SHOPNET COM INC
Form 10KSB
October 15, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB
(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number O-28690

SHOPNET.COM, INC.
(Name of Small Business Issuer in Its Charter)

Delaware	13-3871821
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

112 West 34th Street, New York, New York 10120
(Address of Principal Executive Offices)

(212) 967-8303
(Issuer's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b)
of the Exchange Act:

Title of Each Class and Name of Each Exchange on Which Registered
NONE

Securities registered pursuant to Section 12(g)
of the Exchange Act:
Common Stock, $.001 par value
(Title of Class)

Check whether the Issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Check if no disclosure of delinquent filers in response to Item 405 of Regulation S-B is contained in this form, and no disclosure will be contained,

to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB [ ].

The Registrant's consolidated revenues for the year ended June 30, 2002 were $7,702,798.

The aggregate market value of the voting stock on September 18, 2002 (consisting of Common Stock, par value $0.001 per share) held by non-affiliates was approximately $541,516 based upon the closing price for such Common Stock on said date $.075. On such date, there were 7,472,244 of Registrant's Common Stock outstanding.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

The statements which are not historical facts contained in this Report are forward looking statements that involve risks and uncertainties, including, but not limited to instability of revenues, future losses and unpredictable operating results. The Company's actual results may differ materially from the results discussed in any forward looking statement. Unless otherwise indicated, all references to the number of our shares of common stock give effect to the 1 for 3 reverse stock split effected in February 1998, 100% Common Stock dividend effected in February 1999, 10% Common Stock dividend effected in February 2000 and the 20% Common Stock dividend effected in June 2000.

History

ShopNet.com, Inc. (the "Company" or "Shopnet") was formed in December 1995 in the State of Delaware, as Hollywood Productions, Inc. ("HPI"). Its purpose was to acquire screenplays and produce motion pictures. The Company changed its name from "Hollywood Productions, Inc." to "Shopnet.Com, Inc." in May 1999.

In September 1996, the Company acquired Breaking Waves, Inc. ("Breaking Waves"), a New York corporation which remains a wholly owned subsidiary of the Company. This acquisition was contingent upon and was consummated simultaneously with the Company's initial public offering ("IPO") and marked the Company's entrance into the business of designing, manufacturing, and distributing (throughout the United States) young girls' swimwear and coordinating beach cover-ups and accessories.

In May 1999, Shopnet incorporated a new subsidiary, Hollywood Productions, Inc. ("Hollywood"), to which Shopnet assigned its motion picture business. As a result, Shopnet is now a holding company, owning 100% of Hollywood and Breaking Waves. Except where otherwise indicated, Shopnet and its subsidiaries are collectively referred to herein as the "Company."

Motion Picture Business

General

Since its inception in December 1995, the Company has co-produced three motion pictures: "Dirty Laundry," "Machiavelli Rises" and "The Girl." Each such film had limited theatrical runs shortly after release. The Company's primary focus for the forseeable future will be to work directly, or through distribution arrangements with third parties, to establish distribution for these completed films through public or cable television - via pay-per-view, premium and standard channels - the sale of video rights and/or foreign distribution. To a lesser extent, the Company will continue to seek to acquire screenplays and produce motion pictures, either directly or through collaborative arrangements, to be distributed primarily through public or cable television and the sale of

video rights.

"Dirty Laundry"

In March 1995, the Company entered into a property acquisition agreement (the "Purchase Agreement") and a co-production agreement (the "Production Agreement") with Rogue Features, Inc. ("Rogue"), an unaffiliated entity, to acquire the rights to and co-produce a motion picture of the screenplay entitled "Dirty Laundry." In addition, the Company and Rogue entered into a right of first refusal agreement with respect to the next two products of Rogue and/or its principals.

In April 1996, the Company formed D.L. Productions, Inc. ("D.L. Productions"), a New York corporation, as a wholly owned subsidiary, for the purpose of holding title to and producing the Dirty Laundry film and receiving revenues from the distribution thereof. The Purchase Agreement conveyed all rights to the screenplay and the film itself to the Company. In return, Rogue directed "Dirty Laundry" and has the right to 25% of its profits as described in the Production Agreement. Rogue also retained the right to produce a live comedy or musical upon the earlier of five years after Dirty Laundry's release or the Company's approval. In addition, Michael Normand, a principal of Rogue, retained the right to adapt the screenplay of Dirty Laundry into a novel on the Company's approval of the compensation it is to receive therefrom. The Production Agreement provided for the principals of Rogue to direct and retain creative control of the production of the film while the Company retains final approval.

In November 1997, with production of the movie complete, the Company effected the dissolution of D.L. Productions. Its assets were transferred to the Company, and the Company took over the marketing of Dirty Laundry.

In June 1998, the Company entered into an agreement with Artistic License Films, Inc. ("ALF") whereupon ALF agreed to use its best efforts to distribute the film in at least three New York theaters and two Los Angeles theaters. In exchange for its efforts, ALF received a $20,000 retainer fee which constitutes an advance against ALF's distributor's fee of 25% of the gross receipts from the theatrical distribution of the film. The film had a limited run during the fall of 1998 and received marginal reviews (two stars out of four). Currently, the Company is working to distribute the film through various channels, including public or cable television, the sale of video rights and foreign distribution.

"Dirty Laundry" is a romantic comedy shot in the New York tri-state area. It stars Jay Thomas as Joey (a dry cleaner going through a mid-life crisis), and Tess Harper as Beth (a sex advice columnist for a woman's magazine and Joey's wife of 15 years). Joey's dry cleaning business is doing poorly, and he is convinced that he is aging prematurely. Given their increasing lack of intimacy, Beth encourages Joey to seek counseling, which he does unbeknownst to Beth, who has become attracted to her chiropractor. Throughout the film, a variety of bizarre mishaps occur which result in the couple's rekindling of their lost romance with a surprise ending. Mr. Thomas has co-starred in the motion picture "Mr. Holland's Opus" and is known for his television work in "Love & War," "Cheers," "Murphy Brown," and "Mork & Mindy," and, until recently, was the host of WTJM "Jammin" 105.1 FM, a New York radio station. Ms. Harper earned a Golden Globe nomination for her performance in the film "Tender Mercies" and an Oscar nomination for her role in the film "Crimes of the Heart."

"Machiavelli Rises"

In April 1998, the Company entered into a co-production agreement with North Folk Films, Inc. ("North Folk") for the production of a film entitled "Machiavelli Rises." The Company and North Folk formed a limited liability company, Battle Studies Productions, LLC ("Battle Studies"), to finance, produce, and distribute the film which commenced production in April 1998. The

film was completed in November 1998. The film was written, directed, and co-produced by Efraim Horowitz and can be characterized as a contemporary ghost story about power, greed, love, and Leonardo Da Vinci's lost notebook. Total production costs to date have aggregated approximately $433,000, of which the Company has funded approximately $217,500. In accordance with the terms of the co-production agreement, the proceeds of the film will be distributed as follows: first, both parties shall be entitled to recoup their initial investment in the film, at 135% thereof; then, after repayment to the respective parties of additional costs incurred by same, any remaining proceeds shall be distributed 50% to North Folk and 50% to the Company. The film was shown in January 1999 in both New York and at the Brussels Film Festival.

In February 2000, "Machiavelli Rises" was one of thirty-eight films showcased at the New York Independent Film Festival ("NYIFF") in New York City where it was honored with the award for Best Screenplay. In addition, it was chosen (along with only six other films) for presentment at the Los Angeles distribution of the NYIFF in April, 2000.

In September 2000 and January 2001, Battle Studies entered into two-year agreements with each of Raven Pictures International and Koan, Inc. for the distribution of "Machiavelli Rises" internationally and domestically, respectively. See "Management's Discussion and Analysis or Plan of Operation - Investment in Joint Ventures - Battle Studies Productions, LLC." To date, the film has not generated any distribution revenues.

"The Girl"

In July 1999, the Company entered into an agreement with ALF with respect to the production of a film entitled "The Girl." Pursuant to such agreement, the Company and ALF formed a limited liability company, The Girl, LLC ("Girl LLC"), to finance, produce and distribute the film. As of June 30, 2001, the Company invested $35,000 for a 22.533% interest in Girl LLC. "The Girl" was completed in the spring of 2001, has been exhibited at several film festivals and had a very limited theatrical distribution in New York City. The Girl LLC is in the process of attempting to secure video and foreign distribution arrangements.

"The Girl," which was filmed in Paris, categorized as a faux film noir, chronicles a lesbian relationship.

Production

The Company intends to continue to review screenplays for acquisition and co-production, although to a lesser extent. Typically, once a screenplay is acquired (i) a budget is prepared, (ii) revisions to the screenplay are made, (iii) the talent, production crews, and all ancillary items required for the filming of the motion picture are hired and/or otherwise obtained, and (iv) a film schedule is established. Once filming is complete, the film is edited, sound and special effects are added, and a final print is produced. The Company then arranges private showings of the film and attempts to secure domestic and foreign distributors.

Production of a motion picture requires approximately five to eight weeks of filming followed by approximately fourteen weeks of editing and adding sound and special effects. An additional twelve to sixteen weeks generally is required in order to secure a distributor for the film. If the Company cannot find a distributor, it will attempt to distribute the film itself. Once this process is complete, the film will be ready for release to theaters or other distribution channels. See "--Distribution, Billing and Revenues."

Distribution, Billing and Revenues

Generally, distribution of a film may be undertaken either by a motion picture

studio, an independent distributor, or through an agent. The Company expects that any existing films or future films it may produce will be distributed by an independent distributor or itself through an agent. In a distribution arrangement, the production company and the distributor determine who will incur what portion of the costs of marketing a film, at which time a budget is prepared and the extent of the release of the film is determined. The release of films may be done in platforming stages. A screening is then held, and critics are invited to review the film. If the film receives a favorable response from either the critics and/or the audience, the film's distribution will expand gradually into additional markets and theaters.

The Company does not expect extensive theatrical distribution of its existing or future films. Rather, after limited theatrical distribution a film may be distributed through public or cable television - via pay-per-view, premium, and standard channels - and/or through the sale or rental of videotapes. The Company may enter into agreements with different distributors for different markets or sell all the rights to one distributor. Revenues generated are distributed to all parties involved including the distributor, the producers, the owners, and the talent pursuant to extensive formulas previously agreed upon.

Distribution rights to motion pictures are granted legal protection under the copyright laws of the United States and most foreign countries which provide substantial civil and criminal sanctions for unauthorized duplication and exhibition of motion pictures. The Company plans to take all appropriate and reasonable measures to secure, protect, and maintain or obtain agreements from licensees to secure, protect, and maintain copyright protection for all of the motion pictures it distributes under the laws of all applicable jurisdictions.

The Company estimates that between 12 and 18 months will elapse between the commencement of expenditures by the Company in the acquisition of a screenplay, the production of a motion picture, and its release. The Company does not expect to receive revenues, if any, from the exploitation of a film until approximately 24 to 36 weeks after its release. Notwithstanding there can be no assurance that any completed film will ever establish distribution at any level or generate any revenues to the Company. Billing in the industry typically occurs quarterly: theaters pay distributors on a quarterly basis, and the Company is paid the following quarter. In the event a distributor desires to distribute one of the Company's films, however, such distributor may either (i) offer an initial payment to the Company against, or in addition to, future royalties or (ii) purchase the film outright.

Regulations

The Code and Ratings Administration of the Motion Picture Association of America, an industry trade association, assigns ratings for age-group suitability for viewing of motion pictures. While the Company will follow the practice of submitting most of its motion pictures for such ratings, the Company may review this policy from time to time.

United States television stations and networks, as well as foreign governments, impose regulations on the content of motion pictures which may restrict, in whole or in part, exhibition on television or in a particular territory. There can be no assurance that current and future restrictions on motion pictures released by the Company will not limit or affect the Company's ability to exhibit such motion pictures.

Competition in the Film Industry

The film industry is immense with many well capitalized industry leaders producing commercial films capable of wide theatrical distribution. The Company competes, and will continue to compete, with these and other institutions which produce, distribute, exploit and finance films, many of which have substantial

financial and human resources considerably more extensive than the Company's. These institutions include the major film studios - including Disney, Universal, MGM, and Sony - as well as smaller independent film companies and television and cable networks. Industry members compete substantially for the hire or purchase of a limited number of producers, directors, actors, and screenplays which are able to attract major distribution in all media and all markets throughout the world.

The motion picture business is highly competitive and has an extremely high profile in terms of name recognition, with relatively insignificant barriers to entry, and numerous entities compete for the same directors, producers, actors/actresses, distributors, theaters, etc. There is intense competition within the film industry for exhibition times at theaters, as well as for distribution in other media, and for the attention of the movie-going public and other viewing audiences. Competition for distribution in other media is as intense as the competition for theatrical distribution, and not all films are licensed in other media. Each year, numerous production companies are formed, and numerous motion pictures are produced, all of which motion pictures seek full distribution and exploitation. Despite the increase in the number of films, a small number of films, those which receive widespread consumer acceptance, account for a large percentage of total box office receipts.

Swimwear Business

General

Breaking Waves is a designer, manufacturer, and distributor of girl's swimwear which is sold throughout the United States. In addition to swimwear, Breaking Waves also manufactures beach cover-ups and accessories to coordinate with its swimwear. Swimwear is made in children's sizes from 2-16 and in pre-teen sizes.

Breaking Waves markets swimwear under private brand labels including "Breaking Waves," and "All Waves". In July 2000, Breaking Waves added a new line of girls' swimwear which is sold under the label, "Coral Cove." Breaking Waves also licenses rights to the name "Daffy Waterwear" and the "Gottex" trademark in connection with the manufacture and sale of girls' swim and related beach wear.

Products, Design, Supplies and Inventory

Breaking Waves designs, manufactures, and sells both private label and name brand girl's swimwear and accessories. It has an office in Homestead, Florida where its designer designs all styles for its swimwear lines and accessory items. Each season, roughly 20-25 prints and fabrics are developed for the "Breaking Waves" line, with generally between 10 to 20 prints and fabrics developed for each of its other lines. For the year ended June 30, 2002, the "Coral Cove" line accounted for approximately one-third of Breaking Waves' total sales volume, with the other four lines accounting for, in equal parts, the remainder of Breaking Waves' volume for such period.

For the six months ended June 30, 2001, the "Coral Cove" line accounted for approximately one-third of Breaking Waves' total sales volume, with the other four lines accounting for, in equal parts, the remainder of Breaking Waves' volume for such period. Prior to the introduction of the "Coral Cove" and "Gottex" lines, for the year ended December 31, 2000, the "All Waves" line accounted for approximately one-third of Breaking Waves' total volume, with the remaining two lines accounting for, in equal parts, the remainder of Breaking Waves' volume.

In designing its children's swimwear, Breaking Waves adapts certain of the prints and styles it is provided by Beach Patrol Inc., the licensor of "Daffy Waterwear" and Gottex Models Ltd. which management feels are appropriate for children's wear. Of each fabric or print chosen, the Company usually

manufactures two swimsuits: a one-piece model and a two-piece model.

Once Breaking Waves has chosen the prints and colors it desires to use for its children's swimwear, it sends the artwork for the fabric to its agent in Korea who disseminates them to one or more clothing manufacturers for prototyping and the knitting or weaving and printing of fabrics. The manufacturer returns the fabrics to Breaking Waves, and upon Breaking Waves' approval, the fabrics are sent, with the desired design, to any one or more of several Indonesian or Korean companies where the fabric is cut and sewn into a completed product. Finished goods are shipped from the manufacturer to a public warehouse in the City of Industry, California. Breaking Waves has found that this process is the most cost-effective means of operating its business. It expects to continue its operations in this manner in the future, though it may use other manufacturers and suppliers in different countries.

Breaking Waves' swimwear typically is produced in two blended fabrics: one is a blend of nylon and lycra spandex, and the other is a blend of cotton, polyester, and lycra spandex. Each product line uses different designs and emphasizes different fabric blends.

For the year ended June 30, 2002, 74% of Breaking Waves' finished products were purchased from two Indonesian manufacturers and 26% of Breaking Waves' finished products were purchased from a South Korean manufacturer. For the six months ended June 30, 2001, 80% of Breaking Waves' finished products were purchased from an Indonesian manufacture, with the balance purchased from a South Korean manufacturer. For the year ended December 31, 2000 Breaking Waves' finished products were purchased 80%, 15% and 5% from Indonesian, Samoan and Korean manufacturers, respectively. Although the Company believes that the fabrics and non-fabric sub-materials it uses are readily available and that there are numerous manufacturers for such piece goods who offer similar terms and prices, there can be no assurance that management is correct in such belief. The unavailability of fabrics or the absence of clothiers, or the availability of either at unreasonable cost, could adversely affect the operations of Breaking Waves and the Company.

Since Breaking Waves purchases finished garments from overseas contractors, it does not buy or maintain an inventory of sub-materials. It has not experienced difficulty in satisfying finished garment requirements and considers its sources of supply adequate. Breaking Waves' inventory of garments varies depending upon its backlog of purchase orders and its financial position.

Marketing and Sales

The "Breaking Waves," "Daffy Waterwear," "Coral Cove" and "Gottex" lines are distributed and sold through department and specialty stores. The "All Waves" label is sold to mass merchants and also as promotional goods in department stores. Private label programs are supplied to several major chains and department store groups.

Breaking Waves sells its swimwear and accessory items through its showroom sales staff and through independent sales representatives. Over the past several years, certain of its customers have included the Dillard and Federated department store groups as well as Kids R Us, Sears, Wal-Mart, T.J. Maxx and Marshalls. For the year ended June 30, 2002, Breaking Waves had three customers representing in the aggregate, 36% of net sales, as compared to two customers representing in the aggregate, 37% of net sales for the six months ended June 30, 2001 and three customers representing in the aggregate, 46% of net sales, for the year ended December 31, 2000.

Breaking Waves' merchandise is shipped pursuant to purchase orders sent by its customers and is sent f.o.b. shipping point (freight on board) meaning Breaking Waves is neither responsible for the goods during shipment nor for the delivery

charge. Payment is due 30 days after shipment. No goods are shipped on consignment; therefore, except for non-conforming or damaged goods, all goods shipped are considered sold.

In addition to its in-house sales and showroom personnel, approximately twenty independent sales representatives throughout the United States sell Breaking Waves merchandise on a non-exclusive basis. These representatives service department stores and smaller specialty retailers. In some cases, separate independent representatives sell the "Daffy Waterwear" line. None of these representatives is under contract with Breaking Waves; nor does any receive a salary. Rather, each is paid a commission based upon his sales. In addition to showroom sales and sales representatives calling on customers, Breaking Waves exhibits its products at major trade shows. End of season and discontinued merchandise is sold to off-price stores.

