

Edgar Filing: E VIDEOTV INC/DE - Form 10QSB

E VIDEOTV INC/DE  
Form 10QSB  
June 26, 2002

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 10-QSB

(Mark One)

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2002  
-----

Transition report under Section 13 or 15(d) of the Exchange Act

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-27043  
-----

E-VIDEOTV, INC.

-----  
(Exact Name of Small Business Issuer as Specified in its Charter)

Delaware

51-0389325  
-----

(State or Other Jurisdiction of Incorporation or Organization)

IRS Employer Identification No.)

7333 East Doubletree Ranch Road, Suite 205, Scottsdale, AZ 85258  
-----

(Address of Principal Executive Offices)

602-421-9165  
-----

(Issuer's Telephone Number, Including Area Code)

-----  
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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   
----

APPLICABLE ONLY TO ISSUERS INVOLVED IN  
BANKRUPTCY PROCEEDINGS DURING THE  
PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

Yes  No   
----

Edgar Filing: E VIDEOTV INC/DE - Form 10QSB

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common shares, as of the latest practicable date: 31,188,882

Transitional Small Business Disclosure Format (check one):

Yes No X
---

E-VIDEOTV, INC.
FORM 10-QSB
FOR THE QUARTERLY PERIOD ENDED March 31,2002

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION . . . . . 2
Item 1. Financial Statements . . . . . 2
Item 2. Management's Discussion and Analysis and Plan of Operation. . . . . 1
PART II OTHER INFORMATION. . . . . 3
Item 1. Legal Proceedings. . . . . 3
Item 2. Changes in Securities. . . . . 3
Item 3. Defaults Upon Senior Securities. . . . . 3
Item 4. Submission of Matters to a Vote of Security Holders. . . . . 3
Item 5. Other Information. . . . . 3
Item 6. Exhibits and Reports on Form 8-K.. . . . 3
SIGNATURES. . . . . 4

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

The following financial statements are included as part of this quarterly report:

Unaudited Consolidated Balance Sheet at March 31, 2002 and December 31, 2001.
Unaudited Consolidated Statement of Operations for the period from inception, March 5, 1999, to March 31, 2002, and the three months ended March 31, 2002 and 2001.

Unaudited Consolidated Statement of Cash Flows for the period from inception, March 5, 1999, to March 31, 2002, and the three months ended March 31, 2002 and 2001.

Notes to the Unaudited Consolidated Financial Statements . . . . .

Edgar Filing: E VIDEOTV INC/DE - Form 10QSB

e-VideoTV, Inc.  
 (A Development Stage Company)  
 CONSOLIDATED BALANCE SHEETS  
 (Expressed in U.S. Dollars)

	March 31 2002
	(unaudited)
=====	
ASSETS	
Current	
Cash	\$ 11,540
Prepaid expenses	4,225
	-----
	15,765
Advances to Ziracom Digital Communications, Inc. (Note 3)	-
Non-current receivables (Note 4)	84,800
Computer equipment (net of accumulated depreciation of \$42,915 (2001: \$22,398))	42,966
Software development costs (net of accumulated amortization of \$10,898)	624,769
Debt issue costs (Note 7)	88,840
	-----
	\$ 857,140
	=====
=====	
LIABILITIES	
Current	
Accounts payable and accrued liabilities (Note 5)	\$ 322,174
Loans from related parties (Note 6)	83,173
Convertible debentures (Note 7)	337,602
Current portion of deferred revenue	60,000
Loan payable (Note 9)	-
	-----
	802,949
Non-current deferred revenue	320,000
	-----
	1,122,949
	-----
SHAREHOLDERS' DEFICIENCY	
Capital stock (Note 8)	
Issued and outstanding:	
31,188,882 (2001: 18,397,743) common shares	3,119
Additional paid-in capital	5,481,270
Share subscriptions	79,200
	-----
	5,563,589
Deficit accumulated during the development stage	(5,829,398)
	-----
	(265,809)
	-----

