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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. 3

(Mark One)

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

For the quarterly period ended September 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
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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 - 22,448,487 shares outstanding as of September 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 and 10-Q/A Amendment No. 2, 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.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Financial Statements for the quarter ending September 30, 2002 are attached hereto as Exhibit F.

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

ORGANIZATION

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.

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 a SB-2 Registration Statement and, subsequently, a SB-2A amended Registration Statement in connection with the Debenture and anticipates receiving the full funding from the Debenture by the end of 2002. As of September 30, 2002 the Company had received \$500,000 of the Debenture financing.

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Other than the above-referenced \$750,000, the investors are not obligated to invest \$3,000,000 that was reported in a press release dated July 5, 2002.

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 Agreement the Company has loaned Live the sum of \$56,000. This loan is documented in two Promissory Notes and is collateralized by, substantially, all

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of the assets of Live and personally guaranteed by Live's principal shareholder and officer.

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 fixed sum of \$100,000 to this business plus certain management services.

The Company intends to use the net proceeds from the Debenture to develop, operate and expand the businesses of RTV and Radio X 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. Upon conversion of the Debentures into the Company common stock there will be substantial shareholder dilution.

RESULTS OF OPERATIONS

Nine and Three Months Ended September 30, 2002 Compared To Nine and Three Months Ended September 30, 2001

Revenues

Revenues for the nine months ended September 30, 2002 were \$1,100 as compared to revenues for the nine months ended September 30, 2001 of \$0. The \$1,100 revenues were derived from the new consolidated subsidiary, Radio X Network. There were no revenues in the comparable period of 2001 since the Company was restructuring and seeking capital to continue its business plan. Revenues for the three months ended September 30, 2002 were the \$1,100 that were earned in the first few weeks of existence of the Company's subsidiary Radio X Network.

Operating Expenses

Compensation was \$118,516 for the nine months ended September 30, 2002 compared to \$52,250 for the comparable period in 2001. Compensation in 2002 relates solely to compensation under our employment agreement with our president aggregating \$112,500 plus payment of certain of his personal expenses totaling \$6,016. Compensation in the comparable period of 2001 was also to our president of \$21,000 in the period prior to our July 16, 2001 employment agreement and \$31,250 accrued under his employment agreement. Compensation for the three months ended September 30, 2002 was \$37,500 compared to \$31,250 in 2001 with both relating to the employment contract and the difference related to the period of July 1 to July 15 2001 prior to the employment contract date of July 16, 2001.

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Advertising expense of \$24,425 in the three months ended September 30, 2002 relates to the usage of advertising minutes obtained by us in a settlement with a customer in May 2001 which had been recorded on our balance sheet as prepaid advertising. The minutes were used to advertise one of our programs for which we expect future revenues. There was no advertising expense for the three or nine months period ending September 30, 2001.

Amortization of radio programs of \$1,027 in the three months ended September 30, 2002 results from amortizing the radio programs intangible asset that resulted from the investment in our new subsidiary, Radio X Network. The intangible asset is being amortized using the straight line method over the expected useful life

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of the program of one year. There was no asset being amortized in year 2001 as the new subsidiary was formed in September 2002.

Consulting expense for the three months ended September 30, 2002 was \$68,799 compared to \$0 in the three months ended September 30, 2001. The \$68,799 consists of \$22,700 of expense relating to 300,000 common shares issued to a consultant, \$35,100 of cash consulting fee to that same consultant and cash consulting fees to other consultants of \$10,999. There were no consulting fees in the three months ended September 30, 2001. Consulting fees in the nine months ended September 30, 2002 were \$187,899, which consisted of \$106,700 of expense relating to 600,000 common shares issued to a consultant, \$70,200 of cash fees paid to that same consultant plus \$10,999 of cash fees to other consultants. The comparable 2001 nine month period relates primarily to cash consulting fees.