Suspended Internet Activities

In March 1999, Breaking Waves launched an online wholesale children's swimwear website at www.breakingwaves.com. The website was designed to complement the company's wholesale distribution efforts by providing retailers instant access to more than 200 styles of Breaking Waves swimwear. The Company has determined, however, not to pursue this method of distribution, and its website is now dormant.

Work in Progress

Breaking Waves manufactures its swimwear lines from June to December based on its knowledge of the market and past sales. Customer orders generally start arriving in June and July. Goods are reordered by customers on a continual basis through the following June. The quantity of open purchase orders at any date may be affected by, among other things, the timing and recording of orders. Breaking Waves does not sell on consignment and accepts return of only such products as are imperfect or shipped in error.

The major design work takes place from January to May. Goods are manufactured, printed, and sewn overseas from June to December. Finished garments are shipped from the factory to a public warehouse in Los Angeles for shipments to retailers. The majority of shipments to retailers are made from November to May, with January through March being the peak shipping time.

Trademarks

Breaking Waves relies on common law and registered trademarks for usage of its private label swimwear lines under the names "Breaking Waves," "All Waves" and "Coral Cove." Breaking Waves has licensed rights to the "Daffy Waterwear" and "Gottex" names for girls swim and beach wear. See "Management's Discussion and Analysis or Plan of Operations of - License Agreements" for a description of each of such license arrangements.

There can be no assurance that such trademarks owned or licensed by the Company adequately will be protected against infringement. In addition, there can be no assurance that Breaking Waves will not be found to be infringing on another company's trademark. In the event Breaking Waves finds another party to be infringing upon one of its trademarks, if registered, or is found by another company to be infringing upon such company's trademark, there can be no assurance that Breaking Waves will be successful in any resultant litigation it may ultimately become involved in.

Competition

There is intense competition in the swimwear apparel industry. Breaking Waves competes with many other manufacturers in these markets, many of which are

larger and have greater resources than it does. Major competitors in the swimwear industry include "Ocean Pacific," "Ralph Lauren," and "Speedo." In addition, department stores and retailers have their own private label programs which are the major competition in the mass merchant business.

Breaking Waves' business is highly competitive with relatively insignificant barriers to entry and with numerous firms competing for the same customers. Breaking Waves is in direct competition with local, regional, and national clothing manufacturers, many of which have greater resources and more extensive distribution and marketing capabilities than it does. In addition, many large retailers have recently commenced sales of "store brand" garments which compete with those sold by Breaking Waves. Management believes that Breaking Waves' market share is not significant in its product lines.

Many of the national clothing manufacturers have extensive advertising campaigns which develop and reinforce brand recognition. In addition, many of such manufacturers have agreements with department stores and national retail clothing chains to jointly advertise and market their products. Since Breaking Waves does limited advertising and marketing and has no agreement with any department store or national retail chain to advertise any of its products, it competes with companies that have brand names that are well known to the public. All other factors being equal, it can be expected that a retail shopper will buy a "brand name" garment before he buys an "unknown" brand, depending on price.

Seasonality

Breaking Waves' business is seasonal. A large portion of its revenues and profits are derived between November and March. Each year from April through October, Breaking Waves designs and manufactures the following season's swimwear lines. There can be no assurance that revenues received from December to June will support Breaking Waves' operations for the rest of the year.

Employees

Mr. Harold Rashbaum, the Company's Chairman of the Board, President, Chief Executive Officer and Chief Financial Officer oversees the Company's consolidated operations. The Company has one other executive officer, a designer, controller and 3 office personnel to oversee Breaking Wave's operations on a full-time basis, and employs a Vice-President of Design, Merchandising and Production on a part-time basis. Breaking Waves has approximately twenty independent sales persons representing the Breaking Wave's lines on a non-exclusive basis. Hollywood's operations are governed by Mr. Rashbaum. Most screenwriters, performers, directors, and technical personnel involved in the Company's films are members of guilds or unions which bargain collectively with producers on an industry-wide basis from time to time. Any work stoppages or other labor difficulties could delay the production of the films resulting in increased production costs and delayed return of investments.

Business Risks

Film Production

The likelihood of the success of any film and the Company's ability to stay on budget and on schedule for each film must be considered in light of the problems, expenses, difficulties, complications, and delays frequently encountered in connection with the production of a motion picture. Due to unforeseen problems and delays including illness, weather, technical difficulty, and human error, by completion, most films are considerably over budget. In addition, the lack of experience of management in this industry, the limited operating history and capital of the Company, and the competitive environment in which the Company operates may cause increased expenses due to mistakes and delays in the production of the films.

The success of a film in theatrical distribution, television, home video, and other ancillary markets is dependent upon public taste which is unpredictable and susceptible to change. The number and popularity of other films being distributed may also significantly affect the theatrical success of a film. Accordingly, it is impossible for anyone to predict accurately the success of any film at the time it enters production. The production of a motion picture requires the expenditure of funds based largely on a pre-production evaluation of the commercial potential of the proposed project.

Swimwear

The apparel industry is a cyclical industry, with consumer purchases of swimwear, accessory items, and related goods tending to decline during recessionary periods when disposable income is low. Accordingly, a prolonged recession would in all likelihood have an adverse effect on the operations of Breaking Waves and the Company. Breaking Waves operates in only one segment of the apparel industry, specifically swimwear, and is therefore dependent on the demand for such goods. Decreases in the demand for swimwear products would have a material adverse effect on the Company's business as a whole.

Breaking Waves believes that its success in the swimwear industry depends in substantial part on its ability to anticipate, gauge, and respond to changing consumer demands and fashion trends in a timely manner. Breaking Waves attempts to anticipate consumer preferences. There can be no assurance, however, that it will be successful in this regard, and if it misjudges the market for any of its products, it may be faced with unsold finished goods, inventory, and work in process, which could have an adverse effect on the Company's operations as a whole.

ITEM 2. DESCRIPTION OF PROPERTY

The Company maintains its executive office at Breaking Waves' facilities. Breaking Waves maintains its executive offices and showroom at 112 West 34th Street, New York, New York 10120. Until January 1998, this space was approximately 1,000 square feet and comprised only office space. In January 1998, Breaking Waves amended its lease and rented an additional 1,000 square feet. The lease is for a term of seven years, expiring December 2004, at an annual rental of $71,600. In July 2001, Breaking Waves terminated this lease, effective August 31, 2001. A new 6-year lease for an aggregate of 2,200 square feet expiring September 30, 2007 was signed, which became effective on December 1, 2001 Annual rent under the new lease is $84,915 through December 31, 2004 and $95,760 for the remainder of the lease. Breaking Waves also maintains a Florida office, comprising approximately 780 square feet, with annual payments of approximately $11,000.

ITEM 3. LEGAL PROCEEDINGS

On or about June of 2000, an action was brought in the Queens County Supreme Court against the Company and several others claiming, among other things, that the Company allegedly breached a contract and engaged in fraudulent statements (including supposedly promising the plaintiff options and then not allowing the plaintiff to exercise these options). The plaintiff seeks, among other things, compensatory damages in the amount of $497,500, punitive damages in the amount of $995,000, together with costs and attorney's fees. The Company has responded to the complaint and denied the allegations. The Company intends to contest this action vigorously and believes that such claims against it are baseless and without merit.

On or about December 2001, a group of over 275 foreign plaintiffs commenced an action entitled Abeln v. Arbel, et. al in the United States District Court for the Southern District of New York naming the Company, along with over 30 other

entities and individuals as defendants. The Company was never served with the summons and complaint, and could not discern if such service was effectuated. Thus, the Company was not yet a party to the suit. In August, 2002, the Plaintiffs voluntarily dismissed this action.

The Company is not a party to any other material litigation and is not aware of any threatened litigation that would have a material adverse effect on its business. Neither the Company's officers, directors, affiliates, nor owners of record or beneficially of more than five percent of any class of the Company's Common Stock is a party to any material proceeding adverse to the Company or has a material interest in any such proceeding adverse to the Company.

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

Not applicable.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Market Information

The Company's common stock is currently traded on the Over The Counter Bulletin Board (the "OTCBB"), under the symbol "SPNT". The Company's warrants are currently traded on the OTCBB under the symbol "SPNTW".

The following table sets forth the high and low sales prices for the common stock and warrants for the fiscal periods indicated as reported by in the over-the-counter market. The quotations shown represent inter-dealer prices without adjustment for retail mark-ups, mark-downs or commissions, and may not necessarily reflect actual transactions

	Common Stock		Warrants
Calendar Period	Low	High	Low
2000			
01/01/00 - 03/31/00	2.56	7.72	.13
04/01/00 - 06/30/00	2.44	5.13	.13
07/01/00 - 09/30/00	2.38	3.98	.25
10/01/01 - 12/31/00	.25	3.00	.16
2001			
01/01/01 - 03/31/01	.19	.89	.09
04/01/01 - 06/30/01	1.00	2.18	.14
07/01/01 - 09/30/01	.42	1.56	.02
10/01/01 - 12/31/01	.36	1.25	.01
2002			
01/01/02 - 03/31/02	.02	.85	.01
04/01/02 - 06/30/02	.02	.30	.01
07/01/02 - 09/30/02	.03	.15	.01

As of September 17, 2002, there were 42 holders of record of the Company's Common Stock, although the Company believes that there are approximately 900 additional beneficial owners of shares of Common Stock held in street name. As of September 17, 2002, the number of outstanding shares of the Company's Common Stock was 7,472,244. This number includes an aggregate of 2,420 shares of Common Stock being held by the Company on behalf of certain shareholders pending their submission for exchange of stock certificates outstanding on the date of the Company's one-for-three reverse stock split, as adjusted for the reverse stock split and subsequent stock dividends. The table reflects the price for post-dividend shares and post-adjustment Warrants since February 5, 1999.

Initially, each Warrant issued in the IPO entitled the holders thereof to purchase one share of the Company's Common Stock at an exercise price of $6.50 per share, until September 9, 2001. On June 23, 1997, the Board of Directors approved a reduction in the exercise price of the Warrants from $6.50 to $3.00. On February 5, 1998, the Company effected a one for three reverse split of the Company's Common Stock. Accordingly, the Company adjusted the terms of the Warrants to reflect the reverse split such that exercise of three Warrants would entitle the holder to purchase one share of Common Stock at an exercise price of $9.00. Giving effect to the February 1999 100% Common Stock dividend, February 2000 10% Common Stock dividend and June 2000 20% Common Stock dividend, the Warrants have been cumulatively adjusted such that the exercise of each Warrant at an exercise price of $3.41 purchases .88 of a share of Common Stock or, each Warrant, exercisable at an exercise price of $3.87 purchases 1 share of Common Stock.

In August 2001, the Company extended the term of the Warrants for an 18 month period. The current expiration date of the Warrants is March 10, 2003. There is no current Registration Statement on file with the Securities and Exchange Commission ("SEC") covering the shares of Common Stock issuable upon exercise of the Warrants. Accordingly, the Warrants cannot currently be exercised. The Company plans to file a Registration Statement with the SEC in the future.

On April 15, 1998, the Company's Board of Directors authorized the distribution of Distribution Warrants to all holders of shares of the Company's Common Stock as of the May 8, 1998 Warrant Record Date. Pursuant to the distribution, each share held on the Warrant Record Date shall generate the issuance of one Distribution Warrant to purchase one share of Common Stock at an exercise price of $4.00 per share. The Distribution Warrants, which are exercisable for a period of three years commencing one year after issuance, shall be issued and distributed once the Company has filed a registration statement for same and same has been declared effective by the SEC. The Company to date has not filed the registration statement.

Common Stock Dividends

20% Common Stock Dividend

On May 8, 2000, the Company's Board of Directors authorized the issuance of a 20% stock dividend to all holders of shares of the Company's Common Stock, par value $0.001 per share (the "Common Stock") as of May 19, 2000 payable on June 19, 2000.

10% Common Stock Dividend

On January 7, 2000, the Company's Board of Directors authorized the issuance of a 10% stock dividend to all holders of Common Stock as of January 20, 1999, payable February 1, 2000.

100% Common Stock Dividend

On January 14, 1999, the Company's Board of Directors authorized the issuance of a stock dividend to all holders of shares of the Company's Common Stock as of January 29, 1999, payable on February 5, 1999.

The Company has paid no cash dividends and has no present plan to pay any cash dividends. Payment of future dividends will be determined from time to time by its board of directors, based upon its future earnings, if any, financial condition, capital requirements, and other factors. The Company is not presently subject to any contractual or similar restriction on its present or future ability to pay such dividends.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS
CAUTIONARY STATEMENTS ON FORWARD-LOOKING STATEMENTS

CAUTIONARY STATEMENTS ON FORWARD-LOOKING STATEMENTS

Statements contained in this report which are not historical facts and may be considered forward looking information with respect to plans, projections, or future performance of the Company as defined under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those projected. The words "anticipate ", "believe", "estimate", "expect", "objective", and "think" or similar expressions used herein are intended to identify forward-looking statements. The forward-looking statements are based on the Company's current views and assumptions and involve risks and uncertainties that include, among other things, the effects of the Company's business, actions of competitors, changes in laws and regulations, including accounting standards, employee relations, customer demand, prices of purchased raw material and parts, domestic economic conditions, including housing starts and changes in consumer disposable income, and foreign economic conditions, including currency rate fluctuations. Some or all of the facts are beyond the Company's control.

General

Shopnet.com, Inc. ("Shopnet" or the "Company") was incorporated in the State of Delaware on December 1, 1995 as Hollywood Productions, Inc. On May 10, 1999, Shopnet filed an amendment to its Articles of Incorporation effecting a change in its name to its current one. On May 12, 1999, it incorporated a new wholly-owned subsidiary, Hollywood, to which it assigned its motion picture business thereby rendering Shopnet a holding company for Hollywood and another wholly-owned subsidiary, Breaking Waves. Shopnet was formed initially for the purpose of acquiring screenplays and producing motion pictures. In September 1996, in connection with the completion of its IPO, it acquired all of the capital stock of Breaking Waves which designs, manufactures, and distributes private and brand name label children's swimwear. As of June 30, 2001, the company changed its year end from December 31 to June 30.

The consolidated financial statements at June 30, 2002, June 30, 2001 and at December 31, 2000 include the accounts of Shopnet and its wholly owned subsidiaries, Breaking Waves and Hollywood (collectively referred to as the "Company") except where otherwise indicated after elimination of all significant intercompany transactions and accounts.

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related footnotes which provide additional information concerning the Company's financial activities and condition. Since Shopnet and its subsidiaries operate in different industries, the discussion and analysis is presented by entity in order to be more meaningful.

Critical Accounting Policies

a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of Shopnet and its wholly owned subsidiaries, Breaking Waves and Hollywood (the "Company"), after elimination of all significant intercompany transactions and accounts. Affiliated companies which are 20 to 50 percent owned are accounted for under the equity method.

b) Inventory

Inventory consists of finished goods and is valued at the lower of cost (using the first-in, first-out method) or market. All inventory is pledged as collateral for factored receivables pursuant to a factoring agreement with a financial institution

c) Film production and distribution costs

The Company follows industry standards in capitalizing film production and distribution costs. Film production and distribution costs include all costs associated with the writing, producing, and distribution of the film. Film costs include the costs of production, prints, pre-release, and other advertising expected to benefit future periods. These costs, as well as participation and talent residuals, are charged against earnings on an individual film basis in the ratio that the current year's gross film revenues bear to management's estimate of total remaining ultimate gross film revenues from all sources.

Film costs are stated at the lower of cost or estimated net realizable value on an individual film basis. Revenue and cost forecasts are continually reviewed by management and revised when warranted by changing conditions. Estimates of total gross revenue can change significantly due to the level of amortization, as adjusted. Such adjustments could have a material effect on the results of operations in future periods. When estimates of total revenue and costs indicate that a feature film will result in an ultimate loss, additional amortization is recognized to the extent required to produce a zero gross margin over the remaining life of the film.

d) Equity Method of Accounting

Investments in significantly (20 to 50 percent) owned affiliates are accounted for by the equity method of accounting, whereby the investment is carried at cost of acquisition, plus the Company's equity percentage in undistributed earnings or losses since acquisition. Reserves are provided where management determines that the investment or equity in earnings is not realizable.

e) Income taxes

The Company accounts for income taxes in accordance with the "liability method" of accounting for income taxes. Accordingly, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Current income taxes are based on the respective periods' taxable income for federal, state and city income tax reporting purposes.

f) Revenue and cost recognition

The terms of Breaking Waves' sales are FOB shipping point thereby revenue is recognized upon shipment from the warehouse. Sales returns are recorded upon acceptance of the goods by the warehouse. Duty costs, which are a component of cost of sales, are recorded upon the clearance of such goods through customs.

Revenues from the theatrical distribution of motion pictures are recognized when motion pictures are exhibited. Revenues from video sales are recognized,

together with related costs, on the date that video units are made widely available for sale by retailers.

Revenues from the licensing of feature films, together with related costs, are recorded when the material is available for telecasting by the licensee and when certain other conditions are met. Film production and distribution costs are stated at the lower of unamortized cost or estimated net realizable value. In accordance with Financial Accounting Standards Board's Statement of Financial Accounting Standards ("SFAS") No. 53, "Financial Reporting by Producers and Distributors of Motion Pictures Films," the individual film forecast method is used to amortize film costs.

g) Earnings per share

Earnings per common share is computed pursuant to SFAS No. 128 "Earnings Per Share." Basic earnings per share is computed as net income (loss) available to common share holders divided by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur from common shares issuable through stock options, warrants and convertible preferred stock.

h) Use of estimates

In preparing financial statements in conformity with generally accepted accounting principles generally accepted in the United States of America, management is required to make estimates and assumption which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. The most significant estimate with regard to these financial statements is the estimate of projected income of motion pictures which is the basis used in amortizing film production and distribution costs. Actual results could differ from those estimates.

i) Fair value disclosure at June 30, 2002, June 30, 2001 and December 31, 2000:

The carrying value of cash, accounts receivable, inventory, accounts payable, accrued expenses, and capital lease obligations are a reasonable estimate of their fair value.

Year ended June 30, 2002 as compared to the six months ended June 30, 2001 and the year ended December 31, 2000

Breaking Waves

For the year ended June 30, 2002, the six months ended June 30, 2001 and for the year ended December 31, 2000, Breaking Waves generated net sales of $7,702,798, $4,728,948 and $5,713,133, respectively, with related cost of sales amounting to $5,065,879, $3,303,919 and $3,764,258, respectively.

The increase in sales from 2001 to 2002 was primarily attributable to the greater acceptance of the Company's product line and increased marketing efforts.