Edgar Filing: E VIDEOTV INC/DE - Form 10QSB

\$ 857,140  
=====

=====  
Continuance of operations (Note 1)  
Commitments (Note 11)  
Contingency (Note 12)

e-VideoTV, Inc.  
(A Development Stage Company)  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Expressed in U.S. Dollars)

	Cumulative March 5, 1999 to March 31 2002	Quarter Ended March 31 2002	Quarter End March 200
Revenue	\$ 20,000	\$ 20,000	\$
General and administrative expenses			
Compensation expense for stock options	408,583	16,000	
Corporate promotion	278,534	18,415	23
Depreciation and amortization	646,770	20,600	76
General corporate expenses	185,627	10,228	21
Interest expense	587,630	196,613	
Management and consulting fees	1,267,025	53,287	183
Office expenses	207,781	19,120	14
Professional fees	368,831	21,634	15
Rent	152,483	17,751	16
Royalties	250,000	-	
Travel	190,573	10,759	6
	4,543,837	384,407	358
Write-off of distribution rights and software development costs	1,316,935	-	
Interest income	(11,374)	-	
	5,849,398	384,407	358
Net loss	\$ 5,829,398	\$ 364,407	\$ 358
Weighted average number of common shares Outstanding		24,108,557	16,757
Net loss per share, basic and diluted		\$ (0.02)	\$

Edgar Filing: E VIDEOTV INC/DE - Form 10QSB

See accompanying notes to the consolidated financial statements.

e-VideoTV, Inc.  
 (A Development Stage Company)  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Expressed in U.S. Dollars)

	Cumulative March 5, 1999 to March 31 2002	Quarter Ended March 31 2002
CASH DERIVED FROM (APPLIED TO)		
OPERATING		
Net loss for period	\$ (5,829,398)	\$ (364,407)
Compensation expense for stock options	408,583	16,000
Write-off of distribution rights and software development costs	1,316,935	-
Depreciation and amortization	656,704	20,600
Amortization of debenture discount	530,217	177,727
Debenture Interest paid in shares	3,881	2,606
Management fee paid in shares	238,000	-
Subscription of shares for services	25,200	-
Deferred revenue	(20,000)	(20,000)
Change in non-cash operating capital		
Receivables and prepaids	14,811	6,432
Prepaid royalties	-	-
Payables and accruals	258,932	3,821
	-----	-----
	(2,396,135)	(157,221)
	-----	-----
FINANCING		
Proceeds from issuance of common shares	1,538,101	-
Shares subscribed	-	-
Convertible debentures issued	1,000,000	-
Convertible debenture issue costs	(163,250)	-
Loans from related parties	142,673	(19,540)
Loans from parent company prior to acquisition	115,000	-
Loan payable	-	(100,139)
Cash acquired on acquisition of parent company	1,001,481	-
	-----	-----
	3,634,005	(119,679)
	-----	-----
INVESTING		
Advances to Ziracom Digital Communications, Inc.	76,843	346,587
Non-current receivables	(84,800)	(52,300)
Computer equipment	(49,342)	(5,847)
Distribution rights	(300,000)	-
License	(445,000)	-
Software development	(424,031)	-

Edgar Filing: E VIDEOTV INC/DE - Form 10QSB

	(1,226,330)	288,440
Net increase in cash	11,540	11,540
Cash, beginning of period	-	-
Cash, end of period	\$ 11,540	\$ 11,540
NON-CASH ACTIVITIES NOT INCLUDED IN CASH FLOWS		
Shares issued to pay management fees	\$ 238,000	\$ -
Shares issued on conversion of debentures	\$ 118,204	\$ 52,850
Debenture interest paid in shares	\$ 3,881	\$ 2,606
Shares issued to settle loan from related party	\$ 59,500	\$ -
Shares subscribed to settle trade payables	\$ 54,000	\$ -
Shares cancelled on termination of license	\$ 30,163	\$ -
Shares issued to acquire license	\$ 791,773	\$ -
Compensation expense for stock options	\$ 408,583	\$ 16,000
Cancellation of loans from parent company on acquisition	\$ 115,000	\$ -
Value of shares issued in excess of cash acquired on acquisition of parent company	\$ 95,374	\$ -
Shares issued to acquire Ziracom (Note 3)	\$ 259,654	\$ 259,654

