

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

E VIDEOTV INC/DE
Form 10QSB
August 22, 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 June 30, 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: 32,223,882

Transitional Small Business Disclosure Format (check one):

Yes No X
--- ---

E-VIDEOTV, INC.
FORM 10-QSB
FOR THE QUARTERLY PERIOD ENDED June 30, 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 June 30, 2002 and December 31, 2001.
Unaudited Consolidated Statement of Operations for the period from inception, March 5, 1999, to June 30, 2002, and the six months ended June 30, 2002 and 2001.

Unaudited Consolidated Statement of Cash Flows for the period from inception, March 5, 1999, to June 30, 2002, and the six months ended June 30, 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)

	June 30 2002	December 2001
	(unaudited)	(audited)
ASSETS		
Current		
Cash	\$ 468	\$
Sundry receivables	4,300	
Prepaid expenses	-	4,2
	-----	-----
	4,768	4,2
Non-current receivables (Note 4)	80,500	32,5
Computer equipment (net of accumulated depreciation of \$48,066 (2001: \$22,398))	38,553	21,0
Software development costs (net of accumulated amortization of \$33,300)	619,830	
Advances to Ziracom Digital Communications, Inc.	-	269,7
Debt issue costs (Note 7)	75,958	113,7
	-----	-----
	\$ 819,609	\$ 441,3
	=====	=====
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 5)	\$ 490,165	\$ 233,3
Loans from related parties (Note 6)	80,479	102,7
Convertible debentures (Note 7)	449,712	237,6
Current portion of deferred revenue	80,000	
Loan payable (Note 9)	-	100,1
	-----	-----
	1,100,356	673,8
Non-current deferred revenue	280,000	
	-----	-----
	1,380,356	673,8
	-----	-----
Shareholders'		
Deficiency		
Capital stock (Note 8)		
Issued and outstanding:		
32,223,882 (2001: 18,397,743) common shares	3,222	1,8
Additional paid-in capital	5,490,272	5,151,4
Share subscriptions	79,200	79,2
	-----	-----
	5,572,694	5,232,4
Deficit accumulated during the development		

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

stage	(6,133,441)	(5,464,9
	(560,747)	(232,5
	\$ 819,609	\$ 441,3

Continuance of operations (Note 1)
 Commitment (Note 11)
 Contingency (Note 12)

See accompanying notes to the consolidated financial statements.

E-VIDEOTV, INC.
 (A Development Stage Company)
 CONSOLIDATED STATEMENTS OF OPERATIONS
 (Expressed in U.S. Dollars)

	Cumulative March 5, 1999 to June 30 2002	Six Months Ended June 30 2002	Six Months Ended June 30 2001	Quarter Ended June 30 2002	Q
Revenue	\$ 40,000	40,000	\$ -	\$ 20,000	\$
General and administrative expenses					
Amortization	651,920	65,107	156,229	44,507	
Compensation expense for stock option (Note 8)	408,583	16,000	-	-	
Corporate promotion	278,637	18,518	30,753	103	
General corporate expenses	188,432	13,033	29,607	2,805	
Interest expense	736,048	345,031	-	148,416	
Management and consulting fees	1,325,754	112,016	288,165	58,729	
Office expenses	212,413	23,752	39,011	4,633	
Professional fees	405,335	58,138	60,041	36,504	
Rent	170,686	35,954	31,558	18,203	
Royalties	250,000	-	104,167	-	
Travel	200,715	20,901	23,601	10,142	
	4,828,523	708,450	763,132	324,042	
Write-off software development costs (Note 3)	1,316,935	-	-	-	
Interest income	(11,374)	-	-	-	
Net loss	\$ 6,094,084	\$ 668,450	\$ 763,132	\$ 304,042	\$
Weighted average number of					

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

common shares outstanding	28,031,593	15,217,179	27,668,238	16,000,000
	=====	=====	=====	=====
Net loss per share, basic and diluted	\$ 0.02	\$ 0.05	\$ 0.01	\$ 0.01
	=====	=====	=====	=====

