

Edgar Filing: SUN NETWORK GROUP INC - Form 10-Q/A

SUN NETWORK GROUP INC  
Form 10-Q/A  
October 10, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q/A  
AMENDMENT NO.4

(Mark One)

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

For the quarterly period ended June 30, 2002.

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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 No.)

1440 CORAL RIDGE DRIVE, # 140  
CORAL SPRINGS, FL 330771  
(954) 360-4080  
(Address, including zip code, and telephone number,  
including area code, of registrant's principal  
executive offices)

(Former name, former address and former fiscal year,  
if changed since last report)

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 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No   
--- ---

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

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Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes                      No  
    ---                      ---

### APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

COMMON STOCK - 21,848,487 shares outstanding as of June 30, 2002.

### EXPLANATORY NOTE

The purpose of this amendment to the company's quarterly report on Form 10-Q, 10-Q/A Amendment No. 1, 10-Q/A Amendment No. 2, and 10-Q/A Amendment No. 3, is to file the report in its entirety, along with the certifications pursuant to Section 302 and 906 of the Sarbanes-Oxley Act of 2002.

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### PART I--FINANCIAL INFORMATION

#### Item 1. Financial Statements.

Restated Financial Statements for the quarter ending June 30, 2002 are attached hereto following the Signatures page.

#### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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.

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 a SB-2 Registration Statement in connection with the Debenture and anticipates receiving the full funding from the Debenture by the 4th Quarter 2002. As of June 30, 2002 the Company had received \$250,000 of the Debenture financing.

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. The Company has agreed to loan Live \$50,000, pending the completion of the acquisition and, as currently contemplated in the Agreement, the Company will issue 8,000,000 shares of its common stock to acquire Live in a transaction expected to close by the 4th Quarter 2002.

The Company intends to use the net proceeds from the Debenture to develop,

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operate and expand the businesses of RTV and Live and to continue to seek other opportunities for the Company. The Company believes that if it successfully completes the Debenture, on a timely basis, it will have sufficient capital to operate in the near-term. The Company will, however, continue to seek additional capital to fund further development, expansion and operation of its businesses. The Debenture and acquisition of Live will result in significant shareholder dilution upon the completion of the acquisition and conversion of the Debenture.

The Company had no revenues in the 2nd Quarter as it continued to focus on raising capital. The Company had a net loss of \$435,933 in the Quarter compared with \$38,805 in the prior Quarter. The increase is principally due to a reserve for accrued compensation under an employment agreement, professional fees for filing the Form SB-2, consulting fees of \$119,100, an officer's trip to Europe to facilitate the Company's listing on the Frankfurt Stock Exchange, and \$240,570 non-cash interest expense to account for a beneficial conversion feature in the convertible debentures.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

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### PART II--OTHER INFORMATION

Item 1. Legal Proceedings.

The Company and its Chief Executive Officer have been named in a lawsuit filed in the Southern District of Florida captioned Florida Securities Funding Partnership v. Sun Network Group, Inc et al, case no. 02-80360 in connection with a stock purchase of Company shares from a third party. The Partnership alleges that the Company was involved in a conspiracy with an outside shareholder to sell shares at an unfavorable price to the Partnership. No damages have been specified or claimed. The Company has filed a motion to dismiss the claims and believe the lawsuit is without merit and frivolous.

Item 2. Changes in Securities and Use of Proceeds.

On June 27, 2002 the Company entered into agreement with four (4) institutional investors for \$750,000 in Secured Convertible Debentures and 750,000 warrants. The Company has filed a Form SB-2 Registration Statement with the SEC describing the details of this transaction, which, upon conversion, will result in substantial dilution to current Company shareholders. The Company shall use any proceeds derived from the Debenture or sale of warrants for general operating purposes.

Item 3. Defaults Upon Senior Securities.

NONE.

Item 4. Submission of Matters to a Vote of Security Holders.

NONE.

Item 5. Other Information.

NONE.

Item 6. Exhibits and Reports on Form 8-K

| Exhibit | Description |
|---------|-------------|
| -----   | -----       |

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- 31.1 Certification of Chief Executive Officer and Acting Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer and Acting Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES\*

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SUN NETWORK GROUP, INC.  
(Registrant)

Date: October 10, 2003

T. Joseph Coleman

/s/ T. Joseph Coleman  
-----

T. Joseph Coleman,  
President, Director, CEO and  
Acting CFO

Date: October 10, 2003

William H. Coleman

/s/ William H. Coleman  
-----

William H. Coleman,  
Secretary and Director

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Sun Network Group, Inc.  
and Subsidiary