See accompanying notes to the consolidated financial statements

e-VideoTV, Inc.

(A Development Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars)

March 31, 2002

(Unaudited)

1. BASIS OF PRESENTATION

The company was incorporated in the state of Delaware, U.S.A. on July 25, 1997 under the name Oro Rico Mining Corporation. On August 25, 1997, ORM, Inc., an inactive company incorporated in Colorado on July 25, 1997, was merged into the company. The name of the company was changed to Asia Pacific Enterprises, Inc. on October 16, 1997 and to e-VideoTV, Inc. on August 6, 1999.

On June 23, 1999 the company acquired all of the outstanding shares of e-Video U.S.A., Inc. This business combination has been accounted for as an acquisition of the company by e-Video U.S.A., Inc.

The company had previously commenced its planned principal operations although it had not yet earned any revenue. The company's previous operational focus was to secure licensing operators for its Faster-Than-Real-Time ("FTRT") video on demand service. To that end, management devoted substantially all of the company's resources to the identification and qualification of such potential licenses.

In November 2001, the company changed its operational focus from the licensing of FTRT video on demand service to focus on the acquisition of technologies, especially in the field of video compression, and sell these technologies to interested parties and/or enter into reseller agreements. The company has sold its exclusive license rights in the U.S.A. for analog copy protection for video

Edgar Filing: E VIDEOTV INC/DE - Form 10QSB

transmissions received in FTRT back to Macrovision Corporation. The company still has its agreement with U.S.A. Video Interactive Corp. to exclusively sub-license their "Store and Forward Video System" patent in areas related to digital set-top boxes with hard-drives in the U.S.A. (Note 11). This agreement has yet to be completed.

The company has acquired, through its acquisition of Ziracom Digital Communications, Inc. ("Ziracom") (Note 3), video compression technology. The Alpha-Omega CODEC uses a set of proprietary algorithms to analyse a video signal and determine how best to apply its selection of compression techniques. The compression techniques utilized in Alpha-Omega include MPEG-Discrete Cosine Transforms, Wavelet Transforms, Color Tables, Color Quantization, and Video Masking. The company has commenced its new planned principal operations and has generated revenues in the first quarter of \$20,000. This is revenue earned by Ziracom from the sale of a five (5) year license for a total consideration of \$400,000. All funds were paid in January 2002.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The company's continued existence is dependent upon its ability to raise additional capital and to ultimately achieve profitable operations. It is management's intention to obtain debt and equity financing to fund the continued development of the Ziracom compression technologies as well as the acquisition of related technologies.

If the going concern assumptions were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported expenses and the balance sheet classifications used.

e-VideoTV, Inc.  
(A Development Stage Company)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
March 31, 2002  
(Unaudited)

=====

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

These unaudited consolidated financial statements are presented in U.S. dollars in accordance with accounting principles generally accepted in the United States of America and have been prepared on the same basis as the annual audited consolidated financial statements.

In the opinion of management, these audited consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation for each of the periods presented. The results of operations for interim periods are not necessarily indicative of results to be achieved for full fiscal years.

As contemplated by the Securities and Exchange Commission (SEC) under Rule 10-01 of Regulation S-X, the accompanying consolidated financial statements and related footnotes have been condensed and do not contain certain information that will be included in the company's annual consolidated financial statements and footnotes. For further information, refer to the consolidated financial

## Edgar Filing: E VIDEOTV INC/DE - Form 10QSB

statements and related footnotes for the years ended December 31, 2001 and 2000 included in the company's Annual Report on Form 10-KSB.

