

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

E VIDEOTV INC/DE  
Form 10QSB  
May 15, 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 March 31, 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  
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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  
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(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 \_\_\_\_\_

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of

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common shares, as of the latest practicable date: 16,757,072

Transitional Small Business Disclosure Format (check one):

Yes \_\_\_\_\_ No \_\_\_\_\_

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E-VIDEOTV, INC.
FORM 10-QSB
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 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 March 31, 2001 and December 31, 2000
Unaudited Consolidated Statement of Operations for the period from inception, March 5, 1999, to March 31, 2001, the quarter ended March 31, 2001 and the quarter ended March 31, 2000
Unaudited Consolidated Statement of Cash Flows for the period from inception, March 5, 1999, to March 31, 2001, the quarter ended March 31, 2001 and the quarter ended March 31, 2000
Unaudited Consolidated Statement of Shareholders' Equity for the period from inception, March 5, 1999, to March 31, 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)

	March 31 2001	December 31 2000
=====		
ASSETS		
Current		
Cash	\$ 2,533	\$ 2,276
Accounts receivable and prepaids	14,898	9,176
Prepaid royalties (Note 2)	210,783	-
	-----	-----
	228,214	11,452
Computer equipment	19,930	19,622
Distribution rights and software development (Note 2)	1,152,580	1,229,418
	-----	-----
	\$ 1,400,724	\$ 1,260,492
	=====	=====
=====		
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 3)	\$ 509,778	\$ 495,149
Loans from related parties (Note 4)	103,794	99,000
	-----	-----
	613,572	594,149
	-----	-----
SHAREHOLDERS' EQUITY		
Capital stock (Note 5)		
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:		
16,757,072 (2000: 16,757,072) common shares	1,676	1,676
Additional paid-in capital	3,328,136	3,328,136
Share subscriptions	524,000	45,000
	-----	-----
	3,853,812	3,374,812
Deficit accumulated during the development stage	(3,066,660)	(2,708,469)
	-----	-----
	787,152	666,343
	-----	-----
	\$ 1,400,724	\$ 1,260,492
	=====	=====
=====		

Continuance of operations (Note 1)

See accompanying notes to the consolidated financial statements.

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

	Cumulative March 5, 1999 to March 31 2001	Quarter Ended March 31 2001	Quarter Ended March 31 2000
Revenue	\$ -	\$ -	\$ -
General and administrative expenses			
Amortization	384,441	77,886	-
Compensation expense for stock option (Note 5)	392,583	-	-
Corporate promotion	184,494	23,289	28,421
General corporate expenses	159,089	21,978	19,964
Management and consulting fees	883,874	143,969	93,352
Office expenses	129,600	13,411	8,229
Professional fees	264,018	15,647	74,532
Rent	94,352	16,763	10,973
Royalties	39,217	39,217	-
Travel	121,019	6,031	19,478
	2,652,687	358,191	254,949
Write-off software development costs (Note 2)	424,031	-	-
Interest income	(10,058)	-	(1,077)
Net loss	\$ 3,066,660	\$ 358,191	\$ 253,872
Weighted average number of common shares outstanding		13,660,176	8,800,145
Net loss per share, basic and diluted		\$ 0.03	\$ 0.03

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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)