Professional fees for the three months ended September 30, 2002 were \$13,495 compared to \$3000 for the three months ended September 30, 2001. The fees relate primarily to accounting, and legal, audit and registration statement related services regarding our recently filed Form SB-2/A and quarterly reports. Our expenses were less in the comparable period since we were generally inactive at that time. For the nine months ended September 30, 2002 the fees were \$27,119 compared to \$23,088 in the comparable 2001 period. Fees were higher in the first half of fiscal 2001 since we were implementing our recapitalization at that time.

General and administrative expenses were \$37,668 and \$69,329 for the three and nine months ended September 30, 2002 compared to \$4,726 and \$30,980 in the comparable 2001 periods. These expenses in 2002 consist of the amortization of \$5,000 of deferred debt issuance costs relating to the debentures, phone and telecommunication expenses, travel, meals and entertainment expenses, office expenses, expenses in connection with obtaining a listing on the Berlin Stock Exchange, and other miscellaneous expenses. General and administrative expenses for the comparable period of 2001 were nominal due to our inactive status at that time.

Interest expense was \$252,598 and \$493,168 for both the three and nine months ended September 30, 2002 respectively and relate to \$12,329 interest on the convertible debentures, \$5,044 of amortization of the discount of our convertible debentures, and \$475,795 of non-cash interest expense relating to the beneficial conversion feature of the convertible debentures. The discount results from the value of the warrants issued with our debentures. The discount is being amortized into interest expense over the debenture term of one year.

Other income was \$0 for the three and nine months ended September 30, 2002 compared to \$0 for the three months ended September 30, 2001 and \$35,100 for the nine months ended September 30, 2001. In May 2001 we settled a dispute with a customer and received advertising minutes from them valued at \$35,100.

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As a result of these factors, we reported net loss of \$433,032 or \$0.02 per share for the three months ended September 30, 2002 as compared to a net loss of \$41,080 or nil per share for the three months ended September 30, 2001. We reported net loss of \$919,003 or \$0.04 per share for the nine months ended September 30, 2002 compared to a net loss of \$114,842 or \$0.01 per share for the nine months ended September 30, 2001.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2002, we had a stockholders' deficit of \$297,342. 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 and by the sale of

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convertible debentures of \$500,000 through September 30, 2002. 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. The cash balance at September 30, 2002 was \$279,303.

We have no other material commitments for capital expenditures. We expect an additional \$250,000 in convertible debenture financing upon effectiveness of our Form SB-2/A registration statement. We may also receive financing from the exercise of 500,000 outstanding warrants which would provide a maximum funds of \$75,000 or less depending upon the market price of our shares. Other than cash generated from our operations, debenture proceeds and warrant exercise proceeds we have no external sources of liquidity. Accordingly, we may not have sufficient cash flow from operations to sufficiently meet all of our cash requirements for the next 12 months. Our future operations and growth is dependent on our ability to raise capital for expansion, and to seek additional revenue sources.

Net cash used in operations during the nine months ended September 30, 2002 was \$196,387 and was substantially attributable to net loss of \$443,208 offset primarily by non-cash stock based expenses of \$106,700, non-cash advertising expense of \$24,425, accrued compensation of \$92,500, accrued expenses of \$13,315, non-cash debt discount amortization of \$5,044 and amortization of debt issuance costs of \$5,000. In the comparable period of 2001 we had net cash used in operations of \$82,011 primarily relating to the net loss of \$114,842 and non-cash settlement income of \$35,200 primarily offset by stock based consulting expense of \$33,395 and accrued compensation of \$31,250

Net cash used in investing activities during the nine months ended September 30, 2002 was \$66,000 relating to a loan to a potential acquirer of \$56,000 and a convertible loan of \$10,000. The prior year comparable period had nominal investing activity.

Net cash provided by financing activities for the nine months ended September 30, 2002 was \$536,369 as compared to net cash provided by financing activities of \$80,000 for the nine months ended September 30, 2001. During the nine months ended September 30, 2002, we received proceeds from a common stock sales to an investor of \$82,390, proceeds from convertible debentures of \$500,000 offset by debt issuance costs of \$20,000 and repayment of related party loans of \$26,021. In the comparable period of 2001 we received a loan from stockholder of \$20,000 and equity proceeds from stockholders of \$60,000.

