SHOPNET COM INC
Form DEF 14A
February 09, 2001

SCHEDULE 14A
(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the registrant |X|
Filed by a party other than the registrant |_|

Check the appropriate box:

|_| Preliminary proxy statement.
|X| Definitive proxy statement.
|_| Definitive additional materials.
|_| Soliciting material under Rule 14a-11(c) or Rule 14a-12.

|_| Confidential
Commission only (
by Rule 14a-6(e)(

ShopNet.Com, Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of filing fee (Check the appropriate box):

|X| No fee required
|_| Fee computed on table below per Exchange Act Rules 14a-(6)(i) (1) and 0-11. (1) Title of each class of securities to which transaction applies.

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it is determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

|_| Fee paid previously with preliminary materials.

|_| Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11 (a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:
(2) Form, Schedule or Registration Statement No.:
(3) Filing Party:

(4) Date Filed:

SHOPNET.COM, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON FRIDAY, MARCH 9, 2001

To the Stockholders of SHOPNET.COM, INC.

NOTICE IS HEREBY GIVEN that an Annual Meeting of Stockholders (the "Annual Meeting") of ShopNet.Com, Inc. (the "Company") will be held at the Company's offices located at 14 East 60th Street, Suite 402, New York, New York 10022, on Friday, March 9, 2001, at 10:00 a.m. Eastern Standard Time, for the following purposes:

1. To elect six (6) directors to serve until the next Annual Meeting of stockholders and until their successors are duly elected and qualified; and

2. To ratify the appointment of Massella, Tomaro & Co. as the independent auditors of the Company for the fiscal year end December 31, 2000; and

3. To transact such other business as properly may be brought before the meeting or any adjournment thereof.

Stockholders of record at the close of business on January 19, 2001 are entitled to notice of, and to vote at the Annual Meeting or any adjournment or postponement thereof. A list of such stockholders will be available at the Annual Meeting and, for any purpose germane to the Annual Meeting, during the ten days prior to the Annual Meeting, at the offices of the Company, 14 East 60th Street, Suite 402, New York, New York, during ordinary business hours.

You are cordially invited to attend the meeting. Whether or not you plan to attend, please complete, date, and sign the accompanying proxy, and return it promptly in the enclosed envelope to assure that your shares are represented at the meeting. If you do attend, you may revoke any prior proxy and vote your shares in person if you wish to do so. Any prior submitted proxy will automatically be revoked if you execute the accompanying proxy or if you notify the Secretary of the Company, in writing, prior to the Annual Meeting.

By Order of the Board of Directors

Harold Rashbaum, President

Dated: February 5, 2001

WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE COMPLETE, DATE, AND SIGN THE ENCLOSED PROXY, AND MAIL IT PROMPTLY IN THE ENCLOSED ENVELOPE IN ORDER TO ASSURE REPRESENTATION OF YOUR SHARES. NO POSTAGE NEED BE AFFIXED IF MAILED IN THE UNITED STATES.

SHOPNET.COM, INC.

PROXY STATEMENT

FOR ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MARCH 9, 2001

This proxy statement and the accompanying form of proxy were mailed on February 5, 2001 to the stockholders of record (as of January 19, 2001) of ShopNet.Com, Inc. (the "Company"), a Delaware corporation, in connection with the solicitation of proxies by the Board of Directors of the Company for use at the Annual Meeting to be held on March 9, 2001 and at any adjournment thereof.

All references to share amounts contained herein reflect (i) a 100% stock dividend paid on February 5, 1999 to stockholders of record on January 29, 1999, (ii) a 10% stock dividend paid on February 1, 2000 to all stockholders of record on January 20, 2000 and (iii) a 20% stock dividend paid on June 19, 2000 to all stockholders of record on May 19, 2000.

SOLICITATION, VOTING AND REVOCABILITY OF PROXIES

PURPOSE OF THE ANNUAL MEETING

The specific proposals to be considered and acted upon at the Annual Meeting are summarized in the accompanying Notice of Annual Meeting of Stockholders. Each proposal is described in more detail in this proxy statement.

RECORD DATE AND OUTSTANDING SHARES

The Board has fixed the close of business on January 19, 2001 as the record date (the "Record Date") for the determination of stockholders entitled to notice of, and to vote at, the Annual Meeting. Only stockholders of record at the close of business on that date will be entitled to vote at the Annual Meeting or any and all adjournments or postponements thereof. As of February 1, 2001, the Company had issued and outstanding 7,470,721 shares of common stock, $.001 par value per share ("Common Stock"), comprising all of the Company's issued and outstanding voting stock.

REVOCABILITY AND VOTING OF PROXIES

Any person signing a proxy in the form accompanying this proxy statement has the power to revoke it prior to the Annual Meeting or at the Annual Meeting prior to the vote pursuant to the proxy. A proxy may be revoked by any of the following methods:

- by writing a letter delivered to Jeanne Falletta, Secretary of the Company, stating that the proxy is revoked;
- by submitting another proxy with a later date; or
- by attending the Annual Meeting and voting in person.

Please note, however, that if a stockholder's shares are held of record by a broker, bank or other nominee and that stockholder wishes to vote at the Annual Meeting, the stockholder must bring to the Annual Meeting a letter from the broker, bank or other nominee confirming that stockholder's beneficial ownership of the shares.

Unless we receive specific instructions to the contrary or unless such proxy is revoked, shares represented by each properly executed proxy will be voted: (i) FOR the election of each of the Company's nominees as a director; (ii) FOR the ratification of the appointment of Massella, Tomaro & Co. as the independent auditors of the Company for the fiscal year ending December 31, 2000; and (iii) with respect to any other matters that may properly come before the Annual Meeting, at the discretion of the proxy holders. The Company does not presently anticipate any other business will be presented for action at the

Annual Meeting.

