

aVINCI MEDIA CORP
Form 10-Q
November 14, 2008

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

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2008
or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange 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 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

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

The number of shares of common stock outstanding as of the close of business on October 31, 2008 was 48,738,545.

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)

	September 30, 2008	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,845,593	\$ 859,069
Accounts receivable	270,430	448,389
Marketable securities available-for-sale	211,319	—
Inventory	42,519	21,509
Prepaid expenses	270,932	100,799
Deferred costs	189,134	294,602
Deposits and other current assets	6,923	44,201
Total current assets	3,836,850	1,768,569
Property and equipment, net	729,201	990,523
Intangible assets, net	93,543	74,689
Other assets	20,408	20,408
Total assets	\$ 4,680,002	\$ 2,854,189
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable	\$ 75,964	\$ 75,118
Accrued liabilities	741,551	823,772
Distributions payable	—	308,251
Current portion of capital leases	138,355	118,288
Current portion of deferred rent	46,529	38,580
Notes payable	—	1,000,000
Deferred revenue	407,598	493,599
Total current liabilities	1,409,997	2,857,608
Capital lease obligations, net of current portion	130,094	222,611
Deferred rent, net of current portion	39,338	71,839
Total liabilities	1,579,429	3,152,058
Commitments and contingencies		
Series B redeemable convertible preferred units, no par value, 12,000,000 units authorized; 0 and 8,804,984 units outstanding, respectively (liquidation preferences of \$0 and \$6,603,182, respectively)	—	6,603,182
Stockholders' Equity (Deficit):	—	474,229

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Series A convertible preferred units, no par value, 3,746,485 units authorized; 0 and 3,533,720 units outstanding, respectively (liquidation preference of \$0 and \$474,229, respectively)

Common units, no par value, 90,000,000 units authorized; 0 and 29,070,777 units outstanding, respectively	—	4,211,737
Common stock, \$.01 par value, authorized 250,000,000 shares; issued and outstanding 48,738,545 and 38,986,114 shares outstanding, respectively	487,385	389,861
Additional paid-in capital	22,428,903	(389,861)
Accumulated deficit	(19,723,734)	(11,587,017)
Accumulated other comprehensive loss	(91,981)	—
Total stockholders' equity (deficit)	3,100,573	(6,901,051)
Total liabilities and stockholders' equity (deficit)	\$ 4,680,002	\$ 2,854,189

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues	\$ 112,652	\$ 78,561	\$ 302,351	\$ 329,640
Operating expense:				
Cost of sales	233,300	13,968	666,933	36,922
Research and development	456,992	559,345	1,447,522	1,357,231
Selling and marketing	398,854	444,291	1,365,650	958,285
General and administrative	1,028,784	1,455,106	3,497,680	2,783,465
Depreciation and amortization	58,143	76,137	172,349	160,760
Total operating expense	2,176,073	2,548,847	7,150,134	5,296,663
Loss from operations	(2,063,421)	(2,470,286)	(6,847,783)	(4,967,023)
Other income (expense):				
Interest income	22,771	40,065	49,304	53,966
Interest expense	(10,353)	(7,224)	(136,465)	(678,390)
Total other income (expense)	12,418	32,841	(87,161)	(624,424)
Loss before income taxes	(2,051,003)	(2,437,445)	(6,934,944)	(5,591,447)
Income tax benefit	—	—	—	—
Net loss	(2,051,003)	(2,437,445)	(6,934,944)	(5,591,447)
Preferred dividends and deemed dividends	—	—	(976,000)	(190,000)
Distributions on Series B redeemable convertible preferred units	—	(133,160)	(225,773)	(175,091)
Net loss applicable to common stockholders	\$ (2,051,003)	\$ (2,570,605)	\$ (8,136,717)	\$ (5,956,538)
Basic and diluted loss per common share	\$ (0.04)	\$ (0.07)	\$ (0.19)	\$ (0.15)
Weighted average common and common equivalent shares used to calculate loss per share:				
Basic and diluted	48,738,122	38,986,114	43,114,327	38,986,114

See accompanying Notes to Condensed Consolidated Financial Statements.

