

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

E VIDEOTV INC/DE  
Form 10QSB  
November 19, 2001

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 Sept 30, 2001  
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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)

480-778-1499  
-----

(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   
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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: 16,817,934

Transitional Small Business Disclosure Format (check one):

Yes No X
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E-VIDEOTV, INC.
FORM 10-QSB
FOR THE QUARTERLY PERIOD ENDED SEPT 30, 2001

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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 Sept 30, 2001 and December 31, 2000. . .
Unaudited Consolidated Statement of Operations for the period from inception, March 5, 1999, to Sept 30, 2001, and the nine months ended Sept 30, 2001
Unaudited Consolidated Statement of Cash Flows for the period from inception, March 5, 1999, to Sept 30, 2001, and the nine months ended Sept 30, 2001. . . .
Unaudited Consolidated Statement of Shareholders' Equity for the period from inception, March 5, 1999, to Sept 30, 2001 . . . . .
Notes to the Unaudited Consolidated Financial Statements . . . . .

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E-VIDEOTV, INC.  
 (A Development Stage Company)  
 UNAUDITED CONSOLIDATED BALANCE SHEET  
 (Expressed in U.S. Dollars)

	September 30 2001	December 31 2000
<b>ASSETS</b>		
Current		
Cash	\$ 227,546	\$ 2,276
Accounts receivable and prepaids	26,000	9,176
Prepaid royalties (Note 3)	85,783	-
	-----	-----
	339,329	11,452
Computer equipment	31,299	19,622
Distribution rights and software development (Note 3)	998,899	1,229,418
Advances to Ziracom Digital Communications Inc. (Note 4)	106,050	-
Debt issue costs (Note 7)	140,948	-
	-----	-----
	\$ 1,616,525	\$ 1,260,492
	=====	=====
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities (Note 5)	\$ 286,858	\$ 495,149
Loans from related parties (Note 6)	111,177	99,000
Convertible debentures (Note 7)	120,930	-
	-----	-----
	518,965	594,149
	-----	-----
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 8)		
Authorized:		
100,000,000 shares of common stock, \$0.0001 par value		
5,000,000 shares of preferred stock, \$0.0001 par value		
Issued and outstanding:		
18,367,318 (2000: 16,757,072) common shares	1,837	1,676
Additional paid-in capital	5,071,380	3,328,136
Share subscriptions	113,500	45,000
	-----	-----
	5,186,717	3,374,812
Deficit accumulated during the development stage	(4,089,157)	(2,708,469)
	-----	-----
	1,097,560	666,343
	-----	-----
	\$ 1,616,525	\$ 1,260,492
	=====	=====

Continuance of operations (Note 1)

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Commitments (Note 10)

See accompanying notes to the consolidated financial statements

E-VIDEOTV, INC.

(A Development Stage Company)

UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS

(Expressed in U.S. Dollars)

	Cumulative March 5, 1999 to September 30 2001	Three Months Ended September 30 2001	Three Months Ended September 30 2000	Nine M Septemb
Revenue	\$ -	-	\$ -	\$ -
<hr style="border-top: 1px dashed black;"/>				
General and administrative expenses				
Amortization	546,363	82,532	-	23
Compensation expense for stock option	392,583	-	-	
Corporate promotion	224,398	32,440	22,809	6
General corporate expenses	189,920	23,202	21,644	5
Interest expense	177,948	177,948	-	17
Management and consulting fees	1,184,539	156,469	65,156	44
Office expenses	170,856	16,705	19,787	5
Professional fees	336,971	28,559	34,112	8
Rent	117,469	8,322	5,601	3
Royalties	166,667	62,500	-	16
Travel	168,787	30,198	18,063	5
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
	3,676,501	618,875	187,172	1,38
Write-off software development costs (Note 3)	424,031	-	-	
Interest income	(11,375)	(1,319)	(5)	(
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Net loss	\$ 4,089,157	\$ 617,556	\$ 187,167	\$ 1,38
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
Weighted average number of common shares outstanding		18,308,959	9,789,056	16,65
		<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
Net loss per share, basic and diluted		\$ 0.03	\$ 0.02	\$
		<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