VOTING AT THE ANNUAL MEETING

Each share of common stock outstanding on the Record Date will be entitled to one vote on each matter submitted to a vote of the stockholders, including the election of directors. Cumulative voting by stockholders is not permitted.

The presence, in person or by proxy, of the holders of a majority of the votes entitled to be cast by the stockholders entitled to vote at the Annual Meeting is necessary to constitute a quorum. Abstentions and broker "non-votes" are counted as present and entitled to vote for purposes of determining a quorum. A broker "non-vote" occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner.

A plurality of the votes cast is required for the election of directors. Abstentions and broker "non-votes" are not counted for purpose of the election of directors.

SOLICITATION

We will pay the costs relating to this proxy statement, the proxy and the Annual Meeting. We may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to beneficial owners. Directors, officers and regular employees may also solicit proxies. They will not receive any additional pay for the solicitation.

NO DISSENTERS RIGHTS

The corporate action described in this proxy statement will not afford to stockholders the opportunity to dissent from the action described herein and to receive an agreed or judicially appraised value for their shares.

The Company's annual report on Form 10-KSB for the fiscal year ended December 31, 1999 and Audit Committee Charter accompany this proxy statement.

SECURITY OWNERSHIP OF
CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of February 1, 2001 with respect to the beneficial ownership of shares of Common Stock by (i) each person known by the Company to be the owner of more than 5% of the outstanding shares of Common Stock, (ii) each director or director nominee of the Company (iii) each executive officer of the Company for whom information is given in the Summary Compensation Table in this proxy statement and (iv) all officers and directors as a group. Except to the extent indicated in the footnotes to the following table or otherwise as specified in this Proxy Statement, each of the individuals/entities listed below possesses sole voting power with respect to the shares of Common Stock listed opposite his/its name.

Name and Address of Beneficial Owner (1)	Number of Shares Beneficially Owned (1)	Percent of Common Owned

European Ventures Corp. P.O. Box 47 Road Town Tortola, BVI	1,783,836(3)(7)	23
American Telecom Corp. C/o MW Todtman McNamara Chamber P.O. Box 47 Road Town Tortola, BVI	594,000(4)(5)(6)(7)	8.

Name and Address of Beneficial Owner (1)	Number of Shares Beneficially Owned (1)	Percent of Common Owned
HDS Capital Corp. C/o MW Todtman McNamara Chamber P.O. Box 47 Road Town Tortola, BVI	330,000(6)(7)	4.
Amir Capital Overseas Ltd. P.O. Box 47 Road Town Tortola, BVI	303,600(8)	4.
Volcano Trading Inc. C/o Valor Invest Via Cantalone 16 6900 Lugano, Switzerland	250,800 (8)	3.
Full Moon Development Corp. C/o Valor Invest Via Cantalone 16 6900 Lugano, Switzerland	277,200(8)	3.
Galit Capital, Ltd. Via Vanoni #6 Lugano, Switzerland CH 6901	290,400(8)	3.
Harold Rashbaum	252,000(9)	3.
Jeanne Falletta	--	-
Alain Le Guillou, M.D.	--	-
James Frakes	--	-
Michael Friedland	167,720(10)	2.
Debra Riggs	--	-
All Officers and Directors as a Group (six persons)	419,720(9)	5.

* Less than 1% of the outstanding common stock.

(1) Unless otherwise indicated, the address for each listed director or

officer is c/o ShopNet.Com, Inc., 14 East 60th Street, New York, New York 10022. As used in this table, "beneficial ownership" means the sole or shared power to vote or direct the voting or to dispose or direct the disposition of any security. For the purposes of this table, a person is deemed to be the beneficial owner of securities that can be acquired within 60 days from February 1, 2001 through the exercise of any option or warrant. Shares of Common Stock subject to options or warrants that are currently exercisable or exercisable within 60 days are deemed outstanding for computing the ownership percentage of the person holding such options or warrants, but are not deemed outstanding for computing the ownership percentage of any other person. The amounts and percentages are based upon 7,470,721 shares of common stock outstanding as of February 1, 2001.

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

(3) Includes an aggregate of 2,112 shares of common stock underlying 2,400 warrants. Each warrant is exercisable at a purchase price of $3.41 for .88 of a share of Common Stock. European Ventures Corp. ("EVC") is formed under the laws of the British Virgin Islands. Mr. Ilan Arbel, father-in-law of Harold Rashbaum, President, Chief Executive Officer and a director of the Company, is President of EVC and as such, has voting and dispositive control of shares of the Company beneficially owned by EVC and therefore may be deemed to beneficially own such shares.

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

(5) Includes 330,000 shares owned by HDS Capital Corp. ("HDS"), a Company organized under the laws of the British Virgin Islands, which is wholly owned by ATC.

(6) Mr. Arbel is President of HDS and by virtue of such position and his control over ATC and EACF (see footnotes (3) and (4) above), Mr. Arbel has voting and dispositive control over shares of the Company beneficially owned by HDS and therefore may be deemed to beneficially own such shares.

(7) Shares of the Company beneficially owned by EVC, ATC and HDS are held of record in the name of "Fiduciara Biaggini, as trustee" ("Fiduciara Biaggini"), on behalf of such respective entities which have retained beneficial ownership of such shares. Fiduciara Biaggini is a fiduciary company with an address at via Vanoni #6, Lugano, Switzerland CH 6901.

