

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

SUN NETWORK GROUP INC
Form 10KSB
April 15, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended DECEMBER 31, 2004

Commission File Number 33-42498

SUN NETWORK GROUP, INC.

(Exact name of registrant as specified in its charter)

FLORIDA

(State or other jurisdiction of
incorporation or organization)

65-024624

(I.R.S. Employer Identification Number)

1440 CORAL RIDGE DRIVE, #140, CORAL SPRINGS, FL 33071

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (954) 360-4080

Securities registered pursuant to Section 12 (b) of the Act: NONE.

Securities registered pursuant to Section 12 (g) of the Act: COMMON STOCK.

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not 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. []

State issuer's revenues for its most recent fiscal year: \$42,398.

323,657,813 shares of common stock, \$.0001 par value, were issued and outstanding on April 13, 2005.

The aggregate market value of the Registrant's common stock held by non-affiliates of the Registrant as of the close of business on April 13, 2005 (an aggregate of 289,557,813 shares out of a total of 323,657,813 shares outstanding at that time) was \$1,303,010 computed by reference to the closing bid price of \$.0045 on April 13, 2005.

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

Transitional Small Business Disclosure Format (check one): Yes No

PART I

- ITEM 1. DESCRIPTION OF BUSINESS
- ITEM 2. DESCRIPTION OF PROPERTIES
- ITEM 3. LEGAL PROCEEDINGS
- ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

PART II

- ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS
- ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
- ITEM 7. FINANCIAL STATEMENTS
- ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND
- ITEM 8A. CONTROLS AND PROCEDURES

PART III

- ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT
 - ITEM 10. EXECUTIVE COMPENSATION
 - ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT
 - ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS
 - ITEM 13. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K
 - ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES
- SIGNATURES

EX-31.1

EX-31.2

EX-32.1

EX-32.2

PART I

- ITEM 1. DESCRIPTION OF BUSINESS

GENERAL

We have been developing new media businesses that we have acquired or operate via a joint venture, however, in March 2005 the Company decided to elect Business Development Corporation Status and has entered into a binding Letter of Intent to acquire Aventura Networks, LLC ("Aventura"), a business that operates in the Voice over Internet Protocol (VOIP) industry and the Company intends to pursue further development and acquisitions in this field. We have one wholly owned subsidiary, the RadioTV Network, Inc, also known as RTV, and we have entered into a joint venture to operate the Radio X Network. RTV is a proposed television network that had intended to produce and distribute television versions of top rated radio programs but, thus far, has not succeeded. Radio X

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

is a nationally syndicated radio network that produces and syndicates 2 radio programs in partnership with a third party. The Company intends now to focus its resources on developing its telecom assets through Aventura.

HISTORY

We were incorporated in June 1991 as Sun Express Group, Inc and owned and operated Destination Sun Airlines until its principal assets were sold to Air Tran Holdings in 1994. We were inactive until acquiring the assets of RTV, via merger on July 16, 2001, after which our name was changed to Sun Network Group, Inc. We entered into a partnership agreement with Sports Byline USA, L.P. to form Radio X on September 5, 2002. We entered into Letter of Intent agreement to acquire Aventura on February 27, 2004.

BUSINESS AND ACQUISITION STRATEGY

We plan to acquire late-stage development companies and established businesses with a focus on telecom and communication based companies. We plan to expand our subsidiary portfolio to include a wide range of telecom and communication related business that we deem would most effectively maximize shareholder value.

Subject to the timely completion of the Aventura acquisition, which the Company anticipates concluding by the end of April 2005, the Company now plans to focus its resources on expanding Aventura's VOIP businesses, primarily in the wholesale markets, and by seeking strategic acquisitions and partnerships that are compatible with Aventura. We intend to raise additional financing for the Company through the issuance of stock, under our Business Development Corporation status and, subject to the timely completion of our acquisition of Aventura, the Company plans on divesting itself of its non-performing media assets.

OPERATIONS

RADIOTV NETWORK

The RadioTV Network ("RTV") is a proposed new television network that the Company has been developing for several years. The proposed new network would produce and distribute TV versions of existing, top rated radio programs. Despite investing considerable resources and a significant amount of management's time and focus, the Company has been unable to progress its business model and plans now to put its emphasis on its new telecom businesses.

RADIO X NETWORK

Radio X is a, nationally syndicated radio network the Company owns and operates in partnership with Sports Byline USA, L.P., which operates Sports Byline USA Radio Network, a nationally syndicated sports talk radio network that is distributed and broadcast live 8 hours a day to over 150 traditional affiliate radio stations in the USA, 24 hours a day on the Sirius Radio Satellite and on the American Forces Network.

Radio X produces and distributes three radio programs, both live and taped, that are designed and targeted to young, male audiences ages 14-35. Radio X commenced operations in September 2002 with two (2) programs; "Wrestling Observer Live", a 2-hour program for wrestling fans that broadcasts live Sunday evenings from 9-10pm on about 100 traditional affiliate radio stations; "Video Game Review", a 1-hour program on what's hot in the video game world, broadcast live also on Sunday evenings at 9-10pm on about 100 traditional affiliate radio stations and "Stuff Sports" a 2-hour comedy/sports program that will be produced

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

in association with Dennis Publishing, Inc and should debut by May 2005.

Radio X generates its revenues principally from advertising sales, sponsorship fees and merchandising. Sports Byline has contributed two (2) existing radio programs, "Wrestling Observer Live" and "Video Game Review" plus management services, affiliate sales and accounting, along with studio production and office facilities.

SOURCES OF REVENUES

The Company's wholly-owned subsidiary, RTV, generally produces episodic television series and generates the majority share of its revenues from the sale of broadcast licenses and advertising sales. Advertising is sold to conventional advertisers and direct response advertisers by the broadcaster's ad sales personnel and the revenues collected are shared with the Company. The Company has not had syndicated advertising revenues since MANCOW TV ceased syndication and broadcast in 2001 and does not anticipate any further revenues.

Radio X currently derives revenues from advertisers, and sponsorships. Sponsorships includes special advertising and promotion programs, including title sponsors. Although we have developed special advertising and promotion programs, we have not commenced either. We had expected to generate revenues from merchandising. Merchandising revenues include participation in direct response ads, merchandise sales and license fees. Ad rates are primarily determined by distribution and ratings of the programs.

All of the Company's revenues in 2004 are from its Radio X joint venture.

COMPETITION

The competition in the new businesses the Company intends to enter, principally the VOIP telecom industry, is vast and extremely competitive, particularly on the retail level. After the completion of the acquisition of Aventura, the Company intends to focus its resources and time on developing its wholesale businesses.

EMPLOYEES

The Company has currently one full-time employee, who has a formal employment agreement.

ITEM 2. DESCRIPTION OF PROPERTIES

The Company maintains an office address in Coral Springs, Florida at 1440 Coral Ridge Drive #140, Coral Springs, FL 33701. The Company's subsidiary, RadioTV Network Inc., operates out of an office at 5670 Wilshire Blvd., Suite 1300, Los Angeles, CA 90036, provided by a Company shareholder and director.

ITEM 3. LEGAL PROCEEDINGS

The Company has initiated an Arbitration against Paradigm International, LLC ("Paradigm") (American Arbitration Association Case No. 72 181 01307 04 TOST) in an attempt to recover stock transferred and costs associated with their recovery, in connection with a September 17, 2004 Private Placement and Consulting Agreement that was not performed by Paradigm.

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

None

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

On December 26, 2001, our common stock was authorized to trade on the over-the-counter market with quotations available on the OTC Electronic Bulletin Board under the symbol "SNNW." No trades occurred until January 3, 2002.

The following table sets forth the range of high and low bid quotations of our common stock for the periods indicated. The prices represent inter-dealer quotations, which do not include retail markups, markdowns or commissions, and may not represent actual transactions.

	HIGH	LOW
2004	-----	-----
First Quarter	\$.05	\$.024
Second Quarter	\$.045	\$.020
Third Quarter	\$.035	\$.018
Fourth Quarter	\$.015	\$.003
2003	-----	-----
First Quarter	\$.060	\$.020
Second Quarter	\$.045	\$.015
Third Quarter	\$.030	\$.015
Fourth Quarter	\$.090	\$.035
2002	-----	-----
First Quarter	\$1.55	\$.56
Second Quarter	\$.67	\$.07
Third Quarter	\$.27	\$.05
Fourth Quarter	\$.06	\$.015

SECURITY HOLDERS

At April 13, 2005, there were 323,657,813 shares of our common stock outstanding, which were held of record by approximately 380 stockholders, not including persons or entities who hold the stock in nominee or "street" name through various brokerage firms.

DIVIDENDS

We have not paid a dividend since our incorporation. Our Board of Directors may consider the payment of cash dividends, dependent upon the results of our operations and financial condition, tax considerations, industry standards, economic considerations, regulatory restrictions, general business factors and other conditions.

RECENT SALES OF UNREGISTERED SECURITIES

The securities described below represent our securities sold by us during the fiscal year ended December 31, 2004 that were not registered under the Securities Act of 1933, as amended, all of which were issued by us pursuant to exemptions under the Securities Act. Underwriters were involved in none of these transactions.

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

PRIVATE PLACEMENTS OF COMMON STOCK AND WARRANTS FOR CASH

None

SALES OF DEBT AND WARRANTS FOR CASH

None

OPTION GRANTS

None

ISSUANCES OF STOCK FOR SERVICES OR IN SATISFACTION OF OBLIGATIONS

On January 8, 2004 the Company entered into an agreement with a third party for marketing, consulting and investor relations services. The term of the agreement was for 30 days and in connection with the agreement the Company issued said consultant 350,000 shares of the Company's common stock.

On January 16, 2004 the Company entered into an agreement with a third party for marketing, consulting and investor relations services. The term of the agreement was for six (6) months and in connection with the agreement the Company issued said consultant 3,250,000 shares of the Company's common stock.

On January 22, 2004 the Company entered into agreement with a third party to pay for certain obligations to the party for services rendered to the Company. In connection with this agreement the Company issued the party 1,000,000 shares of its common stock to settle the obligation.

On January 29, 2004 the Company entered into agreement with a third party for marketing, consulting and investor relations services. The term of the agreement was for six (6) months and in connection with the agreement the Company issued said consultant 3,300,000 shares of the Company's common stock.

On February 5, 2004 the Company entered into agreement with a third party to provide marketing, consulting and investor relations services. The term of the agreement was for 60 days and in connection with the agreement the Company issued said consultant 600,000 shares of the Company's common stock.

On February 12, 2004 the Company entered into agreement with a third party for marketing, consulting and investor relations services. The term of the agreement was for six (6) months and in connection with the agreement the Company issued said consultant 3,300,000 shares of the Company's common stock.

On March 1, 2004 the Company entered into agreement with two third parties for the payment of past due obligations and for marketing, consulting and consulting services. In connection with the agreement the Company issued said consultants 5,000,000 shares of the Company's common stock.