The gross profit for the year ended June 30, 2002, amounted to $2,636,919 or 34% of sales, for the six months ended June 30, 2001 amounted to $1,425,029, or 30% of sales and for the year ended December 31, 2000, amounted to $1,1948,845 or 34% of sales. The increase in gross profit percentage of 4% for the year ended June 30, 2002 as compared to the six months ended June 30, 2001 can be attributed to a percentage decrease in charge back returns for the year ended June 30, 2002.

Selling, general, and administrative expenses during the year ended June 30, 2002, the six months ended June 30, 2001, and the year ended December 31, 2000 amounted to $2,238,211, and $ 1,216,127, and $1,638,809, respectively. The increase is primarily attributable to an increase in selling and warehousing expense which reflect the increase in sales volume.

The major components of the Breaking Waves selling, general, and administrative expenses are as follows:

	Year Ended June 30, 2002
Officers, office staff, designer salaries and related benefits	$ 584,304
Commission expense	227,023
Warehousing costs	453,211
Royalty fees	123,407
Rent expense	100,787
Factor commissions	81,403
Miscellaneous general corporate overhead expenses	668,076

The major components of the Breaking Waves selling, general, and administrative expenses expressed as a percentage of net sales are as follows:

	Year Ended June 30, 2002	Six M En June 20
Officers, office staff, designer salaries and related benefits	8%	5%
Commission expense	3%	3
Warehousing costs	6%	5
Royalty fees	2%	4
Rent expense	1%	1
Factor commissions	1%	1
Miscellaneous general corporate overhead expenses	9%	7

Interest expense in connection with its factoring agreement amounted to $248,303, $256,429 and $305,309 for the year ended June 30, 2002, the six months ended June 30, 2001 and for the year ended December 31, 2000, respectively.

Breaking Waves owns 1,270,000 unregistered common shares ("Play Co. Shares") of Play Co. Toys & Entertainment Corp. ("Play Co, " a toy retailer and a publicly traded company whose Chairman of the Board is also the President of Shopnet and Breaking Waves).

Breaking Waves' ownership percentage is approximately 1.5% of Play Co.'s outstanding Common Stock. The investment in Play Co. is accounted for under the requirements of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities. " Under SFAS 115, the securities are considered available for sale and therefore the carrying value is based on the fair market value of the securities at June 30, 2002, June 30, 2001 and December 31, 2000, which amounted to $0, $6,350 and $107,950, respectively. The change in the fair market value of the securities during the periods is recorded as an unrealized gain or loss as a component of comprehensive income. The company has pledged such shares as collateral for a standby letter of credit in connection with Breaking Waves' factoring agreement with Century Business Credit Corporation ("Century") and the are therefore considered non-current.

On March 28, 2001, Play Co. filed for protection under Chapter Eleven of the United States Bankruptcy Code with the United States Bankruptcy Court for the Southern District of New York. The filing was converted into a Chapter Seven filing on August 28, 2001. Breaking Waves generated net (loss) income of $(82,366), $(84,561) and $663 for the year ended June 30, 2002, for the six months ended June 30, 2001, and for the year ended December 31, 2000, respectively.

Breaking Waves recorded an unrealized (loss) of $(6,350) and $(101,600) for the year ended June 30, 2002 and for the six months ended June 30, 2001, respectively. For the year ended December 31, 2000, the Company recorded unrealized income of $107,950. These items were recorded as a component of comprehensive income (loss) in the statement of operations. (See Note 7)

Hollywood

On May 12, 1999, Shopnet incorporated a wholly owned subsidiary Hollywood, to which it assigned its film production business. All film related operations prior to May 12, 1999 were conducted by Shopnet under its former name.

For the year ended June 30, 2002, for the six months ended June 30, 2001, and for the year ended December 31, 2000, Hollywood generated no sales form its motion picture "Dirty Laundry". Although sales prior to and including the year ended June 30, 2002 were minimal, the Company is expending efforts to effect increased sales during the fiscal year ending June 30, 2003 and thereafter as a result of the implementation of a new marketing strategy which among other things, emphasizes the development of new marketing and distribution arrangements for "Dirty Laundry". Upon a review of the net realizable value of the movie cost, management has determined that a $0 and $145,272 and $100,000 write down was necessary as of June 30, 2002, for the six months ended June 30, 2001, and for the year ended December 31, 2000, respectively. Accordingly, Hollywood generated a loss of $0, $149,270 and $314,064 for the year ended June 30, 2002, for the six months ended June 30, 2001, and for the year ended December 31, 2000, respectively.

Subsequent to "Dirty Laundry", Hollywood also has invested in other movie ventures, some of which have generated revenue to date. See "Investment in Joint Ventures."

Shopnet.com

For the year ended June 30, 2002, for the six months ended June 30, 2001, and for the year ended December 31, 2000, Shopnet generated minimal income comprised of interest from its money market and sublet income from its corporate office.

Shopnet's selling, general, and administrative expense amounted to $367,902, $283,581 and $554,434 for the year ended June 30, 2002, for the six months ended June 30, 2001, and for the year ended December 31, 2000.

The major components of the Company's expenses are as follows:

	Year Ended June 30, 2002	Year En June 30,
Salaries (officer and office staff) and stock compensation and related benefits	$ 140,733	$9
Rent	19,510	3
Legal and professional fees	109,193	5
Consulting fees	35,070	1
Other general corporate and administrative expense	63,396	8

Shopnet generated a net loss of $352,501, $285,838 and $593,575 for the year ended June 30, 2002, for the six months ended June 30, 2001, and for the year ended December 31, 2000, respectively. These net losses include, on a consolidated basis, amortization of goodwill of $0, $35,476 and $70,952 respectively. (See Note 5)

Liquidity and Capital Resources

At June 30, 2002, the Company's consolidated working capital deficit amounted to $307,167.

At June 30, 2002, current assets consisted primarily of inventory of $230,049 and prepaid expenses of $298,968.

Factoring Arrangements

CIT Group

On August 20, 1997, Breaking Waves entered into a factoring and revolving inventory loan and security agreement (as amended December 9,1998) with CIT Group (formerly, Heller Financial, Inc. "CIT") to sell their interest in all present and future receivables without recourse. Breaking Waves paid CIT a factoring commission of .85% of the first $5,000,000 of receivables sold and ..65% of receivables sold in excess of $5,000,000 for each year.

Breaking Waves took advances of up to 85% of the receivables, with interest at the rate of 1 3/4% over prime. In connection with the factoring agreement, the Company agreed to maintain $1,150,000 of cash in a segregated account in order to collateralize standby letters of credit. In addition, during 1999, Breaking Waves was required to transfer an additional $200,000 of cash as collateral for the standby letter of credit.

On or about September 12, 2000 the agreement with CIT was cancelled and a new factoring agreement was entered into as stated below.

Century Business Credit Corporation

On or about September 12, 2000, Breaking Waves entered into a factoring and revolving inventory loan and security agreement ("factoring agreement") with Century Business Credit Corporation ("Century") to sell its interest in all present and future receivables without recourse. Breaking Waves submits all sales offers to Century for credit approval prior to shipment, and pays a factoring commission of .75% of receivables sold. Century retains from the amount payable to Breaking Waves a reserve for possible obligations such as customer disputes and possible credit losses on unapproved receivables. Breaking

Waves may take advances of up to 85% of receivables, with interest at the rate of 1 3/4% over prime.

Pursuant to the terms of a Reimbursement and Compensation Agreement, a trust ("Trust"), the beneficiary of which is a relative of the Company's President and Chief Executive Officer ("CEO") and a relative of a principal stockholder, pledged assets as collateral for securing a $250,000 letter of credit to replace a portion of a letter of credit previously pledged by the Company. Accordingly, on December 20, 2000 the original agreement with the factor was amended to allow such replacement of collateral. Breaking Waves' Loan and Security Agreement with Century dated December 20, 2000 requires the provision of one or more letters of credit in the aggregate amount of $1,150,000 to partially secure the line of credit. On September 15, 2001, Century required the Company to increase the amount of collateralized standby letters of credit by $300,000 raising such amount to $1,450,000.

On May 3, 2001, the Agreement with the Trust was amended so that the letter of credit secured by the Trust was increased to $400,000. As a condition of the amendment, the Company entered into a guarantee agreement with Gal Capital Corp., whose President is a relative of the Company's President and CEO and a principal stockholder of the Company to act as guarantor of the obligation to the Trust up to $400,000 in exchange for a fee of $42,500 which the Company paid on May 3, 2001. The amended letter of credit expired on September 1, 2001 and was subsequently amended on September 15, 2001.

On September 15, 2001, the Amended and Restated Reimbursement and Compensation Agreement was entered into and further amended the agreement with the Trust, so that the letter of credit secured by the Trust was increased to $750,000. The amended letter of credit expires on September 1, 2002 but can be extended year to year at the Company's option for a period of ten years.

Breaking Waves agreed to reimburse the Trust for any and all losses, fees, charges and expenses to the Trust in the event the letter of credit is called by Century and/or the issuing bank demands reimbursement from the Trust. Breaking Waves' obligations are guaranteed by the Company in addition to being secured by a first security interest in all of the assets of the Company and a subordinate security interest in all of the assets of Breaking Waves.

On September 15, 2001, the Company entered into a Reimbursement Agreement with relatives of a principal stockholder who is related to the President and CEO of the Company ("RAYA") who pledged assets as collateral for securing a $300,000 letter of credit as additional collateral to secure Breaking Waves' Loan and Security Agreement with Century.

Absent any default, the letter of credit will remain in effect for ten years. The Agreement is guaranteed by Shopnet under a separate Security Agreement dated September 15, 2001.

In exchange for the letters of credit, the Trust and RAYA will proportionately, based on the total outstanding letters of credit, receive a fee of one and one quarter percent (1-1/4%) of net sales of Breaking Waves through June 30, 2002 and thereafter one and three quarters percent (1-3/4%) of net sales through September 30, 2011.

In October 2001, the Trust and RAYA received advance payments to be applied towards future fees of $24,500 and $12,250, respectively. All future payments are payable forty five days after the close of each fiscal quarter. The fees are effective October 1, 2001.

In September 2001, the Company and Breaking Waves retained Arc Financial Corp. ("ARC"), a British Virgin Island company, for a ten year term to provide financial consulting services. Pursuant to the terms of a consulting agreement

("ARC Consulting Agreement"), ARC was retained to assist the Company in the acquisition of financing to acquire inventory and for other corporate purposes ("Financing"), as well as consult with the Company with regard to its ongoing operations, promote sales of Breaking Waves' products and improving production. Pursuant to the terms of the ARC Consulting Agreement, the Company and Breaking Waves agreed to compensate ARC (i) an annual fee of $20,000 ("Base Fee") and (ii) a percentage of annual net sales in the amount of 1-1/4% through June 30, 2002 and 1-3/4% of net sales for each year of the term thereafter through September 30, 2011 ("ARC Percentage Fee"), payable 45 days after the closing of each fiscal quarter. In October 2001, ARC received (i) a lump sum payment of $209,000 reflecting full advance payment of the Base Fee and (ii) $36,750 reflecting advance payment of the Arc Percentage Fee. The agreement with Arc expires September 30, 2011. The Company and Breaking Waves are entitled to terminate the ARC Consulting Agreement any time after September 30, 2006, in which event all prepaid fees are forfeited.

The following table summarizes the percentage due to each party, as noted above, as a percentage of net sales for the year ended June 30, 2002:

	% of Net Sales	Amount
RAYA	0.42	$38,820
ZAT	0.83	60,906
ARC	1.25	91,725
Total	2.50	$183,451

Interest expense related to the factor agreement totaled $248,303 for the year ended June 30, 2002, $256,429 for the six months ended June 30, 2001 and $100,488 for the year ended December 31, 2000. Century has a secured interest in Breaking Waves' inventory as collateral for the advances. As of June 30, 2002, the net advances to Breaking Waves from Century amounted to $690,595.

During October 2001, Century released the Company from its requirement of maintaining a minimum cash balance as a result of the events discussed in Note 9 (b). Upon Century removing the restriction, the Company paid and reduced the amount due to Century in October and November 2001 by an aggregate of $620,000.

Investments in Joint Ventures

Battle Studies

Pursuant to a co-production agreement dated April 17, 1998 with North Folk Films, Inc., the Company invested through June 30, 2002, $218,765 for a 50% interest in a new entity, Battle Studies Productions, LLC ("Battle Studies") a limited liability company. Battle Studies will be treated as joint venture in order to co-produce motion pictures and to finance the costs of production and distribution of such motion pictures. The joint venture retains all rights to the motion pictures, the screenplays, and all ancillary rights attached thereto.

The Company accounts for the investment in Battle Studies on the equity method. For the year ended June 30, 2002, and the six months ended June 30, 2001, and the year ended December 31, 2000 the Company, recorded $695, $1,473, and $4,290, respectively, of equity losses for its proportionate share of Battle Studies. No revenues have been derived from this film as of June 30, 2002, June 30, 2001 and December 31, 2000.

On October 12, 2000, Battle Studies entered into a distribution agreement with Raven Pictures International ("Raven Pictures") to distribute Battle Studies'

motion picture ("Macheavelli Rises") to foreign countries. Battle Studies has granted rights under the agreement for the theatrical, video, non-theatrical and television markets. The term of the agreement is for twenty-four months for all portions of territory outside of the United States and English speaking Canada. Battle Studies expects to realize 75% (which is net of a 25% fee to Raven Pictures) of the expected estimated gross revenues derived from foreign countries less $20,000 for marketing and advertising expense.

On January 17, 2001, Battle Studies entered into a distribution agreement with KOAN to distribute and promote Battle Studies' motion picture ("Machiavelli Rises") in the United States and Canada. Battle Studies has granted rights under the agreement for free TV, pay TV, cable, satellite, video and DVD markets.

The terms of the agreement is for twenty-four months and it will be automatically renewed unless KOAN receives a letter of cancellation at least thirty days prior to the date of termination or if sales have not exceeded $250,000 over the twenty-four month period. Battle studies expects to realize 70% (which is net of a 30% fee to KOAN) of the expected estimated gross revenues derived from the United States and Canada less $5,000 per year for promotional costs.

The Girl

Pursuant to an agreement dated July 1, 1999 with Artistic License Films Inc., Hollywood invested through June 30, 2002 $35,000 for a 22.533% interest in a new entity, The Girl, LLC ("The Girl") a limited liability company. In return for its participation in The Girl, Hollywood is entitled to receive a non-contested, non-dilutable 22.533% ownership interest in The Girl, a recoupment of its investment on no less favorable terms than any other investor and 22.533% of 100% of any contingent compensation which shall be actually received by The Girl. The Girl retains all rights to the motion pictures, the screenplays, and all ancillary rights attached thereto.

Hollywood accounts for the investments in The Girl under the equity method. For the year ended June 30, 2002 and the six months ended June 30, 2001, and the year ended December 31, 2000, the Company recorded $0 , $1,298 and $0, respectively, in net equity losses.

Lease Commitments

Shopnet and Breaking Waves have entered into lease agreements for their administrative offices. Shopnet leases its administrative offices. Shopnet leased its administrative office pursuant to a 5-year lease that expired on November 30, 2001 at annual rent amounting to approximately $70,000, before annual escalations.

Breaking Waves terminated its lease effective November 30, 2001. A new 6 year lease expiring September 30, 2007 was signed in July 2001 and is effective beginning December 1, 2001. Annual rent under the new lease is $84,915 through December 31, 2004 and $95,760 for the remainder of the lease. Lastly, Breaking Waves leases an offsite office for one of its designers on a month to month basis with annual payments approximating $11,000.

The Company and Breaking Waves' approximate future minimum rentals under non-cancelable operating leases in effect on June 30, 2002 are as follows:

2003	$ 84,915
2004	84,915
2005	90,338
2006	95,760
2007	95,760
Thereafter	23,940

$475,628
========

Rent expense for the year ended June 30, 2002 amounted to $120,297 for the six months ended June 30, 2001 amounted to $83,500 and for the year ended December 31, 2000 and amounted to $163,900.

License Agreements

On October 16, 1995, Breaking Waves entered into a license agreement with Beach Patrol, Inc. ("Beach") for the exclusive use of certain trademarks in the United States. The agreement covered a term from January 1, 1996 to June 30, 1998 and contained a provision for an additional three-year extension, at the option of Breaking Waves, through and until June 30, 2001. Breaking Waves had exercised this option, thereby so extending the agreement. The agreement called for minimum annual royalties of $75,000 to $200,000 over the life of the agreement with options based on sales levels from $1,000,000 for the first year to $4,000,000 in the sixth year. Breaking Waves has negotiated an additional two-year extension thereby extending the agreement through and until June 30, 2003, and it contains a provision for an additional two-year extension, at the option of Breaking Waves, through and until June 30, 2005. The new agreement signed February 28, 2001 and effectively July 1, 2001 calls for minimum annual royalties of $50,000 to $87,500 over the life of the extension with option based on sales levels from $1,000,000 for the seventh year to $1,750,000 in the tenth year. The agreement was verbally terminated by both parties effective on or about March 31, 2002. Breaking Waves recorded royalties under this agreement totaling $50,000, $150,000, $163,009 during the year ended June 30, 2002 during the six months ended June 30, 2001 and during the year ended December 31, 2000, respectively.

During June 2000, Breaking Waves entered into a license agreement with an effective date of November 1, 2000 with Gottex Models Ltd., as Israeli corporation and Gottex Models (USA) Corp., a New York corporation for the use of the trademark "Gottex" in the United States of America for children's swimwear. The agreement calls for a royalty fee of 7% of net sales with guaranteed minimum annual royalties of $70,000 to $140,000 over the life of the agreement. Breaking Waves recorded royalties under the agreement totaling $73,408, $26,610 and $8,859 for the year ended June 30, 2002, for the six months ended June 30, 2001 and for the year ended December 31, 2000.

ITEM 7. FINANCIAL STATEMENTS

SHOPNET.COM, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Independent auditors' report for the year ended June 30, 2002

Independent auditors' report for the six months ended June 30, 2001 and the year ended December 31, 2000

Consolidated balance sheet as of June 30, 2002

Consolidated statements of operations for the year ended June 30, 2002, the six months ended J and the year ended December 31, 2000

Consolidated statements of stockholders' equity for the year ended June 30, 2002, the six mont June 30, 2001 and the year ended December 31, 2000

Consolidated statements of cash flows for the year ended June 30, 2002, the six months ended J and the year ended December 31, 2000

Notes to consolidated financial statements

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Shopnet.com, Inc.