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	Cumulative March 5, 1999 to March 31 2001	Quarter Ended March 31 2001	Quarter Ended March 31 2000
=====			
Cash derived from (applied to)			
OPERATING			
Net loss	\$ (3,066,660)	\$ (358,191)	\$ (253,872)
Compensation expense for stock options (Note 5)	392,583	-	-
Write-off software development costs	424,031	-	-
Depreciation and amortization	395,422	77,886	246
Change in non-cash operating working capital			
Receivables and prepaids	(2,294)	(5,722)	-
Prepaid royalties	(210,783)	(210,783)	-
Payables and accruals	531,548	68,629	(125,911)
	-----	-----	-----
	(1,536,153)	(428,181)	(379,537)
	-----	-----	-----
FINANCING			
Proceeds from sale of common shares	1,048,601	-	1,048,600
Shares subscribed	470,000	425,000	-
Loans from related parties	103,794	4,794	-
Loans from parent company prior to acquisition	115,000	-	-
Cash acquired on acquisition of parent company	1,001,481	-	-
	-----	-----	-----
	2,738,876	429,794	1,048,600
	-----	-----	-----
INVESTING			
Distribution rights	(300,000)	-	(438,776)
License	(445,000)	-	-
Software development	(424,031)	-	-
Office equipment	(31,159)	(1,356)	-
	-----	-----	-----
	(1,200,190)	(1,356)	(438,776)
	-----	-----	-----
Increase in cash	2,533	257	230,287
Cash, beginning of period	-	2,276	105,002
	-----	-----	-----
Cash, end of period	\$ 2,533	\$ 2,533	\$ 335,289
	=====	=====	=====
NON-CASH ACTIVITIES NOT INCLUDED IN CASH FLOWS			
Ascribed value of shares issued to acquire copy protection license	\$ 791,773	\$ -	\$ 791,773
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 subscribed to settle trade payables	\$ 54,000	\$ 54,000	\$ -
	=====	=====	=====

See accompanying notes to the consolidated financial statements.

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E-VIDEOTV, INC.

(A Development Stage Company)

UNAUDITED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Expressed in U.S. Dollars)

Inception, March 5, 1999, to March 31, 2001

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	Number of Shares	Par Value	Additional Paid-in Capital	Share Subscriptions	Def
	-----	-----	-----	-----	-----
Issuance of shares for cash on incorporation	1	\$ 1	\$ -	\$ -	\$ -
Adjustment of 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 exp for stock options	-	-	392,583	-	-
Net loss, year ended December 31, 2000	-	-	-	-	(2,230,
	-----	-----	-----	-----	-----
Balance, December 31, 2000	16,757,072	1,676	3,328,136	45,000	(2,708,
Share subscriptions received	-	-	-	479,000	-
Net loss, period ending March 31, 2001	-	-	-	-	(358,
	-----	-----	-----	-----	-----
Balance, March 31, 2001	16,757,072	\$1,676	\$3,328,136	\$ 524,000	\$ (3,066,
	=====	=====	=====	=====	=====

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See accompanying notes to the consolidated financial statements.

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E-VIDEOTV, INC.  
(A Development Stage Company)  
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
March 31, 2001  
(Unaudited)  
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1. BASIS OF PRESENTATION

While the information presented in these interim consolidated financial statements is unaudited, it includes all adjustments that are, in the opinion of management, necessary to the fair presentation of the interim periods reported. As certain information has been condensed or omitted from the notes to the financial statements, these financial statements should only be read in conjunction with the audited consolidated financial statements for the period from inception, March 5, 1999, to December 31, 2000, contained in the company's annual report on Form 10-KSB.

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 market 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). To that end, management is devoting substantially all of the company's resources to this process. The company expects deployment of over 1 million set-top boxes with caching hard drives suitable for FTRT operations by the end of the year. The company also intends to activate 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 adequate additional financing, to open new territories.

The company is devoting significant efforts to obtaining private financing to fund the continued development of its technology and software. Significant additional cash will be required.

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2. 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 (FTRT) 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 each January 31 from 2000 until 2004. Should the license be extended, royalties of \$350,000 are payable each January 31.

The company paid the January 31, 2002 annual royalty prepayment during the quarter ended March 31, 2001. This prepaid royalty will be expensed over the period February 1, 2001 to January 31, 2002.

The company wrote off software costs of approximately \$424,000 in 2000 as these

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software development costs were no longer applicable in the company's current business model of licensing.

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3. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	March 31 2001	December 31 2000
	-----	-----
Accrued management fees	\$ 326,000	\$ 223,000
Trade payables	183,778	272,149
	-----	-----
	\$ 509,778	\$ 495,149
	=====	=====

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E-VIDEOTV, INC.  
(A Development Stage Company)  
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
March 31, 2001  
(Unaudited)

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#### 4. LOANS FROM RELATED PARTIES

Includes loans from directors of \$56,294 which have no specific terms of repayment and \$47,500 from a company controlled by shareholders of the company which is interest free until August 16, 2001, and bears interest of U.S. prime plus 2% thereafter and is payable on demand.