See accompanying notes to the consolidated financial statements

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E-VIDEOTV, INC.  
 (A Development Stage Company)  
 UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS  
 (Expressed in U.S. Dollars)

	Cumulative March 5, 1999 to September 30 2001	Nine Months Ended September 30 2001	Nine Septe
CASH DERIVED FROM (APPLIED TO)			
OPERATING			
Net loss	\$ (4,089,157)	\$ (1,380,688)	\$ (
Compensation expense for stock options	392,583	-	
Write-off software development costs	424,031	-	
Depreciation and amortization	556,297	238,761	
Debenture discount and issue cost amortization	158,913	158,913	
Interest paid in shares	224	224	
Change in non-cash operating working capital			
Receivables and prepaids	(13,396)	(16,824)	
Prepaid royalties	(85,783)	(85,783)	
Payables and accruals	546,628	83,709	
	-----	-----	-----
	(2,109,660)	(1,001,688)	(
	-----	-----	-----
FINANCING			
Proceeds from issuance of common shares	1,538,101	444,500	1,
Convertible debentures issued	1,000,000	1,000,000	
Convertible debenture issue costs	(163,250)	(163,250)	
Loans from related parties	170,677	71,677	
Loans from parent company prior to acquisition	115,000	-	
Cash acquired on acquisition of parent company	1,001,481	-	
	-----	-----	-----
	3,662,009	1,352,927	1,
	-----	-----	-----
INVESTING			
Advances to Ziracom Digital Communications Inc.	(106,050)	(106,050)	
Distribution rights	(300,000)	-	
License	(445,000)	-	(
Software development	(424,031)	-	
Office equipment	(49,722)	(19,919)	
	-----	-----	-----
	(1,324,803)	(125,969)	(
	-----	-----	-----
Increase (decrease) in cash	227,546	225,270	
Cash, beginning of period	-	2,276	
	-----	-----	-----
Cash, end of period	\$ 227,546	\$ 227,546	\$
	=====	=====	=====
NON-CASH ACTIVITIES NOT INCLUDED IN CASH FLOWS			
Ascribed value of shares issued to acquire copy protection license	\$ 791,773	\$ -	\$

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Cancellation of loans from parent company on acquisition	\$	115,000	\$	-	\$
Ascribed value of shares issued in excess of cash acquired on acquisition of parent company	\$	95,374	\$	-	\$
Shares issued to pay management fees	\$	238,000	\$	238,000	\$
Shares issued on conversion of debentures	\$	15,681	\$	15,681	\$
Shares issued to pay debenture interest	\$	224	\$	224	\$
Shares subscribed to settle trade payables	\$	54,000	\$	54,000	\$
Shares subscribed to settle loan from related party	\$	59,500	\$	59,500	\$

See accompanying notes to the consolidated financial statements.

E-VIDEOTV, INC.

(A Development Stage Company)

UNAUDITED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Expressed in U.S. Dollars)

Inception, March 5, 1999, to September 30, 2001

	Number of Shares	Par Value	Additional Paid-in Capital	Share Subscriptions	Def
	-----	-----	-----	-----	-----
Issuance of shares for cash on incorporation	1	\$ 1	\$ -	\$ -	\$ -
Adjustment for change in share structure resulting from acquisition of e-Video U.S.A., Inc.	6,623,015	661	(661)	-	-
Shares outstanding at date of acquisition of e-Video U.S.A., Inc., previously issued for cash, net of issue costs	8,965,343	897	1,095,958	-	-
Net loss, inception to December 31, 1999	-	-	-	-	(478)
Balance, December 31, 1999	15,588,359	1,559	1,095,297	-	(478)
Issuance of shares for cash	666,000	67	1,048,533	-	-
Issuance of shares to acquire copy protection license	502,713	50	791,723	-	-
Share subscriptions received	-	-	-	45,000	-
Compensation expense for stock options	-	-	392,583	-	-
Net loss, year ended December 31, 2000	-	-	-	-	(2,230)