On March 5, 2004 the Company entered into agreement to borrow funds from a third party to payoff obligations due under a Redemption of Secured Convertible Preferred Debenture agreement. In connection with this loan the Company issued and pledged 14,000,000 shares of the Company's common stock.

On March 8, 2004 the Company entered into agreement with a third party for marketing, consulting and investor relations services. The term of the agreement was for one (1) year and in connection with the agreement the Company issued said consultant 10,000,000 shares of the Company common stock.

On March 10, 2004 the Company, in order to fully resolve and settle a pending matter of arbitration with a former vendor, fully settled the matter

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

upon the issuance of 5,000,000 shares of the Company's common stock to the vendor.

On March 11, 2004 the Company entered into agreement with a third party for marketing, consulting and investor relation services. The term of the agreement was for six (6) months and in connection with the agreement the Company issued said consultant 5,000,000 shares of the Company's common stock.

On March 16, 2004 the Company entered into agreement to borrow funds from a third party to payoff obligations due under a Redemption of Secured Convertible Preferred Debenture agreement. In connection with this loan the Company issued and pledged 14,000,000 shares of the Company common stock.

On March 26, 2004 the Company entered into agreement to borrow funds from a third party to payoff obligations due under a Redemption of Secured Convertible Preferred Debenture agreement. In connection with this agreement the Company issued and pledged 14,000,000 shares of the Company's common stock.

On April 1, 2004 the Company entered into agreement to borrow funds from a third party to payoff obligations under a Redemption of Secured Convertible Preferred Debenture agreement. In connection with this agreement the Company issued and pledged 14,000,000 shares of the Company's common stock.

On April 26, 2004 the Company entered into agreement with a third party for marketing, consulting and investor relations services. The term of the agreement was for one (1) year and in connection with the agreement the Company issued said consultant 10,000,000 shares of the Company's common stock in two 5,000,000 share tranches.

On April 29, 2004 the Company issued the holders of its Secured Convertible Debentures, 20,000,000 shares of the Company's common stock in connection with the full and final payoff of its obligations under the Redemption of Secured Convertible Debentures agreement.

On May 20, 2004 the Company issued an affiliate of its Chief Executive Officer 10,000,000 shares of the Company's common stock in exchange for compensation and consideration due but not paid the officer under an employment contract with the Company.

On May 24, 2004 the Company entered into agreement with a third party for marketing, consulting and investor relations services. The term of the agreement was for six (6) months and in connection with the agreement the Company issued said consultant 3,500,000 shares of the Company's common stock.

On June 26, 2004 the Company issued 400,000 shares of the Company common stock to a third party to resolve and fully pay a vendor obligation.

On July 21, 2004 the Company issued 300,000 shares of the Company's common stock to a third party to fully resolve and pay a vendor obligation.

On July 21, 2004, the Company issued an affiliate of its Chief Executive Officer and its Chief Executive Officer an aggregate of 15,000,000 shares of the Company's common stock in exchange for compensation and consideration in connection with the Chief Executive Officer's employment contract with the Company.

On July 23, 2004 the Company issued a third party vendor 5,000,000 shares of the Company common stock to fully resolve and settle contract obligations.

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

On August 11 and 23, 2004 the Company issued an aggregate of 300,000 shares of the Company's common stock to a third party for services provided to the Company by the vendor.

On August 23, 2004, the Company issued an affiliate of its Chief Executive Officer and its Chief Executive Officer an aggregate of 20,000,000 shares of the Company's common stock in exchange for compensation and consideration in connection with the Chief Executive Officer's employment contract with the Company.

On August 31, 2004, the Company issued an affiliate of its Chief Executive Officer and its Chief Executive Officer an aggregate of 31,000,000 shares of the Company's common stock in exchange for compensation and consideration in connection with the Chief Executive Officer's employment contract with the Company.

On August 23, 2004 the Company issued an affiliate of its Chief Executive Officer 20,000,000 shares of the Company's common stock in exchange for compensation and consideration due but not paid by the officer under an employment agreement with the Company.

On September 17, 2004 the Company entered into agreement with a third party under a Private Placement Agreement and Consulting Agreement. Under the terms of this agreement the third part was to make a private purchase of the Company's common stock and provide consulting services for a one year period. Under the terms of this agreement the Company issued said consultant, at various times during the 2nd and 3rd Quarter an aggregate of 53,000,000 shares of the Company's common stock.

On September 24, 2004 the Company issued 250,000 shares of the Company's common stock to a new Company Director in lieu of compensation.

On October 29, 2004 the Company issued a third party vendor 500,000 shares of the Company's common stock in exchange for services rendered.

OTHER

On July 27, 2004, with the approval of our Board of Directors, the authorized number of common shares, \$0.001 par value, authorized by the Company was increased from 500,000,000 to 2,500,000,000. On December 8, 2004, the Company increased the number of authorized common shares to 5,000,000,000.

The above offerings and sales were deemed to be exempt under Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons and transfer was restricted by us in accordance with the requirements of the Securities Act.

THE APPLICATION OF THE "PENNY STOCK REGULATION" COULD HARM THE MARKET PRICE OF OUR COMMON STOCK

Our common stock currently trades on the OTC Bulletin Board. Since our common stock continues to trade below \$5.00 per share, our common stock is considered a "penny stock" and is subject to SEC rules and regulations, which impose limitations upon the manner in which our shares can be publicly traded.

These regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the associated risks. Under these regulations, certain brokers who recommend such securities to persons other than established customers or certain accredited investors must make a special written suitability determination

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

regarding such a purchaser and receive such purchaser's written agreement to a transaction prior to sale. These regulations have the effect of limiting the trading activity of our common stock and reducing the liquidity of an investment in our common stock.

Stockholders should be aware that, according to the Securities and Exchange Commission Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. These patterns include:

- Control of the market for the security by one or a few broker-dealers that is often related to the promoter or issuer;
- Manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases;
- "Boiler room" practices involving high pressure sales tactics and unrealistic price projections by inexperienced sales persons;
- Excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and
- The wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the inevitable collapse of those prices with consequent investor losses.

Furthermore, the "penny stock" designation may adversely affect the development of any public market for the Company's shares of common stock or, if such a market develops, its continuation. Broker-dealers are required to personally determine whether an investment in "penny stock" is suitable for customers.

Penny stocks are securities (i) with a price of less than five dollars per share; (ii) that are not traded on a "recognized" national exchange; (iii) whose prices are not quoted on the NASDAQ automated quotation system (NASDAQ-listed stocks must still meet requirement (i) above); or (iv) of an issuer with net tangible assets less than \$2,000,000 (if the issuer has been in continuous operation for at least three years) or \$5,000,000 (if in continuous operation for less than three years), or with average annual revenues of less than \$6,000,000 for the last three years.

Section 15(g) of the Exchange Act, and Rule 15g-2 of the Commission require broker-dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor's account. Potential investors in the Company's common stock are urged to obtain and read such disclosure carefully before purchasing any shares that are deemed to be "penny stock."

Rule 15g-9 of the Commission requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor. This procedure requires the broker-dealer to (i) obtain from the investor information concerning his or her financial situation, investment experience and investment objectives; (ii) reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions; (iii) provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and (iv) receive a signed and dated copy of such statement from the

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives. Compliance with these requirements may make it more difficult for the Company's stockholders to resell their shares to third parties or to otherwise dispose of them.

FUTURE SALES OF LARGE AMOUNTS OF COMMON STOCK COULD ADVERSELY EFFECT THE MARKET PRICE OF OUR COMMON STOCK AND OUR ABILITY TO RAISE CAPITAL.

Future sales of our common stock by existing stockholders pursuant to Rule 144 under the Securities Act of 1933, or following the exercise of future option grants, could adversely affect the market price of our common stock. Our directors and executive officers and their family members are not under lockup letters or other forms of restriction on the sale of their common stock. The issuance of any or all of these additional shares upon exercise of options will dilute the voting power of our current stockholders on corporate matters and, as a result, may cause the market price of our common stock to decrease. Further, sales of a large number of shares of common stock in the public market could adversely affect the market price of the common stock and could materially impair our future ability to generate funds through sales of common stock or other equity securities.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This following information specifies certain forward-looking statements of management of the company. Forward-looking statements are statements that estimate the happening of future events are not based on historical fact. Forward-looking statements may be identified by the use of forward-looking terminology, such as "may", "shall", "could", "expect", "estimate", "anticipate", "predict", "probable", "possible", "should", "continue", or similar terms, variations of those terms or the negative of those terms. The forward-looking statements specified in the following information have been compiled by our management on the basis of assumptions made by management and considered by management to be reasonable. Our future operating results, however, are impossible to predict and no representation, guaranty, or warranty is to be inferred from those forward-looking statements.

The assumptions used for purposes of the forward-looking statements specified in the following information represent estimates of future events and are subject to uncertainty as to possible changes in economic, legislative, industry, and other circumstances. As a result, the identification and interpretation of data and other information and their use in developing and selecting assumptions from and among reasonable alternatives require the exercise of judgment. To the extent that the assumed events do not occur, the outcome may vary substantially from anticipated or projected results, and, accordingly, no opinion is expressed on the achievability of those forward-looking statements. No assurance can be given that any of the assumptions relating to the forward-looking statements specified in the following information are accurate, and we assume no obligation to update any such forward-looking statements.

OVERVIEW

The Company acquired all of the assets of RadioTV Network, Inc ("RTV") on July 16, 2001 in a transaction treated as a recapitalization of RTV. RTV has been developing and operating, for the past few years, a new television network that produces and distributes TV adaptations of top rated radio programs. The Company has not had success in establishing the TV network and will longer dedicate any resources to this endeavor. The Company also produces and distributes radio programs through a partnership created in September 2002 with an established radio network. This network represents all of the Company's current revenue

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

streams. The Company is planning on expanding and moving into new areas, primarily the VOIP telecom business, via a proposed acquisition in 2005.

RECENT DEVELOPMENTS

On June 27, 2002 the Company entered into agreement with four (4) institutional investors to provide the Company \$750,000 in capital through a Secured Convertible Debenture Offering ("Debenture"). The Company has filed and withdrawn a SB-2 Registration Statement and, subsequently, a SB-2/A amended Registration Statement and a new SB-2 Registration Statement in connection with the Debenture. On October 30, 2003, the SB-2 was declared effective by the SEC.

On June 28, 2002 the Company entered into an Option Agreement and Plan of Merger ("Agreement") to acquire all of the assets of Live Media Enterprises, Inc ("Live"), a west coast based independent producer of consumer lifestyle events. On September 3, 2002 the Company elected to terminate the Agreement with Live and will not proceed with the acquisition even on modified terms. In connection with the Agreements the Company has loaned Live the sum of \$56,000. This loan is documented in two Promissory Notes and is collateralized by substantially all of the assets of Live and personally guaranteed by Live's principal shareholder and officer. The Company is presently attempting to collect its debts from Live in the Los Angeles Superior Court.