(8) Shares of the Company beneficially owned by each of Amir Capital Overseas Ltd. ("Amir"), Volcano Trading Inc. ("Volcano"), Full Moon Development Corp. ("Full Moon") and Galit Capital Ltd ("Galit"), all companies organized under the laws of the British Virgin Islands, are held of record in the name of "Fiduciara Biaggini, as trustee," on behalf of such respective entities. Fabio Rossi, a manager of Fiduciara Biaggini, is the President and sole director of each such entity. Accordingly, Mr. Rossi by virtue of such positions, may have voting and dispositive control over shares of the Company owned by each of Amir, Volcano, Full Moon and Galit and therefore may be deemed to be the beneficial owner of such shares, representing in the aggregate 15.1% of the Company's outstanding Common Stock.

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

(10) Includes 139,471 shares of Common Stock underlying an option granted to BBC Corp. ("BBC"), a company controlled by Mr. Arbel. BBC also has an option to purchase an additional 76,074 shares of Common Stock from Malcolm Becker ("BBC Option"), an officer of Breaking Waves, Inc., a wholly-owned subsidiary of the Company. Mr. Arbel controls BBC, and as such may be deemed to be the beneficial owner of the shares of Common Stock underlying the BBC Option.

By virtue of Mr. Arbel's voting and dispositive control of shares of the Company owned by each of EVC, ATC, HDS (see footnotes 3, 4, 5 and 6 above) and giving effect to the BBC Option (see footnote 10 above), Mr. Arbel may be deemed to beneficially own 34.8% of the Company's outstanding Common Stock.

Each of Mr. Arbel and several defendants were named in a complaint filed in May 1998 by the Securities and Exchange Commission ("Commission") alleging fraud and other violations of the securities laws during 1993 regarding three public companies: Viral Testing Systems, Inc., LS Capital Corporation and RMS Titanic, Inc. Simultaneously with the filing of the complaint, the Commission filed a judgment on consent against Mr. Arbel. Without admitting or denying the allegations of the complaint, Mr. Arbel and one other named defendant consented to (1) permanent injunctions against violating Sections 5(a) and 5(c) of the Securities Act of 1933, as amended ("Securities Act"), and Sections 13(d) and 16(a) of the Securities Exchange Act ("Exchange Act") and Rules 13d-1, 16a-2, and 16a-3 thereunder, and (2) a joint and several disgorgement obligation of $218,118, plus prejudgment interest. Mr. Arbel also consented to pay a penalty of $100,000 pursuant to Sections 20(d) of the Securities Act and 21(d)(3) of the Exchange Act.

MATTERS WHICH SHALL BE CONSIDERED AT THE MEETING AND WITH RESPECT TO WHICH ACTION WILL BE TAKEN THEREAT:

I. ELECTION OF DIRECTORS

The Board of Directors currently consists of six members elected for a term of one year or until their successors are duly elected and qualified.

An affirmative vote of a plurality of the shares of Common Stock, present in person or represented by proxy, at the Annual Meeting and entitled to vote thereon is required to elect the Directors. All proxies received by the Board of Directors will be voted for the election as Directors of the nominees listed below if no direction to the contrary is given. In the event any nominee is unable to serve, the proxy solicited hereby may be voted, in the discretion of the proxies, for the election of another person in his/her stead. The Board of Directors knows of no reason to anticipate this will occur.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE NOMINEES FOR DIRECTORS.

The following provides information about each nominee director, including data on their business backgrounds and the names of public companies and other selected entities for which they also serve as directors. The information concerning the directors and their security holdings has been furnished to us by each director.

The Directors of the Company are elected annually by the stockholders, and the Officers of the Company are appointed annually by the Board of Directors.

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

Harold Rashbaum, age 73, has been the President, Chief Executive Officer, and a Director of the Company since January 1997. Since September 1996, he has also been the President, Secretary, and sole Director of Breaking Waves, Inc. ("Breaking Waves"), a New York company which is a wholly-owned subsidiary of the Company. From May 1996 to January 1997, Mr. Rashbaum served as Secretary and Treasurer of the Company. Since September 1996, Mr. Rashbaum has been the Chairman of the Board of Directors of Play Co. Toys & Entertainment Corp. ("Play Co."), a public entity whose Common Stock, Series E Stock and Series E Warrants are quoted on the over-the-counter market on the OTC Bulletin Board. Mr. Rashbaum was a management consultant to Play Co. from July 1995 to September 10, 1996. In May 1998, he was elected as a Director of Toys International, Inc. ("Toys"), a majority-owned subsidiary of Play Co. whose Common stock is traded on the SMAX segment of the Frankfurt Stock Exchange. Since February 1996, Mr. Rashbaum has also been the President and a Director of H.B.R. Consultant Sales Corp. ("HBR"), of which his wife is the sole shareholder.

Jeanne Falletta, age 43, was elected a director of the Company in May 2000 and has been its Secretary since February 2000. Since October 1997, Ms. Falletta has been the controller of Breaking Waves where she has been employed since February 1997, initially having been hired as a bookkeeper. From January 1996 to February 1997, Ms. Falletta consulted with various companies as a freelance accountant.