Consolidated Financial Statements

June 30, 2002

Sun Network Group, Inc.  
and Subsidiary

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Sun Network Group, Inc. and Subsidiary  
Consolidated Balance Sheets

| Assets   | June 30,<br>2002<br>(Unaudited) | December 31,<br>2001 |
|--|---------------------------------|----------------------|
|  | Restated<br>(Note7)             |                      |
| Current Assets   |                                 |                      |
| Cash .....   | \$ 224,070                      | \$ 5,321             |
| Deferred debt issuance cost .....  | 20,000                          | -                    |
| Total Current Assets .....   | 244,070                         | 5,321                |
| Other Assets   |                                 |                      |
| Prepaid advertising .....  | 35,200                          | 35,200               |
| Total Other Assets .....   | 35,200                          | 35,200               |
| Total Assets .....   | \$ 279,270<br>=====             | \$ 40,521<br>=====   |
| Liabilities and Stockholders' Deficiency   |                                 |                      |
| Current Liabilities  |                                 |                      |
| Accounts payable .....   | \$ 11,518                       | \$ 9,937             |
| Accrued compensation, related party .....  | 143,750                         | 68,750               |
| Due to stockholders' .....   | 20,442                          | 29,263               |
| Total Current Liabilities .....  | 175,710                         | 107,950              |
| Long Term Liabilities  |                                 |                      |
| Convertible debenture, net of discount .....   | 240,570                         | -                    |
| Total Liabilities .....  | 416,280                         | 107,950              |
| Stockholders' Deficiency   |                                 |                      |
| Common stock, \$0.001 par value,<br>100,000,000 shares authorized,<br>21,848,487 and 21,665,399 issued and |                                 |                      |

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|  |             |           |
|--|-------------|-----------|
| outstanding, respectively .....                    | 21,848      | 21,665    |
| Common stock issuable (300,000 shares) .....       | 300         | -         |
| Additional paid-in capital .....                   | 662,071     | 486,734   |
| Accumulated deficit .....                          | (1,061,799) | (575,828) |
|  | -----       | -----     |
| Total Stockholders' Deficiency .....               | (417,580)   | (67,429)  |
|  | -----       | -----     |
| Total Liabilities and Stockholders' Deficiency ... | \$ 279,270  | \$ 40,521 |
|  | =====       | =====     |

See accompanying notes to consolidated financial statements.

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Sun Network Group, Inc. and Subsidiary  
Consolidated Statements of Operations  
(Unaudited)

|  | Three Months Ended June 30,<br>2002 | 2001        | Six Months Ended June 30,<br>2002 | 2001        |
|--|-------------------------------------|-------------|-----------------------------------|-------------|
|  | Restated<br>(Note7)                 |             | Restated<br>(Note7)               |             |
|  | -----                               | -----       | -----                             | -----       |
| Revenues .....   | \$ -                                | \$ -        | \$ -                              | \$ 35,200   |
| Operating Expenses   |                                     |             |                                   |             |
| Compensation .....   | 40,655                              | 13,000      | 81,016                            | 21,000      |
| Consulting .....   | 119,100                             | -           | 119,100                           | 33,395      |
| General and administrative .....                                 | 23,534                              | 17,217      | 31,661                            | 27,299      |
| Professional fees .....  | 12,074                              | 8,588       | 13,624                            | 20,088      |
|  | -----                               | -----       | -----                             | -----       |
| Total Operating Expenses .....                                   | 195,363                             | 38,805      | 245,401                           | 101,782     |
|  | -----                               | -----       | -----                             | -----       |
| Loss from Operations .....                                       | (195,363)                           | (38,805)    | (245,401)                         | (66,582)    |
| Other Income (Expense)   |                                     |             |                                   |             |
| Interest expense .....   | (240,570)                           | -           | (240,570)                         | -           |
|  | -----                               | -----       | -----                             | -----       |
| Total Other Income (Expense) .....                               | (240,570)                           | -           | (240,570)                         | -           |
|  | -----                               | -----       | -----                             | -----       |
| Net Loss .....   | \$ (435,933)                        | \$ (38,805) | \$ (485,971)                      | \$ (66,582) |
|  | =====                               | =====       | =====                             | =====       |
| Net Loss Per Share - Basic and Diluted                           | \$ (0.02)                           | \$ -        | \$ (0.02)                         | \$ (0.01)   |
|  | =====                               | =====       | =====                             | =====       |
| Weighted Average Shares Outstanding -<br>Basic and Diluted ..... | 22,045,190                          | 13,333,333  | 21,860,456                        | 12,931,602  |
|  | =====                               | =====       | =====                             | =====       |

See accompanying notes to consolidated financial statements.