On September 5, 2002, the Company entered into agreement with Sports Byline USA, L.P. to own and operate a new, national radio network, Radio X. Radio X intends to develop, produce, license, broadcast and distribute radio programs, targeted to young males that will be distributed via traditional terrestrial stations, via satellite and over the Internet. The Company has contributed the sum of \$100,000 to this business plus certain management services. Our partnership interest is 50%, however, we have an overriding voting control over all matters of the partnership. Radio X currently has three radio programs in distribution.

On March 8, 2004, we entered into a redemption agreement with our debenture holders, whereby we agreed to pay \$150,000 per week for five weeks commencing on March 22, 2004 until such time as the Company has paid \$750,000. Upon final payment, we delivered 20,000,000 shares of common stock to the debenture holders as full satisfaction of liabilities under the debenture agreements. The full redemption of the Secured Convertible Debentures was completed in mid 2004.

In March and April 2004, we entered into loan agreements to borrow and aggregate of \$824,000. The loans bear interest at a rate equal to the prevailing 30-day LIBOR rate plus 100 basis points. Interest on the loans is computed on the basis of 360-day year for the number of actual days elapsed and is due and payable quarterly commencing in June 2004. The loans are due in March and April 2006. If the loans are not paid by the close of business on the due date in March 2006, the Company shall pay the lender a late charge equal to five percent of the outstanding principal balance. The Company paid a cash fee equal 10% of the amount borrowed which is deducted directly from the proceeds by the lender. The loans are collateralized by 28,000,000 shares of the Company's common stock. In addition, we issued an additional 38,000,000 common shares into escrow as collateral during March 2004 in anticipation of future borrowings. The collateral shares are not considered outstanding for accounting purposes and do not have voting rights until and unless they are foreclosed upon due to any future default as stipulated in the agreements. In 2004 the Company resigned all of its pledged collateral to the Lender in exchange for full forgiveness of all loans and any and all past due interest obligations.

RESULTS OF OPERATIONS

Year ended December 31, 2004 compared to the year ended December 31, 2003

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

REVENUES

Revenues for the year ended December 31, 2004 were \$8,090 as compared to revenues for the year ended December 31, 2003 of \$42,398 and were derived from our consolidated subsidiary, Radio X Network.

OPERATING EXPENSES

Compensation was \$1,547,708 for the year ended December 31, 2004 compared to \$153,486 for the comparable period in 2003. Compensation relates solely to compensation under our employment agreement with our president and additional stock based compensation valued at \$1,410,500 in the third quarter of 2004. Additionally, in May 2004, the Company recorded additional non-cash compensation of \$57,208 due to the issuance of 10,000,000 common shares for accrued compensation.

Amortization of radio programs of \$0 and \$10,192 for the years ended December 31, 2004 and 2003, respectively, results from amortizing the radio programs intangible assets that resulted from the investment by our subsidiary, RadioTV Network, Inc, in the Radio X Network.

Consulting expense for the year ended December 31, 2004 was \$2,209,725 compared to \$162,177 for the year ended December 31, 2003. During the year ended December 31, 2004, consulting expense related to the issuance of common stock for services to outside consultants.

The debenture penalty of \$30,000 and \$485,245 for the years ended December 31, 2004 and 2003, respectively, represents the accrued penalty under the provisions of the convertible debentures. The penalties relate to the deadlines associated with the Company filing a Registration Statement in connection with the convertible debentures and liquidated damages penalty for not having enough authorized shares to allow for the issuance of all dilutive securities based on a formula as stipulated in the debenture agreement and a default penalty on the June 28, 2003 and August 8, 2003 maturity of \$500,000 of debentures.

The debt issue cost amortization of \$92,400 and \$13,000 for the years ended December 31, 2004 and 2003, respectively, represents the amortization of the cost we incurred to raise debt capital. These fees are recorded debt discount and amortized over the loan term. Due to the foreclosure (see below) of the \$824,000 loan payable in 2004, the entire unamortized portion of these debt discounts were expensed during the year ended December 31, 2004.

For the year ended December 31, 2003, the Company had an impairment loss of \$20,910 as compared to \$0 for the year ended December 31, 2004. The impairment relates to certain capital stock received in a German private company in lieu of a refund of a prepaid expense paid to a service provider. Since there was no objective valuation data supporting the value of the capital stock received, the Company elected to impair this asset.

Professional fees for the year ended December 31, 2004 were \$33,603 compared to \$74,387 for the year ended December 31, 2003. The decrease is primarily related to accounting and legal, audit and registration statement related services regarding our filing a SB-2 in the 2003 period.

Other selling, general and administrative expenses were \$159,676 for the year ended December 31, 2004 as compared to \$135,799 for the year ended December 31, 2003. The increase in expenses is primarily due to an increase in travel related expense for the year ended December 31, 2004 as compared to the year ended December 31, 2003.

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

Interest expense was \$58,812 for the year ended December 31, 2004 compared to \$329,965 for the year ended December 31, 2003. Interest expense is attributed to the loan payable and the convertible debenture offering and includes accrued interest of the convertible debentures and amortization of the debt discount as well as accrued interest on the convertible debentures due to the default on payment.

For the year ended December 31, 2004, we recognized settlement expense of \$144,527 related to the redemption of the debentures. On February 4, 2003, the Company settled a lawsuit by issuing 1,000,000 common shares and \$6,500 in cash. The shares were valued at the quoted trading price of \$0.03 per share on the settlement date resulting in a total settlement expense of \$36,500.

For the year ended December 31, 2004, we recognized a loss on the foreclosure of our loan payable in the amount of \$1,008,885. We defaulted on the \$824,000 loans payable in June and October 2004 due to non-payment of required interest payments. In November 2004, the lender took possession of 56,000,000 collateral common shares. As a result of this foreclosure by the lender, we recorded the value of the 56,000,000 shares of \$1,869,000 and removed the loan payable and accrued interest balances of \$824,000 and \$36,115, respectively, resulting in a loss on foreclosure of \$1,008,885. The value of the 56,000,000 shares was determined using the market price of the shares on the date they were granted as collateral.

As a result of these factors, we reported a net loss of \$5,277,784 or \$(.03) per share for the year ended December 31, 2004 as compared to a net loss of \$1,355,037 or (\$.04) per share for the year ended December 31, 2003.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2004, we had a stockholders' deficit of \$89,138. Our operations have been funded by an equity investor in our common stock where we issued 183,088 common shares for \$82,390 cash during 2002, by the sale of convertible debentures of \$750,000 through November 2003, and net proceeds from loan of \$752,600 through May 2004. We also sold 53,000,000 shares of our common stock in a private placement offering in September 2004 for \$132,500. We collected \$30,000 of this amount and are attempting to collect the remaining \$102,500. At December 31, 2004, we have provided an allowance for \$102,500 against this stock subscription receivable. These funds were used primarily for working capital, capital expenditures, advances to third parties in anticipation of entering into a merger or acquisition agreement and to pay down certain related party loans and debentures. During the three months ended June 30, 2004, we repaid \$750,000 of our outstanding convertible debentures. Our president also advanced to us \$40,000 during the fourth quarter of 2004. The cash balance at December 31, 2004 was \$19,852 and we will have to minimize operations until we receive additional cash flows from our businesses, complete additional financing, or find a merger candidate. On February 28, 2005, we entered into a binding letter of intent to acquire 100% Aventura Networks, LLC in exchange for shares of our common stock. Aventura is a leading Voice Over Internet Protocol ("VOIP") telephone service provider currently conducting business primarily in the wholesale market. There is a \$50,000 termination fee payable by the party that terminates the letter of intent.

We have no other material commitments for capital expenditures. Other than several thousand dollars to be generated from our advertising sales from the broadcast of our initial program on the Radio X Network, debenture proceeds and loan proceeds, we have no external sources of liquidity. Although we believe we will have sufficient capital to fund our anticipated operations through the middle of 2005, we are not currently generating meaningful revenues and, unless we raise additional capital, we may not be able to continue operating beyond the

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

middle of 2005.

Net cash used in operations during the year ended December 31, 2004 was \$161,627 and was substantially attributable to net loss of \$5,277,784 offset primarily by non-cash stock based expenses of \$3,817,326, settlement expense of \$144,527, loss on foreclosure of loan payable of \$1,008,885, non-cash debt discount amortization of \$3,062, amortization of deferred debt issuance costs of \$92,400, and net changes in operating assets and liabilities of (\$62,543). In the comparable period of 2003, we had net cash used in operations of \$252,630 primarily relating to the net loss of \$1,355,037 primarily offset by an impairment loss of \$20,910, stock-based consulting expense of \$127,000, non-cash debt discount amortization of \$13,211, amortization of deferred debt issuance costs of \$13,000, a non-cash impairment loss of \$20,910, non-cash interest expense of beneficial conversion feature of \$246,500 and net changes in operating assets and liabilities of \$633,591.

Net cash provided by financing activities for the year ended December 31, 2004 was \$79,600 as compared to net cash provided by financing activities of \$272,758 for the year ended December 31, 2003. During the year ended December 31, 2004, we received proceeds from loans of \$824,000, received \$47,000 from a stockholder advance, paid debt issuance costs of \$71,400 and repaid debenture holders \$750,000. In the comparable period of 2003, we received a loan from a joint venture partner of \$50,000, received \$226,000 from a convertible debenture and repayment of an officer loan of \$3,242.

For the fiscal year ended December 31, 2004, our auditors have issued a going concern opinion in connection with their audit of the Company's financial statements. These conditions raise substantial doubt about our ability to continue as a going concern if sufficient additional funding is not acquired or alternative sources of capital developed to meet our working capital needs.

CRITICAL ACCOUNTING POLICIES

A summary of significant accounting policies is included in Note 1 to the audited financial statements included elsewhere in this Annual Report on Form 10-K. We believe that the application of these policies on a consistent basis enables us to provide useful and reliable financial information about our operating results and financial condition.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Revenue Recognition

We follow the guidance of the Securities and Exchange Commission's Staff Accounting Bulletin 104 for revenue recognition. In general, the Company records revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured. The following policies reflect specific criteria for the various revenues streams of the Company:

We account for revenues from its Radio TV Network, Inc operations in accordance with the AICPA Accounting Standards Executive Committee Statement of Position

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

No. 00-2, "Accounting by Producers or Distributors of Films" ("SOP 00-2").

We generally produce episodic television series and generate revenues from the sale of broadcast licenses and advertising sales. The terms of the licensing arrangement may vary significantly from contract to contract and may include fixed fees, variable fees with or without nonrefundable minimum guarantees, or barter arrangements.

We recognize monetary revenues when evidence of a sale or licensing arrangement exists, the license period has begun, delivery of the film to the licensee has occurred or the film is available for immediate and unconditional delivery, the arrangement fee is fixed or determinable, and collection of the arrangement fee is reasonably assured. We recognize only the net revenue due to the Company pursuant to the formulas or amounts stipulated in the customer contracts.