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

James Frakes, age 45, has been a Director of the Company since January 1998 and was appointed Chairman of the Company's Audit Committee in June 2000. Since July 1997, Mr. Frakes has served as Chief Financial Officer and Secretary of Play Co. In August 1997, he was elected as a Director of Play Co. In January 1998, Mr. Frakes was appointed Secretary and Chief Financial Officer of Toys. He was elected as a Director of Toys in May 1998. From June 1990 to March 1997, Mr. Frakes was Chief Financial Officer of Urethane Technologies, Inc. ("UTI") and two of its subsidiaries, Polymer Development Laboratories, Inc. ("PDL") and BMC Acquisition, Inc. These were specialty chemical companies, which focused on the polyurethane segment of the plastics industry. Mr. Frakes was also Vice President and a Director of UTI during this period. In March 1997, three unsecured creditors of PDL filed a petition for the involuntary bankruptcy of PDL. From 1985 to 1990, Mr. Frakes was a manager for Berkeley International Capital Corporation, an investment banking firm specializing in later stage venture capital and leveraged buyout transactions.

Michael Friedland, age 63, has been a Director of the Company since May 2000. Mr. Friedland has been the Vice President of Design, Marketing and Sales of Breaking Waves since its inception in 1991. Mr. Friedland has over 40 years experience in the children's swimwear industry. Prior to joining Breaking Waves, Mr. Friedland co-founded Making Waves, Inc., a manufacturer of children's swimwear.

Debra Riggs, age 46, has been a Director of the Company since June 2000 when she was also appointed to the Company's Audit Committee. Ms. Riggs has been the Controller of Play Co. since February, 1999. From June, 1998 through January, 1999, Ms. Riggs was Controller of National Customer Engineering, a private company. Prior to NCE, Ms. Riggs was Assistant Controller of Factory 2-U Inc., a public company with over 200 retail stores in the business of selling discount clothing.

BOARD MEETINGS AND AUDIT COMMITTEE

The Board of Directors held one meeting during the fiscal years ended December 31, 1999 and 2000 and acted 15 times by unanimous consent. The Board of Directors has an Audit Committee

The Audit Committee of the Board of Directors was established in June 2000 and operates pursuant to a written Audit Committee Charter. This Committee has been established to review, act on and report to the Board of Directors with respect to various auditing and accounting matters, including the selection of independent auditors, the scope of the annual audit, fees to be paid to the auditors, the performance of the independent auditors and accounting practices. The members of the Audit Committee are Mr. James B. Frakes, who is the Chairman of the Committee, and Ms. Debra Riggs, both deemed to be independent members as that term is defined in Rule 4200(a)(15) of the National Association of Security Dealer's listing standards. The Audit Committee plans to hold its first meeting with Massella, Tomaro & Co. in 2001 to discuss the scope of the audit for the year ended December 31, 2000. The Audit Committee's Charter is attached as Appendix A to this Proxy Statement.

COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

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

No person ("a Reporting Person") who during the fiscal year ended December 31, 1999 was a director, officer, or beneficial owner of more than ten percent of the Company's Common Stock which is the only class of equity securities of the Company registered under ss.12 of the Securities Exchange Act of 1934, as amended, failed to file on a timely basis reports required by ss.16 of the Act during the most recent fiscal year except that, to the Company's knowledge, Mr. Rashbaum and Mr. Di Milia (a former officer of the Company) have not filed Forms 4 or Forms 5, and EVC has not filed a Form 5. The foregoing is based solely upon a review by the Company of (i) Forms 3 and 4 during the most recent fiscal year as furnished to the Company under Rule 16a-3(e) under the Act, (ii) Forms 5 and amendments thereto furnished to the Company with respect to its most recent fiscal year, and (iii) any representation received by the Company from any reporting person that no Form 5 is required, except as described herein.

EXECUTIVE COMPENSATION

SUMMARY OF CASH AND CERTAIN OTHER COMPENSATION

The following table provides certain information concerning all Plan and Non-Plan (as defined in Item 402 (a)(ii) of Regulation S-B) compensation awarded to, earned by, or paid to the named executive officer during the periods ended December 31, 2000, 1999 and 1998.

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long Awards
		($)	($)		
Name and Principal Position	Year	Salary	Bonus	Other Annual Compen-sation	Restricted Stock Award(s) ($)
Harold Rashbaum President, CEO,	2000	160,000	--	--	--
And Director	1999	162,000	--	--	--
	1998	156,000	--	--	--

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

STOCK OPTIONS

The following table contains information regarding options to purchase Common Stock held at December 31, 2000 by the Company's executive officer named in the Executive Compensation Table above.

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

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

(1) No options were exercised in the year ending December 31, 1999 or 2000.

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

exercisable at $1.38 per share.

(3) The options had no value on December 31, 2000 or January 19, 2001, since on each of those dates, the aggregate exercise price of the options exceeded the aggregate market value of the underlying shares (based on the closing sales prices of the Company's Common Stock on those dates.)

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Breaking Waves' Loan and Security Agreement with Century Business Credit Corporation ("Century") dated December 20, 2000 requires the provision of one or more letters of credit in the aggregate amount of $1,150,000 to partially secure the line of credit. Pursuant to the terms of a Reimbursement and Compensation Agreement, a trust ("Trust"), the beneficiary of which is the granddaughter of Harold Rashbaum, the Company's President and Chief Executive Officer, and the daughter of Mr. Arbel, provided the security underlying a letter of credit in the amount of $250,000 issued by a bank to replace a portion of a letter of credit previously provided by the Company. Breaking Waves agreed to reimburse the Trust for any and all losses, fees, charges and expenses to the Trust in the event the letter of credit is called by Century and the issuing bank makes payment and then demands reimbursement from the Trust. Breaking Waves' obligations are guaranteed by the Company in addition to being secured by a first security interest in all of the assets of the Company and a subordinate security interest in all of the assets of Breaking Waves. Breaking Waves paid a fee of $42,500 to the Trust and reimbursed the Trust for all related professional and other fees incurred by the Trust in connection with such transaction.