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CRITICAL ACCOUNTING POLICIES

A summary of significant accounting policies is included in Note 1 to the audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2001 as filed with the United States Securities and Exchange Commission. 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.

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

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We account for film revenues 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").

We generally produce episodic television series and generates revenues from the sale of broadcast licenses. 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. The Company recognizes 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 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.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

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.

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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-2A 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 |
|---------|---|
| ----- | ----- |
| 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

/s/ T. Joseph Coleman

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

Date: October 10, 2003

/s/ William H. Coleman

William H. Coleman,
Secretary and Director

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EXHIBIT INDEX

| Exhibit No. | Description |
|-------------|---|
| ----- | ----- |
| F-1 to F-11 | Consolidated Financial Statements |
| 31.1 | Certification of Chief Executive Officer and Acting Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
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Sun Network Group, Inc. and Subsidiaries

Consolidated Financial Statements (Unaudited)

September 30, 2002

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| Consolidated Statements of Operations | F-3 |
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F-1

Sun Network Group, Inc. and Subsidiaries Consolidated Balance Sheets

Assets

| | September 30, 2002 (Unaudited) (as restated, Note 12) | December 31, 2001 |
|---------------------------|---|----------------------|
| | ----- | ----- |
| Current Assets | | |
| Cash | \$ 279,303 | \$ 5,321 |
| Accounts receivable | 1,100 | - |

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| | | |
|---|------------|-----------|
| Notes receivable | 56,000 | - |
| Interest receivable | 1,380 | - |
| Deferred debt issuance cost, net | 15,000 | - |
| | ----- | ----- |
| Total Current Assets | 352,783 | 5,321 |
| | ----- | ----- |
| Other Assets | | |
| Prepaid advertising | 10,775 | 35,200 |
| Convertible note receivable | 10,000 | - |
| Facility usage rights and management services | 35,000 | - |
| Radio programs, net | 13,973 | - |
| | ----- | ----- |
| Total Other Assets | 69,748 | 35,200 |
| | ----- | ----- |
| Total Assets | \$ 422,531 | \$ 40,521 |
| | ===== | ===== |

Liabilities and Stockholders' Deficiency

| | | |
|--|-------------|-----------|
| Current Liabilities | | |
| Accounts payable | \$ 11,227 | \$ 9,937 |
| Accrued interest and other | 13,315 | - |
| Accrued compensation, related party | 161,250 | 68,750 |
| Due to stockholders' | 3,242 | 29,263 |
| | ----- | ----- |
| Total Current Liabilities | 189,034 | 107,950 |
| | ----- | ----- |
| Long Term Liabilities | | |
| Convertible debenture, net of discount | 480,839 | - |
| | ----- | ----- |
| Total Liabilities | 669,873 | 107,950 |
| | ----- | ----- |
| Minority Interest | 50,000 | - |
| | ----- | ----- |
| Stockholders' Deficiency | | |
| Common stock, \$0.001 par value, 100,000,000 shares authorized, 22,148,487 and 21,665,399 issued and outstanding, respectively . | 22,148 | 21,665 |
| Common stock issuable (300,000) shares | 300 | - |
| Additional paid-in capital | 1,175,041 | 486,734 |
| Accumulated deficit | (1,494,831) | (575,828) |
| | ----- | ----- |
| Total Stockholders' Deficiency | (297,342) | (67,429) |
| | ----- | ----- |
| Total Liabilities and Stockholders' Deficiency | \$ 422,531 | \$ 40,521 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

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

| | | |
|--|--------------------|-------------------|
| | Three Months Ended | Nine Months Ended |
| | September 30, | September 30, |
| | ----- | ----- |
| | 2002 | 2002 |
| | (as restated, | (as restated, |