aVINCI MEDIA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
AND COMPREHENSIVE LOSS
(UNAUDITED)

	Common Stock		Additional Paid-in Capital	LLC Series A Convertible Preferred Units	LLC Common Units	Accumulated Deficit	Accumulated Other Comprehensive Loss	Members' / Stockholders' Equity (Deficit)
	Shares	Amount						
Balance, January 1, 2008		—\$	—\$	—\$ 474,229	\$ 4,211,737	\$ (11,587,017)	\$	—\$ (6,901,051)
Retroactive effect of shares issued in reverse merger dated June 6, 2008	38,986,114	389,861	(389,861)	—	—	—	—	—
Conversion of Series A preferred units to common units	—	—	—	(474,229)	474,229	—	—	—
Conversion of Series B preferred units to common units	—	—	—	—	6,603,182	—	—	6,603,182
Incentive common units issued upon conversion of Series B preferred units	—	—	—	—	976,000	(976,000)	—	—
Common units issued upon exercise of warrants	—	—	—	—	460,625	—	—	460,625
Employee equity-based	—	—	213,328	—	125,101	—	—	338,429

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compensation									
Non-employee equity based instruments	—	—	37,642	—	—	—	—	—	37,642
Distributions on Series B redeemable convertible preferred units	—	—	—	—	—	(225,773)	—	(225,773)	
Conversion of common units to common stock in connection with the reverse merger	—	—	12,850,874	—	(12,850,874)	—	—	—	
Outstanding shares of Registrant at time of reverse merger dated June 6, 2008	9,742,633	97,426	9,712,968	—	—	—	—	—	9,810,394
Common stock issued upon exercise of options	9,798	98	3,952	—	—	—	—	—	4,050
Unrealized loss on marketable securities available for sale	—	—	—	—	—	—	(91,981)	(91,981)	
Net loss	—	—	—	—	—	(6,934,944)	—	(6,934,944)	
Balance, September 30, 2008	48,738,545	\$ 487,385	\$ 22,428,903	\$ —	—	—	\$(19,723,734)	\$(91,981)	\$ 3,100,573

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2008	2007
Cash flows from operating activities:		
Net loss	\$ (6,934,944)	\$ (5,591,447)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	333,176	277,839
Accretion of debt discount	—	338,594
Equity-based compensation	338,429	434,579
Non-employee equity-based instruments	37,642	—
(Gain) loss on disposal of equipment	(38)	1,063
Decrease (increase) in:		
Accounts receivable	177,959	(83,522)
Unbilled accounts receivable	—	418,490
Inventory	(21,010)	(18,081)
Prepaid expenses and other assets	(117,572)	(7,629)
Deferred costs	105,468	—
Deposits and other current assets	37,278	140,818
Increase (decrease) in:		
Accounts payable	(30,053)	(84,986)
Accrued liabilities	(187,851)	98,615
Deferred rent	(24,552)	77,634
Deferred revenue	(86,001)	128,096
Net cash used in operating activities	(6,372,069)	(3,869,937)
Cash flows from investing activities:		
Purchase of property and equipment	(44,887)	(472,971)
Purchase of intangible assets	(26,354)	(14,308)
Net cash used by investing activities	(71,241)	(487,279)
Cash flows from financing activities:		
Proceeds from convertible debentures	—	1,535,000
Payment of loan costs	—	(117,080)
Proceeds from related party notes payable	—	20,000
Payment on members notes	—	(285,783)
Proceeds from issuance of Series B preferred units	—	4,675,000
Net cash received in reverse merger	7,091,062	—
Proceeds from notes payable	1,500,000	—
Proceeds from exercise of warrants	460,625	—
Proceeds from exercise of stock options	4,050	—
Payment of accrued dividends	(534,024)	—
Principal payments under capital lease obligations	(91,879)	(10,732)
Net cash provided by financing activities	8,429,834	5,816,405
Net increase in cash and cash equivalents	1,986,524	1,459,189

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Cash and cash equivalents at beginning of period	859,069	168,692
Cash and cash equivalents at end of period	\$ 2,845,593	\$ 1,627,881
Cash paid for income taxes	\$ —	\$ —
Cash paid for interest	\$ 32,630	\$ 19,586

