEPSN Highlights products to their customers and receive a commission on all sales. We have registered more than 80 photographers to carry myESPN Highlights to date.

We first deployed our technology to create our premium production DVDs in retail stores in 2007 with Meijer and believes in-store DVD creation represents a growing opportunity to generate revenues. We, seeing a need for an in-store archival DVD product in addition to our premium DVD product offering, developed archival DVD creation software to fill the need. The archive product offering can be deployed on existing kiosks and photo lab equipment to allow the retailer to create DVD products in-store. Under this model, we place the product builder in the retail stores and the product creation and fulfillment happens in the store. The retailer supplies the raw materials and the labor to build the DVD products.

In November 2008, we delivered our premium and archival DVD product creation software for deployment by Walgreens in domestic stores on kiosks located in the photo department. By June 2009, our products were available in over 6,000 Walgreens locations. Under our agreement with Walgreens, we generate revenues on each DVD product created in Walgreens using our software. Additional product titles are anticipated to be released in Walgreens during the second quarter of 2010.

In addition to revenues generated from ongoing Walgreens and Walmart sales and license fees, we continue to generate revenue from existing customers including Meijer, Costco.com, independent online distributors, and our direct online offering. We continue to build our customer base and distribution model to avoid being dependent on any single customer.

Our competitors are offering DVD products similar to ours and new offerings continue to be introduced. Most competitors are focused more intently on personalize print products than on DVDs which allows us to keep ahead of the competition in DVD production. With our moving more aggressively into print products such as posters, our business will become more competitive with photo industry companies. We intend to continue to try to differentiate ourselves from competitors by offering a higher quality product which has enabled us to land and keep mass retail customers in the face of new product offerings by competitors. We also intend to continue to differentiate ourselves through our brand name partnering strategy with entities such as ESPN.

At the beginning of 2010, we entered into a financing agreement with two current shareholders to provide \$350,000 in operating capital. The \$350,000 was provided under a convertible secured promissory note bearing interest at 8% per annum. The note is convertible into senior preferred stock of the Company at any time during the term of the note (set at 2 years) at an equivalent stock price of \$0.06 per share. Additionally the note holders were provided warrants, having a five year term, to purchase additional shares of common stock at \$0.075 per share, all as disclosed in aVinci's 8-K filing of January 8, 2010. We anticipate needing to raise additional capital on the same or similar terms during the second quarter of 2010 to continue operations at our present level.

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 an additional \$742,500 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 second quarter of 2010. We anticipate that with the funds received in March 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.

Currently our products are available at the following retailers: Meijer (approximately 179 stores), Walmart (approximately 3,300 domestic stores), Walgreens (approximately 6,500 stores), and Costco (online at Costco.com). Walgreens officially launched the product line in its stores on June 28, 2009. Our products are also available to other customers and online at www.avincistudio.com and www.myespnhighlights.com.

Basis of Presentation

Net Revenues. We currently generate revenues from our customers as they use our technology to create DVD products and from providing software through retail and online outlets that allow end consumers access to the technology to generate product orders which we produce and ship. Customers then pay a fee on orders produced. Our ongoing revenue agreements are generally multiple element contracts that may include software licenses, installation and set-up, training, post contract customer support (PCS), and fulfillment. For some of the agreements, we produce DVDs for the end customer. For other agreements, we provide blank DVD materials and the customer produces DVDs for the end customer. For other contracts, we do not provide any materials and our customer fulfills the orders for the end consumer. Our revenue recognition policy for the different revenue models is described below under Critical Accounting Policies.

As we expand our product offerings through additional customers, we believe