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Balance, December 31, 2000	16,757,072	1,676	3,328,136	45,000	(2,708)
Issuance of shares for cash	633,000	63	488,937	(45,000)	
Issuance of shares to pay management fees	915,384	92	237,908	-	
Issuance of shares on exercise of stock options	1,000	-	500	-	
Share subscriptions received	-	-	-	113,500	
Beneficial conversion feature of debentures	-	-	513,400	-	
Value of warrants issued as part of debentures	-	-	486,600	-	
Issuance of shares on conversion of debentures and interest	60,862	6	15,899	-	
Net loss, period ending September 30, 2001	-	-	-	-	(1,380)
	-----	-----	-----	-----	-----
Balance, September 30, 2001	18,367,318	\$1,837	\$5,071,380	\$ 113,500	\$ (4,089)
	=====	=====	=====	=====	=====

See accompanying notes to the consolidated financial statements.

E-VIDEOTV, INC.

(A Development Stage Company)

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars)

September 30, 2001

(Unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated balance sheets as of September 30, 2001 and December 31, 2000, the condensed consolidated statements of earnings for the three and nine month periods ended September 30, 2001 and 2000 and the condensed consolidated statements of cash flows for the nine months ended September 30, 2001 and 2000, have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows at September 30, 2001 and 2000 have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 2000 Form 10-K filed with the Securities and Exchange Commission, Washington, D.C. 20549. The results of operations for the three and nine month periods ended September 30, 2001 and 2000 are not necessarily indicative of the operating results for the full year.

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The company has not yet commenced its planned principal operations and it has not yet earned any revenue. The company's current operational focus is to acquire technologies and patent rights related to the electronic delivery of movies and videos and to sub-license those technologies and rights. The company has acquired the exclusive rights in the U.S.A. to license the use of Macrovision Corporation's analog copy protection for digital video transmissions received in Faster-Than-Real-Time ("FTRT"). The company also has an 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.

The company expects the delivery of digital set-top boxes with caching hard-drives suitable for FTRT operations to grow substantially over the next several years. The company also intends to activate and acquire licenses in other territories and will require cash significantly in excess of its current resources to complete its plan. The ability of the company to execute its business plan is dependent on the company's ability to obtain additional financing.

The company is devoting significant efforts to obtaining private financing to fund the continued development and acquisition of related technologies.

These financial statements have been prepared on the basis that the company is a going concern. These financial statements do not include adjustments that would be necessary should the company be unable to continue as a going concern.

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### 2. RECENT ACCOUNTING PRONOUNCEMENTS

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 141 is effective for all business combinations completed after June 30, 2001. 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:

- 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.
- goodwill, as well as intangible assets with indefinite lives, acquired after June 30, 2001, will not be amortized. Effective January 1, 2002, all previously recognized goodwill and intangible assets with indefinite lives will no longer be subject to amortization.
- 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 impairment testing and segment reporting.

Although it is still reviewing the provisions of these Statements, management's preliminary assessment is that these Statements will not have a material impact on the company's financial position or results of operations.



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E-VIDEOTV, INC.

(A Development Stage Company)

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars)

September 30, 2001

(Unaudited)

3. DISTRIBUTION RIGHTS AND SOFTWARE DEVELOPMENT

Includes the net cost to date of an exclusive license to use certain technology for the analog copy protection of digital video transmissions received in Faster-Than-Real-Time and stored in home devices on set-top boxes for later viewing. This five year license ends January 31, 2005. There is an extension provision to January 31, 2010. Usage royalties of 1% of gross transaction fees are payable to the licensor. Minimum annual royalties of \$250,000 are payable in advance on January 31 each year from 2000 until 2004. Should the license be extended, royalties of \$350,000 are payable each January 31.

The company wrote off software costs of approximately \$424,000 in December 2000 as these software development costs were no longer applicable in the company's current business model of licensing.