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

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

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

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

In November 1998, pursuant to a sales agreement entered into between Breaking Waves and Play Co., Breaking Waves purchased 1.4 million unregistered shares of Play Co.'s Common Stock in a private transaction. The shares purchased represented approximately 25.4% of the outstanding common stock of Play Co. immediately after the transaction. Such percentage has since been reduced to approximately 1.5% of Play Co.'s outstanding common stock, as reported on its Form 10-QSB for the quarter ended September 30, 2000. Pursuant to the agreement which bore an initial term of one year and automatically extended for an additional one year term since it was not terminated by either of the parties - Play Co. agreed to purchase (on a wholesale basis) a minimum of 250 pieces of merchandise for each of its retail locations and to provide advertising promotional materials and ads of the merchandise in all of its brochures, advertisements, catalogs, and all other promotional materials, merchandising programs, and sales promotion methods. Breaking Waves had previously sold a limited number of pieces of its swimwear to Play Co. As consideration for the stock, Breaking Waves remitted $504,000, which represented an approximate price of $0.36 per share: $300,000 of the consideration was remitted in cash, and the remaining $204,000 was provided in the form of merchandise, primarily girls' swimsuits.

In March 1998, Breaking Waves loaned $300,000 to Play Co. with such loan bearing interest at 9% per annum. The note called for five monthly installments of principal and interest commencing on August 15, 1998 and ending December 30, 1998 and has been repaid in full.

In March 1998 Breaking Waves loaned $250,000 to Play Co. with such loan bearing interest at 15% interest per annum. The note called for ten monthly installments of principal and interest commencing on March 31, 1998 and ending on December 31, 1998 and has been repaid in full.

In October 1996, pursuant to a promissory note, the Company loaned Harold Rashbaum its President and Chief Executive Officer a total of $50,000 bearing interest at 6 1/2% payable over three years. As of September 30, 2000, the unpaid portion, which is due on demand, amounted to $37,000, which has been classified as current. In 1998, the Company's President was also advanced additional funds totaling $3,000 which are non-interest bearing and due on demand and are classified as current.

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

Alain Le Guillou, a director of the Company, has been a consultant to the Company since 1996, receiving $12,000 per annum for such services. Until recently, Dr. Le Guillou was the son-in-law of Harold Rashbaum.

During the years ended December 31, 2000, 1999 and 1998, the Company paid $48,000, $24,000, and $27,000, respectively, in financial consulting fees to DRA Consulting, Inc., a company whose president is the daughter of the Company's President and Chief Executive Officer. II. RATIFICATION OF INDEPENDENT AUDITORS

The Board of Directors has selected the firm of Massella, Tomaro & Co. as its independent auditors to audit the financial statements of the Company for the fiscal year ending December 31, 2000, and recommends that stockholders vote for ratification of this appointment. Massella, Tomaro & Co. has audited the Company's financial statements since October 1998 Representatives of Massella, Tomaro & Co. are expected to be present at the Annual Meeting and will have the opportunity to make a statement if they desire to do so, and are expected to be available to respond to appropriate questions. The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and voting at the Annual Meeting will be required to ratify the selection of Massella, Tomaro & Co.

Stockholder ratification of the selection of Massella, Tomaro & Co. as the Company's independent auditors is not required by the Company's By-Laws or otherwise. However, the Board of Directors is submitting the selection of Massella, Tomaro & Co. to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee and the Board of Directors will reconsider whether or not to retain that firm. Even if the selection is ratified, the Board of Directors in its discretion may direct the appointment of different independent auditors at any time during the year if it determines that such change would be in the best interests of the Company and its stockholders.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR"THE RATIFICATION OF THE APPOINTMENT OF MASSELLA, TOMARO & CO. TO SERVE AS THE COMPANY'S INDEPENDENT AUDITORS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000.

FINANCIAL INFORMATION

A COPY OF THE COMPANY'S ANNUAL REPORT ON FORM 10-KSB FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999 (WITHOUT EXHIBITS), FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, ACCOMPANIES THIS PROXY STATEMENT. SAME SHALL BE FURNISHED (WITHOUT EXHIBITS) TO STOCKHOLDERS, WITHOUT CHARGE, UPON WRITTEN REQUEST THEREFOR SENT TO JEANNE FALLETTA, SECRETARY, SHOPNET.COM, INC., 14 EAST 60TH STREET, SUITE 402, NEW YORK, NEW YORK 10022.

STOCKHOLDER PROPOSALS

Proposals of stockholders intended to be presented at the Company's 2000 Annual Meeting of Stockholders must be received by the Company on or prior to September 1, 2001 to be eligible for inclusion in the Company's proxy statement and form of proxy to be used in connection with the 2000 Annual Meeting of Stockholders.

OTHER BUSINESS

As of the date of this proxy statement, the only business which the Board of Directors intends to present and knows that others will present at the Annual Meeting is that herein set forth. If any other matter is properly brought before the Annual Meeting or any adjournments thereof, it is the intention of the persons named in the accompanying form of proxy to vote the proxy on such matters in accordance with their judgment. By Order of the Board of Directors

Harold Rashbaum
President

February 5, 2001

Whether Or Not You Expect To Attend The Meeting, Please Complete And Return Your Proxy Promptly In The Enclosed Envelope. No Postage Is Required If It Is Mailed In The United State of America.

SHOPNET.COM, INC.