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| | Note 12) | 2001 | Note 12) | 2001 |
|--|--------------|-------------|--------------|--------------|
| | ----- | ----- | ----- | ----- |
| Revenues | \$ 1,100 | \$ - | \$ 1,100 | \$ - |
| Operating Expenses | | | | |
| Compensation | 37,500 | 31,250 | 118,516 | 52,250 |
| Advertising | 24,425 | - | 24,425 | - |
| Amortization of radio programs | 1,027 | - | 1,027 | - |
| Consulting | 68,799 | - | 187,899 | 33,395 |
| General and administrative | 37,668 | 4,726 | 69,329 | 30,980 |
| Professional fees | 13,495 | 3,000 | 27,119 | 23,088 |
| Travel and entertainment | - | 2,104 | - | - |
| Exploitation costs | - | - | - | 10,329 |
| Total Operating Expenses | 182,914 | 41,080 | 428,315 | 150,042 |
| Loss from Operations | (181,814) | (41,080) | (427,215) | (150,042) |
| Other Income (Expense) | | | | |
| Settlement income | - | - | - | 35,200 |
| Interest income | 1,380 | - | 1,380 | - |
| Interest expense | (252,598) | - | (493,168) | - |
| Total Other Income (Expense), net | (251,218) | - | (491,788) | 35,200 |
| Net Loss | \$ (433,032) | \$ (41,080) | \$ (919,003) | \$ (114,842) |
| Net Loss Per Share - Basic and Diluted | \$ (0.02) | \$ - | \$ (0.04) | \$ (0.01) |
| Weighted Average Shares Outstanding | | | | |
| - Basic and Diluted | 21,344,139 | 20,125,778 | 22,024,055 | 15,368,590 |

See accompanying notes to consolidated financial statements.

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

| | Nine Months Ended September 30, | |
|---|------------------------------------|--------------|
| | 2002 (as restated, Note 12) | 2001 |
| | ----- | ----- |
| Cash Flows from Operating Activities: | | |
| Net loss | \$ (919,003) | \$ (114,842) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Settlement income | - | (35,200) |
| Stock for services | - | - |

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| | | |
|---|------------|----------|
| Stock based consulting expense | 106,700 | 33,395 |
| Amortization of radio programs | 1,027 | - |
| Amortization of debt discount to interest expense | 5,044 | - |
| Amortization of deferred debt issuance costs to general and administrative expense | 5,000 | - |
| Amortization of prepaid advertising to advertising expense | 24,425 | - |
| Interest expense | 475,795 | - |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | (1,100) | 300 |
| Interest receivable | (1,380) | - |
| Prepaid expenses | - | 385 |
| Increase (decrease) in: | | |
| Accounts payable | 1,290 | 2,701 |
| Accrued expenses | 13,315 | - |
| Accrued compensation | 92,500 | 31,250 |
| | ----- | ----- |
| Net Cash Used in Operating Activities | (196,387) | (82,011) |
| | ----- | ----- |
| Cash Flows from Investing Activities: | | |
| Loan disbursement | (56,000) | - |
| Convertible note disbursement | (10,000) | - |
| Cash overdraft in SunExpress Group, Inc. at acquisition date .. | - | (855) |
| | ----- | ----- |
| Net Cash Used in Investing Activities | (66,000) | (855) |
| | ----- | ----- |
| Cash Flows from Financing Activities: | | |
| Proceeds from sale of common stock | 82,390 | - |
| Loan proceeds from stockholder | - | 20,000 |
| Proceeds from convertible debentures | 500,000 | - |
| Debt issuance cost | (20,000) | - |
| Repayment of loans from stockholders | (26,021) | - |
| Equity proceeds from stockholders' | - | 60,000 |
| | ----- | ----- |
| Net Cash Provided by Financing Activities | 536,369 | 80,000 |
| | ----- | ----- |
| Net Increase (Decrease) in Cash | 273,982 | (2,866) |
| Cash at Beginning of Period | 5,321 | 3,088 |
| | ----- | ----- |
| Cash at End of Period | \$ 279,303 | \$ 222 |
| | ===== | ===== |

Supplemental Schedule of Non-Cash Investing and Financing Activities:

In September 2002, the Company recorded \$50,000 of intangible assets under the purchase accounting method relating to its formation and acquisition of 50% interest in Radio X Network.

See accompanying notes to consolidated financial statements.