### SOFTWARE DEVELOPMENT COSTS

In accordance with Statement of Financial Accounting Standards (FAS) 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed, the company has capitalized certain computer software development costs upon the establishment of technological feasibility. Technological feasibility is considered to have occurred upon completion of a detailed program design which has been confirmed by documenting and tracing the detail program design to product specifications and has been reviewed for high-risk development issues, or to the extent a detailed program design is not pursued, upon completion of a working model that has been confirmed by testing to be consistent with the product design. Amortization is provided based on the greater of the ratios that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product, or the straight line method over the estimated useful life of the product commencing upon technological feasibility. The estimated useful life for the straight-line method is determined to be five years.

Management regularly reviews the carrying value of its software development costs to assess whether or not there has been an impairment in its carrying value. When the carrying values of these assets exceed their estimated net recoverable amounts, an impairment provision is recorded.

### RECENT ACCOUNTING PRONOUNCEMENTS

#### SFAS 141 and 142

On July 20, 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 141, Business Combinations, and SFAS 142, Goodwill and Intangible Assets. SFAS 142 is effective for fiscal years beginning after December 15, 2001; however, certain provisions of this statement apply to goodwill and other intangible assets acquired between July 1, 2001 and the effective date of SFAS 142. Major provisions of these Statements and their effective dates for the company are as follows:

e-VideoTV, Inc.

(A Development Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars)

March 31, 2002

(Unaudited)

=====

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- all business combinations initiated after June 30, 2001 must use the purchase method of accounting. The pooling of interest method of accounting is prohibited except for transactions initiated before July 1, 2001;
- intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability;
- effective January 1, 2002, goodwill and intangible assets with indefinite lives will be tested for impairment annually and whenever there is an impairment indicator;
- all acquired goodwill must be assigned to reporting units for purposes of



## Edgar Filing: E VIDEOTV INC/DE - Form 10QSB

impairment testing and segment reporting.

The company has followed SFAS 141 and 142 in accounting for its acquisition of Ziracom Digital Communications Inc. (Note 3).

SFAS 143 and 144

In July 2001, FASB issued SFAS No 143, Accounting for Asset Retirement Obligations. This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to all entities. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002.

In August 2001, the FASB issued SFAS No 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes FASB Statement No 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The provisions of the statement are effective for financial statements issued for fiscal years beginning after December 15, 2001.

The Company is evaluating the impact of the adoption of these standards and has not yet determined the effect of adoption on its financial position and results of operations.

=====

### 3. ACQUISITION

Pursuant to a Share Purchase Agreement entered into between the Company, Ziracom Digital Communications Inc, and its shareholders, the company agreed to purchase all of Ziracom's outstanding common shares for 8,655,139 of the Company's common shares.

Ziracom shareholders will also receive additional shares should earnings before interest, taxes, depreciation and amortization exceed \$500,000 for the period August 1, 2001 and August 31, 2002. Shares priced at their closing bid price on August 31, 2002 would be issued in an amount that equaled the amount of Ziracom earnings as determined above. Should these shares be issued, they will be recorded at an estimate of their fair value upon issuance.

As a result of this transaction, Ziracom will become a subsidiary of e-VideoTV, Inc. The transaction has been accounted for by the purchase method with the company as the acquirer. The results of Ziracom's operations are included subsequent to its acquisition date on February 14, 2002.

e-VideoTV, Inc.  
(A Development Stage Company)  
Notes to the Consolidated Financial Statements  
(Expressed in U.S. Dollars)  
March 31, 2002  
(Unaudited)

=====

### 3. ACQUISITION (Continued)

## Edgar Filing: E VIDEOTV INC/DE - Form 10QSB

Net identifiable assets acquired:

Receivables	\$	83,275
Capital assets		25,724
Software development costs		635,667
Payables and accruals		(85,012)
Deferred revenue		(400,000)
		-----
	\$	259,654
Consideration		=====
8,655,139 common shares	\$	259,654
		=====

If the acquisition of Ziracom had occurred at the beginning of the fiscal year 2002, the company's net loss would have increased by \$5,521. If the acquisition had occurred at the beginning of the previous fiscal year, the company's net loss would have increased by approximately \$1,500,000.

