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E VIDEOTV INC/DE
Form 10QSB
August 13, 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 June 30, 2001

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 ----- (State or Other Jurisdiction of Incorporation or Organization) | 51-0389325 ----- 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 X 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: 16,757,072

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 JUNE 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:

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| Unaudited Consolidated Balance Sheet at June 30, 2001 and December 31, 2000 . . . | 3 |
| Unaudited Consolidated Statement of Operations for the period from inception, March 5, 1999, to June 30, 2001, the six months ended June 30, 2001 and the six months ended June 30, 2000. | 4 |
| Unaudited Consolidated Statement of Cash Flows for the period from inception, March 5, 1999, to June 30, 2001, the six months ended June 30, 2001 and the six months ended June 30, 2000. | 5 |

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Unaudited Consolidated Statement of Shareholders' Equity for the period from inception, March 5, 1999, to June 30, 2001. 6

Notes to the Unaudited Consolidated Financial Statements. 7

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

| | June 30 2001 | December 31 2000 |
|---|-----------------|---------------------|
| ===== | | |
| ASSETS | | |
| Current | | |
| Cash | \$ 5,182 | \$ 2,276 |
| Accounts receivable and prepaids | - | 9,176 |
| Prepaid royalties (Note 3) | 148,283 | - |
| | ----- | ----- |
| | 153,465 | 11,452 |
| Computer equipment | 25,220 | 19,622 |
| Distribution rights and software development (Note 3) | 1,075,740 | 1,229,418 |
| | ----- | ----- |
| | \$ 1,254,425 | \$ 1,260,492 |
| | ===== | ===== |
| ===== | | |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities (Note 4) | \$ 463,537 | \$ 495,149 |
| Loans from related parties (Note 5) | 170,677 | 99,000 |
| | ----- | ----- |
| | 634,214 | 594,149 |
| | ----- | ----- |
| SHAREHOLDERS' EQUITY | | |
| Capital stock (Note 6) | | |
| 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 | 762,000 | 45,000 |
| | ----- | ----- |
| | 4,091,812 | 3,374,812 |
| Deficit accumulated during the development stage | (3,471,601) | (2,708,469) |
| | ----- | ----- |

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| | | |
|--|--------------|--------------|
| | 620,211 | 666,343 |
| | ----- | ----- |
| | \$ 1,254,425 | \$ 1,260,492 |
| | ===== | ===== |

Continuance of operations (Note 1)

Commitments (Note 8)

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 June 30 2001 | Six Months Ended June 30 2001 | Six Months Ended June 30 2000 | Quarter Ended June 30 2001 | |
|---|---|--|--|-------------------------------------|-------|
| Revenue | \$ - | - | \$ - | - | \$ - |
| General and administrative expenses | | | | | |
| Amortization | 463,831 | 156,229 | - | 78,343 | |
| Compensation expense for stock option (Note 5) | 392,583 | - | - | - | |
| Corporate promotion | 191,958 | 30,753 | 65,710 | 7,464 | |
| General corporate expenses | 166,718 | 29,607 | 48,122 | 7,629 | |
| Management and consulting fees | 1,028,070 | 288,165 | 285,837 | 144,196 | |
| Office expenses | 154,151 | 39,011 | 30,028 | 25,600 | |
| Professional fees | 308,412 | 60,041 | 30,910 | 44,394 | |
| Rent | 109,147 | 31,558 | 15,937 | 14,795 | |
| Royalties | 104,167 | 104,167 | - | 64,950 | |
| Travel | 138,589 | 23,601 | 53,365 | 17,570 | |
| | ----- | ----- | ----- | ----- | |
| | 3,057,626 | 763,132 | 529,909 | 404,941 | |
| Write-off software development costs (Note 3) | 424,031 | - | - | - | |
| Interest income | (10,056) | - | (1,190) | - | |
| | ----- | ----- | ----- | ----- | |
| Net loss | \$ 3,471,601 | \$ 763,132 | \$ 528,719 | \$ 404,941 | \$ - |
| | ===== | ===== | ===== | ===== | ===== |
| Weighted average number of common shares outstanding | | 15,217,179 | 9,294,601 | 16,757,072 | 9 |

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| | ===== | ===== | ===== | ===== |
|---------------------------------------|---------|---------|---------|-------|
| Net loss per share, basic and Diluted | \$ 0.05 | \$ 0.06 | \$ 0.02 | \$ |