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

Note 1 Basis of Presentation

The accompanying unaudited consolidated financial statements of Sun Network

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Group, Inc. and Subsidiaries (the "Company") have been prepared in accordance with 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 Sun Network Group, Inc. and Subsidiaries for the years ended December 31, 2001, 2000 and 1999 included in the Annual Report on Form 10-K, as amended.

Note 2 Nature of Operations and Significant Accounting Policies

A complete set of accounting policy Notes are contained in the audited financial statements and footnotes of Sun Network Group, Inc. and Subsidiaries for the years ended December 31, 2001, 2000 and 1999 included in the Annual Report on Form 10-K, as amended. The following information represents significant additions to those Notes due to the consolidation of the recently formed subsidiary, Radio X Network:

(A) Nature of Operations

On September 5, 2002, the Company formed a general partnership with one other partner (see Note 7). The partnership, Radio X Network, 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.

(B) Principles of Consolidation

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

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(C) Intangible Assets

Intangible assets consist of purchased or acquired investments in programming, and facility usage rights and management services. Facility usage rights and management services were acquired upon formation of the Company's subsidiary, Radio X Network and recorded pursuant to SFAS 142. Facility usage rights and management services are considered to have an indefinite life pursuant to SFAS 142 and

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accordingly are not amortized until its useful life is determined to be no longer indefinite. The Company evaluates the remaining useful life of intangible assets that are not being amortized each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, the asset is tested for impairment in accordance with SFAS144. That intangible asset shall then be amortized prospectively over its estimated remaining useful life and accounted for in the same manner as other intangible assets that are subject to amortization.

Investments in internally developed radio programs are expensed in accordance with SFAS 142. Purchased or acquired investments in programming, including the initial investment acquired are amortized using the straight-line method over the estimated useful life of each program.

(D) Long-Lived Assets

Effective January 1, 2002, 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.

(E) Revenue Recognition

The Company recognizes revenues from the sale of radio program advertising 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.

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(F) Minority Interest

The minority interest in the net income or loss of the Company's consolidated subsidiary, Radio X Network is reflected in the consolidated statements of operations after distribution to the Company of its initial \$100,000 capital investment in the subsidiary. Accordingly, no minority interest allocation of the net income of Radio X Network is recorded as of September 30, 2002. At September 30, 2002, the minority interest reflected on the balance sheet represents the

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historical book value of the minority partner's initial interest in Radio X Network.

Note 3 Convertible Note Receivable

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 matures 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. Accrued interest at September 30, 2002 was \$36.

Note 4 Intangible Assets

The intangible assets were acquired on September 5, 2002 upon formation to the general partnership subsidiary (see Note 8). The Company has allocated the \$50,000 investment differential (see Note 8) 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 amortizes the facility usage rights and management services over an estimated life of five years. The Company amortizes the acquired radio programs over their estimated useful life of one year. Intangible assets were as follows at September 30, 2002:

| | | |
|---|----|---------|
| Radio Programs | \$ | 15,000 |
| Facilities usage rights and management services | | 35,000 |
| Accumulated amortization | | (1,027) |
| | | ----- |
| | \$ | 48,973 |
| | | ===== |

Note 5 Convertible Debentures and Warrants

On June 27, 2002, 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 this debt 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

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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

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the one-year term of the debentures. Amortization of the deferred debt issuance cost included in general and administrative was \$5,000 for the three months ended September 30, 2002.

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. 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 above. The warrants were treated as a discount on these convertible debentures and valued at \$14,775 computed using the Black-Scholes option-pricing model.

The discount on the convertible debentures will be amortized to interest expense over the term of the debentures starting on July 1, 2002. Amortization included in interest expense for the three months ended September 30, 2002 was \$5,044.

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. At June 27, 2002, this beneficial conversion value has been computed by the Company based on the \$240,570 value 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 June 27, 2002. On August 8, 2002, the Company recognized an additional interest expense of \$235,225 related to the additional debentures issued. At August 8, 2002, this beneficial conversion value has been computed by the Company based on the \$235,225 value allocated to the debentures and an effective conversion price of \$0.028 per share. The value was computed as \$264,775 but is limited under the above EITF provisions to the \$235,225 value allocated to the debentures.