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 nine months ended September 30, 2008:

- The Company issued 1,525,000 common units to Amerivon Holdings, Inc. to induce the conversion of preferred units to common units immediately prior to the closing of the transaction between Secure Alliance Holdings Corporation (SAH) and Sequoia Media Group (Sequoia). These inducement units were recorded as a preferential dividend, thus increasing the accumulated deficit and increasing the loss applicable to common stockholders by \$976,000.
 - The Company acquired \$19,429 of office equipment through capital lease agreements.
 - The Company incurred an unrealized loss on marketable securities available-for-sale of \$91,981.
 - The Company converted \$474,229 of Series A preferred units to common units.
 - The Company converted \$6,603,182 of Series B preferred units to common units.
- The Company converted \$12,850,874 of common units to common stock in connection with the reverse merger.
 - The Company acquired the following balance sheet items as a result of the reverse merger transaction:
 - o Cash - \$7,091,062
 - o Marketable securities available-for-sale - \$303,300
 - o Prepaid expenses and other assets - \$52,561
 - o Note receivable - \$2,500,000 (eliminated against note payable owed to SAH)
 - o Interest receivable - \$103,835 (eliminated against interest payable to SAH)
 - o Accounts payable - \$30,899
 - o Accrued expenses - \$209,465

During the nine months ended September 30, 2007:

- The Company issued 3,566,667 Series B redeemable convertible preferred units in exchange for a subscription receivable of \$2,675,000.
- The Company converted notes payable of \$1,558,178 into 2,318,318 Series B redeemable convertible preferred units.
- The Company converted \$2,602,668 of debentures payable and related accrued interest into 7,523,355 common units.
- The Company recorded debt discount associated with convertible debentures payable of \$8,129 as well as beneficial conversion feature of \$171,875 both of which were converted to Series B redeemable convertible preferred units.

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- The Company accrued distributions payable on Series B redeemable preferred units of \$175,091.
- The Company acquired \$193,048 of fulfillment equipment and office furniture through capital lease agreements.
- The Company recorded a deemed distribution of \$190,000 due to the accretion of issuance costs related to the Series B offering.

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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), is the 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. The Company is a Delaware corporation that develops and sells an engaging way for anyone to tell their “Story” with personal digital expressions. The Company’s products simplify and automate the process of creating professional-quality multi-media productions using personal photos and videos.

Sequoia was originally formed as a Utah limited liability company on March 15, 2003. On June 6, 2008, as discussed below in Note 2, Sequoia completed a merger transaction with SAH, a publicly held company. Because the owners of Sequoia obtained approximately 80% of the common stock of SAH through the merger transaction, the merger has been accounted for as a reverse merger. The historical financial statements reflect the operations of Sequoia through the date of the reverse merger and those of the combined entity from the date of the reverse merger through the end of the period. In connection with the reverse merger transaction, SAH changed its name to aVinci Media Corporation.

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 September 30, 2008 and December 31, 2007 and for the three and nine months ended September 30, 2008 and 2007 reflect all adjustments (consisting only of normal recurring items) necessary to present fairly the financial information set forth therein. 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 the Company believes that the following disclosures, when read in conjunction with the annual financial statements and the notes included in the Company’s registration statement filed on November 3, 2008, are adequate to make the information presented not misleading. Results for the three and nine-month periods ended September 30, 2008 are not necessarily indicative of the results to be expected for the year ended December 31, 2008.

Concentration of Credit Risk and Significant Customer

The Company maintains its cash in bank demand deposit accounts, which at times may exceed the federally insured limit or may be maintained in non-insured institutions. The Company has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk with respect to cash.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. In the normal course of business, the Company provides credit terms to its customers and requires no collateral.

Four customers accounted for 47%, 20%, 15%, and 11% of total revenue during the nine months ended September 30, 2008. One customer accounted for almost all of the revenue for the nine months ended September 30, 2007. As of September 30, 2008, two customers accounted for 61% and 34% of accounts receivable.