PROXY SOLICITED BY THE BOARD OF DIRECTORS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON FEBRUARY 23, 2001

The undersigned hereby appoints Harold Rashbaum and Jeanne Falletta, and each of them, as attorneys and proxies of the undersigned, with full power of substitution, to vote all of the shares of stock of Shopnet.com, Inc. which the undersigned may be entitled to vote at the Annual Meeting of Stockholders of ShopNet.Com, Inc. to be held at the offices of the Company located at 14 East 60th Street, Suite 402, New York, New York 10022 on March 9, 2001 at 10:00 a.m. (local time), and at any and all postponements, continuations and adjournments thereof, with all powers that the undersigned would possess if personally present, upon and in respect of the following matters and in accordance with the following instructions, with discretionary authority as to any and all other matters that may properly come before the meeting.

UNLESS A CONTRARY DIRECTION IS INDICATED, THIS PROXY WILL BE VOTED FOR ALL NOMINEES LISTED IN PROPOSAL 1 AND FOR PROPOSAL 2, AS MORE SPECIFICALLY DESCRIBED IN THE PROXY STATEMENT. IF SPECIFIC INSTRUCTIONS ARE INDICATED, THIS PROXY WILL BE VOTED IN ACCORDANCE THEREWITH.

MANAGEMENT RECOMMENDS A VOTE FOR THE NOMINEES FOR DIRECTOR LISTED BELOW.

FOR all nominees below (except as marked to the contrary below)

WITHHOLD AUTHORITY to vote for all nominees below

NOMINEES: Harold Rashbaum, Jeanne Falletta, Alain Le Guillou, M.D., James Frakes, Michael Friedland, Debra Riggs

TO WITHHOLD AUTHORITY TO VOTE FOR ANY NOMINEE(S) WRITE SUCH NOMINEE(S)' NAME(S)

-------------------------   -------------------------

MANAGEMENT RECOMMENDS A VOTE FOR PROPOSAL 2.

To ratify selection of Massella, Tomaro & Co. as independent auditors of ShopNet.Com, Inc. for its fiscal year ending December 31, 2000.

[] FOR   [] AGAINST   [] ABSTAIN

SEE REVERSE FOR
VOTING INSTRUCTIONS

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS. IT MAY BE REVOKED PRIOR TO ITS EXERCISE.

RECEIPT OF NOTICE OF THE ANNUAL MEETING AND PROXY STATEMENT IS HEREBY ACKNOWLEDGED, AND THE TERMS OF THE NOTICE AND PROXY STATEMENT ARE HEREBY INCORPORATED BY REFERENCE INTO THIS PROXY. THE UNDERSIGNED HEREBY REVOKES ALL PROXIES HERETOFORE GIVEN FOR SAID MEETING OR ANY AND ALL ADJOURNMENTS, POSTPONEMENTS AND CONTINUATIONS THEREOF.

PLEASE VOTE, DATE, SIGN AND PROMPTLY RETURN THIS PROXY IN THE ENCLOSED RETURN ENVELOPE WHICH IS POSTAGE PREPAID IF MAILED IN THE UNITED STATES.

Address Change? Mark Box []
Indicate Changes Below

Dated:__________________ 2001

SIGNATURE(S)

PLEASE SIGN EXACTLY AS YOUR NAME APPEARS HEREON. IF THE STOCK IS REGISTERED IN THE NAMES OF TWO OR MORE PERSONS, EACH SHOULD SIGN. EXECUTORS, ADMINISTRATORS, TRUSTEES, GUARDIANS AND ATTORNEYS-IN-FACT SHOULD ADD THEIR TITLES. IF SIGNER IS A CORPORATION, PLEASE GIVE FULL CORPORATE NAME AND HAVE A DULY AUTHORIZED OFFICER SIGN, STATING TITLE. IF SIGNER IS A PARTNERSHIP, PLEASE SIGN IN PARTNERSHIP NAME BY AUTHORIZED PERSON.

Appendix A

ShopNet.com, Inc.

Audit Committee Charter

This Audit Committee Charter ("Charter") has been adopted by the Board of

Directors (the "Board") of ShopNet.com, Inc. (the "Company"). The Audit Committee of the Board (the "Committee") shall review and reassess this Charter annually and recommend any proposed changes to the Board for approval.

I. Role and Independence: Organization

a. The Committee assists the Board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing, internal control and financial reporting practices of the Company. It may also have such other duties as may from time to time be assigned to it by the Board. The membership of the Committee shall consist of at least two directors, who are each free of any relationship that, in the opinion of the Board, may interfere with such member's individual exercise of independent judgment. The members of the Committee shall also meet the independence requirements for serving on audit committees, as set forth in the applicable rules of The Nasdaq Stock Market. The Committee shall maintain free and open communication with the independent auditors, and Company management. In discharging its oversight role, the Committee is empowered to investigate any matter relating to the Company's accounting, auditing, internal control or financial reporting practices brought to its attention, with full access to all Company books, records, facilities and personnel. The Committee may retain outside counsel, auditors or other advisors.

b. One member of the Committee shall be appointed as chair. The chair shall be responsible for leadership of the Committee, including scheduling and presiding over meetings, preparing agendas, and making regular reports to the Board. The chair will also maintain regular liaison with the CEO, CFO, the lead independent audit partner.

c. The Committee shall meet at least four times a year, or more frequently as the Committee considers necessary. At least once each year the Committee shall have separate private meetings with the independent auditors, management.