We recognize revenues from barter arrangements in accordance with the Accounting Principles Board Opinion No. 29 "Accounting for Non-Monetary Exchanges," ("APB 29") as interpreted by EITF No. 93-11 "Accounting for Barter Transactions Involving Barter Credits." In general, APB 29 and its related interpretation require barter revenue to be recorded at the fair market value of what is received or what is surrendered, whichever is more clearly evident.

We recognize revenues from the sale of radio program advertising in its Radio X Network operations when the fee is determinable and after the commercial advertisements are broadcast. Any amounts received from customers for radio advertisements that have not been broadcast during the period are recorded as deferred revenues until such time as the advertisement is broadcast.

We recognize radio program license fee revenues when evidence of a licensing arrangement exists, the license period has begun, delivery of the program to the licensee has occurred or is available for immediate and unconditional delivery, the arrangement fee is fixed or determinable, and collection of the arrangement fee is reasonably assured.

Stock Based Compensation

We account for stock transactions with employees in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees." In accordance with Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," we adopted the pro forma disclosure requirements of SFAS 123. We account for stock issued to non-employees in accordance with SFAS 123 and related interpretations.

OFF BALANCE SHEET ARRANGEMENTS

There are no off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

DIRECTORS AND EXECUTIVE OFFICERS

The table below sets forth certain information with respect to our directors and executive officers as of April 13, 2005.

Name -----	Age ---	Position -----
Peter Klamka	37	Chairman, Director
T. Joseph Coleman	54	Chief Executive Officer, President and Director
William H. Coleman	45	Director, Secretary

All directors hold office until the next annual meeting of stockholders and until their successors are elected. Officers are elected to serve, subject to the discretion of the Board of Directors, until their successors are appointed. Directors do not receive cash compensation for their services as directors, but are reimbursed for expenses actually incurred in connection with attending meetings of the Board of Directors.

Peter Klamka (Chairman) has been a Director of the Company since September 2004. Mr. Klamka is the Chairman and CEO of Legend Mobile, Inc (OTCBB:LGMB.OB) since its inception in May 1997. Through its subsidiary Legend Credit, Inc, Legend Mobile develops and markets stored value cards. Mr. Klamka has been active in creating, marketing and developing various licensed products. He also has bought and sold several businesses, including Sunset Interactive Network, Inc, which was sold to American Sports history, Inc. (OTCBB:AMSH), and General Display Services, Inc, which was sold to Daktronics, Inc (NASDAQ:DAKT). In 1994 Mr. Klamka founded Wilshire Fragrance and served as its CEO. Mr. Klamka received his Bachelor of Arts degree from the University of Michigan.

T. Joseph Coleman has been a Director of the Company since July 16, 2001. Mr. Coleman is President and CEO of the Company. Mr. Coleman was the founder and CEO of the Atlantic Entertainment Group from its inception in 1974 until its sale in 1989. Atlantic was one of the leading and largest independent producer/distributors of motion pictures in the world. Subsequent to Atlantic Mr. Coleman was the founder and Chairman of the Independent Telemedia Group a national market public company that acquired and developed emerging businesses in the entertainment sector. Since resigning as Co-Chairman of INDE, Mr. Coleman has pursued several entertainment and media related businesses.

William H. Coleman has been a Director of the Company since July 16, 2001. Mr. Coleman is the Company's Secretary. Mr. Coleman is Trustee of the Coleman Family Trust and Chairman of the Coleman Media Group, which has interests in several media related businesses including radio syndication. Mr. Coleman is a Director and Treasurer of Egolf.com Incorporated, an online retail golf business and he has formerly held executive positions at Atlantic Entertainment Group and the Independent Telemedia Group.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

We are not aware of any material legal proceedings that have occurred within the past five years concerning any director, director nominee, or control person which involved a criminal conviction, a pending criminal proceeding, a participation in the securities or banking industries, or a finding of

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

securities or commodities law violations.

CODE OF ETHICS

The Company has adopted its Code of Ethics and Business Conduct for Officers, Directors and Employees that applies to all of the officers, directors and employees of the Company.

COMPLIANCE WITH SECTION 16(B) OF THE EXCHANGE ACT

Based solely on our review of Forms 3, 4, and 5, and amendments thereto which have been furnished to us, we believe that during the year ended December 31, 2003, except as described below, all of our officers, directors, and beneficial owners of more than 10% of any class of equity securities, timely filed, reports required by Section 16(a) of the Exchange Act of 1934, as amended.

T.J. Coleman failed to file a Form 4 for in January 2003.

ITEM 10. EXECUTIVE COMPENSATION

EXECUTIVE COMPENSATION

The following table sets forth a summary for the fiscal years ended, of the cash and non-cash compensation awarded, paid or accrued by us to our President and CEO our compensated officer, who served in such capacities at the end of fiscal 2004 and 2003.

SUMMARY COMPENSATION TABLE ANNUAL COMPENSATION

Name and Principal Positions	Year	Salary (\$)	Bonus(\$)	All Other Compensations (\$)
T. Joseph Coleman	2004	120,000 (1)	30,000	2,837 (2)
Chief Executive Officer	2003	120,000 (1)	30,000	15,261 (2)

(1) Mr. Coleman deferred his 2004 and 2003 salary and or bonus due under his employment agreement with the Company dated July 16, 2001 and amended March 14, 2004. During 2004, Mr. Coleman and an affiliate were issued 76,000,000 shares of restricted common stock in full satisfaction of the 2003 and 2004 obligations and any future obligations under his employment agreement.

(2) The Company. paid certain auto and insurance expense for Mr. Coleman in 2004 and 2003.

EMPLOYMENT AGREEMENTS

The Company has one employment agreement with its Chief Executive Officer, T. Joseph Coleman. Mr. Coleman's three (3) year agreement entitles him to an annual salary of \$120,000 plus a guaranteed annual bonus of \$30,000 and customary fringe benefits and expenses. Mr. Coleman has exchanged his salary and bonus for the full term of his contract. The Company has issued Mr. Coleman an aggregate of 45,000,000 shares of restricted common stock to satisfy the contract obligations. The Company has no other employment agreements but may enter into them in the future in connection with acquisitions or in the normal course of its business. In March 2004, we extended Mr. Coleman's employment agreement to expire on July 15, 2007.

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of April 13, 2005 regarding the beneficial ownership of our common stock held by each of two executive officers and directors, individually and as a group and by each person who beneficially owns in excess of five percent of the common stock. In general, beneficial ownership includes those shares that a person has the power to vote, sell, or otherwise dispose. Beneficial ownership also includes that number of shares, which an individual has the right to acquire within 60 days (such as stock options) of the date this table was prepared. Two or more persons may be considered the beneficial owner of the same shares. "Voting power" is the power to vote or direct the voting of shares, and "investment power" includes the power to dispose or direct the disposition of shares. The inclusion in this section of any shares deemed beneficially owned does not constitute an admission by that person of beneficial ownership of those shares.

Stock Name & Address	Position with Sun Network Grp.	Amount and Nature Of Beneficial Ownership (1)	Percent of Common Outstanding (1)
T. Joseph Coleman 1440 Coral Ridge Dr. #140 Coral Springs, FL 33071	Director, President CEO	33,850,000 (2)	10.45%
William H. Coleman 45 Whitewood Circle Norwood, MA 02002	Director, Secretary	33,850,000 (2)	10.45%
Peter Klamka 5670 Wilshire Blvd. Suite 1300 Los Angeles, CA 90036		250,000	.00078%
Total securities held by officers and directors as a group (3 people):		34,100,000	10.45%

(1) Based upon 323,657,813 shares outstanding as of April 13, 2005.

(2) Constitutes all shares held in the Coleman Family Trust. William Coleman is the Trustee of the Trust. William Coleman is the brother of T. Joseph Coleman.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

To the best of managements' knowledge, other than as set forth below, there were no material transactions, or series of similar transactions, or any currently proposed transactions, or series of similar transactions, to which we were or are to be a party, in which the amount involved exceeds \$60,000, and in which any director or executive officer, or any security holder who is known by us to own of record or beneficially more than 5% of any class of our common stock, or any member of the immediate family of any of the foregoing persons, has an interest.

ITEM 13. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

- 2.1 Subscription Agreement by and between Sun Network Group, Inc and Bengt Bjorsvik dated March 28, 2002, attached as Exhibit 2.1 to Form SB-2 filed by Company (Sun Network Group, Inc.) on July 30, 2002 and incorporated by reference herein.
- 3.1 Agreement and Plan of Merger dated July 16, 2001, attached as Exhibit 1 to 8-K/A filed by Company (Sun Express Group, Inc.) on July 31, 2001 and incorporated by reference herein.
- 4.1 Option Agreement and Plan of Merger agreement by and between Sun Network Group, Inc and Live media Enterprises, Inc dated as of June 28, 2002, attached as Exhibit 4.1 to Form SB-2 filed by Company (Sun Network Group, Inc.) on July 30, 2002 and incorporated by reference herein.
- 10.1 Securities Purchase Agreement dated June 27, 2002 between AJW Partners, LLC, New Millennium Capital Partners II, LLC, AJW/New Millennium Offshore, Ltd, Pegasus Capital Partners, LLC and the Company, attached as Exhibit 10.1 to Form SB-2 filed by Company (Sun Network Group, Inc.) on July 30, 2002 and incorporated by reference herein.
- 10.2 Form of Stock Purchase Warrant dated June 27, 2002, attached as Exhibit 10.2 to Form SB-2 filed by Company (Sun Network Group, Inc.) on July 30, 2002 and incorporated by reference herein.
- 10.3 Form of Secured Convertible Debenture dated June 27, 2002, attached as Exhibit 10.3 to Form SB-2 filed by Company (Sun Network Group, Inc.) on July 30, 2002 and incorporated by reference herein.
- 10.4 Security Agreement dated June 27, 2002, attached as Exhibit 10.4 to Form SB-2 filed by Company (Sun Network Group, Inc.) on July 30, 2002 and incorporated by reference herein.
- 10.5 Registration Rights Agreement dated June 27, 2002 between AJW Partners, LLC, New Millennium Capital Partners II, LLC Millennium Capital Partners II, LLC, Pegasus Capital Partners, LLC and the Company, attached as Exhibit 10.5 to Form SB-2 filed by Company (Sun Network Group, Inc.) on July 30, 2002 and incorporated by reference herein.
- 10.6 Amendment to Securities Purchase Agreement dated June 27, 2002 between AJW Partners, LLC, New Millennium Capital Partners II, LLC, AJW/New Millennium Offshore, Ltd, Pegasus Capital Partners, LLC and the Company, attached as Exhibit 10.6 to Form SB-2 filed by the Company (Sun Network Group, Inc.) on January 24, 2003 and incorporated by reference herein.
- 10.7 Amendment to Registration Rights Agreement dated June 27, 2002 between AJW Partners, LLC, New Millennium Capital Partners II, LLC Millennium Capital Partners II, LLC, Pegasus Capital Partners, LLC and the Company, attached as Exhibit 10.7 to Form SB-2 filed by the Company (Sun Network Group, Inc.) on January 24, 2003 and incorporated by reference herein.
- 10.8 Partnership Agreement of the Radio X Network dated September 5, 2002 between RadioTV Network, Inc. and Sports Byline USA L.P., attached as Exhibit 10.8 to Form SB-2 Amendment No.1 filed by the Company (Sun Network Group, Inc.) on May 8, 2003 and incorporated by reference herein.
- 31.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

REPORTS ON FORM 8-K

None

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

AUDIT FEES

The aggregate fees billed by the Company's auditors for professional services rendered in connection with the audit of the Company's annual consolidated financial statements for fiscal 2004 and 2003 and reviews of the consolidated financial statements included in the Company's Forms 10-KSB for fiscal 2004 and 2003 were approximately \$17,000 and \$14,000, respectively.