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 June 30 2001 | Six Months Ended June 30 2001 | Six Months Ended June 30 2000 |
|---|---|--|--|
| ===== | | | |
| Cash derived from (applied to) | | | |
| OPERATING | | | |
| Net loss | \$ (3,471,601) | \$ (763,132) | \$ (528,719) |
| Compensation expense for stock options (Note 6) | 392,583 | - | - |
| Write-off software development costs | 424,031 | - | - |
| Depreciation and amortization | 473,765 | 156,229 | 493 |
| Change in non-cash operating working capital | | | |
| Receivables and prepaids | 12,604 | 9,176 | (6,623) |
| Prepaid royalties | (148,283) | (148,283) | - |
| Payables and accruals | 723,307 | 260,388 | (104,018) |
| | ----- | ----- | ----- |
| | (1,593,594) | (485,622) | (638,867) |
| FINANCING | | | |
| Proceeds from sale of common shares | 1,048,601 | - | 1,048,600 |
| Shares subscribed | 470,000 | 425,000 | - |
| 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 | - | - |
| | ----- | ----- | ----- |
| | 2,805,759 | 496,677 | 1,048,600 |
| INVESTING | | | |
| Distribution rights | (300,000) | - | - |
| License | (445,000) | - | (415,000) |
| Software development | (424,031) | - | (23,776) |
| Office equipment | (37,952) | (8,149) | (7,715) |
| | ----- | ----- | ----- |
| | (1,206,983) | (8,149) | (446,491) |

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| | | | |
|---|------------|------------|------------|
| Increase in cash | 5,182 | 2,906 | (36,758) |
| Cash, beginning of period | - | 2,276 | 105,002 |
| | ----- | ----- | ----- |
| Cash, end of period | \$ 5,182 | \$ 5,182 | \$ 68,244 |
| | ===== | ===== | ===== |
| 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 | \$ 292,000 | \$ 292,000 | \$ - |

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 June 30, 2001

| | Number of Shares | Par VALUE | Additional Paid-in CAPITAL | Share SUBSCRIPTIONS | DEFICIT |
|---|---------------------|--------------|----------------------------------|------------------------|----------|
| 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 | - | - | - | - | (478,03) |
| | ----- | ----- | ----- | ----- | ----- |
| Balance, December 31, 1999 | 15,588,359 | 1,559 | 1,095,297 | - | (478,03) |
| Issuance of shares for cash | 666,000 | 67 | 1,048,533 | - | - |
| Issuance of shares to acquire copy protection license | 502,713 | 50 | 791,723 | - | - |

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| | | | | | |
|---|------------|---------|--------------|------------|--------------|
| Share subscriptions received | - | - | - | 45,000 | |
| Compensation expense for stock Options | - | - | 392,583 | - | |
| Net loss, year ended December 31, 2000 | - | - | - | - | (2,230,43) |
| | ----- | ----- | ----- | ----- | ----- |
| Balance, December 31, 2000 | 16,757,072 | 1,676 | 3,328,136 | 45,000 | (2,708,46) |
| Share subscriptions received | - | - | - | 717,000 | |
| Net loss, period ending June 30, 2001 | - | - | - | - | (763,13) |
| | ----- | ----- | ----- | ----- | ----- |
| Balance, June 30, 2001 | 16,757,072 | \$1,676 | \$ 3,328,136 | \$ 762,000 | \$(3,471,60) |
| | ===== | ===== | ===== | ===== | ===== |

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)
June 30, 2001
(Unaudited)

1. BASIS OF PRESENTATION

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. Significant cash will be required.

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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:

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- 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)
June 30, 2001
(Unaudited)

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3. DISTRIBUTION RIGHTS AND SOFTWARE DEVELOPMENT

Includes the net cost to date of an exclusive license to use certain technology

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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 June 30, 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 software development costs were no longer applicable in the company's current business model of licensing.

| 4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES | June 30 2001 | December 31 2000 |
|---|-----------------|---------------------|
| | ----- | ----- |
| Accrued management fees | \$ 225,000 | \$ 223,000 |
| Trade payables | 238,537 | 272,149 |
| | ----- | ----- |
| | \$ 463,537 | \$ 495,149 |
| | ===== | ===== |

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| 5. LOANS FROM RELATED PARTIES | June 30 2001 | December 31 2000 |
|---|-----------------|---------------------|
| | ----- | ----- |
| Loans from directors with no specific terms of repayment | \$ 76,294 | \$ 51,500 |
| Demand loan from a shareholder. Interest free until August 16, 2001 and bears interest at U.S. prime plus 2% thereafter | 47,500 | 47,500 |
| Loans from shareholders bearing no interest, unsecured and due on demand | 46,883 | |
| | ----- | ----- |
| | \$170,677 | \$ 99,000 |
| | ===== | ===== |

6. 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.