We have audited the accompanying consolidated balance sheet, statements of operations, stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management . Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shopnet.com, Inc. and subsidiaries as of June 30, 2002 and the consolidated results of its operations, changes in stockholders' equity and cash flows for the year ended in conformity with accounting principles generally accepted in the United States.

The consolidated financial statements for the six months ended June 30, 2001 and for the year ended December 31, 2000 were audited by another independent auditor whose report dated September 27, 2002, expressed an unqualified opinion on those statements.

/s/JEROME ROSENBERG, CPA, P.C.
JEROME ROSENBERG, CPA, P.C.

Melville, New York
August 28, 2002

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Shopnet.com, Inc.

We have audited the accompanying consolidated statements of operations, stockholders' equity and cash flows of Shopnet.com, Inc. and subsidiaries (the "Company") for the six months ended June 30, 2001 and for the year ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management . Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of their operations and their cash flows for the six months ended June 30, 2001 and for the year ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

/s/Massella Rubenstein LLP
Massella Rubenstein LLP
Jericho, New York
July 31, 2002 except for notes 9(b) and 13(d), As to which the date is September 15, 2001

SHOPNET.COM, INC. AND SUBSIDIARIES
Consolidated Balance Sheet
As of June 30, 2002

ASSETS

Current assets:

Cash
Accounts receivable, net
Other receivables
Inventory
Prepaid expenses (Note 4)
Advances to officer

Total current assets

Property and equipment, net (Note 3)
Film production and distribution costs, net
Costs in excess of net assets of business acquired (Note 5)
Investments in movie ventures (Note 6)
Deferred tax asset-non-current
Other assets

Total assets

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:
Due to factor (Note 9)
Accounts payable
Accrued expenses (Note 8)
Capital lease obligations
Other taxes payable
Deferred tax liability

Total current liabilities

Total liabilities

Commitments and contingencies

Stockholders' equity
Common stock- $.001 par value, 20,000,000 shares authorized, 7,472,244 shares issued and outstanding
Capital in excess of par value
Accumulated deficit
Accumulated other comprehensive income

Total stockholders' equity

Total liabilities and stockholders' equity

The accompanying notes should be read in conjunction with the consolidated financial statements

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SHOPNET.COM, INC. AND SUBSIDIARIES
Consolidated Statement of Operations

	Year Ended June 30, 2002	Six Months Ended June 30, 2001	Y En Dec 2
Net sales	$ 7,702,798	$ 4,728,948	$ 5,
Cost of sales	5,065,879	3,303,919	3,
Gross profit	2,636,919	1,425,029	1,
Expenses:			
Selling, general, and administrative	2,642,847	1,500,707	2,
Amortization of costs in excess of net assets of business acquired (Note 5)	--	35,476	
Total expenses	2,642,847	1,536,183	2,
Loss before other income (expenses) and income tax benefit	(5,928)	(111,154)	(
Other income (expenses):			
Equity in earnings loss of affiliate	(695)	(2,771)	
Write down of film costs	--	(145,272)	(
Rental income	9,050	14,400	
Interest and finance expense	(450,199)	(300,273)	(
Interest income	11,008	24,945	
Total other income (expense)	(430,836)	(408,971)	(
Loss before for income tax benefit	(436,764)	(520,125)	(
Income tax benefit	(202)	(456)	
Net loss	(436,562)	(519,669)	(
Other items of comprehensive loss	(6,350)	(101,600)	

Comprehensive loss	$ (442,912)	$ (621,269)	$ (
Basic and diluted loss per share:	$ (.06)	$ (.07)	$
Weighted average number of common shares outstanding	7,472,244	7,472,244	7,

The accompanying notes should be read in conjunction with the consolidated financial statements

SHOPNET.COM, INC. AND SUBSIDIARIES
Consolidated Statement of Stockholders' Equity
For the Year Ended June 30, 2002, The Six Months Ended June 30, 2001
and For The Year Ended December 31, 2000

	Common Stock		Capital	Accum
	Shares	Amount	In Excess of Par Value	Def
Balances at December 31, 1999	5,589,620	$ 5,590	$ 6,345,836	$(2,59
Issuance of common stock in connection with January 2000 stock dividend	537,389	537	(537)	
Sale of common stock in February 2000, net of costs	100,000	100	294,798	
Issuance of common stock in connection with May 2000 stock dividend	1,245,235	1,245	(1,245)	
Unrealized gain on marketable securities	--	--	--	
Net loss for the year ended December 31, 2000 .	--	--	--	(90
Balances at December 31, 2000	7,472,244	7,472	6,638,852	(3,49
Unrealized loss on marketable securities	--	--	--	
Net loss for the six months ended June 30, 2001	--	--	--	(51
Balances at June 30, 2001	7,472,244	$ 7,472	$ 6,638,852	$(4,01

The accompanying notes should be read in conjunction with the consolidated financial statements

SHOPNET.COM, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity
For the Year Ended June 30, 2002, The Six Months Ended June 30, 2001
and For The Year Ended December 31, 2000

	Common Stock Shares	Common Stock Amount	Capital In Excess of Par Value	Accumula Deficit
Balances at June 30, 2001 (Balance forward)	7,472,244	$ 7,472	$ 6,638,852	$(4,017,
Unrealized loss on marketable securities	--	--	--	-
Loss for the year ended June 30, 2002	--	--	--	(436,
Balances at June 30, 2002	7,472,244	$ 7,472	$ 6,638,852	$(4,453,

The accompanying notes should be read in conjunction with the consolidated financial statements

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SHOPNET.COM, INC. AND SUBSIDIARIES
Consolidated Statement of Cash Flows

	Year Ended June 30, 2002	Six Months Ended June 30, 2001
Cash flows from operating activities:		
Net loss	$ (436,562)	$ (519,669
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in loss of affiliate	695	2,771
Amortization and depreciation	36,286	49,473
Deferred income tax benefit	--	(1,098
Write down of film costs	--	145,272
Decrease (increase) in:		
Cash-restricted	969,582	144,990
Accounts receivable	58,597	(29,740
Other receivables	(25,384)	(34,812
Inventory	566,489	2,667,691
Prepaid expenses	(228,206)	36,870
Deferred tax asset	(21,740)	--
Other assets	(6,443)	--
Increase (decrease) in:		
Accounts payable	141,170	(957,272

Accrued expenses	(17,183)	(77,878
Deferred tax liability	1,582	--
Other taxes payable	1,471	(10,308
Net cash (used for) provided by operating activities	1,040,354	1,416,290
Cash flows from investing activities:		
Acquisition of property and equipment	(34,193)	(24,426
Investment in movie ventures	(40)	(1,000
Net cash used in investing activities	$ (34,233)	$ (25,426

The accompanying notes should be read in conjunction with the consolidated financial statements

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SHOPNET.COM, INC. AND SUBSIDIARIES
Consolidated Statement of Cash Flows
(Continued)

	Year Ended June 30, 2002	Six Months Ended June 30, 2001	Year Ended Dec. 31, 2000
Cash flows from financing activities:			
Net proceeds from factoring agreement	$(1,009,742)	$(1,465,572)	$ 1,389,635
Proceeds from sale of common stock	--	--	294,898
Proceeds from line of credit	--	--	250,000
Repayments of line of credit	--	--	(250,000)
Repayments to related parties	--	--	(650,000)
Principal payments on capital lease obligations	(17,773)	(8,323)	(15,445)
Net cash used in financing activities	(1,027,515)	(1,473,895)	1,019,088
Net decrease in cash	(21,394)	(83,031)	(153,933)
Cash, beginning of period	24,703	107,734	261,667
Cash, end of period	$ 3,309	$ 24,703	$ 107,734
Supplemental disclosure of cash flow information: cash paid for :			
Interest	$ 415,456	$ 300,273	$ 379,802

Income taxes	$ --	$ --	$ --
	===========	===========	===========

The accompanying notes should be read in conjunction with the consolidated financial statements

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SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1- ORGANIZATION

Shopnet.com, Inc. ("Shopnet") was incorporated in the State of Delaware on December 1, 1995 under the name of Hollywood Productions, Inc. It was formed for the purpose of acquiring screenplays and producing motion pictures. On May 10, 1999, the Company filed an amendment to its Articles of Incorporation to change its name to Shopnet, com. Inc. On May 12, 1999, Shopnet incorporated a new wholly owned subsidiary, Hollywood Productions, Inc. ("Hollywood"), to which the Company assigned all of its film rights. Accordingly, Shopnet is considered a holding company. During September 1996, simultaneously with the completion of its Initial Public Offering ("IPO"), Shopnet acquired all of the capital stock of Breaking Waves, Inc. ("Breaking Waves"). Breaking Waves designs, manufactures, and distributes private and brand name labels of children's swimwear nationally. As of June 30, 2001, Shopnet and all of its subsidiaries changed their financial year end from December 31 to June 30.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of Shopnet and its wholly owned subsidiaries, Breaking Waves and Hollywood (collectively referred to as the "Company"), after elimination of all significant intercompany transactions and accounts. Affiliated companies which are 20 to 50 percent owned are accounted for under the equity method.

b) Cash and cash equivalents

The Company considers highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. As of June 30, 2002 the Company did not maintain balances in accounts which were in excess of Federal Deposit Insurance Corporation limits.

c) Accounts Receivable:

The Company utilizes the allowance method for recognizing the collectibility of its accounts receivables. The allowance method recognizes bad debt expense based on a review of the individual accounts outstanding based on the surrounding facts. As of June 30, 2002 a management provided an allowance

of $20,000. The accounts receivable balance on the balance sheet as of June 30, 2002 is shown net of this allowance.

d) Marketable securities

All the Company's marketable securities are classified as available for sale and recorded at current market value. Net unrealized gains and losses on marketable securities available for sale are credited or charged to other comprehensive income. Marketable securities were classified as non-current as a result of being pledged pursuant to certain factoring agreements.

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SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Inventory:

Inventory consists of finished goods and is valued at the lower of cost (using the first-in, first-out method) or market. All inventory is pledged as collateral for factored receivables pursuant to an agreement with a financial institution.

f) Property and Equipment:

Property and equipment are recorded at cost less accumulated depreciation and amortization. The Company provides for depreciation and amortization using the Straight-Line and the Modified Accelerated Cost Recovery System (MACRS) method over the estimated useful lives of the assets which range between three and seven years. Expenditures for maintenance and repairs are charged to operations as an operating expenses, when incurred.

g) Film production and distribution costs:

The Company follows industry standards in capitalizing film production and distribution costs. Film production and distribution costs include all costs associated with the writing, producing, and distribution of the film. Film costs include the costs of production, prints, pre-release, and other advertising expected to benefit future periods. These costs as well as participation and talent residuals, are charged against earnings on an individual film basis in the ratio that the current year's gross film revenues bear to management's estimate of total remaining ultimate gross film revenues from all sources.

Film costs are stated at the lower of cost or estimated net realizable value on an individual film basis. Revenue and cost forecasts are continually reviewed by management and revised

when warranted by changing conditions. Estimates of total gross revenues can change significantly due to the level of market acceptance of film products. Accordingly, revenue estimates are reviewed periodically and amortization is adjusted. Such adjustments could have a material effect on the results of operations in future periods. When estimates of total revenue and costs indicate that a feature film will result in an ultimate loss, additional amortization is recognized to the extent required to produce a zero gross margin over the remaining life of the film.

For the six months ended June 30, 2001 and for the year ended December 31, 2000, the Company had written down film production and distribution cost by $145,272 and $308,564, respectively, in order to reduce the balance to its estimated net realizable value. For the year ended June 30, 2002,the Company determined that the estimated net realizable value had not changed from what was reported at June 30, 2001 and accordingly made no adjustment to the estimated net realizable value.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Intangible assets:

Effective for the year ended June 30, 2002, the Company adopted FAS 142 (Goodwill and Other Intangible assets). Under FAS 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually for impairment. Goodwill is tested for impairment at the reporting unit level. Under FAS 142, the fair value of a reporting unit is compared to its carrying amount, including its goodwill. If the book value (carrying amount) is below the fair value assessment, there will be no impairment or loss. If the fair value is below the book value (carrying amount), then the Company needs to perform a second test to determine the gap between the impaired fair value of goodwill and its carrying amount.

The Company has determined that no impairment exists as of June 30, 2002. Accordingly, the book value has not been written down.

i) Equity Method of Accounting:

Investments in significantly (20 to 50 percent) owned affiliates are accounted for by the equity method of accounting, whereby the investment is carried at cost of acquisition, plus the Company's equity percentage in undistributed earnings or losses since acquisition. Reserves are provided where management determines that the investment

or equity in earnings is not realizable.

j) Income taxes:

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes" which requires the use of the "liability method" of accounting for income taxes. Accordingly, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Current income taxes are based on the respective periods' taxable income for federal, state and city income tax reporting purposes.

k) Revenue and cost recognition:

The terms of Breaking Waves' sales are FOB shipping point thereby revenue is recognized upon shipment from the Company's warehouse. Sales returns are recorded upon acceptance of the goods by the warehouse. Duty costs, which are a component of cost of sales, are recorded upon the clearance of such goods through customs.

Revenues from the theatrical distribution of motion pictures are recognized when motion pictures are exhibited. Revenues from video sales are recognized, together with related costs, on the date that video units are made widely available for sale by retailers. Revenues from the licensing of feature films, together with related costs are recorded when the material is available for telecasting by the licensee and when certain other conditions are met. Film production and distribution costs are stated at the lower of unamortized cost or estimated net realizable value.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Revenue and cost recognition:

In accordance with Financial Accounting Standards Board's Statement of Financial Accounting Standards ("SFAS") No. 53, "Financial Reporting by Producers and Distributors of Motion Pictures Films," the individual film forecast method is used to amortize film costs.

l) Earnings per share:

Earnings per common share is computed pursuant to SFAS no. 128 "Earnings Per Share." Basic earnings per share is computed as net income (loss) available to common shareholders divided by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur from common shares issuable through

stock options, warrants and convertible preferred stock. Both basic earnings per share and diluted earnings per share are the same since the Company's outstanding stock options and warrants have not been included in the calculation because their effect would have been anti-dilutive.

m) Use of estimates:

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. The most significant estimate with regard to these financial statements is the estimate of projected income of motion pictures which is the basis used in amortizing film production and distribution costs. Actual results could differ from those estimates.

n) Fair value disclosure at June 30, 2002:

The carrying value of cash, accounts receivable, inventory, marketable securities, accounts payable, accrued expenses, and capital lease obligations are a reasonable estimate of their fair value.

o) Reclassifications:

Certain prior period accounts have been reclassified to conform to the current year presentation.

p) Cost in excess of net assets of business acquired:

Cost in excess of net assets of business acquired in connection with the acquisition of Breaking Waves were amortized through June 30, 2001 on a straight line basis over the estimated useful life of the related assets acquired for a period of fifteen years. No amortization was recorded for the year ended June 30, 2002. (See Note 5)

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SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) Accounting for stock-based compensation:

The Company elected to continue to measure compensation cost using Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," as is permitted by SFAS No. 123, "Accounting for Stock-Based Compensation."

Accordingly, no compensation cost has been recognized for the options issued under the Incentive Plan as the exercise price and market value at the date of grant were the same.

For companies that choose to continue applying APB No. 25, SFAS No. 123 requires certain pro forma disclosures as if the fair value method had been utilized. Had compensation cost for the Company's stock-based compensation plan been determined based on the fair value at the grant dates for awards under the plan consistent with the method of SFAS No. 123, the Company's net income (loss) and earnings per share would have been reduced to the pro forma amounts indicated below utilizing the Black-Sholes option pricing model:

	June 30, 2002	June 20
Net income (loss)-		
as reported	$ (436,562)	$
pro forma	$ (436,562)	$
Basic and Diluted EPS-		
as reported	$ (.06)	
pro forma	$ (.06)	

The fair market value of each option grant is estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

Dividend yield	0.00%
Expected volatility	30%
Risk-free interest rate	6%
Expected life	1-5 years

r) Effect of new accounting standards:

The Company does not believe that any recently issued accounting standards, not yet adopted by the Company, will have a material impact on its financial position and results of operations when adopted.

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SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	June 30, 2002
Furniture & fixtures	$41,207
Computer equipment and software	132,000
Leasehold improvements	17,199
	190,406
Less: accumulated depreciation and amortization	120,362
	$70,044

Computer equipment and software amounting to $61,506 is pledged in connection with capital lease obligations.

Depreciation and amortization expense for the year ended June 30, 2002, for the six months ended June 30, 2001 and for the year ended December 31, 2000 amounted to $36,286, $13,997 and $21,376, respectively.

NOTE 4- PREPAID EXPENSES

Prepaid expenses are comprised of the following:

	June 30, 2002
Prepaid insurance	$ 23,167
Prepaid taxes	22,641
Prepaid consulting fee (See Note 9)	198,550
Prepaid salaries	3,422
Other prepaid expenses	51,188
Total prepaid expenses	$298,968

NOTE 5- ACQUISITION OF BREAKING WAVES, INC.

Pursuant to a stock purchase agreement dated May 31, 1996 (the "Agreement"), on September 24, 1996, the Company issued 110,000 shares of common stock in exchange for all of the issued and outstanding capital stock of Breaking Waves. The transaction was accounted for using the purchase method of accounting. As a result of the transaction, excess of cost over net assets acquired totaling $1,064,283 was recorded and was being amortized over the useful lives of the related assets which was fifteen years. Amortization expense totaled $0, $35,476 and $70,952 for the year ended June 30, 2002, the six months ended June 30, 2001 and the year ended December 31, 2000, respectively.

SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5- ACQUISITION OF BREAKING WAVES, INC (Continued)

Effective for the year ended June 30, 2002, the Company adopted FAS 142 (Goodwill and Other Intangible assets). Under FAS 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually for impairment. Goodwill is tested for impairment at the reporting unit level. Under FAS 142, the fair value of a reporting unit is compared to its carrying amount, including its goodwill. If the book value (carrying amount) is below the fair value assessment, there will be no impairment or loss. If the fair value is below the book value (carrying amount), then the Company needs to perform a second test to determine the gap between the impaired fair value of goodwill and its carrying amount.

The Company has determined that no impairment exists as of June 30, 2002. Accordingly, the book value has not been written down.

NOTE 6- INVESTMENTS IN MOVIE VENTURES

a) Battle Studies

Pursuant to a co-production agreement dated April 17, 1998 with North Folk Films, Inc., the Company invested through June 30, 2002, $218,765 for a 50% interest in a new entity, Battle Studies Productions, LLC ("Battle Studies") a limited liability company. Battle Studies will be treated as joint venture in order to co-produce motion pictures and to finance the costs of production and distribution of such motion pictures. The joint venture retains all rights to the motion pictures, the screenplays, and all ancillary rights attached thereto.