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. The weighted average shares used in the computation of EPS for the three and nine month periods ended September 30, 2008 and 2007 include the shares issued in connection with the reverse merger on June 6, 2008 (see Note 2). In accordance with US GAAP, these shares are retroactively reflected as having been issued at the beginning of each reporting 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 and warrants. During 2007, potentially dilutive common units also included convertible preferred units, redeemable convertible preferred units and convertible notes and debentures. Shares having an antidilutive effect on periods presented are not included in the computation of dilutive EPS.

aVINCI MEDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The average number of shares of all stock options and warrants granted, all convertible preferred units, redeemable convertible preferred units and convertible debentures have been omitted from the computation of diluted net loss per common share because their inclusion would have been anti-dilutive for the three and nine-month periods ended September 30, 2008 and 2007.

As of September 30, 2008 and 2007, the Company had 8,338,913 and 15,959,795 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. These options and warrants could be dilutive in the future.

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.

Cash Equivalents

The Company considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are recorded at net realizable values and are due within 30 days from the invoice date. The Company maintains allowances for doubtful accounts, when necessary, for estimated losses resulting from the inability of customers to make required payments. These allowances are based on specific facts and circumstances pertaining to individual customers and historical experience. Provisions for losses on receivables are charged to operations. Receivables are charged off against the allowances when they are deemed uncollectible. As of September 30, 2008 and December 31, 2007, there were no allowances for doubtful accounts required against the Company's receivables.

Intangible Assets

Intangible assets consist of costs to acquire patents and licenses for use of certain music tracks. All of the Company's intangible assets have finite useful lives.

Intangible assets with finite useful lives are carried at cost, less accumulated amortization. Amortization is calculated using the straight-line method over estimated useful lives. Intangible assets subject to amortization are reviewed for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. As of September 30, 2008 and December 31, 2007, management determined that the carrying amounts of the Company's intangible assets were not impaired.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Property and equipment consists of computers, software and equipment, and furniture and fixtures. Depreciation and amortization are calculated using the straight-line method over the estimated economic useful lives of the assets or over the related lease terms (if shorter), which are three and five years, respectively.

Expenditures that materially increase values or capacities or extend useful lives of property and equipment are capitalized. Routine maintenance, repairs, and renewal costs are expensed as incurred. Gains or losses from the sale or retirement of property and equipment are recorded in the statements of operations.

The Company reviews its property and equipment for impairment when events or changes in circumstances indicate that the carrying amount may be impaired. If it is determined that the related undiscounted future cash flows are not sufficient to recover the carrying value, an impairment loss is recognized for the difference between carrying value and fair value of the asset.

As of September 30, 2008 and December 31, 2007, management determined the carrying amounts of the Company's property and equipment were not impaired.

aVINCI MEDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Revenue Recognition and Deferred Revenue

BigPlanet Contract

Prior to March 31, 2007, the Company generated the majority of its revenue from one customer, BigPlanet, a division of NuSkin International, Inc. The contract with BigPlanet included software development, software license, post-contract support (PCS), and training. Because the contract included the delivery of a software license, the Company accounted for the contract in accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition, as modified by SOP 98-9, Modification of SOP 97-2 with Respect to Certain Transactions. SOP 97-2 applies to activities that represent licensing, selling, leasing, or other marketing of computer software.

Because the contract included services to provide significant production, modification, or customization of software, in accordance with SOP 97-2, the Company accounted for the contract based on the provisions of Accounting Research Bulletin (ARB) No. 45, Long-Term Construction-Type Contracts and the relevant guidance provided by SOP 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. In accordance with these provisions, the Company determined to use the percentage-of-completion method of accounting to record the revenue for the entire contract. The Company utilized the ratio of total actual costs incurred to total estimated costs to determine the amount of revenue to be recognized at each reporting date.

As of December 31, 2007, this contract was completed and all revenue under this contract had been recognized. The Company has no further obligations under this contract.

Integrated Kiosk Revenue Contracts

Under the kiosk revenue model, the Company integrates its technology with a kiosk provided by a third party. The kiosk is placed in retail stores where the end consumers utilize the kiosk to load their digital images and make a variety of products. Under this revenue model, the Company enters into agreements with the retail stores. The agreements provide for the grant of a software license, installation of the software on the customer's kiosks, training, PCS, and order fulfillment. As compensation, the agreements provide for the Company to receive payment on a per unit basis for each order fulfilled. Because these contracts involve a significant software component, the Company accounts for its revenue generated under these contracts in accordance with the provisions of SOP 97-2 and SOP 98-9.