AUDIT-RELATED FEES

For fiscal 2004 and 2003, the Company's auditors billed for service related to an SB-2 registration filing with the SEC in the amount of \$0 and \$2,000, respectively. The Company's auditors did not bill any additional fees for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under "Audit Fees" above.

TAX FEES

The aggregate fees billed by the Company's auditors for professional services for tax compliance, tax advice, and tax planning were \$0 and \$0 for fiscal 2004 and 2003, respectively.

ALL OTHER FEES

The aggregate fees billed by the Company's auditors for all other non-audit services rendered to the Company, such as attending meetings and other miscellaneous financial consulting, in fiscal 2004 and 2003 were \$0 and \$0, respectively.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned; thereunto duly authorized, on the 14th day of April, 2004.

SUN NETWORK GROUP, INC.

By: /s/ T. Joseph Coleman

T. Joseph Coleman
Chief Executive Officer (Principal Executive Officer),
Chief Financial Officer and
Principal Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant, and

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

in the capacities and on the date indicated.

Signatures -----	Title -----	Date -----
/s/ T. Joseph Coleman	Chief Executive Officer (Principal Executive Officer), Chief Financial Officer and Principal Accounting Officer	April 13, 2005
/s/ William H. Coleman	Director and Secretary	April 13, 2005

15

SUN NETWORK GROUP, INC. AND SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2004 AND 2003

Contents

	Page
Report of Independent Registered Public Accounting Firm	F-1
Financial Statements:	
Consolidated Balance Sheet as of December 31, 2004	F-2
Consolidated Statements of Operations for the years ended December 31, 2004 and 2003	F-3
Consolidated Statement of Changes in Stockholders' Deficit for the years ended December 31, 2004 and 2003	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2004 and 2003	F-5
Notes to Consolidated Financial Statements	F-6

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders of:
Sun Network Group, Inc.

We have audited the accompanying consolidated balance sheet of Sun Network Group, Inc. and Subsidiaries as of December 31, 2004 and the related consolidated statements of operations, changes in stockholders' deficit and cash flows for the years ended December 31, 2004 and 2003. 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.

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 financial position of Sun Network Group, Inc. and Subsidiaries as of December 31, 2004 and the consolidated results of its operations and its cash flows for the years ended December 31, 2004 and 2003, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 14 to the consolidated financial statements, the Company has accumulated deficit of \$8,446,146 and a working capital deficit of \$51,011 at December 31, 2004, net losses in 2004 of \$5,277,784, cash used in operations in 2004 of \$161,627, and nominal revenues. These factors and the need for additional cash to fund operations over the next year raise substantial doubt about its ability to continue as a going concern. Management's Plan in regards to these matters is also described in Note 14. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

SALBERG & COMPANY, P.A.
Boca Raton, Florida
April 9, 2005

F-1

Sun Network Group, Inc. and Subsidiaries Consolidated Balance Sheet

	December 31, 2004

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 19,852

TOTAL CURRENT ASSETS	\$ 19,852
	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES	
Accounts payable	\$ 23,863
Due to stockholder	47,000

TOTAL CURRENT LIABILITIES	70,863

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

MINORITY INTEREST	38,127
COMMITMENTS AND CONTINGENCIES (Note 7)	-
STOCKHOLDERS' DEFICIT	
Common stock; \$0.001 par value; 5,000,000,000 shares authorized; 323,657,813 shares issued and outstanding	323,658
Additional paid-in capital	8,180,375
Accumulated deficit	(8,446,146)
Deferred consulting	(147,025)

TOTAL STOCKHOLDERS' DEFICIT	(89,138)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 19,852
	=====

The accompanying notes are an integral part of these consolidated financial statements.

F-2

Sun Network Group, Inc. and Subsidiaries Consolidated Statements of Operations

	Year Ended	
	December 31, 2004	December 31, 2003
	-----	-----
REVENUES	\$ 8,090	\$ 42,398
OPERATING EXPENSES		
Compensation - officer	1,547,708	153,486
Amortization	-	10,192
Bad debt	10,000	6,600
Consulting	2,209,725	162,177
Debenture penalties	30,000	485,245
Debt issue cost amortization	92,400	13,000
Impairment loss	-	20,910
Professional fees	33,603	74,387
Other selling, general and administrative	159,676	135,799
	-----	-----
TOTAL OPERATING EXPENSES	4,083,112	1,061,796
	-----	-----
LOSS FROM OPERATIONS	(4,075,022)	(1,019,398)
	-----	-----
OTHER INCOME (EXPENSE)		
Settlement expense	(144,527)	(36,500)
Interest expense	(58,812)	(329,965)
Loss on foreclosure of loan payable	(1,008,885)	-

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

Recovery of bad debt	9,462	19,129
Interest income	-	6,600
	-----	-----
TOTAL OTHER INCOME (EXPENSE)	(1,202,762)	(340,736)
	-----	-----
LOSS BEFORE MINORITY INTEREST	(5,277,784)	(1,360,134)
MINORITY INTEREST IN SUBSIDIARY LOSS	-	5,097
	-----	-----
NET LOSS	\$ (5,277,784)	\$ (1,355,037)
	=====	=====
	-----	-----
NET LOSS PER SHARE - BASIC AND DILUTED	\$ (0.03)	\$ (0.04)
	=====	=====
WEIGHTED AVERAGE COMMON EQUIVALENT SHARES OUTSTANDING - BASIC AND DILUTED	172,367,734	30,210,585
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

F-3

Sun Network Group, Inc. and Subsidiaries
Consolidated Statement of Changes in Stockholders' Deficit
For the Years Ended December 31, 2004 and 2003

	Common Stock		Common Stock Issuable		Additional	Accu
	Shares	Amount	Shares	Amount	Paid-in Capital	D
	-----	-----	-----	-----	-----	-----
Balance, December 31, 2002	22,448,487	\$ 22,448	5,000,000	\$ 5,000	\$ 1,290,041	\$ (1
Common stock issued in exchange of debt	8,898,328	8,898			16,107	
Common stock issued for settlement	1,000,000	1,000			35,500	
Common stock issued for services rendered	18,000,000	18,000			245,000	
Warrant issued with convertible debentures					3,500	
Beneficial conversion value of convertible debenture					246,500	
Issuance of previously issuable common stock	5,000,000	5,000	(5,000,000)	(5,000)		
Net loss						(1
	-----	-----	-----	-----	-----	-----
Balance, December 31, 2003	55,346,815	55,346	-	-	1,836,648	(3
Common stock issued for						

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

cash and services	53,000,000	53,000			371,000	
Common stock issued in exchange of debt	6,260,998	6,261			55,927	
Common stock issued for settlement	20,000,000	20,000			700,000	
Common stock issued for services rendered	133,050,000	133,051			3,403,800	
Common stock issued upon foreclosure on loans payable	56,000,000	56,000			1,813,000	
Amortization of deferred consulting						(5)
Net loss						
Balance, December 31, 2004	323,657,813	\$ 323,658	-	\$ -	\$ 8,180,375	\$ (8)

The accompanying notes are an integral part of these consolidated financial statements.

F-4

Sun Network Group, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Year Ended	
	December 31, 2004	December 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (5,277,784)	\$ (1,35
Adjustment to reconcile net loss to net cash used in operating activities:		
Amortization expense	-	1
Bad debt expense	10,000	2
Impairment loss	-	24
Interest expense of beneficial conversion feature	-	1
Write off of stock subscription receivable	102,500	1
Amortization of deferred debt issue costs	92,400	12
Amortization of debt discounts to interest expense	3,062	3
Stock based consulting and compensation expense	3,817,326	(
Settlement expense	144,527	(
Loss on foreclosure of loan payable	1,008,885	(
Allocation of loss to minority interest	-	(
Changes in:		
Interest receivable	(10,000)	(
Prepays	34,000	(3
Accounts payable	17,952	(1
Accrued interest	53,997	7
Accrued expenses	-	48
Accrued penalties	30,000	12
Accrued compensation, related party	(188,492)	

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

Net cash used in operating activities	(161,627)	(25)

CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the sale of common stock	30,000	
Proceeds from loans payable	824,000	
Proceeds from convertible debenture	-	22
Payment of debt issue costs	(71,400)	
Payment on convertible debenture	(750,000)	
Proceeds from stockholder advance	47,000	
Proceeds from loan from joint venture partner	-	
Proceeds from (payments on) loans from officer	-	

Net cash provided by financing activities	79,600	27

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(82,027)	2
CASH AND CASH EQUIVALENTS, Beginning of year	101,879	8

CASH AND CASH EQUIVALENTS, End of year	\$ 19,852	\$ 10
=====		
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	\$ -	\$
=====		
Income taxes paid	\$ -	\$
=====		
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued for debentures payable	\$ 62,188	\$ 2
=====		
Debt issue costs deferred in connection with convertible debenture	\$ 49,000	\$ 2
=====		

The accompanying notes are an integral part of these consolidated financial statements.

F-5

Sun Network Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2004 and 2003

NOTE 1 NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Sun Network Group, Inc. was incorporated under the laws of Florida on May 9, 1990 and was inactive for several years. The business became operational in July 2001 when Radio TV was acquired. The transaction was accounted for as a recapitalization of Radio TV. Radio TV started operations in 1998.

Sun Network Group, Inc. acts as a holding company for Radio TV and Radio X,

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

Radio TV produces and broadcasts television versions of top rated radio programs.

On September 5, 2002, the Company formed a general partnership with one other partner. The partnership, Radio X Network ("Radio X"), was formed to independently create, produce, distribute, and syndicate radio programs. The Company offers radio programs to radio stations in exchange for advertising time on those stations, which the Company then sells to advertisers. This is known in the media industry as "barter syndication." In return for providing the radio stations with programming content, the Company receives advertising minutes, which the Company then sells to advertisers. The amount of advertising minutes received is based on several factors, including the type and length of the programming and the audience size of the radio station affiliate. In some instances, the Company may also receive a monthly license fee in addition to or in lieu of the commercial inventory and may derive revenues from sponsorship and merchandising.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Sun Network Group, Inc., its wholly owned subsidiary, Radio TV, and its controlled subsidiary Radio X. All significant intercompany accounts and transactions have been eliminated in consolidation.