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Sun Network Group, Inc. and Subsidiary  
Consolidated Statements of Cash Flows  
(Unaudited)

|  | Six Months Ended June 30,<br>2002 | 2001        |
|--|-----------------------------------|-------------|
|  | Restated<br>(Note7)               |             |
|  | -----                             | -----       |
| Cash Flows from Operating Activities:  |                                   |             |
| Net loss .....   | \$ (485,971)                      | \$ (66,582) |
| Adjustments to reconcile net loss to net<br>cash used in operating activities: |                                   |             |
| Settlement income .....  | -                                 | (35,200)    |
| Stock for services .....   | 84,000                            | 33,395      |
| Interest expense .....   | 240,570                           | -           |
| Changes in operating assets and liabilities:                                   |                                   |             |
| (Increase) decrease in:  |                                   |             |
| Accounts receivable .....  | -                                 | 300         |
| Increase (decrease) in:  |                                   |             |
| Accounts payable .....   | 1,581                             | 4,283       |
| Accrued compensation, related party .....                                      | 75,000                            | -           |
|  | -----                             | -----       |
| Net Cash Used in Operating Activities .....                                    | (84,820)                          | (63,804)    |
|  | -----                             | -----       |
| Cash Flows from Financing Activities:  |                                   |             |
| Cash overdraft .....   | -                                 | 716         |
| Proceeds from sale of common stock .....                                       | 82,390                            | 60,000      |
| Loan proceeds from stockholder .....   | 20,442                            | -           |
| Proceeds from convertible debt .....   | 250,000                           | -           |
| Deferred debt issuance cost .....  | (20,000)                          | -           |
| Repayment of loans from stockholder .....                                      | (29,263)                          | -           |
|  | -----                             | -----       |
| Net Cash Provided by Financing Activities .....                                | 303,569                           | 60,716      |
|  | -----                             | -----       |
| Net Increase (Decrease) in Cash .....  | 218,749                           | (3,088)     |
| Cash at Beginning of Period .....  | 5,321                             | 3,088       |
|  | -----                             | -----       |
| Cash at End of Period .....  | \$ 224,070                        | \$ -        |
|  | =====                             | =====       |

See accompanying notes to consolidated financial statements.

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Sun Network Group, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
June 30, 2002  
(Unaudited)

Note 1 Basis of Presentation

The accompanying unaudited consolidated financial statements of Sun Network Group, Inc. and Subsidiary (the "Company") have been prepared in accordance with

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accounting principles generally accepted in the United States of America and the rules and regulations of the United States Securities and Exchange Commission for interim financial information. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of consolidated financial position and results of operations.

It is management's opinion, however, that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair consolidated financial statements presentation. The results for the interim period are not necessarily indicative of the results to be expected for the year.

For further information, refer to the audited financial statements and footnotes of RadioTV Network, LLC for the years ended December 31, 2001, 2000 and 1999 included in the Current Report on Form 8-K on Sun Express Group, Inc.

### Note 2 Convertible Debenture and Warrants

On June 27, 2002 (the "Issuance Date"), the Company entered into a Securities Purchase Agreement to issue and sell 12% convertible debentures, in the aggregate amount of \$750,000, convertible into shares of common stock, of the Company. The Company is permitted to use the proceeds to make one or more loans for a legitimate business purpose, which such loans, in the aggregate, may not exceed \$100,000. As of June 27, 2002, \$250,000 in convertible debentures were issued to various parties. The holders of the debentures have 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 with the limitation that any debenture holder may not convert any amount of the debentures if after conversion that debenture holder would beneficially hold more than 4.9% of the total outstanding common stock of the Company. However, any debenture holder may waive this limitation provision with 61 days written notice to the Company. The conversion price generally is the lesser of (a) 50% of the market value of the common stock as defined in the debenture or (b) \$0.15. Interest is payable either quarterly or at the conversion date at the option of the holder. The convertible debentures mature on June 27, 2003 and are secured by substantially all present and future assets of the Company.

The Company paid \$20,000 of legal fees related to the debenture issuances and recorded these fees as a deferred debt issuance cost asset to be amortized over the one-year term of the debentures.

In connection with the convertible debentures issued, warrants to purchase 250,000 common shares were issued to the holders at an exercise price per share of \$0.15. The warrants are exercisable immediately and through the third anniversary of the date of issuance. These warrants were treated as a discount on the convertible debenture and valued at \$9,430 under SFAS No. 123 using the Black-Scholes option-pricing model. The discount will be amortized over the life of the loans starting on July 1, 2002. If the registration statement relating to the debentures is not declared effective within 90 days of June 27, 2002 or loses quotation in the NASD OTCBB the Company is obligated to pay a fee to the debenture holders equal to 2% per month on the principal balance outstanding.