4. ADVANCES TO ZIRACOM DIGITAL COMMUNICATIONS, INC.

Subsequent to September 30, 2001, the company acquired all of the issued and outstanding shares of Ziracom Digital Communications, Inc. ("Ziracom") (Note 11). The advances to Ziracom are non-interest bearing until October 31, 2001 at which time they are due. If the advances are not repaid by October 31, 2001, a debenture is to be issued to the company covering all of the assets of Ziracom. The debenture is to be due October 31, 2002 and pay interest at 9% per annum.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30 2001	December 31 2000
	-----	-----
Accrued management fees	\$ 156,000	\$ 223,000
Trade payables	130,858	272,149
	-----	-----
	\$ 286,858	\$ 495,149
	=====	=====

6. LOANS FROM RELATED PARTIES

	September 30 2001	December 31 2000
	-----	-----
Loans from directors with no specific terms of repayment	\$ 84,177	\$ 51,500
Demand loan from a shareholder. Interest free until August 16, 2001 and bears interest at U.S. prime		

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plus 2% thereafter	-	47,500
Loans from shareholders bearing no interest, unsecured and repayable at \$3,000 per month	27,000	-
	-----	-----
	\$ 111,177	\$ 99,000
	=====	=====

E-VIDEOTV, INC.

(A Development Stage Company)

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars)

September 30, 2001

(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 145% of the principal outstanding plus accrued interest, if the repayment is made by January 2, 2002; otherwise, 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.

The following table summarizes the activity in the debentures during the nine months ended September 30, 2001.

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	Convertible Debentures			Deferred Issue Costs
	Principal	Discounts	Net Book Value	
Debentures issued on July 6, 2001	1,000,000	1,000,000	-	163,250
Debentures converted to common stock	(15,681)	(15,681)	-	(2,560)
Amortization of discounts	-	(120,930)	120,930	(19,742)
Balance, September 30, 2001	984,319	863,389	120,930	140,948

The company has not made its September 30, 2001 interest payment of \$18,811 as required under the terms of the convertible debenture agreements. Notwithstanding this technical default, the creditor has agreed not to demand repayment of the loan.

E-VIDEOTV, INC.

(A Development Stage Company)

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars)

September 30, 2001

(Unaudited)

8. CAPITAL STOCK

AUTHORIZED CAPITAL

During 2000 the company increased its authorized capital from 30,000,000 common shares with a par value of \$0.0001, to 100,000,000 shares of common stock, par value \$0.0001 per share and 5,000,000 shares of preferred stock, par value \$0.0001 per share.

WARRANTS

The following warrants to purchase shares of common stock were issued during the nine months ended September 30, 2001 and are outstanding at September 30, 2001:

Number of shares issuable on exercise	exercise price per share	expiry date	particulars of issuance
588,000	0.30 until March 15, 2002 and \$0.50 after then	March 15, 2003	issued in connection with the issuance of shares for cash
666,666	the lesser of \$0.73 and 120% of the average of the three lowest closing prices of the common shares on the principal market where the shares trade for the ten trading days prior to exercise	July 6, 2006	issued in connection with the issuance of the convertible debenture (Note 7)

STOCK OPTIONS

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The following table summarizes outstanding and exercisable share options at September 30, 2001:

Options Outstanding and Exercisable			
Number Outstanding	Grant Date	Average Remaining Contractual Life (In Years)	Weighted Average Exercise Price Per Share
-----	-----	-----	-----
1,069,000	11/30/00	4.17	\$ 0.50
3,600,000	01/12/01	4.29	0.25
-----		-----	-----
4,669,000		4.26	\$ 0.31
=====		=====	=====

The company granted options to purchase 3,600,000 shares of the company's common stock to directors during the nine months ended September 30, 2001. No expense has been recorded related to these options.

E-VIDEOTV, INC.

(A Development Stage Company)

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars)

September 30, 2001

(Unaudited)

### 8. CAPITAL STOCK (Continued)

#### SHARE SUBSCRIPTIONS

	September 30, 2001		December 31, 2000	
	Number	Amount	Number	Amount
-----	-----	-----	-----	-----
Share subscriptions received			45,000	45,000
Shares to be issued in settlement of trade payables	180,000	54,000	-	-
Shares to be issued in settlement of loan from related party	119,000	59,500	-	-
	-----	-----	-----	-----
	299,000	\$ 113,500	45,000	\$ 45,000
	=====	=====	=====	=====

#### ESCROWED SHARES

During 1999, a former director of the company placed 345,000 shares of common stock into escrow. These shares were released to the former director on February 9, 2001.