The Company accounts for the investment in Battle Studies on the equity method. For the year ended June 30, 2002, and the six months ended June 30, 2001, and the year ended December 31, 2000 the Company, recorded $695, $1,473, and $4,290, respectively, of equity losses for its proportionate share of Battle Studies. No revenues have been derived from this film as of June 30, 2002 and 2001 and December 31, 2000.

On October 12, 2000, Battle Studies entered into a distribution agreement with Raven Pictures International ("Raven Pictures") to distribute Battle Studies' motion picture ("Macheavelli Rises") to foreign countries. Battle Studies has granted rights under the agreement for the theatrical, video, non-theatrical and television markets. The term of the agreement is for twenty-four months for all portions of territory outside of the United States and English speaking Canada. Battle Studies expects to realize 75% (which is net of a 25% fee to Raven Pictures) of the expected estimated gross revenues derived from foreign countries less $20,000 for marketing and advertising expense.

On January 17, 2001, Battle Studies entered into a distribution agreement with KOAN, Inc. ("KOAN") to distribute and promote Battle Studies' motion picture ("Machiavelli Rises") in the United States and Canada. Battle Studies has granted rights under the agreement for free TV, pay TV, cable, satellite, video and DVD markets. The terms of the agreement is for twenty-four months and it will be automatically renewed unless KOAN receives a letter of cancellation at least thirty days prior to the date of termination or if sales have not exceeded $250,000 over the twenty-four month period. Battle studies expects to realize 70% (which is net of a 30% fee to KOAN) of the expected estimated gross revenues derived from the United States and Canada less $5,000 per year for promotional costs.

NOTE 6- INVESTMENTS IN MOVIE VENTURES (Continued)

a) The Girl

Pursuant to an agreement dated July 1, 1999 with Artistic License Films Inc., Hollywood invested through June 30, 2002 $35,000 for a 22.533% interest in a new entity, The Girl, LLC ("The Girl") a limited liability company. In return for its participation in The Girl, Hollywood is entitled to receive a non-contested, non-dilutable 22.533% ownership interest in The Girl, a recoupment of its investment on no less favorable terms than any other investor and 22.533% of 100% of any contingent compensation which shall be actually received by The Girl. The Girl retains all rights to the motion pictures, the screenplays, and all ancillary rights attached thereto.

Hollywood accounts for the investments in The Girl under the equity method. For the year ended June 30, 2002 and the six months ended June 30, 2001, and the year ended December 31, 2000, the Company recorded $0 , $1,298 and $0, respectively, in net equity losses.

NOTE 7- MARKETABLE SECURITIES- AFFILIATE

On November 24, 1998, pursuant to a sales agreement entered into during September 1998 by and between Breaking Waves and Play Co. Toys & Entertainment Corp. ("Play Co", a toy retailer and a publicly traded company whose Chairman of the Board was also the President of Shopnet and the Company), Breaking Waves purchased 1,400,000 unregistered shares of Play Co.'s common stock for a total of $504,000 comprised of $300,000 in cash and by shipping $204,000 of merchandise to Play Co. After the purchase, Breaking Waves owned 25.4% of the outstanding common stock of Play Co.

Breaking Waves accounted for its investment under the equity method. For the year ended December 31, 1999 Breaking Waves recorded $994,305 of equity loss for its proportionate share of Play Co.'s loss for that year.

As of December 31, 1999, the Company's investment in Play Co. was reduced to $0 since its share of Play Co.'s losses exceeded its cost basis. In addition, as December 31, 1999, as a result of Play Co.'s issuance of additional common stock and the Company's sale of 130,000 shares of Play Co.'s common stock, the Company's percentage ownership was reduce to 22.88%.

During the year ended December 31, 2000, Play co. converted a portion of its series E preferred stock into common stock thereby reducing Breaking Waves' ownership percentage to approximately 1.5%. Accordingly, upon this event the accounting method for the investment in Play Co. was changed to the requirements of SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities." Under SFAS 115, the securities are considered available for sale and therefore the carrying value is based on the fair market value of the securities at June 30, 2001 and December 31, 2000 which amounted to $6,350 and $107,950, respectively. The change in unrealized gain or loss has been recorded as a component of comprehensive income. The Company has pledged such shares as collateral for a standby letter of credit in connection with Breaking Waves entering into a new factoring agreement with Century Business Credit Corporation ("Century") and are therefore considered non-current. (See Note 9 (b))

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SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7- MARKETABLE SECURITIES- AFFILIATE (Continued)

On March 28, 2001, Play Co. filed for protection under Chapter Eleven of the United States Bankruptcy Code with the United States Bankruptcy Court for the Southern District to New York. The filing was converted into a Chapter Seven filing on August 28, 2001. Play Co. is in the process of developing a plan for the orderly liquidation of Play Co.'s operations through discussions with representatives of its secured lender, other creditors, landlords and others under the supervision of the Bankruptcy Court.

NOTE 8- ACCRUED EXPENSES

Accrued expenses are comprised of the following:

	June 30 2002
Professional fees	$ 4
Other corporate overhead	
	$ 4

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NOTE 9- DUE TO FACTOR

a) CIT Group

On August 20, 1997, Breaking Waves entered into a factoring and revolving inventory loan and security agreement (as amended December 9,1998) with CIT Group (formerly, Heller Financial, Inc.) ("CIT") to sell their interest in all present and future receivables without recourse. Breaking Waves paid CIT a factoring commission of .85% of the first $5,000,000 of receivables sold and .65% of receivables sold in excess of $5,000,000 for each year.

Breaking Waves took advances of up to 85% of the receivables, with interest at the rate of 1 3/4% over prime. In connection with the factoring agreement, the Company agreed to maintain $1,150,000 of cash in a segregated account in order to collateralize standby letters of credit. In addition, during 1999, Breaking Waves was required to transfer an additional $200,000 of cash as collateral for the standby letter of credit.

On or about September 12, 2000 the agreement with CIT was cancelled and a new factoring agreement was entered into as stated below. Interest expense related to this agreement totaled $204,821 for the year ended December 31, 2000.

b) Century Business Credit Corporation

On or about September 12, 2000, Breaking Waves entered into a factoring and revolving inventory loan and security agreement ("factoring agreement") with Century Business Credit Corporation ("Century") to sell its interest in all present and future receivables without recourse. Breaking Waves submits all sales offers to Century for credit approval prior to shipment, and pays a factoring commission of .75% of receivables sold. Century retains from the amount payable to Breaking Waves a reserve for possible obligations such as customer disputes and possible credit losses on unapproved receivables.

NOTE 9- DUE TO FACTOR (Continued)

b) Century Business Credit Corporation (continued)

Breaking Waves may take advances of up to 85% of receivables, with interest at the rate of 13/4% over prime.

In connection with the factoring agreement, the Company agreed to continue maintaining $1,150,000 of cash in a segregated account in order to collateralize standby letters of credit for Breaking Waves. The requirement was ended in October 2001,

when Century released the company form this requirement. Additionally, Breaking Waves was required to pledge as additional collateral $200,000 of its own cash and its investment in Play Co., which is represented by 1,270,000 share of Play Co.'s common stock.

DUE TO FACTOR (CONTINUED
Pursuant to the terms of a Reimbursement and Compensation Agreement (the "Agreement"), a trust ("Trust"), the beneficiary of which is a relative of the Company's President and Chief Executive Officer ("CEO") and a relative of a principal stockholder, pledged assets as collateral for securing a $250,000 letter of credit to replace a portion of a letter of credit previously pledged by the Company. Accordingly, on December 20, 2000 the original agreement with the factor was amended to allow such replacement of collateral. Breaking Waves' Loan and Security Agreement with Century dated December 20, 2000 requires the provision of one or more letters of credit in the aggregate amount of $1,150,000 to partially secure the line of credit. On September 15, 2001, Century required the Company to increase the amount of collateralized standby letters of credit by $300,000 raising such amount to $1,450,000.

On May 3, 2001, the Agreement with the Trust was amended so that the letter of credit secured by the Trust was increased to $400,000. As a condition of the amendment, the Company entered into a guarantee agreement with Gal Capital Corp., whose President is a relative of the Company's President and CEO and a principal stockholder of the Company to act as guarantor of the obligation to the Trust up to $400,000 in exchange for a fee of $42,500 which the Company paid on May 3, 2001. The amended letter of credit expired on September 1, 2001 and was subsequently amended on September 15, 2001.

On September 15, 2001, the Amended and Restated Reimbursement and Compensation Agreement was entered into and further amended the agreement with the Trust, so that the letter of credit secured by the Trust was increased to $750,000. The amended letter of credit expires on September 1, 2002 but can be extended year to year at the Company's option for a period of ten years. Breaking Waves agreed to reimburse the Trust for any and all losses, fees, charges and expenses to the Trust in the event the letter of credit is called by Century and / or the issuing bank demands reimbursement from the Trust. Breaking Waves' obligations are guaranteed by the Company in addition to being secured by a first security interest in all of the assets of the Company and a subordinate security interest in all of the assets of Breaking Waves.

NOTE 9- DUE TO FACTOR (Continued)

b) Century Business Credit Corporation (continued)

On September 15, 2001, the Company entered into a

Reimbursement Agreement with relatives of a principal stockholder who is related to the President and CEO of the Company ("RAYA") who pledged assets as collateral for securing a $300,000 letter of credit as additional collateral to secure Breaking Waves' Loan and Security Agreement with Century. Absent any default, the letter of credit will remain in effect for ten years. The Agreement is guaranteed by Shopnet under a separate Security Agreement dated September 15, 2001.

In exchange for the letters of credit, the Trust and RAYA will proportionately, based on the total outstanding letters of credit, receive a fee of one and one quarter percent (1-1/4%) of net sales of Breaking Waves through June 30, 2002 and thereafter one and three quarters percent (1-3/4%) of net sales through September 30, 2011.

In October 2001, the Trust and RAYA received advance payments to be applied towards future fees of $24,500 and $12,250, respectively. All future payments are payable forty five days after the close of each fiscal quarter. The fees are effective October 1, 2001. For the year ended June 30, 2002 the Trust and RAYA were entitled to payments totaling $60,905 and $30,820, respectively.

In September 2001, the Company and Breaking Waves retained Arc Financial Corp. ("ARC"), a British Virgin Island company, for a ten year term to provide financial consulting services. Pursuant to the terms of a consulting agreement ("ARC Consulting Agreement"), ARC was retained to assist the Company in the acquisition of financing to acquire inventory and for other corporate purposes ("Financing"), as well as consult with the Company with regard to its ongoing operations, promote sales of Breaking Waves' products and improving production. Pursuant to the terms of the ARC Consulting Agreement, the Company and Breaking Waves agreed to compensate ARC (i) an annual fee of $20,000 ("Base Fee") and (ii) a percentage of annual net sales in the amount of 1-1/4% through June 30, 2002 and 1-3/4% of net sales for each year of the term thereafter through September 30, 2011 ("ARC Percentage Fee"), payable 45 days after the closing of each fiscal quarter. In October 2001, ARC received (i) a lump sum payment of $209,000 reflecting full advance payment of the Base Fee and (ii) $36,750 reflecting advance payment of the ARC Percentage Fee. ARC was entitled to receive $91,725 for the year ended June 30, 2002. The agreement with Arc expires September 30, 2011. The Company and Breaking Waves are entitled to terminate the ARC Consulting Agreement any time after September 30, 2006, in which event all prepaid fees are forfeited.

The following table summarizes the percentage due to each party, as noted above, as a percentage of net sales for the year ended June 30, 2002:

	% of Net Sales	Amount
RAYA	0.42	$38,820
ZAT	0.83	60,906
ARC	1.25	91,725
Total	2.50	$183,451

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SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9- DUE TO FACTOR (Continued)

b) Century Business Credit Corporation (continued)

Interest expense related to the factor agreement totaled $248,303 for the year ended June 30, 2002, $256,429 for the six months ended June 30, 2001 and $100,488 for the year ended December 31, 2000. Century has a secured interest in Breaking Waves' inventory as collateral for the advances. As of June 30, 2002, the net advances to Breaking Waves from Century amounted to $690,595.

During October 2001, Century released the Company from its requirement of maintaining a minimum cash balance as a result of the events discussed above. Upon Century removing the restriction, the Company paid and reduced the amount due to Century in October and November 2001 by an aggregate of $620,000.

NOTE 10- (BENEFIT OF) PROVISION FOR INCOME TAXES

(Benefit of) provision for income taxes is comprised of the following:

	Year Ended June 30, 2002	Six M En June 2
Current:		
Federal	$ -	$
State and local	1,380	
	1,380	
Deferred:		
Federal	-	
State and local	(1,582)	
	(1,582)	
Total (benefit of) provision for income taxes	$ (202)	

SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10- (BENEFIT OF) PROVISION FOR INCOME TAXES (Continued)

A reconciliation of the provision for income taxes on income per the federal statutory rate to the reported income tax expense is as follows:

	Year Ended June 30, 2002
Federal statutory rate applied to pretax loss	$ -
State and local income taxes, net of federal income tax benefit, applied to pretax loss	-
Permanent differences	-
Increase in valuation allowance	-
Current provision for state and local taxes	1,380
(Increase) in deferred tax assets	(1,582)
Increase (decrease) in deferred tax liability	$ (202)

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related to difference between the financial statement and income tax bases of assets and liabilities for financial statements and income tax reporting purposes.

Deferred tax assets and liabilities represent the future tax return consequences of these temporary differences, which will either be taxable or deductible in the year when the assets or liabilities are recovered or settled.

Accordingly, measurement of the deferred tax assets and liabilities attributable to the book-tax basis differential are computed at a rate of 34% federal and 11% state and local pursuant to SFAS No. 109.

The tax effect of significant items comprising the Company's net non-current deferred tax assets and liability are as follows:

	June 30, 2002
Net operating loss carryforwards	$ 1,401,500
Inventory capitalization	38,462
Write down of film costs	150,000

Valuation allowance	(1,365,722)
Deferred non-current tax asset	224,240
Equity earnings of affiliate	4,440
Depreciable assets	748
Deferred non-current tax liability	5,188
Net non-current deferred tax asset	$ 219,052

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SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10- (BENEFIT OF) PROVISION FOR INCOME TAXES (Continued)

Shopnet and its subsidiaries have a tax year end of December 31 and file a consolidated tax return for federal tax purposes. For state and local purposes, Shopnet and its subsidiaries file separate tax returns. As such, each entity computes its state and local tax based on its own taxable income or loss.

At June 30, 2002 and December 31, 2001, the Company had a net operating loss carryforward (NOL) of approximately $3,090,000 for federal tax purposes and $3,190,000 for state tax purposes, all of which expire between 2011 and 2021, Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

NOTE 11- COMMITMENTS AND CONTINGENCIES

a) Lease commitments

Shopnet and Breaking Waves have entered into lease agreements for their administrative offices. Shopnet leases its administrative offices. Shopnet leased its administrative office pursuant to a 5-year lease that expired on November 30, 2001 at annual rent amounting to approximately $70,000, before annual escalations.

Breaking Waves terminated its lease effective November 30, 2001. A new 6 year lease expiring September 30, 2007 was signed in July 2001 and is effective beginning December 1, 2001.

Annual rent under the new lease is $84,915 through December 31, 2004 and $95,760 for the remainder of the lease. Lastly, Breaking Waves leases an offsite office for one of its designers on a month to month basis with annual payments approximating $11,000.

The Company and Breaking Waves' approximate future minimum rentals under non-cancelable operating leases in effect on June 30, 2002 are as follows:

2003	$
2004	
2005	
2006	
2007	
Thereafter	
	--
	$
	==

Rent expense for the year ended June 30, 2002 amounted to $120,297 for the six months ended June 30, 2001 amounted to $83,500 and for the year ended December 31, 2000 and amounted to $163,900.

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SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11- COMMITMENTS AND CONTINGENCIES (Continued)

b) Significant vendors and customers

Breaking Waves purchases 100% of its inventory from three vendors, two in Indonesia (74%) and the other in The Republic of Korea (26%). Breaking Waves believes other sources and vendors are available and that it is not dependent exclusively on these vendors. For the year ended June 30, 2002, the six months ended June 30, 2001 and the year ended December 31, 2000 Breaking Waves had three, two and three customers, respectively, which comprised 36%, 37% and 46% of net sales, respectively.

c) Seasonality

Breaking Waves' business is considered seasonal with a large portion of its revenues and profits being derived between November and March. Each year from April through October, Breaking Waves engages in the process of designing and manufacturing the following season's swimwear lines, during which time it incurs the majority of its production costs with limited revenues and also engages in the sale of product at negative gross margin to remove slow moving items and decrease its carrying cost.

d) License agreements

i) On October 16, 1995, Breaking Waves entered into a license agreement with Beach Patrol, Inc. ("Beach") for the exclusive use of certain trademarks in the United States. The agreement covered a term from January 1, 1996 to June 30, 1998 and contained a provision for an additional three-year extension, at the option of Breaking Waves, through and until June 30, 2001. Breaking Waves had exercised this option,

thereby so extending the agreement. The agreement called for minimum annual royalties of $75,000 to $200,000 over the life of the agreement with options based on sales levels from $1,000,000 for the first year to $4,000,000 in the sixth year.

Breaking Waves has negotiated an additional two-year extension thereby extending the agreement through and until June 30, 2003, and it contains a provision for an additional two-year extension, at the option of Breaking Waves, through and until June 30, 2005. The new agreement signed February 28, 2001 and effectively July 1, 2001 calls for minimum annual royalties of $50,000 to $87,500 over the life of the extension with options based on sales levels from $1,000,000 for the seventh year to $1,750,000 in the tenth year. The agreement was verbally terminated by both parties effective on or about March 31, 2002. Breaking Waves recorded royalties under this agreement totaling $50,000, $150,000, $163,009 during the year ended June 30, 2002 during the six months ended June 30, 2001 and during the year ended December 31, 2000, respectively.

ii) During June 2000, Breaking Waves entered into a license agreement with an effective date of November 1, 2000 with Gottex Models Ltd., as Israeli corporation and Gottex Models (USA) Corp., a New York corporation for the use of the trademark "Gottex" in the United States of America for children's swimwear. The agreement calls for a royalty fee of 7% of net sales with guaranteed minimum annual royalties of $70,000 to $140,000 over the life of the agreement. Breaking Waves recorded royalties under the agreement totaling $73,408, $26,610 and $8,859 for the year ended June 30, 2002, for the six months ended June 30, 2001 and for the year ended December 31, 2000.