SOP 97-2 generally provides that until vendor specific objective evidence (VSOE) of fair value exists for the various components within the contract, that revenue is deferred until delivery of all elements except for PCS has occurred.

Because of the Company's limited sales history, it does not have VSOE for the different components that are included in the integrated kiosk revenue contracts. Therefore, all revenue associated with the grant of the license, installation, training, PCS, and product fulfillment is deferred until all elements are delivered except for PCS, at which time deferred revenue is recognized on a straight-line basis over the remaining term of the contract.

Retail Kit Revenue

The Company has developed a retail kit product that retailers and vendors can stock on their retail store shelves. The retail kit consists of a small box containing a CD of a simplified version of the Company's software and a product code. The end consumer pays for the product at the store and can then load the CD onto their personal computer and use the software and their personal digital images to create movies, photo books, and streaming media files. Once complete, the software assists the customer in uploading the file for remote fulfillment. The Company may provide the fulfillment services or such services may be provided by another fulfillment provider. There is no additional fee

for the fulfillment. The sale of retail kits does not include PCS. In accordance with SOP 97-2, revenue from the sale of the retail kits to the retail store is deferred until the fulfillment services have been provided and the completed product has been shipped to the consumer or until the Company's obligation to provide fulfillment has expired due to the passage of time.

Revenue from Third Party Internet Sites

The Company has agreed to provide the simplified version of its software to certain third party Internet sites that would allow a customer to download the software from the third party Internet site. The software loads and walks the customer through the process of selecting his or her digital images to be used in creating the product, typing any unique consumer information such as a customized title and subtitle, entering order information for shipping, taking the consumer's credit card information to process the payment transaction for products ordered via a secure Internet transaction, and uploading the order for remote fulfillment. In accordance with SOP 97-2, if the Company provides the fulfillment services, revenue is deferred until the order has been fulfilled and shipped to the consumer. If the fulfillment services are provided by another supplier, revenue is recognized at the time the credit card transaction is completed. There is no additional fee for the fulfillment. Sales from third party Internet sites do not include PCS.

aVINCI MEDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Revenue from the Company's Internet Site

As a companion to the retail kit product, the Company launched a web site that will allow consumers who upload orders using the retail kit software to order additional copies and additional products on the Company's web site. Revenue from such additional products is recognized upon shipment of the product.

Other Revenue Contracts

In one contract entered into during 2007, the Company sold fulfillment equipment, hardware and software installation, and software licenses. The Company deferred all revenues related to these contracts as there was no VSOE established for each separate component of the contract. During the quarter ended March 31, 2008, all elements of the contract were delivered except for PCS. In accordance with SOP 97-2, deferred revenue is being recognized over the remaining term of the contract on a straight-line basis.

The Company capitalized the direct cost of the equipment and is amortizing it as the related revenue is recognized.

Deferred Revenue

The Company records billings and cash received in excess of revenue earned as deferred revenue. The deferred revenue balance generally results from contractual commitments made by customers to pay amounts to the Company in advance of revenues earned. Revenue earned but not billed is classified as unbilled accounts receivable in the balance sheet. The Company bills customers as payments become due under the terms of the customer's contract. The Company considers current information and events regarding its customers and their contracts and establishes allowances for doubtful accounts when it is probable that it will not be able to collect amounts due under the terms of existing contracts.

Software Development Costs

Costs for the development of new software products and substantial enhancements to existing software products are expensed as incurred until technological feasibility has been established, at which time any additional costs are capitalized. The costs to develop software have not been capitalized as management has determined that its software development process is essentially completed concurrent with the establishment of technological feasibility.