=====

#### 4. NON-CURRENT RECEIVABLES

As at March 31, 2002, the company had advanced \$80,500 (December 31, 2001: \$32,500) to companies that it is considering either acquiring or entering into a business relationship with. These loans bear no interest and have no set terms of repayment.

=====

#### 5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31 2002		December 31 2001
	-----		-----
Accrued management fees (Note 10)	\$ 82,500	\$	70,000
Trade payables and accrued liabilities	239,674		163,341
	-----		-----
	\$ 322,174	\$	233,341
	=====		=====

=====

#### 6. LOANS FROM RELATED PARTIES

		March 31 2002		December 31 2001
		-----		-----
Non-interest bearing loans from directors with no specific terms of repayment	\$	59,173	\$	78,713
Loans from shareholders bearing no interest, unsecured and repayable at \$3,000 per month. At March 31, 2002, the company's payments under this loan are seven months in arrears		24,000		24,000
		-----		-----
	\$	83,173	\$	102,713
		=====		=====

Edgar Filing: E VIDEOTV INC/DE - Form 10QSB

e-VideoTV, Inc.  
(A Development Stage Company)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
March 31, 2002  
(Unaudited)

=====

7. CONVERTIBLE DEBENTURES

On July 6, 2001, the company received \$1,000,000 from the sale of convertible debentures and warrants to purchase up to 666,666 shares of the company's common stock (Note 8). The principal on the debentures is due June 6, 2003. Interest at 8% per annum on the debenture principal outstanding is due quarterly commencing September 30, 2001. The debentures and any unpaid and accrued interest may be converted at the option of the holder into common shares of the company. The conversion price per share is the lesser of \$0.4747 and 80% of the average of the three lowest closing prices of the common shares on the principal market where the shares trade for the sixty trading days prior to conversion.

The company may redeem the convertible debentures on five days notice by paying the holders 190% of the principal outstanding plus accrued interest. Upon receiving the repayment notice, the debenture holders have the option of converting the debentures to common shares within five days.

The company has determined the fair value of the warrants to be \$486,600, using the Black Scholes option-pricing model. This warrant value is reflected as an addition to paid-in capital and a discount to the debenture principal.

The debentures contain a "beneficial conversion" feature as the fair value of the underlying stock was greater than the fair value of the debenture at the date of issuance. The value of the beneficial conversion feature has been calculated as \$513,400, which has been recognized as an addition to paid-in capital and a discount to the debenture principal.

The discounts to the debenture principal are amortized over the life of the debentures as interest expense. Any unamortized discounts related to debentures converted to common stock are written off as interest expense at the conversion date.

The company incurred \$163,750 in cash commissions and expenses related to the issuance of the debentures, which has been recognized as a deferred cost to be amortized by the interest method over the term of the debt. Any unamortized issue costs related to debentures converted to common stock are written off as interest expense at the conversion date.

e-VideoTV, Inc.  
(A Development Stage Company)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
March 31, 2002  
(Unaudited)

=====

7. CONVERTIBLE DEBENTURES (Continued)

The following table summarizes the activity in the debentures to March 31, 2002.