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Pursuant to EITF Issue No. 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF Issue No. 00-27 "Application of Issue No. 98-5 to Certain Convertible Instruments" the convertible debentures contain an imbedded beneficial conversion feature since the fair market value of the common stock exceeds the most beneficial exercise price on the debenture Issuance Date. This beneficial conversion value has been computed by the Company based on the \$240,570 value



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allocated to the debentures and an effective conversion price of \$0.043 per share. The value was computed as \$259,430, but is limited under the above EITF provisions to the \$240,570 value allocated to the debentures. Since the conversion feature is exercisable immediately, the \$240,570 was recognized as interest expense on the Issuance Date.

If the registration statement relating to the debentures is not declared effective within 90 days of June 27, 2002, or loses quotation in the NASD OTCBB the Company is obligated to pay a fee to the debenture holders equal to 2% per month on the principal balance outstanding.

The convertible debenture liability is as follows at June 30, 2002:

|                             |    |         |
|-----------------------------|----|---------|
| Convertible debenture       | \$ | 250,000 |
| Less: discount on debenture |    | (9,430) |
|                             |    | -----   |
| Convertible debenture, net  | \$ | 240,570 |
|                             |    | =====   |

### Note 3 Commitment and Contingencies

The Company and its Chief Executive Officer have been named in a lawsuit filed in the Southern District Court of Florida. The Company is defending itself and has filed a motion to dismiss the matter. The lawsuit alleges the Company and its chief executive officer conspired to lower the Company's share price after a third party shareholder of the Company sold a block of his shares to a Florida securities partnership. The Company is not a party to any other litigation and management has no knowledge of any other threatening or pending litigation. During the three months ended June 30, 2002, the Company accrued \$37,500 under an employment agreement.

### Note 4 Common Stock Issuances

In March 2002, the Company issued 183,088 common shares at \$0.45 per share to an investor for total proceeds of \$82,390.

During April through June 2002, the Company committed to issue 300,000 common shares in consideration of consulting services performed during that period. The \$84,000 value of these shares was computed based on the trading price of the common stock on each date the shares were earned.

### Note 5 Option Agreement and Plan of Merger

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. Live granted the Company the exclusive option to acquire Live and merge Live into the Company upon executing of a formal Agreement for a six month period commencing June 28, 2002. The Company shall acquire all capital stock or assets of Live

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that will result in a tax-free combination of Live and the Company with Live being operated as a wholly-owned subsidiary of the Company.

In consideration for the Agreement, the Company shall issue and pay to Live shareholders an aggregate of 8,000,000 shares of the Company's common stock. Additionally, the Company will agree to loan Live up to \$50,000 to process its business and will be payable per terms of a promissory note.

In addition, Live shareholders will be granted 4,100,000 warrants for the Company's common shares exercisable as stipulated at strike prices and terms, favorable to the Company, to be determined.

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### Note 6 Going Concern

As reflected in the accompanying consolidated financial statements, the Company had an accumulated deficit of \$1,061,799 through June 30, 2002, operating losses for the six months ended June 30, 2002 of \$485,971 and cash used in operations for the six months ended June 30, 2002 of \$84,820. 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 consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

As discussed in Notes 2 and 8, the Company received \$500,000 in funding and a commitment for an additional \$250,000. Management is currently seeking additional funding and acquisitions. Management 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 7 Restatement

Subsequent to the filing of the Company's Form 10-QSB for the quarter ended June 30, 2002 management became aware that the prior March 31, 2002 and December 31, 2001 consolidated financial statements did not include an aggregate \$106,250 of accrued compensation expense pursuant to a July 16, 2001 employment agreement with the Company's chief executive officer, \$119,100 of consulting costs treated as a deferred debt issuance cost should have been expensed, \$5,000 of legal fees expensed should have been capitalized as deferred debt issuance cost, deferred debt issuance costs should have been classified as current, and a \$240,520 interest expense should have been recognized relating to an imbedded beneficial conversion feature on the convertible debentures. The inclusion of these items in the revised June 30, 2002 consolidated financial statements has the effect of decreasing assets by \$114,400, increasing current liabilities by \$106,250, and increasing accumulated deficit by \$460,920 at June 30, 2002 and increasing interest expense by \$240,570 for the three months ended June 30, 2002. The effect on net loss per shares was an increase of \$0.02 and \$0.02 for the three and six months ended June 30, 2002, respectively.

### Note 8 Subsequent Event

On August 8, 2002, an additional \$250,000 of convertible debentures and warrants to purchase 250,000 common shares were purchased from the Company for \$250,000 with the terms similar to that described in Note 2. The Company recognized a discount of \$14,775 relating to the warrants and an interest expense of \$235,225 for a beneficial conversion feature.