II. Responsibilities

Although the Committee may wish to consider other duties from time to time, the general recurring activities of the Committee in carrying out its oversight role are described below. The Committee shall be responsible for:

a. Recommending to the Board the independent auditors to be retained (or nominated for shareholder approval) to audit the financial statements of the Company. Such auditors are ultimately accountable to the Board and the Committee, as representatives of the shareholders.

b. Evaluating, together with the Board and management, the performance of the independent auditors and, where appropriate, replacing such auditors.

c. Obtaining annually from the independent auditors a formal written statement describing all relationships between the auditors and the Company, consistent with Independence Standards Board Standard Number 1. The Committee shall actively engage in a dialogue with the independent auditors with respect to any relationships that may impact the objectivity and independence of the auditors and shall take, or recommend that the Board take, appropriate actions to oversee and satisfy itself as to the auditors' independence.

d. Reviewing the audited financial statements and discussing them with management and the independent auditors. These discussions shall include the matters required to be discussed under Statement of Auditing Standards No. 61 and consideration of the quality of the Company's accounting principles as applied in its financial reporting, including a review of particularly sensitive accounting estimates, reserves and accruals, judgmental areas, audit adjustments (whether or not recorded), and other such inquiries as the Committee or the independent auditors shall deem appropriate. Based on such review, the Committee shall make its recommendation to the Board as to the inclusion of the Company's audited financial statements in the Company's Annual Report on Form 10-KSB (or the Annual Report to Shareholders, if distributed prior to the filing of the Form 10-KSB.

e. Issuing annually a report to be included in the Company's proxy statement as required by the rules of the Securities and Exchange Commission.

f. Overseeing the relationship with the independent auditors, including discussing with the auditors the nature and rigor of the audit process, receiving and reviewing audit reports, and providing the auditors full access to the Committee (and the Board) to report on any and all appropriate matters.

g. Discussing with a representative of management and the independent auditors: (1) the interim financial information contained in the Company's Quarterly Report on Form 10-QSB prior to its filing, (2) the earnings announcement prior to its release (if practicable), and (3) the results of the review of such information by the independent auditors. These discussions may be held with the Committee as a whole or with the Committee chair in person or by telephone.

h. Overseeing internal audit activities, including discussing with management and the internal auditors the internal audit function's organization, objectivity, responsibilities, plans, results, budget and staffing.

i. Discussing with management, the internal auditors and the independent auditors the quality and adequacy of and compliance with the Company's internal controls.

j. Discussing with management and/or the Company's general counsel any legal matters (including the status of pending litigation) that may have a material impact on the Company's financial statements, and any material reports or inquiries from regulatory or governmental agencies.

The Committee's job is one of oversight. Management is responsible for the preparation of the Company's financial statements and the independent auditors are responsible for auditing those financial statements. The Committee and the Board recognize that management (including the internal audit staff) and the independent auditors have more resources and time, and more detailed knowledge and information regarding the Company's accounting, auditing, internal control and financial reporting practices than the Committee does: accordingly the Committee's oversight role does not provide any expert or special assurance as to the financial statements and other financial information provided by the Company to its shareholders and others.

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-KSB

(Mark One)

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

For the fiscal year ended December 31, 1999

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 0-28690

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

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

14 East 60th Street, Suite 402, New York, New York 10022
(Address of Principal Executive Offices)

(212) 688-9223
(Issuer's Telephone Number, Including Area Code)

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

Title of Each Class and Name of Each Exchange on Which Registered

NONE

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

Common Stock, $.001 par value
(Title of Class)

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

Check if no disclosure of delinquent filers in response to Item 405 of Regulation S-B is contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB [X].

The Registrant's revenues for its fiscal year ended December 31, 1999 were $4,758,296.

The aggregate market value of the voting stock on March 31, 2000 (consisting of Common Stock, par value $0.001 per share) held by non-affiliates was approximately $22,392,671, based upon the closing price for such Common Stock on said date ($5.06), as reported by a market maker. On such date, there were 6,010,199 shares of Registrant's Common Stock outstanding.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

History

Shopnet.com, Inc. (the "Company" or "Shopnet") was founded in December 1995, in the State of Delaware, as Hollywood Productions, Inc. ("HPI"). Its purpose was to acquire screenplays and produce motion pictures.

In September 1996, the Company acquired Breaking Waves, Inc. ("Breaking Waves"), a New York corporation which remains a wholly owned subsidiary of the Company. This acquisition was contingent upon and was consummated simultaneously with the Company's initial public offering and marked the Company's entrance into the business of designing, manufacturing, and distributing (throughout the United States) young girls' swimwear and coordinating beach cover-ups and accessories. In 1998, Breaking Waves expanded its swimsuit business to include sales of boys' and men's swimwear, wet suits, cover-ups, and jackets, under its newly licensed "Jet Ski" line. The "Jet Ski" swimwear line was discontinued in October 1998, however, prior to production of the line, after management's reevaluation of and dissatisfaction with the potential profitability of same.

On May 5, 1999, the Company held a special meeting of shareholders at which it requested shareholder approval of a proposal to change its name from Hollywood Productions, Inc. to Shopnet. The proposal was approved, and on May 10, 1999, the Company effected the name change via filing an amendment to its Certificate of Incorporation with the Delaware Secretary of State. In accordance with the name change, the Company also changed its Nasdaq symbols from "FILM" and "FILMW" to "SPNT" and "SPNTW," respectively.

On May 12, 1999, Shopnet incorporated a new subsidiary, Hollywood Productions, Inc. ("Hollywood"), to which Shopnet assigned its motion picture business. As a result, Shopnet is now a holding company, owning 100% of Hollywood and Breaking Waves. Except where delineation is needed, Shopnet and its subsidiaries are referred to herein as the "Company."

Motion Picture Business

General

The Company, in general, has sought to acquire screenplays and produce motion pictures budgeted from $1 million to $3 million. It also may invest in the production of motion pictures though it may not receive absolute ownership of either the screenplay, the motion picture, or certain ancillary rights (i.e., stage performances or novel adaptations) thereto.