In addition, all of the 6,623,016 common shares issued on the acquisition of e-VideoTV, Inc. were held in escrow at December 31, 2000. These shares were

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released from escrow on February 9, 2001.

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### 9. INCOME TAXES

At September 30, 2001, the company had net operating losses carried forward of approximately \$3,500,000 (December 31, 2000: \$2,100,000) 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 carried forward will not expire unused.

=====

### 10. COMMITMENTS

#### ADVISORY SERVICES AGREEMENT

On January 30, 2001, the company entered into a 12 month exclusive agreement with a financial advisory company, which will provide advisory services to the company in the areas of corporate finance and capital placement transactions. Compensation varies depending on the type of service rendered and will be paid out of the proceeds of any financing obtained by this financial advisory company. The agreement specifies a minimum fee of \$250,000 to be paid only if financing is secured.

#### 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.

E-VIDEOTV, INC.

(A Development Stage Company)

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars)

September 30, 2001

(Unaudited)

### 10. COMMITMENTS (Continued)

Under the short form agreement, the company has committed to certain performance milestones in regard to royalties to be generated from the exploitation of this sub-license. Specifically, the company has agreed to generate a minimum of \$250,000 of gross royalty fees in year 1, \$500,000 in year 2, \$1,000,000 in year 3 and in years 4 and thereafter the company agrees to grow these royalties at a rate of 15% per annum. The company will be entitled to retain 50% of all royalties generated in the event these minimum royalty targets are met.

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### 11. SUBSEQUENT EVENT

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On August 24, 2001, the company agreed to purchase all of the outstanding shares of Ziracom Digital Communications, Inc., a Delaware corporation with its principal offices located in Vancouver, British Columbia, Canada, in exchange for 8,655,138 shares of common stock in the company.

The agreement was approved by a majority of the shareholders of both the company and Ziracom on October 23, 2001.

Of the 8,655,138 shares to be issued, 4,327,569 shares will be held in escrow. The escrowed shares will be released over a twelve month period, contingent upon Ziracom's performance, as follows:

1. 1,081,892 shares will be released if Ziracom achieves sales of \$382,000 for the period August 1, 2001 to January 31, 2002;
2. 1,081,892 shares will be released if Ziracom completes version 4.0 of its product Alpha Omega. The version must be ready for market and must achieve a file size of 70% of original file size (based on Alpha Omega Version 3.2), have Digital Rights Management (DRM) ability, and be compatible with Media Player versions 7 and 8 and Windows CE for hand-held devices.
3. 2,163,785 shares will be released if Ziracom achieves pre-tax earnings of \$1,406,460 by July 31, 2002.

If the market price of the company's common shares at the release date is less than \$0.50 per share, additional shares will be issued to effect the same value as if the market price was at \$0.50 per share.

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

#### RESULTS OF OPERATIONS

The Company continues to formulate its plan of operation to market technologies related to video delivery, video compression, and video-on-demand. The Company has recently signed an agreement (June 27, 2001) with USA Video Interactive Corp to license exclusively, the rights to sublicense their "Store and Forward Video System" patent for broadband applications in the USA. The Company and USA Video are preparing the long form agreement which is not as yet finalized. The Company intends to sublicense this technology to set-top-box manufacturers and cable, satellite, and broadband operators. The Company also has exclusive rights in the USA to license the use of Macrovision Corporation's analog copy protection on digital video transmissions received in Faster Than Real Time (FTRT) and stored in home devices such as set-top boxes for later viewing.