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 June 30 2002	Six Months Ended June 30, 2002
Cash derived from (applied to)		
Operating		
Net loss for period	\$ (6,133,441)	\$ (668,450)
Compensation expense for stock options	408,583	16,000
Write-off of distribution rights and software development costs	1,316,935	
Depreciation and amortization	701,211	65,100
Amortization of debenture discount	663,762	311,270
Debenture Interest paid in shares	4,433	3,150
Management fee paid in shares	238,000	
Subscription of shares for services	25,200	
Deferred revenue	(40,000)	(40,000)
Change in non-cash operating working capital		
Receivables and prepaids	14,736	6,350
Prepaid royalties	-	
Payables and accruals	392,504	137,390
	-----	-----
	(2,408,077)	(169,160)
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	139,979	(22,230)
Loans from parent company prior to acquisition	115,000	
Loan payable	-	(100,130)
Cash acquired on acquisition of parent company	1,001,481	
	-----	-----
	3,631,311	(122,370)
Investing		
Advances to Ziracom Digital Communications, Inc.	76,843	346,580
Non-current receivables	(80,500)	(48,000)
Computer equipment	(50,078)	(6,580)
Distribution rights	(300,000)	
License	(445,000)	

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

Software development	(424,031)	
	(1,222,766)	292,000
Net increase in cash	468	468
Cash, beginning of period	-	
Cash, end of period	\$ 468	\$ 468
Non-cash activities not included in cash flows		
Shares issued to pay management fees	\$ 238,000	\$
Shares issued on conversion of debentures	\$ 126,758	\$ 61,400
Debenture interest paid in shares	\$ 4,433	\$ 3,150
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)
June 30, 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,

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

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 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 two quarters of \$40,000. This is revenue earned from the sale of a five (5) year license for a total consideration of \$400,000. All funds were paid in January 2002.

The company's consolidated financial statements for the period ended June 30, 2002 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business for the foreseeable future. The company incurred a net loss of \$668,450 for the six months ended June 30, 2002 and has a working capital deficiency of \$1,095,588 and accumulated deficit of \$6,133,441 at June 30, 2002. These factors raise substantial doubt about the company's ability to continue as a going concern. The ability of the company to continue as a going concern is dependent upon its ability to achieve profitable operations and to obtain additional capital. Management expects to raise additional capital through private placements and other types of venture fundings and through financing agreements with its clients. The outcome of these matters cannot be predicted at this time. No assurances can be given that the company will be successful in raising sufficient additional capital. Further, there can be no assurance, assuming the company successfully raises additional funds, that the company will achieve positive cash flow. If the company is unable to obtain adequate additional financing, management will be required to curtail the company's operating expenses. These consolidated financial statements do not include any adjustments to the specific amounts and classifications of assets and liabilities which might be necessary should the company be unable to continue in business.

E-VIDEOTV, INC.
(A Development Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
June 30, 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

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

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 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.

DEFERRED REVENUE

In January 2002, the company executed a five- year licensing agreement with a third party for the non-exclusive use of its Alpha-Omega CODEC. This license was fully prepaid for the five- year period and the company will recognize the revenue at \$80,000 per year starting in its 2002 fiscal year.

LOSS PER COMMON SHARE

The basic loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding for the year. During 2001, the 6,623,016 contingently issuable shares were excluded from the calculation of weighted average common shares outstanding until they were released from escrow. Diluted loss per common share is computed giving effect to all potential dilutive options and warrants that were outstanding during the year. For all periods presented, all outstanding options and warrants were anti-dilutive.

E-VIDEOTV, INC.

(A Development Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars)

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

June 30, 2002
(Unaudited)

=====

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

- 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 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.

=====

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

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.