Accounting for Equity Based Compensation

The Company accounts for equity-based compensation in accordance with Statement of Financial Accounting Standards (SFAS) No. 123(R) (revised 2004), Share-Based Payment which requires recognition of expense (generally over the vesting period) based on the estimated fair value of equity-based payments granted. The effect of accounting for equity-based awards under SFAS No. 123(R) for the three months ended September 30, 2008 and 2007, was to record equity based compensation of \$176,359, and \$410,150, respectively; and for the nine months ended September 30, 2008 and 2007 was to record equity based compensation of \$338,429, and \$434,579, respectively, of equity-based compensation expense in general and administrative expense.

The fair value of each share-based award was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions.

Expected dividend yield	—
Expected share price volatility	40% - 198%

Risk-free interest rate	3.16% - 7.50%
Expected life of options	2.5 years – 6.5 years

Another critical input in the Black-Scholes option pricing model is the current value of the common stock underlying the stock options. We use the current trading price as quoted on the OTC Pink Sheets to determine the value of our common stock. Prior to becoming a public company, aVinci Media, LC used cash sales of common and preferred units, conversions of debt instruments into common units, and the exchange ratio that was estimated to be used in the reverse merger transaction to determine the value of its common units.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Income Taxes

For the three and nine months ended September 30, 2008 and 2007, no provisions for income taxes were required. We accrue income taxes under the provisions of SFAS No. 109, Accounting for Income Taxes. Prior to June 6, 2008, aVinci Media LC was a flow-through entity for income tax purposes and did not incur income tax liabilities.

At September 30, 2008, management has recognized a valuation allowance for the net deferred tax assets related to temporary differences and current operating losses. The valuation allowance was recorded in accordance with the provisions of SFAS No. 109, Accounting for Income Taxes, which requires that a valuation allowance be established when there is significant uncertainty as 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.

In June 2008, following the merger transaction described in Note 2 below, we paid \$113,028 in federal income taxes for our September 30, 2007 federal income tax return filed in the name of Secure Alliance Holdings Corporation (SAH). Also in June 2008, we paid \$85,434 towards estimated Texas Franchise Tax in the name of SAH. Both of these items were accrued by SAH at the time of the merger transaction. In August 2008, we made a final payment of \$6,948 for SAH's September 30, 2007 federal income tax return. This income tax paid on behalf of SAH was included in the accounting for the reverse merger.

Recent Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161 (SFAS 161), "Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133." SFAS 161 amends and expands the disclosure requirements of Statement 133 with the intent to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company believes that the future requirements of SFAS 161 will not have a material effect on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities. Under SFAS 159, companies may elect to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS 159 is effective beginning in the first quarter of fiscal 2008. The adoption of the accounting pronouncement had no effect on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) (SFAS 141R), Business Combinations and SFAS No. 160 (SFAS 160), Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51. SFAS 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 141R and SFAS 160 are effective for us beginning in the first quarter of fiscal 2010. Early adoption is not permitted. The adoption of SFAS 141R and SFAS 160 is not expected to have a material impact

on the Company's financial statements.

In September 2006, the FASB issued SFAS No. 157 (SFAS 157), Fair Value Measurements, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. However, in February 2008, the FASB issued FSP FAS 157-2 which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This FSP partially defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. Effective for fiscal 2008, the Company will adopt SFAS 157 except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in FSP FAS 157-2. The adoption of SFAS 157 is not expected to have a material impact on the Company's financial statements.

Reclassifications

Certain amounts in the 2007 financial statements have been reclassified to confirm to the 2008 presentation.

aVINCI MEDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2. Agreement and Plan of Merger

Effective December 6, 2007, SAH, a publicly held company, and Sequoia executed an Agreement and Plan of Merger, whereby SAH agreed to acquire 100% of the issued and outstanding equity units of Sequoia. Each issued and outstanding membership interest of Sequoia would be converted into the right to receive .87096285 post-split shares of the SAH's common stock, or approximately 80% of its post-reorganization outstanding common stock.

On June 6, 2008, the SAH and Sequoia closed the merger transaction described above. In connection with the merger transaction, the unit holders of Sequoia exchanged all of their units for shares of common stock of SAH. The number of shares of SAH stock received in the merger represents approximately 80% of the total outstanding shares of SAH. Because the unit holders of Sequoia obtained a majority ownership in SAH through the merger, the transaction has been accounted for as a reverse merger. Accordingly, the historical financial statements reflect the operations of Sequoia through June 6, 2008 and reflect the consolidated operations of SAH and Sequoia from June 6, 2008 through June 30, 2008. As a result of the merger, Sequoia received approximately \$7.1 million in cash to fund operations in addition to the \$2.5 million previously loaned to Sequoia by SAH.