Edgar Filing: E VIDEOTV INC/DE - Form 10QSB

	Convertible Debentures			Deferred Issue Costs
	Original Principal	Unamortized Discounts	Net Book Value	
DURING THE YEAR ENDED DECEMBER 31, 2001				
Debentures issued on July 6, 2001	\$1,000,000	\$ 1,000,000	\$ -	\$ 163,250
Debentures converted to common stock	(65,354)	(59,251)	(6,103)	(9,673)
Amortization of discounts		(243,770)	243,770	(39,795)
Balance, December 31, 2001	934,646	696,979	237,667	113,782
DURING THE THREE MONTHS ENDED MARCH 31, 2002				
Debentures converted to common stock	(52,850)	(39,411)	(13,439)	(6,434)
Amortization of discounts		(113,374)	113,374	(18,508)
Balance, March 31, 2002	\$ 881,796	\$ 544,194	\$ 337,602	\$ 88,840

The company has not made interest payments as required under the terms of the convertible debenture agreements. At March 31, 2002, \$51,808 in interest on these convertible debentures has been accrued but is unpaid. Notwithstanding this technical default, the debenture holder has agreed not to demand repayment of the debenture.

8. CAPITAL STOCK

AUTHORIZED CAPITAL

100,000,000 shares of common stock with a par value of \$0.0001  
5,000,000 shares of preferred stock with a par value of \$0.0001

e-VideoTV, Inc.

(A Development Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars)

March 31, 2002

(Unaudited)

8. CAPITAL STOCK (Continued)

STOCK OPTIONS

The company accounts for the options issued to directors and employees in

## Edgar Filing: E VIDEOTV INC/DE - Form 10QSB

accordance with the provisions of APB Opinion No. 25, Accounting for Stock Options Issued to Employees. Had compensation cost for the stock option plan been determined based on the fair value at the grant date consistent with the method of SFAS No. 123, Accounting for Stock-Based Compensation, the company's net loss and net loss per share would have been the pro forma amounts indicated below:

	March 31 2002 -----	December 31 2001 -----
NET LOSS:		
Actual net loss	\$ (364,407)	\$ (2,756,522)
Pro forma net loss	\$ (402,407)	\$ (3,300,362)
LOSS PER SHARE:		
Actual net loss per share	\$ (0.02)	\$ (0.16)
Pro forma net loss per share	\$ (0.02)	\$ (0.19)

The fair value of each option grant was estimated at the grant date using the Black-Scholes option-pricing model for the period ended March 31, 2002, assuming a risk-free interest rate of 4.88%, volatility of 2.16%, zero dividend yield, and an expected life of 5.00 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options and warrants which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the company's employee stock options and warrants have characteristics significantly different from traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, in management's opinion, the existing models do not necessarily provide a reliable measure of the fair value of its employee stock options.

The company granted options to purchase 4,100,000 shares of the company's common stock to directors during the period ended March 31, 2002.

During the period ended March 31, 2002, the company granted 800,000 options to purchase shares to consultants and recognized expense related to these options of \$16,000. The expense amount was determined by the fair value of the options issued calculated using the Black-Scholes model.

e-VideoTV, Inc.  
 (A Development Stage Company)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (Expressed in U.S. Dollars)  
 March 31, 2002  
 (Unaudited)

=====

### 8. CAPITAL STOCK (Continued)

Shares issuable under convertible debentures

Based on an estimate of the company's share price at March 31, 2002, the terms of the company's convertible debenture (Note 7) would enable the debenture holder to exercise its conversion rights to acquire approximately 88,000,000 common shares.

## Edgar Filing: E VIDEOTV INC/DE - Form 10QSB

=====

### 9. INCOME TAXES

At March 31, 2002, the company had net operating losses carried forward of approximately \$5,500,000 (December 31, 2001: \$5,140,000) that may offset against future taxable income until 2020. The potential tax benefits of the losses carried forward are offset by a valuation allowance of the same amount as there is substantial uncertainty that the losses will be used before they expire.