#### 5. 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.

##### STOCK OPTIONS

Subject to shareholder approval, the company's directors resolved to create an employee and director stock option plan that sets aside 5,000,000 shares of the company's common stock for issuance upon the exercise of stock options.

The company accounts for its stock option plan in accordance with the provisions of APB Opinion No. 25, Accounting for Stock 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:



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	Period from Inception to March 31 2001	Quarter Ended March 31 2001	Quarter Ended March 31 2000
	-----	-----	-----
Actual net loss	\$ (3,066,660)	\$ (358,191)	\$ (253,872)
Actual net loss per share		\$ (0.02)	\$ (0.03)
Pro forma net loss	\$ (3,950,100)	\$ (1,241,631)	\$ (253,872)
Pro forma net loss per share		\$ (0.07)	\$ (0.03)

The fair value of each option grant was estimated at the grant date using the Black-Scholes option-pricing model for the period from inception to December 31, 2000, assuming a risk-free interest rate of 4.88%, a volatility factor of 2.06%, zero dividend yield, and an expected life of five years.

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E-VIDEOTV, INC.  
(A Development Stage Company)  
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
March 31, 2001  
(Unaudited)

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5. CAPITAL STOCK (Continued)

STOCK OPTIONS (Continued)

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 those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

A summary of the status of the company's options as of December 31, 2000 and changes during the period from inception (January 20, 2000) to December 31, 2000 is presented below:

	Exercise Price Per Share	Weighted Average Exercise Price	Shares
	-----	-----	-----
Granted at FMV during 2000	\$ 0.50	\$ 0.50	1,070,000
Granted at FMV during 2001	0.25	0.25	3,600,000
Options outstanding at March 31, 2001		0.40	4,670,000

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Options exercisable at March 31, 2001	0.40	4,670,000
=====		
Weighted-average fair value of options granted during the period		\$ 0.25
=====		

The following table summarizes information outstanding and exercisable share options at December 31, 2000:

Options Outstanding					Options Exercisable		
Number Outstanding	Grant Date	Exercise Price Per Share	Average Remaining Contractual Life (In Years)	Weighted Average Exercise Price Per Share	Number Exercisable	Weighted Average Exercise Price Per Share	
1,070,000	11/30/00	\$ 0.50	4.67	\$ 0.50	1,070,000	\$ 0.50	
3,600,000	01/12/01	0.25	4.79	0.25	3,600,000	0.25	
-----					-----		
4,670,000					4,670,000		
=====					=====		

The company granted options to purchase 3,600,000 shares of the company's common stock to directors during the three months ended March 31, 2001. No expense has been recorded related to these options.

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E-VIDEOTV, INC.  
(A Development Stage Company)  
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
March 31, 2001  
(Unaudited)

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5. CAPITAL STOCK (Continued)

SHARE SUBSCRIPTIONS

	March 31, 2001		December 31, 2000	
	Number	Amount	Number	Amount
Shares subscribed for \$1 per share	45,000	\$ 45,000	45,000	\$45,000
Units subscribed for \$0.80 per unit.				
Each unit consists of one common share and one common share purchase warrant exercisable for two years into one common share at \$0.30				

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per share in the first year and \$0.50 in the second year	531,250	425,000	-	-
Shares to be issued in settlement of trade payables	180,000	54,000	-	-
	-----	-----	-----	-----
	756,250	\$524,000	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 for the acquisition of e-VideoTV, Inc. were held in escrow at December 31, 2000. These shares were released from escrow on February 9, 2001.

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### 6. INCOME TAXES

At March 31, 2001, the company had net operating losses carried forward of approximately \$2,500,000 (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.

=====

### 7. 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. The agreement specifies a minimum fee of \$250,000 should financing as specified in the agreement be completed with this company.