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E-VIDEOTV, INC.
 (A Development Stage Company)
 NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 (Expressed in U.S. Dollars)
 June 30, 2001
 (Unaudited)

6. CAPITAL STOCK (Continued)

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:

| | Period from Inception to June 30 2001 | Six Months Ended June 30 2001 | Six Months Ended June 30 2000 |
|------------------------------|--|--|--|
| | ----- | ----- | ----- |
| Actual net loss | \$ (3,471,601) | \$ (763,132) | \$ (528,719) |
| Actual net loss per share | | \$ (0.05) | \$ (0.03) |
| Pro forma net loss | \$ (4,355,041) | \$ (1,646,572) | \$ (528,719) |
| Pro forma net loss per share | | \$ (0.10) | \$ (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.

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.

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E-VIDEOTV, INC.
 (A Development Stage Company)
 NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 (Expressed in U.S. Dollars)
 June 30, 2001

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(Unaudited)

6. CAPITAL STOCK (Continued)

STOCK OPTIONS (Continued)

A summary of the status of the company's options as of December 31, 2000 and changes during the period from inception (March 5, 1999) to June 30, 2001 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 June 30, 2001 | | 0.40 | 4,670,000 ===== |
| Options exercisable at June 30, 2001 | | 0.40 | 4,670,000 ===== |
| Weighted-average fair value of options granted during the six months ended June 30, 2001 | | | \$ 0.25 ===== |

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

| 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 | 4.42 | \$ 0.50 | 1,070,000 | \$ 0.50 | |
| 3,600,000 | 01/12/01 | 0.25 | 4.54 | 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 six months ended June 30, 2001. No expense has

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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)

June 30, 2001

(Unaudited)

6. CAPITAL STOCK (Continued)

SHARE SUBSCRIPTIONS

| | June 30, 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 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 | - | - |
| Shares to be issued in settlement of trade payables | 680,000 | 238,000 | - | - |
| | 1,436,250 | \$762,000 | 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.

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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.

7. INCOME TAXES

At June 30, 2001, the company had net operating losses carried forward of approximately \$2,900,000 (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.

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E-VIDEOTV, INC.
(A Development Stage Company)
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
June 30, 2001
(Unaudited)

=====

8. 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.

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.

=====

9. SUBSEQUENT EVENT

On July 13, 2001, the company received \$1,000,000 from the sale of 8% convertible debentures, due June 6, 2003, to a New York based financial institution. Interest only payments on the debentures are due quarterly commencing September 30, 2001, and the principal amount of the debenture is due

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in one lump sum on June 6, 2003. The number of shares of common stock issuable 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.

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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.

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 the video-on-demand industry. This includes 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. The Company has also 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 intends to use this patent to increase its position in the satellite, cable and broadband industries.

The Company further intends to pursue 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 related technologies and determine their roll-out plans for set top boxes with hard disk drives in the US. The Company has signed NDAs with several manufacturers and continues to contact key cable, satellite, and broadband operators throughout the US to discuss its exclusive Macrovision license, the "Store and Forward Video System" license, and the technical and economic benefits of FTRT caching versus streaming for Video-On-Demand systems. The agreement with USA Video Interactive Corp was executed June 27, 2001 and the Company also intends to license this technology to set-top-box manufacturers and cable, satellite, and broadband operators.

For the six months ended June 30, 2001, the Company incurred a loss of \$763,132. During this period, loans and private placements amounted to \$466,000. Subsequent to the quarter ending June 30, 2001, the company completed the placement of an 8% convertible debenture of \$1,000,000. This financing has

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provided the Company with necessary liquidity but the Company will continue to seek additional financing in order to fulfill its business model.

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LIQUIDITY AND CAPITAL RESOURCES

During the quarter ending June 30, 2001, the Company received loans of \$41,500, which combined with subscription agreements for \$425,000 received in the quarter ending March 31, 2001, brought combined funds received for the first six months to \$466,000. During the quarter ending June 30, 2001, the Company also received loans from shareholders of \$37,883. There are no specific terms of repayment on these loans. On July 6, 2001, the Company also completed the placement of an 8% convertible debenture for \$1,000,000 with the Laurus Funds Group.

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 currently does have sufficient funds to continue operations, it 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.

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.

According to Wall Street's Schroeder & Com., the home movie market had approximately \$14 billion in sales and rental revenues last year. 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 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, and development in other countries, 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 financings to provide the necessary funds. The inability of the Company to arrange necessary financing will have a material adverse effect on proposed operations.

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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 have the resources to complete these initial R&D efforts but will continue to seek additional financing to achieve its long-term goals.

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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 June 30, 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 six months ended June 30, 2001.

ITEM 5. OTHER INFORMATION.

The Company has no other information to report.

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

(a) Exhibits.

None.

(b) Reports on Form 8-K.

The Company 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 August 9, 2001

By /s/ Charles Weber

Charles Weber
President (Chief Executive Officer)

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Date August 9, 2001

By /s/ Robert G. Dinning

Robert G. Dinning
Chief Financial Officer

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