=====

### 10. RELATED PARTY TRANSACTIONS

During the period ending March 31, 2002 consulting fees of \$32,500 (2001: \$249,000) have been paid to other companies that employ other current and former directors and officers of the company. Accrued liabilities at March 31, 2002 include \$82,500 (2001: \$70,000) of amounts due to related parties under management or consulting agreements.

=====

### 11. COMMITMENTS

#### PATENT LICENSING AGREEMENT

On June 27, 2001, the company entered into a short form sub-licensing agreement for certain digital video delivery technology with an international designer and supplier of high-tech internet streaming video and video-on-demand systems, services and innovative end-to-end solutions.

In consideration of this sub-license, the company has agreed to issue \$300,000 of its common shares on the date a long form agreement is signed. The parties have yet to finalize this long form agreement. Based on an estimate of the company's share price at December 31, 2001, the company would be required to issue 6,000,000 shares upon finalization of a long form agreement.

=====

### 12. CONTINGENCY

On January 8, 2002, the company was served with a writ regarding allegations of intentional and negligent interference with business relationships. This writ was also served to Ziracom Digital Communications, Inc., and three of its directors. The plaintiffs in the lawsuit have claimed damages of approximately \$2,000,000. The amount of damages to be awarded (if any) however, is not determinable at this time and as such, no amounts have been recorded in these financial statements.

E-VIDEOTV, INC.

(A Development Stage Company)

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars)

March 31, 2002

(Unaudited)

### 1. BASIS OF PRESENTATION

## Edgar Filing: E VIDEOTV INC/DE - Form 10QSB

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

#### RESULTS OF OPERATIONS

The Company completed its acquisition of Ziracom Digital Communications Inc. ("Ziracom") on February 14, 2002 by issuing 8,655,139 restricted common shares for 100% of the outstanding issued shares of Ziracom. The primary asset of Ziracom is its "Alpha-Omega" Video Compression CODEC, which offers a powerful solution to users needing high compression rates while maintaining excellent video quality for both video streaming applications, and video file downloads. This acquisition is an extension of the company's focus on video compression technologies to electronically deliver video signals for video surveillance, wireless hand-held computers, and video cell phones.

The Ziracom CODEC has recently been completed and its version 4+ is now being marketed throughout North America. This CODEC has a number of proprietary techniques to perform video compression using an automated intelligent algorithm that selects in real-time the most efficient combinations of its internal compression methods for each scene and frame. These video techniques include wavelet compression, color quantization and optimization, image motion approximation, and DCT transforms using MPEG-4 and H.263 standards, along with other proprietary processes. The CODEC also incorporates additional proprietary methods to reduce image macro blocking in low bandwidth applications. The Ziracom CODEC supports file formats of type ASF (streaming) and AVI (video files).

In January 2002, Ziracom sold its initial CODEC 3.3 to a customer for \$400,000, covering a 5-year license. Ziracom received the entire \$400,000 in January and has recognized \$20,000 of this revenue in e-Video's accompanying financial statements as Ziracom was acquired by e-Video on February 14, 2002.

The Company intends to market the Alpha Omega technology through its in-house personnel and by reseller agreements with outside parties. A number of interested companies are currently assessing the CODEC software. The applications for the CODEC include internet video streaming, wireless video devices, video cell phones, cable & satellite television broadcasts, remote security devices, remote news gathering, and downloading of movies. Both the encoder and decoder can be customized to be compatible with alternate platforms, custom solutions, and stand-alone solutions.

The Company intends to continue to develop this technology to include handheld PDA devices, and fully intends to license the CODEC to semiconductor companies for embedding into their devices.

The management team has expanded with the addition of Rod Gunn as President and Chief Operating Officer. Mr. Gunn is responsible for all operations, including development of the marketing strategy and continued development of next generation applications of the software. The technology continues to be developed from the Company's head office in Scottsdale, Arizona and Mr. Gunn has assumed responsibility for this operation.