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E-VIDEOTV, INC.  
A DEVELOPMENT STAGE COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2000  
UNAUDITED  
U.S. DOLLARS

### ITEM 2.

#### MANAGEMENT'S DISCUSSION AND ANALYSIS AND PLAN OF OPERATION.

The Company continues to formulate its plan of operation to market the 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 on set-top boxes for later viewing. The Company expects deployment of over 1 million set top boxes with caching hard

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drives suitable for FTRT operations by the end of 2001. The Company further intends to have several US operators licensed to use these devices by the end of 2002.

The Company is continuing to contact set top box manufacturers world-wide to advise them of our exclusive licensing rights and determine their roll-out plans for set top boxes with hard disk drives in the US. The Company intends to license these set top box manufacturers for FTRT capability compatible with FTRT transmissions by US operators also licensed by the Company. The Company has signed NDAs with several manufacturers. The Company is also contacting key cable, satellite, and broadband operators throughout the US to discuss both our exclusive Macrovision license and the technical and economic benefits of FTRT caching versus streaming for Video-On-Demand systems.

Macrovision copy protection allows consumers to view, but not record, programs that are copy protected at the direction of program copyright holders. The technology is designed to deter unauthorized home taping of digitally delivered programs.

During the quarter ending March 31, 2001, the Company received subscription agreements and deposits for \$425,000 at \$0.80 per share. This will result in the issuance of 531,250 common shares. A warrant will be attached to these shares allowing these investors the option of obtaining additional shares on a one-for-one basis for two years. Each warrant shall be for 2 years and exercisable at \$0.30 in the first year and \$0.50 in the second year.

The Company has also received \$45,000 in share subscriptions and 45,000 common shares at \$1.00 per share will be issued for these share subscriptions. Settlement of debt of \$54,000 will result in the issuance of 180,000 restricted shares. Loans of \$103,794 include a loan for \$47,500 that is interest free until August 16, 2001 and thereafter will bear interest at US prime plus 2%. The balance was received from directors with no set terms of repayment.

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E-VIDEOTV, INC.  
A DEVELOPMENT STAGE COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2000  
UNAUDITED  
U.S. DOLLARS

In February, 2001, the Company prepaid its royalties to Macrovision for the year 2001 in accordance with the terms of its agreement. While the Company does not currently have sufficient funds to continue operation, it will continue to pursue private placements, loans, and any other appropriate terms of financing. The Company is continuing with the following program regarding VOD:

1. Licensing operators such as cable, satellite, wireless, DSL and other broadband distributors for FTRT VOD service.
2. Licensing set-top box manufacturers and strategic partners.
3. Developing technologies and acquiring patents and technologies to expand its licensing model with VOD operators and STB manufacturers.

The annual home movie market is estimated at \$15 billion. Of this, it is estimated that 85% is represented by new release movies. VOD content can be started at anytime thus there is no discernable need for recording of the program. It is expected that the movie industry will require new VOD

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new-release-content be copy protected similar to video store rentals. Macrovision is the accepted copy-protection standard.

The license rights from Macrovision Corp are for a five year period with an option to renew for an additional five years. 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.

In the next 12 months, the Company estimates it will require funding for: international licenses, operating licenses in various countries, patent purchases, and general working capital. Depending on the rollout of these items, funding requirements could range from \$5 - \$10 million. 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 private placement 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 year 2001, the company intends to undertake additional R&D related to the head-end software, head-end servers, and set top box software to further support the download model for VOD content. The company intends to work closely with equipment manufacturers and vendors as appropriate in each of these areas. In addition, the company intends to explore the acquisition of patents and technologies related to its VOD licensing activities. Currently the company does not have the resources to complete these R&D efforts.

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, 2001.

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### 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 quarter ended March 31, 2001.

##### ITEM 5. OTHER INFORMATION.

The Company has no other information to report.

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

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(a) Exhibits.

None.

(b) Reports on Form 8-K.

The Company did not file any reports on Form 8-K during the quarter ended March 31, 2001.

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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 May 11, 2001  
-----

By /s/ Charles Weber  
-----  
Charles Weber  
President (Chief Executive Officer)

Date May 11, 2001  
-----

By /s/ Robert G. Dinning  
-----  
Robert G. Dinning  
Chief Financial Officer

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