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SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11- COMMITMENTS AND CONTINGENCIES (Continued)

e) Co-production and property purchase agreements

Pursuant to co-production and property purchase agreements dated March 15, 1996, as amended, the Company acquired the rights to co-produce a motion picture and to finance the costs of production and distribution of such motion picture with the co-production. The Company retains all rights to the motion picture with the co-producer agreeing to finance $100,000 of the cost of production. The Company retains all rights to the motion picture, the screenplay, and all ancillary rights attached thereto.

The motion picture was completed during the latter part of 1996 and, accordingly, the Company commenced the marketing and distribution process.

As of June 30, 2002 and for the six months ended June 30, 2001, the Company had invested $1,971,956 for the co-production and distribution of such motion pictures whereas the co-producers have invested $100,000. For the year ended June 30, 2002 and for the six months ended June 30, 2001 and for the year ended December 31, 2000, the Company derived no revenues from the motion picture and had not amortized film costs.

For the six months ended June 30, 2001 and for the year ended December 31, 2000, the Company had written down its film production and distribution cost by $145,272 and $308,564 respectively, in order to reduce the asset to its estimated realizable value.

f) Litigation

On or about June of 2000, an action was brought in the Queens County Supreme Court against the Company and several others claiming, among other things, that the Company allegedly breached a contract and engaged in fraudulent statements (including supposedly promising the plaintiff options and then not allowing the plaintiff to exercise such options).

The plaintiff seeks, among other things, compensatory damages in the amount of $497,500, punitive damages in the amount of $995,000, together with costs and attorney's fees. The Company intends to contest the action vigorously and believes that such claims against it are baseless and without merit.

On or about December 2001, a group of over 275 foreign plaintiffs commenced an action entitled Abeln v. Arbel, et. al in the United States District Court for the Southern District of New York naming the Company, along with over 30 other entities and individuals as defendants. The Company was never served with the summons and complaint, and could not discern if such service was effectuated. Thus, the Company was not yet a party to the suit.

In August, 2002, the Plaintiffs voluntarily dismissed this action.

NOTE 12- STOCKHOLDERS' EQUITY

a) Stock Dividends

On January 7, 2000, the Company declared a 10% stock dividend to all shareholders of record as of January 20, 2000 amounting to 537,389 shares of common stock. Such stock dividend was issued on February 1, 2000.

NOTE 12- STOCKHOLDERS' EQUITY (Continued)

a) Stock Dividends (continued)

On May 8, 2000, the Company declared a 20% stock dividend to all shareholders of record as of May 19, 2000 amounting to 1,245,235 shares of common stock. Such stock dividend was distributed on June 19, 2000.

b) Sale of common stock

On February 1, 2000, the Company sold 100,000 shares of common stock for $300,000 (before certain transaction costs) pursuant to a private transaction with an unrelated party. Giving effect to the May 2000 20% stock dividend the related shares are 120,000.

c) 1996 Senior Management Incentive Plan

The shareholders approved the 1996 Senior Management Incentive Plan ("Incentive Plan") in May 1996. Officers, key employees and non-employees, who in the judgment of the Company render significant service to the Company, are eligible to participate.

The Incentive Plan provided for the award of a broad variety of stock-based compensation alternatives such as non-qualified stock options, incentive stock options, restricted stock, performance awards and stock appreciation rights. The Incentive Plan provided 750,000 shares of common stock to be offered from either authorized and unissued shares or issued shares, which have been reacquired by the Company.

On March 14, 1997, the Company granted 132,000 options to purchase shares of common stock pursuant to the Company's Incentive Plan consisting of 88,000 options to the Company's President and 44,000 options to another officer. The exercise price of each option was fixed at $1.46 (as revised) per share and the options expired in March 2002. No options were exercised.

During April 1999, the Company granted its President 44,000 stock options. The exercise price of each option is a $1.38 per share and the options expire April 16, 2004.

NOTE 12- STOCKHOLDERS' EQUITY (Continued)

A summary of the status of the Company's stock options outstanding as of June 30, 2002, are as follows:

	Number Option
Outstanding at December 31, 1999	17
Granted	-
Exercised	-
Cancelled	-
Outstanding at December 31, 2000	17
Granted	-
Exercised	-
Cancelled	-
Outstanding at June 30, 2001	17
Granted	
Exercised	
Cancelled	13
Outstanding at June 30, 2002	4

d) Warrants

i) Initially, each Warrant issued in the initial public offering of September 24, 1996 entitled the holders thereof to purchase one share of the Company's common stock at an exercise price of $6.50 per share, until September 9, 2001. On August 31, 2001, the Company extended the term of its warrants by 18 months, the Warrants will now expire on March 10, 2003. On June 23, 1997, the Board of Directors approved a reduction in the exercise price of the Warrants from $6.50 to $3.00. On February 5, 1998, the Company affected a one for three reverse split of the Company's common stock.

Accordingly, the Company adjusted the terms of the Warrants to reflect the reverse split such that exercise of three Warrants would entitle the holder to purchase one share of common stock at an exercise price of $9.00. Giving effect to the January 1999 100% common stock dividend, the January 2000 10% common stock dividend and the May 2000 20% common stock dividend, the warrants have been cumulatively adjusted such that the exercise of each warrant at an exercise price of $3.41 purchases .88 of a share of common stock.

ii) On April 15, 1998, the Company's Board of Directors authorized the distribution of warrants to all shareholders of the Company's common stock as of May 8, 1998. Pursuant to the distribution, each shareholder of record will receive one warrant to purchase one share of common stock at an exercise price of $4.00 per share. The warrants, which are exercisable for a period of three years, commencing one year after issuance and receipt by shareholder, shall be issued and distributed once the Company has filed a registration statement for same and same has

been declared effective by the Securities and Exchange Commission. The Company to date has not filed the registration statement.

SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13- RELATED PARTY TRANSACTIONS

a) For the year ended June 30, 2002, the six months ended June 30, 2001 and the year ended December 31, 2000 financial consulting fees were paid to a corporation and an individual who are related to the Company's President and CEO amounting to $46,900, $24,000 and $51,080, respectively. (See Note 9)

b) During October 1996, pursuant to two promissory notes, the Company loaned two of its officers a total of $87,000 bearing interest at six and one-half percent (6 1/2%) payable over three years. As of June 30, 2002, the unpaid portion amounted to $37,000, which has been classified as current. Additionally, the Company's President was also advanced additional funds totaling $3,000 which are non-interest bearing and due on demand and are classified as current.

c) On December 20, 2000, the Company entered into the Agreement with the Trust, the beneficiary of which is a relative of the Company's President and CEO and a relative of a principal stockholder. The Trust pledged assets as collateral for securing a $250,000 letter of credit to replace a portion of the collateral previously pledged by the Company in connection with the Agreement. The Company paid $42,500 to the Trust in connection with the Agreement. (See Note 9)

d) On May 3, 2001, the Agreement was amended so that the letter of credit secured by the Trust was increased to $400,000. As a condition of the amendment, the Company entered into a guarantee agreement with Gal Capital Corp, whose President is a relative of the Company's President and CEO and a principal stockholder of the Company to act as guarantor of the obligation to the Trust up to $400,000 in exchange for a fee of $42,500 which the Company paid on May 3, 2001. The amended letter of credit expired on September 15, 2001.

On September 15, 2001, the Agreement was further amended so that the letter of credit secured by the Trust was increased to $750,000. The amended letter of credit expired on September 1, 2001, and was renewed for another year ending September 1, 2002. The Agreement automatically renews on each anniversary date, at the Company's option, for the next nine years.

On September 15, 2001, the Company entered into a new Reimbursement Agreement with relatives of a principal stockholder who is related to the President and CEO of the Company ("RAYA") who pledged assets as collateral for securing a $300,000 letter of credit as additional collateral in connection with Breaking Waves' factoring agreements with

Century.

Absent any default, the letter of credit will remain in effect for ten years. In exchange of the above letters of credit, the Trust and RAYA will proportionately, based on the total outstanding letters of credit, receive a fee of one and one quarter percent (11/4%) of net sales of Breaking Waves through June 30, 2002 and thereafter one and three quarters percent (13/4 %) of net sales through September 30, 2011. Upon the signing of the Agreement, the Trust and RAYA received advance payments to be applied towards future fees of $24,500 and $12,250, respectively. All future payments are payable forty five days after the close of each fiscal quarter. (See Note 9)

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SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14- INDUSTRY SEGMENT

The Company's operations have been classified into two segments: swimwear sales and film productions. Information about the two segments is as follows:

	Year Ended June 30, 2002		Six Months Ended June 30, 2001	
	Segment	Consolidated	Segment	Consolidate
Sales:				
Swimwear sales	$ 7,702,798		$ 4,728,948	
Film production	-		-	
Total sales		$ 7,702,798		$ 4,728,9
Operating income(loss):				
Swimwear sales		363,173		208,9
Film production		(1,263)		(145,2
Total operating income (loss)		361,910		63,6
Corporate:				
General and administrative expense		(367,838)		(284,5
(Loss) equity in earnings of affiliate		(695)		(2,7
Amortization expense		-		(35,4

Interest income	11,008	24,9
Interest and finance expense	(450,199)	(300,2
Other	9,050	14,4
Loss from operating before (benefit)	(436,764)	(520,1
(Benefit) provision for income tax	(202)	(4
Net (loss) income	$ (436,562)	$ (519,6
Identifiable assets:		
Swimwear sales	$ 506,727	$ 1,313,2
Film productions	1,451,127	1,451,1
Corporate	1,199,709	1,757,6
Total assets	$ 3,157,563	$ 4,522,0

Operating profit is total revenue less cost of sales and operating expenses and excludes general corporate expenses, interest expenses and income taxes. Identifiable assets are those used by each segment of the Company's operations. Corporate assets are primarily cash and investments.

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SHOPNET.COM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15- PROPOSED PRIVATE PLACEMENT

On June 17, 2002, the Company appointed Alliance Long Term Capital Corp. as its placement agent in connection with the proposed private placement on a best "efforts basis" of up to $1,500,000 of 5% Convertible Debentures and up to $1,500,000 of 10% Non-Convertible Debentures. The term of this Agreement commenced on June 17, 2002 and shall terminate on the earlier of the completion of the Placement or can be terminated at any time after six months from June 17, 2002.

Both of the Convertible Debentures and the Debt will pay interest semi-annually and shall have a maturity date of four years from the date of issuance. The Convertible Debentures will be secured by the assets of the Company and will be subordinated to the factor's first security interest in all the assets of the Company.

NOTE 16- SUBSEQUENT EVENTS

On August 28, 2002, the Company received the sum of $15,000 representing payment for a subscription of $15,000 of the 5% Convertible Debentures as referenced in Note 15. As of August 28, 2002 these Debentures were not issued by the Company. No additional 5% Convertible Debentures nor any 10% Non-Convertible Debentures have been issued.

ITEM 8. CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On approval of its Audit Committee, on January 23, 2002 the Registrant dismissed Massella Rubenstein LLP (formerly Massella, Tomaro & Co. L.L.P., hereinafter "Massella"). The dismissal was not due to any discrepancies or disagreements between same and the Company on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure. Massella's report on the Registrant's financial statements for the six month transition period ended June 30, 2001 ("Transition Period") and fiscal years ended December 30, 2000 and December 30, 1999 did not contain any adverse opinions or disclaimers of opinion. Nor were such modified as to uncertainty, audit scope, or accounting principles. During the Transition Period and the two most recent fiscal years and any subsequent interim period through the date of the dismissal, the Company and Massella had no disagreements or "reportable events."

The Registrant dismissed Massella as part of a recently initiated cost savings program. The Registrant's Audit Committee approved, as of January 23, 2002, the engagement of Jerome Rosenberg CPA, P.C. as its principal accountant to audit its and its subsidiary's financial statements.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Officers and Directors

The following table sets forth the names, ages, and titles of all directors and officers of the Company:

Name	Age	Position
Harold Rashbaum	74	President, CEO, CFO and Director
Jeanne Falletta	44	Secretary and Director
Alain Le Guillou, M.D.	44	Director
James B. Frakes	45	Director
Debra Riggs	48	Director

The Directors of the Company are elected annually by the stockholders, and the Officers of the Company are appointed annually by the Board of Directors. Vacancies on the Board of Directors may be filled by the remaining Directors. Each current Director and Officer will hold office until the next annual meeting of stockholders or until his successor is elected and qualified. The outside Directors do not receive a Director's fee for their participation as Directors. The outside Directors are Alain Le Guillou, M.D. (Until recently Harold Rashbaum was the father-in-law of Alain Le Guillou, M.D.), James B. Frakes and Debra Riggs. The Corporation does not have key man insurance on the lives of any of its Officers or Directors.

As permitted under the Delaware General Corporation Law, the Company's Certificate of Incorporation eliminates the personal liability of the directors to the Company or any of its shareholders for damages caused by breaches of said directors' fiduciary duties. As a result of such provision, shareholders may be unable to recover damages against directors for actions which constitute negligence or gross negligence or are in violation of their fiduciary duties. This provision in the Company's Certificate of Incorporation may reduce the likelihood of derivative and other types of shareholder litigation against directors.

Harold Rashbaum, age 74, has been the President, Chief Executive Officer, Chief Financial Officer and a Director of the Company since January 1997. Since September 1996, he has also been the President, Secretary, and sole Director of Breaking Waves, Inc. ("Breaking Waves"), a New York company which is a wholly-owned subsidiary of the Company. From May 1996 to January 1997, Mr. Rashbaum served as Secretary and Treasurer of the Company. Since September 1996, Mr. Rashbaum has been the Chairman of the Board of Directors of Play Co. Toys & Entertainment Corp. ("Play Co."), a public entity whose Common Stock, Series E Stock and Series E Warrants are quoted on the over-the-counter market on the OTC Bulletin Board. Mr. Rashbaum was a management consultant to Play Co. from July 1995 to September 10, 1996. In May 1998, he was elected as a Director of Toys International, Inc. ("Toys"), a majority-owned subsidiary of Play Co. whose Common stock is traded on the SMAX segment of the Frankfurt Stock Exchange. On March 28, 2001, Play Co., Toys and Play Co. Toys Canyon Country, Inc. ("Play Co. Toys Canyon") each filed for protection under Chapter 11 of the United States

Code with the United States Bankruptcy Court for the Southern District of New York. In August 2001, the case was converted to a Chapter 7 filing. Since February 1996, Mr. Rashbaum has also been the President and a Director of H.B.R. Consultant Sales Corp. ("HBR"), of which his wife is the sole shareholder.

Jeanne Falletta, age 44, was elected a director of the Company in May 2000 and has been its Secretary since February 2000. Since October 1997, Ms. Falletta has been the controller of Breaking Waves where she has been employed since February 1997, initially having been hired as a bookkeeper. From January 1996 to February 1997, Ms. Falletta consulted with various companies as a freelance accountant.

Alain Le Guillou, M.D., age 44, has been a Director and a consultant of the Company since 1996. Since July 1995, Dr. Le Guillou has been a doctor of pediatrics at Montefiore Medical Group. Until recently, Dr. Le Guillou was the son-in-law of Harold Rashbaum.

James Frakes, age 45, has been a Director of the Company since January 1998 and was appointed Chairman of the Company's Audit Committee in June 2000. Since May 2001, Mr. Frakes has been Chief Financial Officer of NTN Communications, Inc. a public company whose common stock trades on the American Stock Exchange. From July 1997 to May 2001, Mr. Frakes served as Chief Financial Officer and Secretary of Play Co. In August 1997, he was elected as a Director of Play Co. In January 1998, Mr. Frakes was appointed Secretary and Chief Financial Officer of Toys. He was elected as a Director of Toys in May 1998. On March 28, 2001,

Play Co., Toys and Play Co. Toys Canyon each filed for protection under Title 11 of the United States Code with the United States Bankruptcy Court for the Southern District of New York. In August 2001, the case was converted to a Chapter 7 filing. From June 1990 to March 1997, Mr. Frakes was Chief Financial Officer of Urethane Technologies, Inc. ("UTI") and two of its subsidiaries, Polymer Development Laboratories, Inc. ("PDL") and BMC Acquisition, Inc. These were specialty chemical companies, which focused on the polyurethane segment of the plastics industry. Mr. Frakes was also Vice President and a Director of UTI during this period. In March 1997, three unsecured creditors of PDL filed a petition for the involuntary bankruptcy of PDL. From 1985 to 1990, Mr. Frakes was a manager for Berkeley International Capital Corporation, an investment banking firm specializing in later stage venture capital and leveraged buyout transactions.

Debra Riggs, age 48, has been a Director of the Company since June 2000 when she was also appointed to the Company's Audit Committee. In September 2001, Ms. Riggs joined Premier Food Services Incorporated as a branch controller. Ms. Riggs was the Controller of Play Co. since February, 1999 until September 2001. On March 28, 2001, Play Co., Toys and Play Co. Toys Canyon each filed for protection under Title 11 of the United States Code with the United States Bankruptcy Court for the Southern District of New York. In August 2001, the case was converted to a Chapter 7 filing. From June, 1998 through January, 1999, Ms. Riggs was Controller of National Customer Engineering, a private company. Prior to NCE, Ms. Riggs was Assistant Controller of Factory 2-U Inc., a public company with over 200 retail stores in the business of selling discount clothing.

Compliance with Section 16(A) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's officers, directors, and persons who beneficially own more than ten percent of a registered class of the Company's equity securities to file reports of securities ownership and changes in such ownership with the SEC. Officers, directors, and greater than ten percent beneficial owners also are required by rules promulgated by the Securities and Exchange Commission ("SEC") to furnish the Company with copies of all Section 16(a) forms they file.

No person ("a Reporting Person") who during the year ended June 30, 2002 was a

director, officer, or beneficial owner of more than ten percent of the Company's Common Stock which is the only class of equity securities of the Company registered under Section 12 of the Securities Exchange Act of 1934, as amended, failed to file on a timely basis reports required by Section 16 of the Act except that, to the Company's knowledge, each of Mr. Michael Friedland and Ms. Falletta and Riggs, all directors of the Company, filed their Forms 3 late in March 2001. In addition, to the Company's knowledge, Mr. Rashbaum and Mr. Di Milia (a former officer of the Company) did not file Forms 4 or Forms 5, and EVC did not file a Form 5 for the year ended December 31, 1999. The foregoing is based solely upon a review by the Company of (i) Forms 3 and 4 during the most recent fiscal year as furnished to the Company under Rule 16a-3(e) under the Act, (ii) Forms 5 and amendments thereto furnished to the Company with respect to its most recent fiscal year, and (iii) any representation received by the Company from any reporting person that no Form 5 is required, except as described herein.