The Company recognizes that it will require additional financing as its marketing program builds up. Additional funding will be required for continued development of its CODEC as well. It is currently negotiating with interested parties for a term loan, which would be repaid out of future sales. The Company acknowledges that it currently does not have sufficient funds to carry on its operation by management intends to seek financial assistance to alleviate this

## Edgar Filing: E VIDEOTV INC/DE - Form 10QSB

concern.

### LIQUIDITY AND CAPITAL RESOURCES

During the quarter ending March 31, 2002, the Company had revenue of \$20,000, being the earned portion of a \$400,000 five-year license re the sale of its Alpha Omega version 3.3. During the quarter ending March 31, 2002, the Company incurred losses of \$364,407. The primary expense is interest, wherein the Company recognized interest costs of \$197,000 re its convertible debenture financing of July 2001. This is mainly debenture discount, and is not a cash expense.

The Company has reduced its operating expenses significantly and will continue to monitor these closely. Interest payable re the debenture financing amounts to \$17,883 for the quarter, and has not been paid. The balance owing on its convertible debenture is \$881,000 as at March 31, 2002.

The 8% convertible debenture closed on July 6, 2001, with the Company receiving \$1,000,000 less issue costs. Interest is payable quarterly and to date, this interest has accrued and not been paid. At March 1, 2002, the accrued interest amounted to \$51,808. This includes \$17,883 in the quarter ending March 31, 2002. The debenture is due June 6, 2003. The Lender has provided a waiver re default on the outstanding interest. The debenture is convertible based on a conversion formula. In addition to the debenture, the fund received warrants of 666,666 to purchase additional shares in the Company. These warrants have an exercise price of approximately \$0.40 per share. The Company is in discussions with the Lender regarding the debt and both parties are actively working towards a mutually satisfactory option to the ultimate repayment of this debt.

The floating conversion price for the convertible debentures is the lesser of (i) 80% of the average of the three lowest closing bid prices of the common stock for the twenty (20) trading days prior to the closing date, or (ii) 80% of the average of the three lowest closing bid prices of the common stock for the sixty (60) trading days prior to the conversion date, as defined in the convertible debenture. The maximum number of shares of common stock that the subscriber or group of affiliated subscribers may own after conversion at any given time is 4.99%. In connection with the financing, the company entered into certain covenants including, but not limited to, the following: (i) the company may not redeem the convertible debentures without the consent of the holder; (ii) the company will pay to certain finders a cash fee of ten percent (10%) of the principal amount of the convertible debentures for location of the financings; (iii) the company has agreed to incur certain penalties for untimely delivery of the shares.

The Company further recognizes that its development schedule will be delayed unless additional capital required is available when needed.

Inflation has not been a factor during the quarter ending March 31, 2002.

## PART II

### OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS.

On January 8, 2002, the company was served with a writ regarding allegations of intentional and negligent interference with business relationships. This writ was also served to Ziracom Digital Communications,



Edgar Filing: E VIDEOTV INC/DE - Form 10QSB

Inc., and three of its directors. The plaintiffs in the lawsuit have claimed damages of approximately \$2,000,000.

The amount of damages to be awarded (if any) however, is not determinable at this time and as such, no amounts have been recorded in these financial statements.

ITEM 2. CHANGES IN SECURITIES.

There are no changes in the Company's securities.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

There have been no defaults upon senior securities.

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

No matters were submitted to a vote of security holders during the six months ended June 30, 2001.

ITEM 5. OTHER INFORMATION.

The Company has no other information to report.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits.

None.

(b) Reports on Form 8-K.

The Company filed a Form 8-K in October 2001 re the acquisition of Ziracom Digital Communications Inc.

SIGNATURES

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

E-VIDEOTV, INC.

Date June 15, 2002 By /s/ Robert G. Dinning
-----
Robert G. Dinning
Chairman and Chief Financial Officer

Date June 15, 2002 By /s/ Rod Gunn
-----
Roderick J. Gunn
President and Chief Operating Officer