USE OF ESTIMATES

In preparing consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reported period. Actual results may differ from these estimates.

Significant estimates included in the accompanying consolidated financial statements include an allowance on accounts and loans receivable, impairment losses on long lived assets, and valuation of non-cash stock based transactions.

CASH EQUIVALENTS

For the purpose of the consolidated cash flow statement, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

NOTES AND OTHER RECEIVABLES

The Company assesses the probability of collections on loans, notes and other receivables and records an allowance for loan loss accordingly.

F-6

Sun Network Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2004 and 2003

The Company recognizes interest income on notes and loans receivable in default, and records an appropriate allowance for loan loss on the resulting interest receivable.

INTANGIBLE ASSETS

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

Intangible assets consisted of purchased or acquired investments in programming, and facility usage rights and management services acquired upon the formation of the Company's controlled subsidiary, Radio X. The Company recorded the assets pursuant to SFAS 141 and determined the continuing accounting treatment in accordance as to SFAS 142. The Company recorded amortization of facility usage rights over five years, management services on a usage basis, and amortization of radio programs over one year.

LONG-LIVED ASSETS

The Company accounts for the impairment of long-lived assets in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets". Impairment is the condition that exists when the carrying amount of a long-lived asset (asset group) exceeds its fair value. An impairment loss is recognized only if the carrying amount of a long-lived asset (asset group) is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset (asset group) is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group). That assessment is based on the carrying amount of the asset (asset group) at the date it is tested for recoverability, whether in use or under development. An impairment loss shall be measured as the amount by which the carrying amount of a long-lived asset (asset group) exceeds its fair value.

MINORITY INTEREST

The minority interest in the net income or loss of the Company's consolidated subsidiary, Radio X, is reflected in the consolidated statements of operations after allocation of the minority interest proportionate share of losses of the Radio X subsidiary.

STOCK-BASED COMPENSATION

The Company accounts for stock options issued to employees in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation cost is measured on the date of grant as the excess of the current market price of the underlying stock over the exercise price. Such compensation amounts are amortized over the respective vesting periods of the option grant. The Company adopted the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock Based Compensation - Transition and Disclosure," which permits entities to provide pro forma net income (loss) and pro forma earnings (loss) per share disclosures for employee stock option grants as if the fair-valued based method defined in SFAS No. 123 had been applied.

The Company accounts for stock options issued to non-employees for goods or services in accordance with SFAS 123.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosures of information about the fair value of certain financial instruments for which it is practicable to estimate that value. For purposes of this disclosure, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

Sun Network Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2004 and 2003

The carrying amounts of the Company's short-term financial instruments, including all current liabilities, approximate fair value due to the relatively short period to maturity for these instruments.

REVENUE RECOGNITION

The Company follows the guidance of the Securities and Exchange Commission's Staff Accounting Bulletin 104 for revenue recognition. In general, the Company records revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured. The following policies reflect specific criteria for the various revenues streams of the Company:

The Company accounts for revenues from its Radio TV Network, Inc operations in accordance with the AICPA Accounting Standards Executive Committee Statement of Position No. 00-2, "Accounting by Producers or Distributors of Films" ("SOP 00-2").

The Company generally produces episodic television series and generates revenues from the sale of broadcast licenses and advertising sales. The terms of the licensing arrangement may vary significantly from contract to contract and may include fixed fees, variable fees with or without nonrefundable minimum guarantees, or barter arrangements.

The Company recognizes monetary revenues when evidence of a sale or licensing arrangement exists, the license period has begun, delivery of the film to the licensee has occurred or the film is available for immediate and unconditional delivery, the arrangement fee is fixed or determinable, and collection of the arrangement fee is reasonably assured. The Company recognizes only the net revenue due to the Company pursuant to the formulas or amounts stipulated in the customer contracts.

The Company recognizes revenues from barter arrangements in accordance with the Accounting Principles Board Opinion No. 29 "Accounting for Non-Monetary Exchanges," ("APB 29") as interpreted by EITF No. 93-11 "Accounting for Barter Transactions Involving Barter Credits." In general, APB 29 and its related interpretation require barter revenue to be recorded at the fair market value of what is received or what is surrendered, whichever is more clearly evident.

The Company recognizes revenues from the sale of radio program advertising in its Radio X Network operations when the fee is determinable and after the commercial advertisements are broadcast. Any amounts received from customers for radio advertisements that have not been broadcast during the period are recorded as deferred revenues until such time as the advertisement is broadcast.

The Company recognizes radio program license fee revenues when evidence of a licensing arrangement exists, the license period has begun, delivery of the program to the licensee has occurred or is available for immediate and unconditional delivery, the arrangement fee is fixed or determinable, and collection of the arrangement fee is reasonably assured.

COSTS AND EXPENSES OF PRODUCING FILMS

The Company accounts for costs and expenses of producing a film and bringing that film to market in accordance with SOP 00-2 as follows:

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

Film costs include all direct negative costs incurred in the production of a film as well as allocations of production overhead and capitalized interest costs. Film costs are capitalized and amortized as the Company recognizes revenue from each episode. If reliable estimates of secondary market revenue are established, any subsequent costs are capitalized and amortized using the individual-film-forecast method, which amortizes costs in the same ratio as current revenues bears to estimated unrecognized ultimate revenues.

F-8

Sun Network Group, Inc. and Subsidiaries Notes to Consolidated Financial Statements For the Years Ended December 31, 2004 and 2003

Participation costs which consist of contingent payments based on film financial results or based on other contractual arrangements, are expensed and accrued, when a film is released, using the individual-film-forecast method, if the obligation is probable.

Exploitation costs include advertising, marketing, and other exploitation costs. Advertising costs are accounted for in accordance with SOP 93-7, "Reporting on Advertising Costs." All other exploitation costs, including marketing costs, are expensed as incurred.

INCOME TAXES

Income taxes are accounted for under the asset and liability method of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes ("SFAS 109")." Under SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

RECENT ACCOUNTING PRONOUNCEMENTS

In November 2004, the FASB issued SFAS No. 151, entitled Inventory Costs -- An Amendment of ARB No. 43, Chapter 4. SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, entitled Inventory Pricing [June 1953], to clarify the accounting for "abnormal amounts" of idle facility expense, freight, handling costs, and wasted material [spoilage]. Before revision by SFAS No. 151, the guidance that existed in ARB No. 43 stipulated that these type items may be "so abnormal" that the appropriate accounting treatment would be to expense these costs as incurred [i.e., these costs would be current-period charges]. SFAS No. 151 requires that these type items be recognized as current-period charges without regard to whether the "so abnormal" criterion has been met. Additionally, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The adoption of SFAS 151 did not impact the consolidated financial statements.

In December 2004, the FASB issued SFAS No. 152, entitled Accounting for Real Estate Time-Sharing Transactions -- An Amendment of FASB Statements No. 66 and 67. SFAS No. 152 amends SFAS No. 66 to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position 04-2. SFAS No. 152 also amends SFAS No. 67 to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions.

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

The accounting for those operations and costs is subject to the guidance of SOP 04-2. This statement is effective for financial statements for fiscal years beginning after June 15, 2005. The adoption of SFAS 152 did not impact the consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, entitled Exchanges of Nonmonetary Assets -- An Amendment of APB Opinion No.29. SFAS No. 153 amends Opinion 29 to eliminate the exception for nonmonetary exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The adoption of SFAS 153 did not impact the consolidated financial statements.

F-9

Sun Network Group, Inc. and Subsidiaries Notes to Consolidated Financial Statements For the Years Ended December 31, 2004 and 2003

In December 2004, the FASB issued SFAS No. 123 (Revised), entitled Share-Based Payment. This revised Statement eliminates the alternative to use APB Opinion No. 25's intrinsic value method of accounting that was provided in SFAS No. 123 as originally issued. Under Opinion 25, issuing stock options to employees generally resulted in recognition of no compensation cost. This Statement requires entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. For public companies that file as a small business issuer, this Statement is effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The adoption of SFAS 123 (Revised) will have an impact the consolidated financial statements if the Company issues stock options to the employees in the future.

NET LOSS PER COMMON SHARE

Basic net income (loss) per common share (Basic EPS) excludes dilution and is computed by dividing net income (loss) available to common stockholder by the weighted-average number of common shares outstanding for the period. Diluted net income per share (Diluted EPS) reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. At December 31, 2004 and 2003, there were 0 and 750,000 common stock warrants outstanding, respectively, which may dilute future earnings per share.

NOTE 2 NOTE RECEIVABLE AND DUE FROM JOINT VENTURE PARTNER

The Company advanced a potential acquiree \$56,000 under a promissory note which amount has been fully reserved at December 31, 2003 due to default.

Upon formation of the joint venture, the joint venture partner did not establish a separate bank account for the joint venture. At December 31, 2003, management could not ascertain the collectability of \$24,372 of the balance due or \$14,910 due at December 31, 2004. Accordingly, the \$24,372 was charged to bad debt expense in 2002 and an additional \$10,000 charged to bad debt expense in 2004 related to an advance made in the 4th quarter of 2004 and has been fully reserved as an allowance at December 31, 2004.

NOTE 3 CONVERTIBLE NOTE RECEIVABLE

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

On September 17, 2002, the Company loaned \$10,000 to a third party limited liability company ("LLC"). The loan carries annual interest at 10% and matured on November 16, 2002. During the term of the loan, the Company may convert the principal and accrued interest into a 0.3% membership interest in the LLC. If the Company elects to convert, no interest due shall be payable to the Company. If the Company converts and holds the 0.3% membership interest, it will be entitled to receive a proportionate 0.3% of the LLC's interest in cash flow, profits, and tax benefits. The note is secured by the pledge of the general assets of the LLC. On November 16, 2002, the borrower defaulted and on February 28, 2003, the Company and the LLC executed a letter agreement to extend all due dates and conversion date to May 1, 2003. Due to the default and uncertainty about collecting the receivable and the value of the investment if converted, the Company has established a 100% valuation allowance and charged \$10,000 and the related accrued interest receivable of \$324 to bad debt expense in 2002. During 2003, the Company continued to recognize interest income and a related bad debt expense \$1,000. The Company discontinued this accrual in 2004. The convertible note receivable at December 31, 2004 was as follows:

Convertible note receivable	\$10,000
Accrued interest receivable	1,324
Allowance for loan loss	(11,324)

	\$ -
	=====

F-10

Sun Network Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2004 and 2003

NOTE 4 INTANGIBLE ASSETS, INVESTMENTS, AND RELATED IMPAIRMENT

The intangible assets were acquired on September 5, 2002 upon formation of the general partnership subsidiary. The Company has allocated the \$50,000 investment differential to the facilities usage rights and management services and to the radio programs based upon the estimated fair market value of each resulting in facilities usage rights and management services of \$35,000 and radio programs of \$15,000.