ITEM 10. EXECUTIVE COMPENSATION

Summary of Cash And Certain Other Compensation

The following table provides certain information concerning all Plan and Non-Plan (as defined in Item 402 (a)(ii) of Regulation S-B) compensation awarded to, earned by, or paid to the named executive officer during the years ended June 30, 2002, December 31, 2000 and 1999 and the six month period ended June 30, 2001.

SUMMARY COMPENSATION TABLE

		Annual Compensation				Long-Term C
					Awards	
Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compen-sation ($)	Restricted Stock Award(s) ($)	Securities Underlying Options/ SARs (#)
Harold Rashbaum President, CEO, CFO And Director	2002	115,929	--	--	--	--
	2001	70,000(1)	--	--	--	--
	2000	160,000	--	--	--	--

(1) Mr. Rashbaum received $70,000 of salary during the six month period ended June 30, 2001.

(2) Represents an aggregate of 44,000 shares of Common Stock underlying options exercisable at $1.38 per share, granted in April 1999.

Stock Options

The following table contains information regarding options to purchase Common Stock held at June 30, 2002 and June 31, 2001 by the Company's executive officer named in the Executive Compensation Table above.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR END OPTION VALUES

			Number of Securities Underlying Unexercised Options at Fiscal Year End		Value O
Name	Shares Acquired on Exercise	Value Realized	Exercisable	Unexercisable	Exerc
Harold Rashbaum	(1)	(1)	132,000(2)	--	

(1) No options were exercised in the year ended June 30, 2002, the six month period ended June 30, 2001 or the years ended December 31, 1999 or 2000.

(2) Represents an aggregate of 88,000 shares of Common Stock underlying options granted in March 1997 under the Company's Senior Management Incentive Plan, currently exercisable at $1.46 per share, and an aggregate of 44,000 shares of Common Stock underlying options granted in April 1999, currently exercisable at $1.38 per share.

(3) The options had no value at either June 30, 2002 or June 30, 2001, since as of such dates the aggregate exercise price of the options exceeded the aggregate market value of the underlying shares (based on the closing sales prices of the Company's Common Stock.)

Employment and Consulting Agreements

ShopNet.com, Inc.

Before he became an officer and director of the Company, Harold Rashbaum provided consulting services to the Company through HBR, a company of which he is an officer and director and of which his wife is the sole shareholder. HBR entered into an oral consulting agreement with the Company whereby it will receive 5% of the net profits received by the Company from the distribution of "Dirty Laundry." To date, HBR has not received any fees as a result of the distribution of "Dirty Laundry" not generating any net profits.
See "Certain Relationships and Related Transactions."

Breaking Waves, Inc.

In November 1996, Breaking Waves entered into employment agreements with each of Malcolm Becker and Michael Friedland; these agreements expired in November 1999. The agreements initially provided that Messrs. Becker and Friedland each would be compensated at a salary of $110,000 per annum during the term of his agreement and that each would be issued restricted shares of Common Stock, subject to a vesting schedule, annually during the term of his agreement.

In November 1996, 3,667 shares of the Company's Common Stock were issued to each of Messrs. Becker and Friedland, subject to the vesting schedule. In November 1997, 15,888 shares of the Company's Common Stock were issued to each of Messrs. Becker and Friedland, subject to the aforesaid vesting schedule.

In January 1998, Mr. Friedland's employment agreement was amended to provide for

an increase in salary to $130,000 per annum, and Mr. Becker's employment agreement was amended to reflect a reduction in the amount of time Mr. Becker would be required to devote to the business of Breaking Waves, a concomitant reduction in salary to $60,000 per annum, and a reduction in the number of shares of Common Stock to be issued. In January 1999, Mr. Becker's employment agreement was further amended to reflect an increase in the amount of time Mr. Becker would be required to devote to the business of Breaking Waves and a concomitant increase in salary to $70,000 per annum.

In each of May and November 2000, pursuant to their respective employment agreements, Messrs. Becker and Friedland received their final share issuances. Mr. Becker received an aggregate of 91,289 shares of Common Stock, 45,644 in May 2000 and 45,645 in November 2000. Mr. Friedland received an aggregate of 167,365 shares of Common Stock, 83,683 in May 2000 and 83,683 in November 2000. Messrs. Becker and Friedland each granted an option to BBC Capital Corp. ("BBC"), of which Ilan Arbel is President, to purchase an aggregate of 76,074 shares of common stock in the case of Mr. Becker and 139,471 shares in the case of Mr. Friedland, at an exercise price of $4.50 per share. Such options expired to the extent of 1/2 of the underlying shares on May 27, 2001. The balance of the options scheduled to expire in November 2001 were terminated by BBC in August 2001.

Breaking Waves entered into a one-year consulting agreement in August 2000 with Larry Nash, Inc. ("Consultant") a New York corporation, whereby Mr. Nash, the Consultant's sole stockholder provides sales and consulting services in connection with Breaking Waves' Gottex line. Mr. Nash has provided similar services for the past twelve years with another company for which he represented the Gottex children's swimwear line. The agreement is automatically extended from year to year thereafter unless cancelled by either party on thirty (30) days' prior written notice. Pursuant to such agreement, the Consultant is compensated a percentage of net sales (as such term is defined) on all orders exclusively procured by him, ranging from 2.5 to 5%. He is entitled to additional compensation ranging from 1.5% to 3% of net sales for the Coral Cove, Gottex and Breaking Waves lines, generated by Company sales personnel he introduces to the Company.

See "Management's Discussion and Analysis or Plan of Operations-Factoring Agreements-Century Business Credit Corporation" for a description of the Arc Consulting Agreement.

Senior Management Incentive Plan

General

In May 1996, the Board of Directors adopted the Senior Management Incentive Plan (the "Management Plan") which was adopted by shareholder consent. The Management Plan provides for the issuance of an aggregate of 750,000 shares of Common Stock in connection with the issuance of stock options and other stock purchase rights to executive officers, key employees, and consultants.

The Management Plan was adopted to provide the Board of Directors with sufficient flexibility regarding the forms of incentive compensation which the Company will have at its disposal for rewarding executive officers, employees, and consultants (of either the Company or a subsidiary of same) who render significant services to the Company or its subsidiary with equity in the Company through the grant of stock options and other rights. The Management Plan was adopted to enable the Company to attract and retain qualified personnel without unnecessarily depleting the Company's cash reserves (by offering those persons who provide significant services a personal interest in the Company's growth and success) and to augment the Company's existing compensation programs.

The Management Plan is intended also to help the Company attract and retain key

executive management personnel whose performance is expected to have a substantial impact on the Company's long-term profit and growth potential by encouraging and assisting those persons to acquire equity in the Company. It is contemplated that only persons who perform services of special importance to the Company will be eligible to participate under the Management Plan. A total of shares of Common Stock have been reserved for issuance under the Management Plan. It is anticipated that awards made under the Management Plan will be subject to three-year vesting periods, although the vesting periods are subject to the discretion of the Administrator (as defined below).

The Management Plan is to be administered by the Board of Directors or a committee of the Board if one is appointed for this purpose (the Board or such committee, as the case may be, will be referred to in the following description as the "Administrator"). Members of the Board of Directors who are eligible for awards or have been granted awards may not vote on any matters affecting the administration of the Management Plan or the grant of any award thereunder. Subject to the specific provisions of the Management Plan, the Administrator will have the discretion to determine the recipients of the awards, the nature of the awards to be granted, the dates such awards will be granted, the terms and conditions of awards, and the interpretation of the Management Plan, except that any award granted to any employee of the Company who is also a director of the Company will also be subject - in the event the Administrator of such plan at the time such award is proposed to be granted does not satisfy the requirements regarding the participation of "disinterested persons" set forth in Rule 16b-3 ("Rule 16b-3") promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act") - to the approval of an auxiliary committee consisting of not less than three individuals (all of whom qualify as "disinterested persons" as defined under Rule 16b-3. In the event the Board of Directors deems the formation of an auxiliary committee impractical, the Board is authorized to approve any award under the Management Plan. As of the date hereof, the Company has not yet determined who will serve on such auxiliary committee, if one is required. The Management Plan generally provides that unless the Administrator determines otherwise, each option or right granted under the plan will become exercisable in full upon certain "change of control" events as described therein.

If any change is made in respect of the Common Stock subject to the Management Plan or subject to any right or option granted under the Management Plan (through merger, consolidation, reorganization, recapitalization, stock dividend, or dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure, or otherwise), the Administrator will make appropriate adjustments to the Management Plan and the number of shares and price per share of Common Stock subject to outstanding rights or options. Generally, the Management Plan may be amended by action of the Board of Directors except that any amendment which would change the class of securities subject to the plan, increase the total number of shares subject to such plan, extend the duration of such plan, materially increase the benefits accruing to participants under such plan, or change the category of persons who can be eligible for awards under such plan must be approved by the affirmative vote of the owners of a majority of the Common Stock entitled to vote. The Management Plan permits awards to be made thereunder until November 2004.

Directors who are not otherwise employed by the Company will not be eligible for participation in the Management Plan. The Management Plan provides for four types of awards: stock options, incentive stock rights, stock appreciation rights (including limited stock appreciation rights), and restricted shares.

Incentive Stock Options ("ISOs" and "non-ISOs")

The Management Plan may be either incentive stock options which qualify as such under the Internal Revenue Code ("ISOs") or options which do not qualify under

the Internal Revenue Code as ISOs ("non-ISOs"). ISOs may be granted at an option price of not less than 100% of the fair market value of the Common Stock on the date of grant except that an ISO granted to any person who owns Common Stock representing more than 10% of the total combined voting power of all classes of Common Stock of the Company ("10% Shareholder") must be granted at an exercise price of at least 110% of the fair market value of the Common Stock on the date of the grant. The exercise price of non-ISOs may not be less than 85% of the fair market value of the Common Stock on the date of grant. The Administrator will determine the exercise period of the options granted which shall be no less than one year from the date of grant. Non-ISOs may be exercisable for a period of up to 13 years from the date of grant. ISOs granted to persons other than 10% Shareholders may be exercisable for a period of up to 10 years from the date of grant; ISOs granted to 10% Shareholders may be exercisable for a period of up to five years from the date of grant. The aggregate fair market value (determined at the time an ISO is granted) of shares of Common Stock that are subject to ISOs held by a plan participant that may be exercisable for the first time during each calendar year may not exceed $100,000.

Payment for shares of Common Stock purchased pursuant to exercise of stock options may be remitted in cash or by certified check or at the discretion of the Administrator (i) by promissory note, (ii) promissory note combined with cash, (iii) by shares of Common Stock having a fair market value equal to the total exercise price, or (iv) by a combination of items (i)-(iii) above. The provision that permits the delivery of already owned shares of stock as payment for the exercise of an option may permit "pyramiding." In general, pyramiding enables a holder to use shares of Common Stock owned in order to pay for the exercise of the stock option. This is done by transferring such shares to the Company as payment of the exercise price for the shares purchased pursuant to the exercise of the Option. The value of such shares shall be determined by the market value of the shares at the time of transfer. Thereafter, the shares received upon the exercise of the option could then be used to do the same. Thereby, the holder may start with as little as one share of Common Stock and use the shares of Common Stock acquired in successive, simultaneous exercises of the option to exercise the entire option, regardless of the number of shares covered thereby, with no additional cash or investment other than the original share of Common Stock used to exercise the option.

Upon termination of employment, an optionee will be entitled to exercise the vested portion of an option for a period of up to three months after the date of termination except that if the reason for termination was a discharge for cause, the option shall expire immediately, and if the reason for termination was death or permanent disability of the optionee, the vested portion of the option shall remain exercisable for a period of 12 months thereafter.

In March 1997, the Company granted to Mr. Rashbaum an option to purchase 88,000 shares of Common Stock at an exercise price of $1.46 per share, pursuant to the Management Plan.

Incentive Stock Rights

Incentive stock rights consist of incentive stock units each of which is equivalent to one share of Common Stock and may be awarded in consideration for services performed for the Company or any subsidiary. Each incentive stock unit shall entitle the holder thereof to receive, without payment of cash or property to the Company, one share of Common Stock in consideration for services performed for the Company or any subsidiary by the employee, subject to the lapse of the incentive periods, at which time the Company will issue one share of Common Stock for each unit awarded upon the completion of each specified period. If the employment with the Company of the holder of the incentive stock units terminates prior to the end of the incentive period relating to the units awarded, the rights will thereupon be null and void, except that if termination is caused by death or permanent disability, the holder or his heirs, as the case

may be, will be entitled to receive a pro rata portion of the shares represented by the units, based upon that portion of the incentive period which has elapsed prior to the death or disability.

Stock Appreciation Rights (SARs)

SARs may be granted to recipients of stock options under the Management Plan. In the discretion of the Board of Directors, SARs may be granted simultaneously with, or subsequent to, the grant of a related stock option and may be exercised to the extent that the related option is exercisable, except that no general SAR (as hereinafter defined) may be exercised within a period of six months of the date of grant of such SAR, and no SAR granted with respect to an ISO may be exercised unless the fair market value of the Common Stock on the date of exercise exceeds the exercise price of the ISO. An option holder may be granted general SARs ("general SARs"), limited SARs ("limited SARs"), or both. General SARs permit the holder thereof to receive - without payment of cash or property to the Company - cash, shares of Common Stock, or a combination of both in an amount determined by dividing (i) that portion, elected by the option holder, of the total number of shares which the holder is eligible to purchase multiplied by the amount, if any, by which the fair market value of a share of Common Stock (on the exercise date) exceeds the option exercise price of the related option by (ii) the fair market value of a share of Common Stock on the exercise date. Limited SARs are similar to general SARs except that, unless the Administrator determines otherwise, limited SARs may be exercised only during a prescribed period following the occurrence of one or more of the following "change of control" transactions: (i) the approval of the Board of Directors and shareholders of the Company of a consolidation or merger in which the Company is not the surviving corporation, the sale of all or substantially all of the assets of the Company, or the liquidation or dissolution of the Company, (ii) the commencement of a tender or exchange offer for the Company's Common Stock (or securities convertible into Common Stock) without the prior consent of the Board, (iii) the acquisition of beneficial ownership by any person or other entity (other than the Company or any employee benefit plan sponsored by the Company) of securities of the Company representing 25% or more of the voting power of the Company's outstanding securities, or (iv) in the event, during any period of two consecutive years or less, individuals who at the beginning of such period constitute the entire Board cease to constitute a majority of the Board, unless the election, or the nomination for election, of each new director is approved by at least a majority of the directors then still in office.

An SAR holder may exercise his SAR rights by giving written notice of such exercise to the Company, which specifies the number of shares of Common Stock involved. The exercise of any portion of either the related stock option or the tandem SARs will cause a corresponding reduction in the number of shares remaining subject to the option or the tandem SARs, thus maintaining a balance between outstanding options and SARs. SARs have the same termination provisions as the underlying stock options (as described above) in the event an SAR holder ceases to be an employee of the Company.

Restricted Stock Purchase Agreements

Restricted share agreements provide for the issuance of restricted shares of Common Stock to eligible participants under the Management Plan. The Board of Directors may determine the price to be paid by the participant for the shares or that the shares may be issued for no monetary consideration. The shares issued shall be subject to restrictions for a stated restricted period during which the participant must remain in the Company's employ in order to retain the shares. Payment may be made in cash, by promissory note, or via a combination of both.

Restricted shares awarded under the Management Plan will be subject to a period of time, designated by the Administrator as the "restricted period," during

which the holder has limited rights with respect to such shares. The Administrator may also impose other restrictions, terms, and conditions that must be fulfilled before the restricted shares may vest. Upon the grant of restricted shares, stock certificates registered in the name of the recipient will be issued, and such shares will constitute issued and outstanding shares of Common Stock for all corporate purposes. The holder will have the right to vote the restricted shares and to receive all regular cash dividends (and such other distributions as the Administrator may designate, other than distributions made solely with respect to the restricted shares ("retained distributions"), if any, which are paid or distributed on the restricted shares and, generally, to exercise all other rights as a holder of Common Stock except that until the end

of the restricted period: (i) the holder will not be entitled to take possession of the stock certificates representing the restricted shares or receive retained distributions, and (ii) the holder will not be entitled to sell, transfer, or otherwise dispose of the restricted shares. A breach of any restrictions, terms, or conditions established by the Administrator with respect to any restricted shares will cause a forfeiture of such restricted shares.

Upon expiration of the applicable restricted period(s) and the satisfaction of any other applicable conditions, the restricted shares and any dividends or other distributions not distributed to the holder (the "retained distributions") thereon will become vested. Any restricted shares and any retained distributions thereon which do not so vest will be forfeited to the Company. If prior to the expiration of the restricted period a holder's employ is terminated without cause or because of a total disability (in each case as defined in the Management Plan) or the holder dies, unless otherwise provided in the restricted share agreement providing for the award of restricted shares, the restricted period applicable to each award of restricted shares will thereupon be deemed to have expired. Unless the Administrator determines otherwise, if a holder's employment terminates prior to the expiration of the applicable restricted period for any reason other than as set forth above, all restricted shares and any retained distributions thereon will be forfeited. Upon forfeiture of any restricted shares, the Company will repay to the holder thereof any amount the holder originally paid for such shares.

Acceleration of all awards under the Management Plan shall occur, pursuant to the provisions of Section 13 the Management Plan, on the first day following the occurrence of any of the following: (a) the approval by the shareholders of the Company of an "Approved Transaction," (b) a "Control Purchase," or (c) a "Board Change."

An "Approved Transaction" is defined as (i) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of Common Stock would be converted into cash, securities, or other property other than a merger of the Company in which the holders of Common Stock immediately prior to the merger have the same proportionate ownership of Common Stock of the surviving corporation immediately after the merger, (ii) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company, or (iii) the adoption of any plan or proposal for the liquidation or dissolution of the Company.

A "Control Purchase" is defined as circumstances in which any person (as such term is defined in Sections 13(d)(3) and 14(d)(2) of the Exchange Act), corporation, or other entity (other than the Company or any employee benefit plan sponsored by the Company) (i) shall purchase any Common Stock of the Company (or securities convertible into the Company's Common Stock) for cash, securities, or any other consideration pursuant to a tender offer or exchange offer, without the prior consent of the Board of Directors or (ii) shall become the "beneficial owner" (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing

twenty-five percent (25%) or more of the combined voting power of the then outstanding securities of the Company ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of directors (calculated as provided in paragraph (d) of such Rule 13d-3 in the case of rights to acquire the Company's securities).