In connection with the Agreement and Plan of Merger, Sequoia entered into a Loan and Security agreement and Secured Note with SAH on December 6, 2007 in order to ensure adequate funds through the closing date. The agreement provided for SAH to loan a total of up to \$2.5 million to Sequoia through the closing date. A total of \$1 million was received under the Secured Note on December 6, 2007. On January 15, 2008 and February 15, 2008, Sequoia received \$1,000,000 and \$500,000, respectively, under the Secured Note (see Note 5). In connection with the merger closing, the \$2.5 million notes payable were eliminated along with the related interest payable of approximately \$104,000.

3. Marketable Securities Available-for-Sale

The Company owns 2,022,000 shares of the common stock of Cashbox plc as a result of the merger transaction (see Note 2). The Company determined the market value of the shares and pursuant to SFAS No. 115, Accounting for Investments in Equity and Debt Securities, and classified these shares as available for sale. Pursuant to the SFAS No. 115 the unrealized change in fair value was excluded from earnings and recorded net of tax as other comprehensive loss.

As of September 30, 2008, the common stock of Cashbox plc was recorded at a fair value of \$211,319. Unrealized losses on these shares of common stock were \$91,981, which were included in stockholders' equity as of September 30, 2008.

4. Accrued Liabilities

Accrued liabilities consisted of the following:

September 30, 2008	December 31, 2007
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Bonuses payable	\$	416,520	\$	554,000
Payroll and payroll taxes payable		257,125		229,245
Other		67,906		40,527
Totals	\$	741,551	\$	823,772

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aVINCI MEDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

5. Notes Payable

In connection with the Agreement and Plan of Merger (see Note 2), Sequoia entered into a Loan and Security Agreement and Secured Note with SAH on December 6, 2007 in order to ensure adequate funds through the merger closing date. The agreement provided for SAH to loan a total of up to \$2.5 million to Sequoia through the merger closing date. A total of \$1 million was received under the Secured Note as of December 31, 2007. An additional \$1,500,000 was advanced during the three months ended March 31, 2008. The amounts advanced under the Secured Note were secured by all assets of Sequoia, accrued interest at 10% per annum and principal and interest were due and payable on December 31, 2008. As disclosed in Note 2, in connection with the merger on June 6, 2008, the balance of notes payable of \$2.5 million and the related accrued interest of approximately \$104,000 were eliminated.

6. Related Party Transactions

Consulting Agreement

During the three and nine months ended September 30, 2008, pursuant to an agreement executed during the year ended December 31, 2007, the Company recorded expense of \$0 and \$725,000, respectively, for consulting services from Amerivon Holdings, Inc. (Amerivon), the parent company of a significant shareholder. During the three and nine months ended September 30, 2008, the Company paid Amerivon \$695,000 and \$745,000, respectively, for this agreement.

On July 1, 2008 we entered into a new sales and consulting agreement with Amerivon that terminated the agreement referenced above that was executed during the year ended December 31, 2007. During the three and nine months ended September 30, 2008, the Company recorded expense of \$683 for consulting services under this new agreement. During the three and nine months ended September 30, 2008, the Company paid Amerivon \$485 for this agreement.

Distributions

The former Series B redeemable convertible preferred unit holders were entitled to a cumulative annual distribution of \$.06 per unit. During the nine months ended September 30, 2008 and 2007, the Company accrued \$225,773 and \$175,091, respectively, for distributions due on the Series B redeemable convertible preferred units held by Amerivon. The Company paid Amerivon \$447,783 for the accrued distributions in June 2008.

Warrant Exercise

On January 30, 2008, Amerivon exercised 1,504,680 warrants to purchase common units of Sequoia for cash received of \$414,625; and on June 5, 2008, Amerivon exercised 87,096 warrants to purchase common units of Sequoia for a total price of \$46,000. These exercises, along with Amerivon's conversion of convertible preferred units, increased Amerivon's ownership percentage to 45.4% of all common units prior to the merger on June 6, 2008.