On August 24, 2001 the Company signed an agreement to acquire all of the issued and outstanding shares of Ziracom Digital Communications Inc., a Nevada corporation with principal offices located in Vancouver, British Columbia, Canada, carrying out the business of development and sale of video compression technologies. Ziracom's proprietary video compression technologies offer several advantages for video transmission in the entertainment, Internet and wireless industries. The agreement calls for the issuance of a total of 8,655,138 restricted common shares of the Company. This transaction closed on October 23, 2001 after a majority of the shareholders of Ziracom approved the transaction. The agreement called for the issuance on closing of 4,327,569 restricted common shares with the remaining 4,327,569 common shares to be held in escrow. These escrowed shares will be released over a 12-month period, contingent upon Ziracom's performance:

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1. 1,081,892 restricted shares issued if Ziracom achieves a sales objective of \$382,000 for the period August 1, 2001 to January 31, 2002
2. 1,081,892 restricted shares issued if Ziracom completes version 4.0 of its compression technology. This version must be ready for market and must achieve a file size of 70% of the file size in version 3.2. (i.e. a 30% improvement) and it must also be compatible with Media Player version 7 and version 8 and Windows CE for hand-held devices.
3. 2,163,785 restricted shares issues if Ziracom achieves its target of pre-tax earnings of \$1,406,060 by July 31, 2002.

A floor price of \$0.50 per share will be established for all releases of escrow stock. In the event the market price at the release date is below \$0.50 per share then additional shares will be issued to effect the same value as if the market price was at \$0.50 per share.

The Company intends to market these various technologies and sub-licenses to companies involved in broadband video delivery, entertainment video, Internet video streaming, wireless video applications, and video-on-demand.

### LIQUIDITY AND CAPITAL RESOURCES

The Company has no revenues to date, but anticipates revenue in the first quarter of 2002. During the quarter ending September 30, 2001, the Company incurred losses of \$617,556 bringing losses for the nine months ending September 30, 2001 to \$1,380,688. The accompanying financial statements have been prepared on the basis that the Company is a going concern. The financial statements do not include adjustments that would be necessary should the Company be unable to continue as a going concern.

During the quarter ending September 30, 2001, the Company received \$1,000,000 from the sale of 8% convertible debentures, due June 6, 2003. There are quarterly interest payments commencing September 30, 2001, and the principal amount of the debenture is due in one lump sum on June 6, 2003. The number of shares of common stock to be issued upon conversion of the convertible debentures is based on the current calculation of a floating conversion price and could amount to as much as 4,761,905. In addition, 666,666 warrants to purchase shares of our common stock were issued to the firm in connection with this financing. These warrants have an exercise price of approximately \$0.40 per share.

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.

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In February 2001, the Company prepaid its royalties to Macrovision for the year 2001 in accordance with the terms of its agreement. The Company has complied with all requirements of its agreement with Macrovision Corp to date, and is cognizant of its obligations both now and in the future regarding its commitment to Macrovision. The Company currently does not have sufficient funds to carry it through the next 12 months without additional funding. It will therefore continue to pursue private placements, loans, and any other appropriate terms of financing.

In the next 12 months, the Company estimates it will require funding for: marketing, acquiring additional patents and licenses, further research and development, and general working capital. Depending on the rollout of these items, and development of markets, funding requirements could range from \$1,000,000 - \$5,000,000. In addition to the convertible debenture described above, the Company has financed its development stage to date by private placements of common stock. It also recognizes that it currently does not have sufficient funds to finance its operation over the next 12 months. The Company plans to complete additional financings to provide the necessary funds. The inability of the Company to arrange necessary financing will have a material adverse effect on proposed operations.

In the coming year, the company intends to undertake additional R&D related to advancing its video compression technology and adapting it for a variety of emerging video applications. The Company intends to work closely with various manufacturers and vendors as appropriate to create licensing and/or joint venture relationships.

As well, the Company intends to explore the acquisition of patents and technologies related to its VOD licensing activities. Currently the company does have the resources to complete these initial R&D efforts but will continue to seek additional financing to achieve its long-term goals.

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 September 30, 2001.

### PART II

#### OTHER INFORMATION

##### ITEM 1. LEGAL PROCEEDINGS.

There are no reportable legal proceedings.

##### 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.



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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	November 16, 2001 -----	By	/s/ Robert G. Dinning ----- Robert G. Dinning President (Chief Executive Officer)
Date	November 16, 2001 -----	By	/s/ Robert G. Dinning ----- Robert G. Dinning Chief Financial Officer