A "Board Change" is defined as circumstances in which, during any period of two consecutive years or less, individuals who at the beginning of such period constitute the entire Board shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Company's shareholders, of each new director was approved by a vote of at least a majority of the directors then still in office.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of September 25, 2001 with respect to the beneficial ownership of shares of Common Stock by (i) each person known by the Company to be the owner of more than 5% of the outstanding shares of Common Stock, (ii) each director or director nominee of the Company (iii) each executive officer of the Company for whom information is given in the Summary Compensation Table in this proxy statement and (iv) all officers and directors as a group. Except to the extent indicated in the footnotes to the following table or otherwise as specified in this Proxy Statement, each of the individuals/entities listed below possesses sole voting power with respect to the shares of Common Stock listed opposite his/its name.

Name and Address of Beneficial Owner (1)	Number of Shares Beneficially Owned (1)	Percent of Common Owned
Fiduciara Biaggini Via Vanoni # 6 Lugano, Switzerland CH 6901 (3)	5,075,120	67.9%
American Telecom Corp. C/o MW Todtman McNamara Chamber P.O. Box 47 Road Town Tortola, BVI	53,100(4)	.71
Harold Rashbaum	252,000(5)	3.4%
Jeanne Falletta	--	--
Alain Le Guillou, M.D.	--	--
James Frakes	--	--
Debra Riggs	--	--
All Officers and Directors as a Group (five persons)	252,000	3.4%

* Less than 1% of the outstanding common stock.

(1) Unless otherwise indicated, the address for each listed director or officer is c/o Shopnet.Com, Inc., 112 West 34th Street, New York, New York 10120. As used in this table, "beneficial ownership" means the sole or shared power to vote or direct the voting or to dispose or direct the disposition of any security. For the purposes of this table, a person is deemed to be the beneficial owner of securities that can be acquired within 60 days from September 25, 2001 through the exercise of any option or warrant. Shares of Common Stock subject to options or warrants that are currently exercisable or exercisable within 60 days are deemed outstanding for computing the ownership percentage of the person holding such options or warrants, but are not deemed outstanding for computing the ownership percentage of any other person. The amounts and percentages are based upon 7,472,244 shares of common stock outstanding as of September 25, 2002.

(2) Does not give effect to the issuance of (i) 3,379,200 shares of Common Stock issuable upon exercise of the 3,840,000 outstanding Warrants (the exercise of each warrant at an exercise price of $3.41 purchases .88 of a share of Common Stock) or (ii) 128,333 shares of Common Stock reserved for issuance under the Company's Senior Management Incentive Plan.

(3) Fiduciara Biaggini is a fiduciary company with an address at via Vanoni #6, Lugano, Switzerland CH 6901. Fiduciara Biaggini owns of record 5,075,120 shares of common stock. The Company believes that these shares are held trust for the benefit of other parties. The Company has contacted Fiduciara Biaggini in order to determine the ownership of the shares of common stock held of record by Fiduciara Biaggini. As of the date hereof, Fiduciara Biaggini has not responded to the Company's attempt to contact it.

(4) American Telecom Corp. ("ATC") is a corporation organized under the laws of the British Virgin Islands which is wholly-owned by Europe American Capital Foundation ("EACF"), a Liechtenstein Trust with an address at Pradafont Street #7, Vaduz Liechtenstein, c/o Dr. Wohlwerd. Mr. Arbel controlled EACF through October 2000 and has been President of ATC since July 2000. By virtue of his position with ATC, Mr. Arbel has voting and dispositive control over shares of the Company beneficially owned by ATC and therefore may be deemed to beneficially own such shares.

(5) Includes an aggregate of 132,000 shares of Common Stock underlying options granted to Mr. Rashbaum, the Chairman of the Board, President, Chief Financial Officer and Chief Executive Officer of the Company. See "Executive Compensation."

By virtue of Mr. Arbel's voting and dispositive control of shares of the Company owned by each of ATC (see footnote 4 above), Mr. Ilan Arbel may be deemed to beneficially own 0.71% of the Company's outstanding Common Stock.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Breaking Waves' Loan and Security Agreement with Century Business Credit Corporation ("Century") dated December 20, 2000 requires the provision of one or more letters of credit in the aggregate amount of $1,150,000 to partially secure the line of credit. Pursuant to the terms of a Reimbursement and Compensation Agreement ("Reimbursement and Compensation Agreement"), a trust ("Trust"), the beneficiary of which is the granddaughter of Harold Rashbaum, the Company's Chairman of the Board, President, Chief Financial Officer and Chief Executive Officer, and the daughter of Mr. Arbel, a principal stockholder, provided the security underlying a letter of credit in the amount of $250,000 issued by a

bank to replace a portion of a letter of credit previously provided by the Company. Breaking Waves agreed to reimburse the Trust for any and all losses, fees, charges and expenses to the Trust in the event the letter of credit is called by Century and the issuing bank makes payment and then demands reimbursement from the Trust. Breaking Waves' obligations are guaranteed by the Company in addition to being secured by a first security interest in all of the assets of the Company and a subordinate security interest in all of the assets of Breaking Waves. Breaking Waves paid a fee of $42,500 to the Trust and reimbursed the Trust for all related professional and other fees incurred by the Trust in connection with such transaction.

On May 3, 2001, the Company, Breaking Waves and the Trust entered into a First Amendment to Reimbursement and Compensation Agreement ("Amendment") pursuant to which the Trust increased the amount of security an additional $150,000 for a total of $400,000, including the original $250,000. The Trust conditioned the additional $150,000 of security upon the receipt of an additional Guaranty from a party satisfactory to it. Gal Capital Corp. ("Gal") provided a Guaranty agreeing to pay all obligations of Breaking Waves as contained in the original Reimbursement and Compensation Agreement and all related expenses in enforcing same. Gal received a fee of $42,500 for the issuance of such guaranty. Mr. Arbel is President of Gal.

In September, 2001, Century increased the required security in the form of letters of credit from $1,150,000 to 1,450,000. The Company also sought to raise additional funds to secure the letter of credit in order to have available to it additional working capital.

Pursuant to an Amended and Restated Reimbursement and Compensation Agreement dated as of September 15, 2001, between the Trust and Breaking Waves, which superceded the original Reimbursement and Compensation Agreement, the Trust agreed to provide additional security to a bank in return for the issuance of a letter of credit from such bank to Century in the amount of $350,000 (in addition to the original $400,000) to replace a portion of a letter of credit previously provided by Shopnet in a similar amount. The Trust agreed to continue such letter of credit for a period of ten years, absent any default. The terms include the same reimbursement, guarantee and security provisions as in the original Reimbursement and Compensation Agreement. As compensation, the Trust is entitled to .83 percent of net sales of Breaking Waves through June 30, 2001, and 1.16% of net sales of Breaking Waves for each year thereafter ("Trust L/C Fees"). Such amounts are payable 45 days after the close of each fiscal quarter. On the closing date, Breaking Waves paid $24,500 to the Trust as an advance of future Trust L/C Fees and reimbursed the Trust for all related professional fees.

In addition, Breaking Waves entered into a Reimbursement Agreement dated as of September 15, 2001 with Rivka and Yair Arbel ("RAYA") (Mr. Arbel's brother and sister-in-law), pursuant to which RAYA agreed to provide security to a bank in return for a letter of credit from such bank to Century in the amount of $300,000 reflecting the increase of security required by Century. RAYA agreed to continue such letter of credit for a period of ten years, absent any default. The Reimbursement Agreement includes reimbursement provisions in favor of the Trust in the event the letter of credit is called by Century and is paid by the bank. All of Breaking Waves obligations are guaranteed by Shopnet and secured by Shopnet's assets. As compensation, the Trust and RAYA are entitled, proportionally based on the total outstanding letters of credit, to a fee equal to one and one quarter percent (1 1/4%) of net sales of Breaking Waves through June 30, 2002 and thereafter one and three quarters percent (1 3/4%) of net sales of Breaking Waves through September 30, 2011 ("RAYA L/C Fees"). Such amounts are payable forty-five days after the close of each fiscal quarter. In October 2001, the Trust and RAYA received advance payments to be applied towards future fees of $24,500 and $12,250, respectively. The following table summarizes the percentage due to each party, as noted above, as a percentage of net sales

for the year ended June 30, 2002:

Raya	0.42	$ 38,820
ZAT	0.83	60,906
ARC	1.25	91,725
Total	2.50	$183,451

In August 2000, Breaking Waves received an $80,000 advance from Play Co. against future orders of merchandise. No orders were received against this advance and in December 2000 Breaking Waves repaid the full $80,000 to Play Co.

In November 1999, Breaking Waves borrowed $400,000 from Play Co. with such loan bearing interest at 9% per annum. Breaking Waves repaid $100,000 of the loan in January 2000 and the balance in April 2000.

In October 1999, the Company borrowed $50,000 from Play Co. and Breaking Waves borrowed $200,000 from Play Co. The loans bore interest at 9% and were repaid in March 2000.

In February 1999, the Company loaned $100,000 to Play Co. with such loan bearing interest at 9% per annum. In each of April and May 1999, the Company loaned an additional $100,000 to Play Co. at an interest rate of 9% per annum. All such loans have been repaid.

In November 1998, pursuant to a sales agreement entered into between Breaking Waves and Play Co., Breaking Waves purchased 1.4 million unregistered shares of Play Co.'s common stock in a private transaction, which was subsequently reduced to 1,270,000 shares. The shares purchased represented approximately 25.4% of the outstanding common stock of Play Co. immediately after the transaction. Such percentage has since been reduced to approximately 1.5% of Play Co.'s outstanding common stock. Pursuant to the agreement which bore an initial term of one year and automatically extended for an additional one year term since it was not terminated by either of the parties - Play Co. agreed to purchase (on a wholesale basis) a minimum of 250 pieces of merchandise for each of its retail locations and to provide advertising promotional materials and ads of the merchandise in all of its brochures, advertisements, catalogs, and all other promotional materials, merchandising programs, and sales promotion methods. Breaking Waves had previously sold a limited number of pieces of its swimwear to

Play Co. As consideration for the stock, Breaking Waves remitted $504,000, which represented an approximate price of $0.36 per share: $300,000 of the consideration was remitted in cash, and the remaining $204,000 was provided in the form of merchandise, primarily girls' swimsuits.

In October 1996, pursuant to a promissory note, the Company loaned Harold Rashbaum its President, Chief Financial Officer and Chief Executive Officer a total of $50,000 bearing interest at 6 1/2% payable over three years. As of June 30, 2001, the unpaid portion, which is due on demand, amounted to $37,000, which has been classified as current. In 1998, the Company's President was also advanced additional funds totaling $3,000 which are non-interest bearing and due on demand and are classified as current.

Before he became an Officer and Director of the Company, Mr. Rashbaum provided consulting services to the Company through HBR, a company of which he is an officer and director and of which his wife is the sole shareholder. In 1996, HBR entered into an oral consulting agreement with the Company providing for the payment to HBR of 5% of the net profits received by the Company from the distribution of "Dirty Laundry." To date, HBR has not received any fees as a result of the distribution of "Dirty Laundry" not generating any net profits.

Alain Le Guillou, a director of the Company, has been a consultant to the

Company since 1996. Prior to July, 2001, he received $12,000 per annum for such services which was subsequently reduced to $6,000 per annum. Until recently, Dr. Le Guillou was the son-in-law of Harold Rashbaum.

During the six months ended June 30, 2001 and years ended December 31, 2000 and 1999 the Company paid $24,000, $49,080 and $24,000 respectively, in financial consulting fees to DRA Consulting, Inc., a company whose president is the daughter of the Company's Chairman of the Board, President, Chief Executive Officer.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following financial statements of the Company are included as Part II, Item 8:

Index to Financial Statements	F
Independent Auditor's Report	F-1
Independent Accountants' Report	F-2
Balance Sheets	F-3
Statements of Operations	F-4 to F-
Statement of Stockholders' Equity	F-6 to F-
Statements of Cash Flows	F-8 to F-
Notes to Financial Statements	F-12 to F

(b) Form 8-K

(i) On January 25, 2002, the Company filed a Form 8-K disclosing the notification of The Nasdaq Stock Market, Inc of the withdrawal of its listing from the SmallCap Market and the commencement of trading on the trading on the OTC Bulletin Board.

(ii) On January 29, 2002, the Company filed a Form 8-K disclosing the dismissal of Massella Rubenstein LLP as its principal accountant and the engagement of Jerome Rosenberg CPA, P.C. as its principal accountant.

(c) The following exhibits which are designated by an asterisk (*) are to be filed by amendment. Exhibits not so designated previously were filed with the Securities and Exchange Commission with either (i) the Registration Statement on Form SB-2, file no. 333-5098-NY, (ii) the Registration Statement on Form SB-2, file no. 333-5098-NY, Post- Effective Amendment No. 1, (iii) the Registration Statement on Form SB-2, file no. 333-5098-NY, Post-Effective Amendment No. 2, or (iv) such other documents as the Company has filed with the Securities and Exchange Commission. Pursuant to 17 C.F.R. 230.411, each exhibit filed by the Company is incorporated by reference herein.

3.1	Certificate of Incorporation of the Company
3.2	Amendment to Certificate of Incorporation of the Company, filed in June
3.4	By-Laws of the Company
3.6	Certificate of Incorporation of Breaking Waves, Inc.
3.7	By-Laws of Breaking Waves, Inc.
3.8	Certificate of Amendment to Certificate of Incorporation
4.1	Specimen Common Stock Certificate

4.2	Specimen Warrant Certificate
4.4	Form of Warrant Agreement between the Company, the Underwriter and Transfer & Trust Company
4.5	Form of Restricted Stock Agreement
10.2	The Company's Senior Management Incentive Plan
10.4	Consulting Agreement between Breaking Waves, Inc. and Dan Stone
10.5	Lease for premises at 112 West 34th Street, New York, New York
10.6	Lease for premises at 8410 N.W. 53rd Terrace, Miami, Florida
10.6(a)	Amendment to lease at 8410 N.W. 53rd Terrace, Miami, Florida
10.7	Stock Purchase Agreement between the Company, European Ventures Corp Inc., and the shareholders of Breaking Waves, Inc., dated May, 1996
10.9	Property Acquisition Agreement between the Company and Rogue Features, 1996
10.10	Co-production agreement between the Company and Rogue Features, Inc., and all amendments thereto
10.11	Right of First Refusal Agreement with principals of Rogue Features, Inc.
10.13	Shippers Agency Agreement between Hollywood Productions, Inc., Enterprises, Inc.
10.14	License Agreement between Breaking Waves, Inc. and Beach Patrol, Inc.
10.16	Employment Agreement with Michael Friedland (incorporated by referen exhibit in the Company's 10-KSB for the year ended December 31, 1996)
10.17	Employment Agreement with Malcolm Becker (incorporated by referenc exhibit in the Company's 10-KSB for the year ended December 31, 1996)
10.18	Termination of Employment Agreement with Robert Melillo (incorporated by reference to the indicated exhibit in the Company's 10-KSB for the year ended December 31, 1996)
10.19	Trident Releasing, Inc. License Agreement (incorporated by referen exhibit in the Post-Effective Amendment No. 1)
10.20	Cyclone Option Agreement (incorporated by reference to the indica Post-Effective Amendment No. 1)
10.21	Cyclone Co-Writer Agreement (incorporated by reference to the indica Post-Effective Amendment No.)
10.22	Heller Financial Agreement (incorporated by reference to the indica Post-Effective Amendment No. 2)
10.23	Non-Executive Director Stock Option Plan (incorporated by reference t Proxy Statement for the Company's June 1997 Annual Meeting)
10.24	Kawasaki Motors Corp., USA "Jet Ski" License Agreement (incorporated indicated exhibit in the Company's 10-KSB for the year ended December 31
10.25	Amendment to lease at 112 West 34th Street, New York, New York (incorporated by reference to the indicated exhibit in the Company's 10-KSB for the year ended December 31, 1997)
10.26	Form of Subscription Agreement used in connection with the Company's Fe Placement (incorporated by reference to the indicated exhibit in the Company's 10-KSB for the year ended December 31, 1997)
10.27	Form of Subscription Agreement used in connection with the Company Placement (incorporated by reference to the indicated exhibit in the Company's 10-KSB for the year ended December 31, 1998)
10.28	Amendment to Employment Agreement with Michael Friedland dated (incorporated by reference to the indicated exhibit in the Company's ended December 31, 1998)
10.29	Amendment to Employment Agreement with Malcolm Becker dated January 1, by reference to the indicated exhibit in the Company's 10-KSB for the 31, 1998)
10.30	Second Amendment to Employment Agreement with Malcolm Becker dat (incorporated by reference to the indicated exhibit in the Company's ended December 31, 1998)

10.31	Lease for premises at 14 East 60th Street, Room 402, New York, New York reference to the indicated exhibit in the Company's 10-QSB for the qua 1999)
10.32	Option Agreement - Robb Peck McCooey Clearing Corporation (incorporated by reference to the indicated exhibit in the Company's 10-QSB for the quarter ended September 30, 1999)
10.33	License Agreement with Gottex Models Ltd, dated November 1, 2000
10.34	Factoring Agreement with Century Business Credit Corp. dated September 1
10.35	Supplement to factoring or Security Agreement with Century Business C dated August 14, 2000
10.36	Corporate Guaranty unlimited between Century Business Credit Corpo dated August 14, 2000
10.37	Trademark Collateral Security Agreement between Century Business Cred Breaking Waves, dated August 14, 2000.
10.38	Consulting Agreement with Larry Nash, Inc., dated August 5, 2000
10.39	Lease between 112 West 34th Street Company, as landlord, and Breakin tenant, dated August 8, 2001.
16.1	Letter from Scarano & Tomaro, P.C. regarding dismissal of Scarano & T Company's auditors (incorporated by reference to the indicated exhib Form 8-K/A filed on November 24, 1998)
16.2	Letter from Massella Rubenstein LLP regarding dismissal of Massella R Company's auditors (incorporated by reference to the indicated exhib Form 8-K filed on January 29, 2002)
21.1	Subsidiaries of the Registrant
99.1	Certification of the Chief Executive Officer of ShopNet.com, Inc. Pursua As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of the Chief Financial Officer of ShopNet.com, Inc., Pursu As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the Undersigned hereunto duly authorized on the 11th day of October, 2002.

ShopNet.Com, Inc.

By: /s/ Harold Rashbaum

Harold Rashbaum
Chairman of the Board, Chief Executive Officer, Chief Financial Officer and President

Pursuant to the requirements of the Securities Act of 1933 as amended, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

/s/ Harold Rashbaum Harold Rashbaum	Chairman of the Board, Chief Executive Officer, Chief Financial Officer President, and Director	10/11/02 Date
/s/ Jeanne Falleta Jeanne Falletta	Secretary and Director	10/11/02 Date
Alain Le Guillou, M.D.	Director	Date
/s/ James B. Frakes James B. Frakes	Director	10/11/02 Date
/s/ Debra Riggs Debra Riggs	Director	10/11/02 Date