Notes Payable and Series B Redeemable Convertible Preferred Units

On January 19, 2007 and again on February 14, 2007, the Company issued \$500,000 of convertible notes payable to Amerivon. These convertible notes payable accrued interest at 9% per annum, and had a maturity date of June 30, 2007. A beneficial conversion feature in the amount of \$171,875 was recognized, all of which was accreted to interest expense as of June 30, 2007.

In December 2006, the Company entered into various loans with members of the Company totaling \$265,783. These loans bore interest at 10% per annum and were payable on or before December 31, 2007. Loan origination fees of \$20,005 were recorded as an intangible asset to be amortized over the life of the loans. On January 5, 2007, an additional \$20,000 was loaned to the Company. In April and May 2007, total outstanding principal, accrued interest, and loan origination fees of \$285,783, \$10,376, and \$20,005, respectively, were paid and the associated asset was fully amortized.

7. Common and Preferred Units

Previous to the merger (see Note 2), as of December 31, 2007, the Company had authorized 90,000,000 common units and 20,000,000 preferred units, all with no par value. Previous to the merger, the Company had designated 3,746,485 preferred units as Series A and 12,000,000 preferred units as Series B.

Series A Convertible Preferred Units

During 2008, there were no Series A preferred units issued. As of December 31, 2007, there were 3,533,720 Series A preferred units outstanding. In connection with the merger disclosed in Note 2 all series A preferred units were converted to common units and exchanged for common shares of SAH.

Series B Redeemable Convertible Preferred Units

During 2008, there were no Series B preferred units issued. As of December 31, 2007, there were 8,804,984 units of Series B preferred units outstanding. In connection with the merger disclosed in Note 2 all series B preferred units were converted to common units and exchanged for common shares of SAH.

aVINCI MEDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Common Units

As of June 5, 2008 and December 31, 2007, there were 44,762,086 and 29,070,777 common units outstanding respectively. In connection with the merger disclosed in Note 2, all common units held were exchanged for common shares of SAH.

In accordance with an executed letter agreement with Amerivon Investments LLC, on June 5, 2008, immediately preceding the closing of the merger described in Note 2, the Company issued an additional 1,525,000 common units upon the voluntary conversion of all outstanding Series B preferred units owned by Amerivon Investments LLC.

8. Options and Warrants

Common Share Warrants

The following tables summarize information about common share warrants as of September 30, 2008 and December 31, 2007:

Exercise Price	Number of Warrants Outstanding	As of September 30, 2008		As of September 30, 2008	
		Outstanding	Weighted Average Remaining Contractual Life (Years)	Exercisable	Weighted Average Exercise Price
\$ 0.53	949,350	0.8	\$ 0.53	949,350	0.53
1.16	300,000	5.8	1.16	75,000	1.16
\$.53 – 1.16	1,249,350	2.0	\$ 0.68	1,024,350	0.57

aVINCI MEDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As of December 31, 2007				
Outstanding and Exercisable				
Exercise Price	Number of Warrants Outstanding	Weighted Average		Weighted Average Exercise Price
		Remaining Contractual Life (Years)		
\$ 0.28	1,504,680	0.1		\$ 0.28
0.53	1,036,446	1.5		0.53
\$.28 -.53	2,541,126	0.7		\$ 0.38

During the nine months ended September 30, 2008, 87,096 warrants with an exercise price of \$0.53 were exercised for a total of \$46,000. In January 2008, the Company received proceeds of \$414,625 upon the exercise of 1,504,680 warrants at an exercise price of \$0.28. For the nine months ended September 30, 2008, a total of 1,591,776 warrants were exercised. All common unit warrants outstanding as of the date of the merger (see Note 2) were converted into warrants to purchase the common stock of SAH.

Common Share Options

The following tables summarize information about common share options:

	September 30, 2008	
	Number of shares	Weighted-Average Exercise Price
Outstanding at beginning of period	6,605,161	\$ 0.64
Granted	617,559	0.93
Exercised	(9,798)	0.41
Cancelled	(123,459)	0.70
Outstanding at end of period		