The Company determined to amortize the facility usage rights over five years and management services on a usage basis as they are contractually derived. The Company estimated a life of five years based on the average life of equipment that they have the rights to use. The Company amortized the acquired radio programs over their estimated useful life of one year.

At December 31, 2002, management was not able to accurately generate cash flow projections to support the recoverability of the facility usage rights asset since Radio X was still in early stage development. Accordingly, in 2002, an impairment loss of \$32,756 was recognized. Since the charge to operations of the amortization and impairment of this intangible asset exceeded the fair value of contributed services through December 31, 2002, no additional compensation expense was recognized as contributed services. For the years ended December 31, 2003, amortization expense amounted to \$10,192.

The Company received certain capital stock of a private German company in exchange for a prepaid expense of \$20,910 that was recorded at December 31, 2002. As the valuation of the capital stock received could not be supported

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

based on valuation or other objective data, the Company has elected to conservatively impair this asset for accounting purposes. Accordingly, the Company recorded an impairment loss of \$20,910 for the year ended December 31, 2003.

NOTE 5 CONVERTIBLE DEBENTURES AND WARRANTS

Prior to fiscal 2004, the Company had received \$750,000 pursuant to a Securities Purchase Agreement to issue and sell 12% convertible debentures. The holders of this debt had the right to convert all or any amount of this debenture into fully paid and non-assessable shares of common stock at the conversion price of the lesser of (a) 50% of the market value of the common stock as defined in the debenture or (b) \$0.15. Interest was payable either quarterly or at the conversion date at the option of the holder.

Since a registration statement relating to the debentures was not declared effective within 90 days of June 27, 2002, the Company was obligated to pay a fee to the debenture holders equal to 2% per month on the principal balance outstanding. The registration statement was declared effective on October 30, 2003. In connection with this penalty, the Company had previously recorded in 2003 \$130,849 in penalty fee expenses resulting in a total accrued penalty related to this penalty of \$130,849 through the date of redemption (March 8, 2004).

Under the debenture, the Company incurred a liquidated damages penalty for not having enough authorized shares to allow for the issuance of all dilutive securities based on a formula as stipulated in the Debenture agreement or for not reporting to the debenture holder's on a timely basis as stipulated in the Debenture Agreement. The penalty rate was computed as 3% of the outstanding debenture balance per month, which computed to \$15,000 per month. The penalty expense from January 1, 2004 to March 8, 2004 (date of redemption) was \$20,000. The accrued penalty through March 8, 2004 (date of redemption agreement) amounted to \$236,137. Although the Company authorized the increase of its authorized shares to 200,000,000 in May 2003 and then to 500,000,000 in October 2003, this increase was not sufficient to satisfy the required authorized shares pursuant to the Debenture Agreement and therefore the penalty had been accrued through the redemption date (March 7, 2004).

F-11

Sun Network Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2004 and 2003

On June 28, 2003 and on August 8, 2003 (the "Default Dates"), the Company defaulted on its maturity date payments on \$500,000 of debentures. A default penalty expense was computed under the terms of the debenture as \$179,492 and was charged to operations in fiscal 2003 from the Default Dates through December 31, 2003 and included in accrued penalty.

In addition, interest accrued at the default rate of 15% from the default dates.

During December 2003 to the date of redemption (March 8, 2004), \$87,194 of debentures were converted into 15,159,326 shares of common stock (see note 4). Additionally, from March 2004 to May 2004, the Company repaid debenture holders \$750,000.

On March 8, 2004, the Company entered into a redemption agreement with its debenture holders, whereby the Company agreed to pay \$150,000 per week for five

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

weeks commencing on March 22, 2004 until such time as the Company has paid \$750,000. Upon final payment, the Company delivered 20,000,000 shares of common stock to the debenture holders as full satisfaction of all accrued liabilities under the debenture agreements. In May 2004, the Company paid funds due to the debenture holders in full satisfaction of all liabilities. In connection with the redemption agreement, the Company paid the debenture holders cash of \$750,000, 20,000,000 shares of common stock valued at \$720,000 or \$.036 per share, and \$87,194 of common shares upon conversion of the debentures. These were in full satisfaction of accrued penalties and liquidating damages of \$546,478, accrued interest of \$116,188, and debenture liabilities of \$750,000 resulting in an aggregate settlement expense of \$144,527.

NOTE 6 - LOANS PAYABLE

From March to April, 2004, the Company entered into 2-year loan agreements and borrowed an aggregate of \$824,000. The loans bear interest at a rate equal to the prevailing 30-day LIBOR rate plus 100 basis points. Interest on the loans is computed on the basis of 360-day year for the number of actual days elapsed and is due and payable quarterly commencing June 2, 2004. The loans are due in March 2006. If the loans are not paid by the close of business on the due date in March 2006, the Company shall pay the lender a late charge equal to five percent of the outstanding principal balance. The Company paid a cash fee equal to 10% of the amount borrowed which is deducted directly from the proceeds by the lender. These fees are recorded debt discount and amortized over the loan term. Due to the foreclosure (see below) the entire unamortized portion of these debt discounts were expensed during the year ended December 31, 2004. The loans are collateralized by 56,000,000 shares of the Company's common stock. The collateral shares are not considered outstanding for accounting purposes and do not have voting rights until and unless they are foreclosed upon due to any future default as stipulated in the agreements. The Company defaulted on the \$824,000 loans payable in June 2004 due to non-payment of required interest payments. In November 2004, the lender took possession of 56,000,000 collateral common shares. As a result of this foreclosure by the lender, the Company recorded the value of the 56,000,000 shares of \$1,869,000 and removed the loan payable and accrued interest balances of \$824,000 and \$36,115, respectively, resulting in a loss on foreclosure of \$1,008,885. The value of the 56,000,000 shares was determined using the market price of the shares on the date they were granted as collateral.

NOTE 7 COMMITMENT AND CONTINGENCIES

On February 21, 2003, the Company executed a Production and Studio Facility Agreement (the "Agreement") whereby the Company will pay a vendor to construct a production facility and provide certain initial stipulated production services relating to a television program for which the Company has exclusive rights. Production was to commence no later than October 1, 2003. The total consideration to be paid by the Company is \$162,000. The Company paid \$54,000 upon execution of the agreement and became committed to pay the next \$54,000 on August 1, 2003. Another \$54,000 will be due when the studio construction is completed. As contingent consideration, the Company will pay 5% of all "net receipts" as defined in the Agreement. During 2003, the Company incurred initial production costs of \$20,000 related to this Agreement. The Company had reflected prepaid expenses of \$34,000 related to this agreement. The Company may terminate the agreement after July 1, 2003 and received as a refund any unused portion of the consideration advanced plus \$10,000. This agreement was terminated in 2004 and the \$34,000 that was recorded as a prepaid expense was expensed to production fees.

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

Sun Network Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2004 and 2003

The Company has an employment agreement with its president where he receives \$120,000 in annual salary, \$30,000 annual guaranteed bonus, a 10% incentive bonus based on Company financial criteria, and certain fringe benefits and expense reimbursements. The agreement expires July 2005. In May 2004, the president was issued 10,000,000 shares of the Company's common stock for all accrued and remaining future compensation under this agreement.

The Company has free use of office space for its sole employee, the President. The fair value of the office in 2004 and 2003 was nominal and therefore, not recorded.

NOTE 8 OPTION AGREEMENT AND PLAN OF MERGER, CANCELLATION, AND RELATED NOTES RECEIVABLE

An Option Agreement and Plan of Merger (the "Agreement") between the Company and Live Media Enterprises ("Live") was entered into as of June 28, 2002. In connection with this agreement, the Company advanced Live \$50,000 in July 2002 and \$6,000 in August 2002 pursuant to two promissory notes dated June 28, 2002 and August 2, 2002, respectively. Under the terms of the promissory notes, all amounts, including interest at 10% are due and payable on demand or upon termination of the Agreement. Under both notes, the Company has a first lien on all assets of Live, and has filed UCC Financing Statements with regard to such liens. In addition, a principal of Live has personally guaranteed the notes. Based on the Company's due diligence, the Company cancelled the Agreement on September 3, 2002 and the note became due immediately and at December 31, 2003 was in default. Due to the uncertainty of collecting the balance due and the uncertain value of the collateral, the Company charged the \$56,000 and related interest of \$2,755 at December 31, 2002 to bad debt expense in 2002. During 2003, the Company continued to recognize interest income and a related bad debt expense \$5,600. The Company discontinued this accrual in 2004 and has reserved 100% of this note and related accrued interest through December 31, 2004 as follows:

Notes receivable	\$ 56,000
Accrued interest receivable	8,355
Allowance for loan loss	(64,355)

	\$ -
	=====

NOTE 9 JOINT VENTURE SUBSIDIARY

On September 5, 2002, the Company's subsidiary, Radio TV Network, Inc. entered into a partnership agreement (the "Agreement") with a third party company, Sports Byline USA, L.P., to form a general partnership under the Uniform Partnership Act of the State of California. The name of the partnership is Radio X Network. The partnership, based in San Francisco, California, was formed for the purpose of creating, operating a new radio network consisting primarily of a series of radio programs principally targeted to a young male audience ages 14-35, and to engage in such other related businesses as may be agreed upon by the partners. The partnership shall develop, produce, acquire, distribute, market, and brand the radio programs. The Company contributed \$100,000 cash and the rights to a radio program and will contribute management services in exchange for a 50% partnership interest. The Company will share 50% in all partnership profits and losses. However, under the Agreement, the Company has an

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

overriding voting control over all partnership matter effectively providing the Company with voting control. Accordingly, the Company will consolidate the operations into its financial statements. The other general partner, Sports Byline USA, L.P., contributed three radio programs, and the use of its program production facilities and management services. The asset contributed by the other general partner had a carryover basis of zero. Therefore, the Company paid \$100,000 for a 50% interest in the partnership, which had an initial book value of \$100,000. Accordingly, the investment differential of \$50,000 has been allocated to the company's proportionate share of the fair market value of the intangible assets contributed resulting in the recording of facility usage rights and management services of \$35,000 and radio programs of \$15,000. Another \$10,000 was invested in the subsidiary in late 2004.

F-13

Sun Network Group, Inc. and Subsidiaries Notes to Consolidated Financial Statements For the Years Ended December 31, 2004 and 2003

NOTE 10 STOCKHOLDERS' DEFICIENCY

PREFERRED STOCK

On June 5, 2003, the Company's Board of Directors authorized 10,000,000 shares of preferred stock, par value \$0.001. Such preferred stock, or any series thereof, shall have such designations, preferences, participating, optional or other annual rights and qualifications, limitations or restrictions adopted by the Company's Board of Directors.