E-VIDEOTV, INC.
 (A Development Stage Company)
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 (Expressed in U.S. Dollars)
 June 30, 2002
 (Unaudited)

3. ACQUISITION (Continued)

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 equalled the amount of Ziracom earnings as determined above.

As a result of this transaction, Ziracom became 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.

Net identifiable assets acquired:

Receivables	\$ 6,432
Due from Ziracom Digital Communications Inc.	76,843
Capital assets	25,724
Software development costs	670,086
Payables and accruals	(119,431)
Deferred revenue	(400,000)

	\$259,654
	=====

Consideration

8,655,139 common shares	\$259,654
	=====

4. NON-CURRENT RECEIVABLES

As at June 30 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 do not bear interest and do not have set terms of repayment.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

June December 31

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

	2002	2001
	-----	-----
Accrued management fees (Note 10)	\$125,965	\$ 70,000
Trade payables and accrued liabilities	364,200	163,341
	-----	-----
	\$490,165	\$ 233,341
	=====	=====

E-VIDEOTV, INC.
(A Development Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
June 30, 2002
(Unaudited)

6. LOANS FROM RELATED PARTIES

	June 30 2002	December 31 2001
	-----	-----
Loans from directors with no specific terms of repayment	\$ 56,479	\$ 78,713
Loans from shareholders bearing no interest, unsecured and repayable at \$3,000 per month. At June 30 2002, the company's payments under this loan are ten months in arrears	24,000	24,000
	-----	-----
	\$ 80,479	\$ 102,713
	=====	=====

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

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

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)
 June 30, 2002
 (Unaudited)

7. CONVERTIBLE DEBENTURES (Continued)

The following table summarizes the activity in the debentures to June 30 2002.

	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 SIX MONTHS ENDED JUNE 30 2002				
Debentures converted to common stock	(61,403)	(45,789)	(15,614)	(7,474)
Amortization of discounts	-	(227,659)	227,659	(30,350)
Balance, June 30 2002	\$ 873,243	\$ 423,531	\$ 449,712	\$ 75,958

The company has not made interest payments as required under the terms of the convertible debenture agreements. At June 30 2002, \$66,116 in interest on these convertible debentures has been accrued but is unpaid. Notwithstanding this technical default, the creditor has agreed not to demand repayment of the loan.

8. CAPITAL STOCK

AUTHORIZED CAPITAL

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

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

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)
June 30, 2002
(Unaudited)

8. CAPITAL STOCK (Continued)

STOCK OPTIONS

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

	June 30 2002	December 31 2001
	-----	-----
NET LOSS:		
Actual net loss	\$ (668,450)	\$ (2,756,522)
Pro forma net loss	\$ (706,450)	\$ (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 June 30, 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 June 30, 2002.

During the period ended June 30, 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)

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

June 30, 2002

(Unaudited)

=====

8. CAPITAL STOCK (Continued)

SHARES ISSUABLE UNDER CONVERTIBLE DEBENTURES

Based on an estimate of the company's share price at June 30 2002, the terms of the company's convertible debenture (Note 7) would enable the debenture holder to exercise its conversion rights in the amount of approximately 88,000,000 common shares.

=====

9. INCOME TAXES

At June 30 2002, the company had net operating losses carried forward of approximately \$5,800,000 (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 June 30 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. COMMITMENT

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 Ziracon Digital Communications, Inc., and three of its directors. The plaintiffs in the lawsuit have claimed damages of approximately \$2,000,000. Company's counsel has concluded that it is reasonably possible that an agreement on the amount of damages exigible will be met. 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.

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

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

RESULTS OF OPERATIONS

During the quarter ending June 30, 2002, the company finalized its Alpha-Omega" Video Compression CODEC and commenced internal testing of its finished product. While the acquisition of Ziracom Digital Communications Inc ("Ziracom") was completed February 14, 2002, the Alpha-Omega software version 4+ for streaming was not finished and required 5 months of additional development. The acquisition on February 14, 2002 was completed by issuance of 8,655,139 restricted common shares of the Company for 100% of the issued and outstanding shares of Ziracom.