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. As of September 30, 2002, the registration statement was not effective and accordingly, the Company has accrued \$986 of penalty fee.

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

| | |
|-----------------------------|------------|
| Convertible debenture | \$ 500,000 |
| Less: discount on debenture | (19,161) |
| | ----- |
| Convertible debenture, net | \$ 480,839 |
| | ===== |

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Accrued interest on the convertible debentures was \$12,329 at September 30, 2002 included in accrued interest payable.

Note 6 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

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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 nine months ended September 30, 2002, the Company accrued \$92,500 under an employment agreement with the Company's president.

Note 7 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. Accrued interest on the \$56,000 is \$1,344 as of September 30, 2002. The Company believes that the balance is recoverable.

Note 8 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 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 and 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 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 contributed three radio programs, and the use of its program production facilities and management services in exchange for a 50% interest. 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,

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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. (See Note 4)

Note 9 Stockholders' Equity

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

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During April through June 2002, under a three month consulting agreement, 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 and fully charged to operations as of June 30, 2002. Under a new three-month consulting agreement commencing July 1, 2002, with the same consultant, another 300,000 shares were earned and issued as of September 30, 2002. The \$22,700 value of these shares was computed based on the trading price of the common stock on each date the shares were earned and fully charged to operations as of September 30, 2002.

On June 27 and August 8, 2002, the Company issued 250,000 and 250,000 warrants, respectively, in connection with the issuance of convertible debentures. The warrants were valued at \$9,430 and \$14,775, respectively, using the Black-Scholes option pricing model. The aggregate \$24,205 was recorded as an addition to additional paid-in capital and charged to discount on convertible debentures to be amortized over the term of the debentures. (See Note 3)

Note 10 Reportable Segments

At September 30, 2002, 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 for the nine months ended September 30, 2002 by operating segments:

| December 31, 2002 | Network TV | Network Radio | Reconciling Items Attributed to Parent Sun Network Group, Inc. | Total |
|--|--------------|---------------|--|--------------|
| Assets | \$ 273,058 | \$ 149,473 | \$ - | \$ 422,531 |
| Revenues | - | 1,100 | - | 1,100 |
| Amortization | - | (1,027) | - | (1,027) |
| Other operating expenses | (319,988) | (600) | (106,700) | (427,288) |
| Interest income | - | - | 1,380 | 1,380 |
| Interest expense | - | - | (493,168) | (493,168) |
| Minority interest in subsidiary losses | - | - | - | - |
| Segment loss | \$ (319,988) | \$ (527) | \$ (598,488) | \$ (919,003) |

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Note 11 Going Concern

As reflected in the accompanying consolidated financial statements, the Company had an accumulated deficit of \$1,494,831 at September 30, 2002, net losses for the three months ended September 30, 2002 of \$433,032 and cash used in operations for the nine months ended September 30, 2002 of \$196,387.

As discussed in Note 4, the Company received \$500,000 in funding and a commitment for an additional \$250,000. In addition, management has implemented revenue producing programs in its new subsidiary, Radio X Network, which have started to generate revenues.

Management expects operations to generate negative cash flow at least through

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December 2003 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 we have already pledged substantially all of our assets and have restrictions on the issuance of our common stock.

Management plans to generate substantially all revenues in the future from sales of our Radio X Network programs. However, our limited financial resources have prevented the Company from aggressively advertising its product to achieve consumer recognition. Management plans to complete the SB-2 process, and once it is effective, raise an additional \$250,000 as committed under the convertible debenture agreement.

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. 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 12 Restatement

Subsequent to the issuance of the Company's consolidated financial statements for the three and nine months ended September 30, 2002 management became aware that those consolidated financial statements did not include \$240,570 and \$235,225 of interest expense in the second and third quarters, respectively, relating to a beneficial conversion feature for the convertible debentures. (See Note 5) The inclusion of these items in the revised consolidated financial statements has the effect of increasing additional paid-in capital by \$475,795, increasing net loss for the three and nine months ended September 30, 2002, by \$235,225 and \$475,795, respectively, and increasing net loss per share for the three and nine months ended September 30, 2002, by \$0.01 and \$0.02, respectively.