COMMON STOCK

In January 2003, 5,000,000 shares previously issuable were issued.

On February 4, 2003, the Company settled a lawsuit by issuing 1,000,000 common shares and \$6,500 in cash. The shares were valued at the quoted trading price of \$0.03 per share on the settlement date resulting in a total settlement expense of \$36,500.

On June 5, 2003, with the approval of the Company's Board of Directors, the authorized number of common shares, \$0.001 par value, authorized by the Company was increased from 100,000,000 to 200,000,000. In October 2003, the Company changed the number of authorized common shares to 500,000,000.

During the three months ended December 31, 2003, in connection with the conversion of debentures payable, the Company issued 8,898,328 shares of common stock upon the conversion of debentures payable amounting to \$25,006.

On November 15, 2003, the Company entered into an agreement with a third party for investor relations services. The term of this agreement was from the date of the contact to December 31, 2003. In connection with this agreement, the Company issued such consultant 2,000,000 shares of its common stock for these services. The Company valued these shares at the fair market value on the date of the agreement or \$0.0095 per share, and recorded consulting expense of \$19,000.

On December 4, 2003, the Company entered into an agreement with a third party for management consulting, business advisory, shareholder information and public relations services. The term of this agreement was for two months. In connection with this agreement, the Company issued such consultant 10,000,000 shares of its common stock for these services. The Company valued these shares at the fair market value on the date of the agreement or \$0.004 per share, and recorded

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

consulting expense of \$20,000 and deferred consulting expense of \$20,000 to be amortized over the contract term.

F-14

Sun Network Group, Inc. and Subsidiaries Notes to Consolidated Financial Statements For the Years Ended December 31, 2004 and 2003

On December 12, 2003, the Company entered into an agreement with a third party for investor relations services. The term of this agreement was for a six-month period. In connection with this agreement, the Company issued such consultant 3,000,000 shares of its common stock for these services. The Company valued these shares at the fair market value on the date of the agreement or \$0.014 per share, and recorded consulting expense of \$7,000 and deferred consulting expense of \$35,000 to be amortized over the contract term..

On December 15, 2003, the Company entered into an agreement with a third party for investor relations services. The term of this agreement was for a two-month period. In connection with this agreement, the Company issued such consultant 3,000,000 shares of its common stock for these services. The Company valued these shares at the fair market value on the date of the agreement or \$0.054 per share, and recorded consulting expense of \$81,000 and deferred consulting expense of \$81,000 to be amortized over the contract term.

During the three months ended March 31, 2004, in connection with the conversion of debentures payable, the Company issued 6,260,998 shares of common stock upon the conversion of debentures payable amounting to \$62,188.

In connection with the redemption agreement on March 8, 2004, the Company issued 20,000,000 shares of common stock to the debenture holders as full satisfaction of liabilities under the debenture agreements. These shares were valued on the date of the redemption agreement at fair market value based on the quoted trading price of the stock.

During the three months ended March 31, 2004, the Company entered into agreements with third parties for management consulting, business advisory, shareholder information and public relations services. In connection with these agreements, the Company issued such consultants 36,800,000 shares of its common stock for these services. The Company valued these shares at the quoted trading price on the date of the agreement at prices ranging from \$0.026 to \$0.043 per common share resulting in a value of \$1,378,400, which will be amortized over the one-year contract term.

During the three months ended June 30, 2004, the Company entered into agreements with third parties for management consulting, business advisory, shareholder information and public relations services. In connection with these agreements, the Company issued such consultants 13,500,000 shares of its common stock for these services. The Company valued these shares at the quoted trading price on the date of the agreement at prices ranging from \$0.027 to \$0.036 per common share resulting in a value of \$420,000, which will be amortized over the contract terms.

In May 2004, the Company issued 10,000,000 shares of common stock to an officer of the Company for all accrued compensation through June 30, 2004 and future compensation under the agreement. The Company valued these shares at the quoted trading price on the date of grant of \$0.03 per common share, and reduced accrued compensation by \$242,792 and recorded non-cash compensation expense of \$57,208.

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

During the three months ended September 30, 2004, the Company issued shares to third parties and the Company's CEO for past management consulting, business advisory, shareholder information and public relations services. In connection with these agreements, the Company issued such consultants and employee 72,250,000 shares of its common stock for these services. The Company's CEO received 66,000,000 of these shares. The Company valued these shares at the quoted trading price on the date of the agreement at prices ranging from \$0.007 to \$0.025 per common share, and recorded consulting expense of \$1,434,950 with \$1,410,500 charged to compensation - officer and \$24,450 charged to consulting.

In September 2004, the Company entered into a private stock placement and consulting agreement whereby the Company agreed to sell 53,000,000 shares of its common stock for \$0.0025 per share or \$132,500. The services have been valued at the difference between the quoted trading price on the date prior to the agreement date and the price paid per shares or \$0.0055 per share. The \$291,500 allocated to services will be amortized over the two year term of the contract. The Company received \$30,000 of the \$132,500 it was to receive from the sale of these shares. The Company is trying to collect the remaining \$102,500, but has been unsuccessful and as of December 31, 2004 has provided a 100% reserve against this receivable. In addition, since the consultant is not performing under this agreement, the \$291,500 allocated to services has been expensed during the year ended December 31, 2004.

F-15

Sun Network Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2004 and 2003

In November 2004, the Company issued 500,000 shares of common stock to a consulting for services rendered. The Company valued these shares at the quoted trading price on the date of grant of \$0.007 per common share resulting in a value of \$3,500 which has been expensed as consulting fees.

NOTE 11 INCOME TAXES

There was no income tax expense or benefit for federal and state income taxes in the consolidated statement of operations for years 2003 and 2002 due to the Company's net loss and valuation allowance on the resulting deferred tax asset.

The actual tax expense differs from the "expected" tax expense for the years ended December 31, 2004 and 2003 (computed by applying the U.S. Federal Corporate tax rate of 34% to income before taxes) as follows:

	2004	2003
Computed "expected" tax benefit	\$ (1,794,447)	\$ (460,713)
State income taxes	(174,167)	(64,625)
Change in tax rate estimate	-	(91,266)
Stock for services and/or settlement	1,709,615	55,590
Other	-	13,910
Change in deferred tax asset valuation allowance	258,999	547,104
	\$ -	\$ -

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31, 2004 are as follows:

Deferred tax assets:	
Net operating loss carryforward	\$ 1,184,409
Loan loss allowance	75,146

Total deferred tax assets	1,259,555
Less valuation allowance	(1,259,555)

Net deferred tax asset	\$ -
	=====

At December 31, 2004, the Company had useable net operating loss carryforwards of approximately \$3,000,000 for income tax purposes, available to offset future taxable income expiring in 2018.

The valuation allowance at January 1, 2004 was \$1,000,556. The net change in the valuation allowance during the year ended December 31, 2004 was an increase of \$258,999.

F-16

NOTE 12 REPORTABLE SEGMENTS

At December 31, 2003, the Company had two reportable segments: Network TV and Network Radio. The Company's reportable segments have been determined in accordance with the Company's internal management structure. The following table sets forth the Company's financial results by operating segments:

December 31, 2004

	Network TV	Network Radio	
	-----	-----	-----
Assets	\$ 19,852	\$ -	\$
	=====	=====	=====
Revenue	\$ -	\$ 8,090	\$
Other operating expenses	(4,055,560)	(27,552)	
Interest expense	(58,812)	-	
Settlement expense	(144,527)	-	
Recovery of bad debts	-	9,462	
Loss on foreclosure on loan payable	(1,008,885)	-	
	-----	-----	-----
Segment loss	\$ (5,267,784)	\$ (10,000)	\$
	=====	=====	=====

December 31, 2003

	Network TV	Network Radio	
	-----	-----	-----
Assets	\$ 156,879	\$	\$
	=====	=====	=====

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

Revenue	\$	30,000	\$	12,398	\$
Amortization		-		(10,192)	
Other operating expenses		(1,020,077)		(31,527)	
Interest income		6,600		-	
Interest expense		(329,965)		-	
Settlement expense		(36,500)		-	
Recovery of bad debts		-		19,129	
Minority interest in subsidiary losses		-		5,097	
		-----		-----	-----
Segment loss	\$	(1,349,942)	\$	(5,095)	\$
		=====		=====	=====

NOTE 13 - CONCENTRATIONS

The Company maintains its cash in bank deposit accounts, which, at times, exceed federally insured limits. At December 31, 2004, the Company had \$19,852 in United States bank deposits, which do not exceed federally insured limits. The Company has not experienced any losses in such accounts through December 31, 2004.

Revenues of \$0 and \$30,000 were derived from one customer in 2004 and 2003, respectively.

F-17

NOTE 14 GOING CONCERN

As reflected in the accompanying consolidated financial statements, the Company had an accumulated deficit of \$8,446,146 and a working capital deficit of \$51,011 at December 31, 2004, net losses in 2004 of \$5,277,784, cash used in operations in 2004 of \$161,627 and minimal revenues.

Management expects operations to generate negative cash flow at least through December 2005 and the Company does not have existing capital resources or credit lines available that are sufficient to fund operations and capital requirements as presently planned over the next twelve months. The Company's ability to raise capital to fund operations is further constrained because they have already pledged substantially all of their assets. The Company expects to generate substantially all revenues in the future from sales of Radio X Network programs. However, the Company's limited financial resources have prevented the Company from aggressively advertising its product to achieve consumer recognition. The ability of the Company to continue as a going concern is dependent on the Company's ability to further implement its business plan and generate revenues.

The Company is in the process of electing to be regulated as a business development company under the Investment Company Act of 1940. The Company filed in March 2005, Form 1-E under the Securities and Exchange Act notifying the Securities and Exchange Commission of the intent to sell, under Regulation E promulgated under the Securities Act of 1933, up to \$5 million of the Company's common stock. Because the Company expects to be regulated as a business development company, the Company believes that it has access to sufficient cash and capital resources to operate and grow its business for the next 12 months. Specifically, the Company intends to sell common stock permitted under the exemption from registration offered by Regulation E of the Securities

The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. Management

Edgar Filing: SUN NETWORK GROUP INC - Form 10KSB

believes that the actions presently being taken to further implement its business plan and generate additional revenues provide the opportunity for the Company to continue as a going concern.

NOTE 15 SUBSEQUENT EVENTS

In March 2005, the Company filed Form 1-E under the Securities and Exchange Act notifying the Securities and Exchange Commission of the intent to sell, under Regulation E promulgated under the Securities Act of 1933, up to \$5 million of the Company's common stock.

On February 28, 2005 the Company entered into a binding letter of intent to acquire 100% Aventura Networks, LLC in exchange for shares of the Company's common stock. Aventura is a leading Voice Over Internet Protocol ("VOIP") telephone service provider currently conducting business primarily in the wholesale market. There is a \$50,000 termination fee payable by the party that terminates the letter of intent.

F-18