Ziracom's primary asset is its "Alpha-Omega" Video Compression CODEC, which offers a powerful solution to users needing high compression rates while maintaining excellent video quality for video streaming applications, video file downloads, and two way video conferencing.

This acquisition continues the company's focus on video compression technologies to electronically deliver video signals for remote video surveillance, education and entertainment, wireless hand-held computers, and video cell phones.

The Company has completed negotiations for a non-exclusive Marketing Agreement with another company that has existing clients interested in the Alpha-Omega software. This contract is expected to be executed before the end of August 2002. The Alpha-Omega software 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. The Alpha-Omega also incorporates additional proprietary methods to reduce image macro blocking in low bandwidth applications. The Alpha-Omega supports file formats of type ASF (streaming) and AVI (video files).

In January 2002, the Company completed a 5-year licensing agreement with a customer for \$400,000. The Company received the entire \$400,000 in January 2002, and has recognized \$40,000 of this as revenue in its financial statements for the six months ending June 30, 2002. The remaining funds received will be recognized over the remaining period of the license.

The Company intends to market the Alpha-Omega technology through its contemplated Marketing Agreement and through its own in-house personnel. The Company has interested parties who are currently assessing the Alpha-Omega software. The applications for the Alpha-Omega 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 will continue its research and development program to extend this technology to include handheld PDA devices, and fully intends to license the Alpha-Omega to semiconductor companies for embedding into their devices. This research will continue to be carried out in Scottsdale, Arizona.

The Company recognizes that it will require additional financing even though its Alpha-Omega software is now ready for market. Additional funding will be required for continued development of its Alpha-Omega software, doing product demonstrations, as well as general operating expenses for the Company. The Company acknowledges that it currently does not have sufficient funds to carry

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

on its operation but management intends to seek financial assistance through private loans from existing directors, shareholders and outside parties although there can be no assurance that the Company will be able to secure this financial assistance. As well, the Company anticipates revenue from its technology in the next 60 days.

LIQUIDITY AND CAPITAL RESOURCES

During the quarter ending June 30, 2002, the Company had revenue of \$20,000, while the six-month results show revenue of \$40,000. This represents the first six months of a five (5) year license agreement for a total of \$400,000. These funds were all received in January 2002, but the revenue recognition is being recorded over the five-year life of the license. During the quarter ending June 30, 2002, the Company incurred losses of \$304,042. For the six months ended June 30, 2002, these losses amounted to \$668,450. The losses for the six-month period ending June 30, 2002 include depreciation and amortization of \$65,107 and amortization of debenture discount of \$311,272. As these are not cash expenses, the actual cash loss was significantly lower. General and administrative expenses have been reduced to \$25,750 for the six months ending June 30, 2002, compared to \$156,229 for the same period to June 30, 2001. Management and consulting fees have reduced to \$112,016 at June 30, 2002, from \$288,165 at June 30, 2001.

Operating expenses have been reduced significantly and will continue to decline as most of the marketing activities are being conducted by another company on a revenue sharing basis.

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 June 30, 2002, the accrued interest amounted to \$83,999. This includes \$32,743 in the quarter ending June 30, 2002. The debenture is due June 6, 2003. The unconverted balance of this debenture at June 30, 2002 is \$873,242. 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. The Company anticipates revenue from licensing of its Alpha-Omega software in the next Sixty days. In addition to this, the Company is exploring loans from private investors, and additional loans from directors and/or existing shareholders

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

although there can be no assurance that these loans will be successfully obtained. In the event that the Company is not able to obtain these loans

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, 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, 2002.

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 August 19, 2002

By /s/ Robert G. Dinning

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

Robert G. Dinning
Chairman and Chief Financial Officer

Date August 19, 2002

By /s/ Gianfranco Fiorio

Gianfranco Fiorio
Chief Executive Officer