Production

Since its inception, the Company has actively solicited and reviewed screenplays with a view toward acquiring the rights to those which it anticipates either producing or co-producing. Typically, once a screenplay is acquired (i) a budget is prepared, (ii) revisions to the screenplay are made, (iii) the talent, production crews, and all ancillary items required for the filming of the motion picture are hired and/or otherwise obtained, and (iv) a film schedule is established. Once filming is complete, the film is edited, sound and special effects are added, and a final print is produced. The Company then arranges private showings of the film and elicits foreign and domestic distributors therefor.

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

Distribution, Billing and Revenues

Distribution of a film may be undertaken either by a motion picture studio, an independent distributor, or by the Company itself through an agent. The distributor or agent, in the event the Company self-distributes its films, enters agreements with the theaters to provide same with films to show the public. Most theaters have multiple screens and thus can show numerous movies at the same time. There is a continuous demand for new films. In negotiating with a distributor to sign on to a project, the Company and the distributor determine who will incur what portion of the costs of marketing a film, at which time a budget is prepared and the extent of the release of the film is determined. For most high budget, top-name talent pictures, the film is widely released to between 1,500 and 2,500 theaters nationwide. For films that the Company anticipates producing, the release may be done in platforming stages where the film may be released initially to theaters in one or two major markets where it will be advertised and marketed. A screening is then held, and critics are invited to review the film. If the film receives a favorable response from either the critics and/or the audience, the film's distribution will expand gradually into additional markets and theaters.

The Company expects that the films it produces will be distributed and shown at movie theaters. Once a film is distributed throughout theaters in the United States, it may be distributed in markets throughout the world. In addition, the film may be distributed through public or cable television - via pay-per-view, premium, and standard channels - and/or through the sale and/or rental of videotapes. There are many avenues for the distribution of a film and the exploitation of all ancillary rights thereto. The Company may enter into agreements with different distributors for different markets or sell all the rights to one distributor. Revenues generated are distributed to all parties involved including the distributor, the producers, the owners, and the talent pursuant to extensive formulas previously agreed upon.

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

The Company estimates that between 12 and 18 months will elapse between the commencement of expenditures by the Company in the acquisition of a screenplay, the production of a motion picture, and the release of same. The Company does not expect to receive revenues from the exploitation of a film until approximately 24 to 36 weeks after its release. Billing in the industry typically occurs quarterly: theaters pay distributors on a quarterly basis, and the Company is paid the following quarter. In the event a distributor desires to distribute one of the Company's films, however, such distributor may either (i) offer an initial payment to the Company against, or in addition to, future royalties or (ii) purchase the film outright.

Production of "Dirty Laundry"

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

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

Pursuant to the terms of the Purchase Agreement and Production Agreement, the Company financed all but $100,000 (which was invested by the co-producer) of the production costs of Dirty Laundry. Pursuant to these agreements as well as the terms of the participation agreements entered into with the two stars of Dirty Laundry, each of Jay Thomas and Tess Harper had the right to receive $50,000 against a 5% participation fee from the first revenues received by the Company. To date, Mr. Thomas and Ms. Harper each have been paid approximately $49,000 from funds which were received by the Company from the licensing - by the Company's foreign sales agent (Trident Releasing, Inc., "Trident") - of the film in several territories in the overseas marketplace. In April 1997, Trident entered into one such license agreement with TaurusFilm GmbH & Co. ("TF") whereby TF agreed to distribute a version of the film in Germany in either a dubbed and/or subtitled fashion. Gross receipts generated from this agreement were approximately $120,000.

After the above-named talent has been paid his entire $50,000 and the investments of each of the co-producers have been recouped, the remaining proceeds shall be distributed as follows: (i) 5% of revenues shall be remitted to each of Mr. Thomas and Ms. Harper, up to a maximum of $250,000, at which time each individual's distribution decreases to 2% thereafter, (ii) the Company and the co-producer each shall receive 25% and 35%, respectively, of its respective investment from revenues generated, representing payment of an investment premium for each producer's financing of the film, and (iii) all revenues generated beyond (i) and (ii) shall first be used to repay any distribution costs incurred, then 2% shall be distributed to each of the two stars, and the remainder shall be remitted to the Company and the co-producer at the rate of 75% and 25%, respectively.

The filming of Dirty Laundry commenced in April 1996 and took approximately five weeks to complete after which the Company undertook the process of editing and adding sound, special effects, and music (requiring an additional twenty weeks). The Company then conducted private showings of the film in order to secure both a foreign sales representative (Trident) to enter into foreign licensing agreements and a domestic distributor. To this end, the Company met with numerous local and cable television companies and offered screenings of the film to major and "mini-major" studios and specialty distributors. Notwithstanding such attempts, which occurred over a six to eight month period, the Company was unable to engage a theatrical (i.e. movie theater) distributor. Accordingly, the Company's next step was to meet with pay cable, network television, and syndicated television entities including, among others, HBO, Showtime, and Lifetime for Women, in an attempt to have the film premier on one or more of such stations. After approximately nine months without success, commencing in approximately November 1997, the Company spent an additional seven months attempting to distribute the film to ancillary markets such as home video and pay-per-view.

In June 1998, the Company entered into an agreement with Artistic License Films ("ALF") whereupon ALF agreed to use its best efforts to distribute (i.e., release) the film in at least three New York theaters and two Los Angeles theaters. In exchange for its efforts, ALF received a $20,000 retainer fee which constitutes an advance against ALF's distributor's fee of 25% of the gross receipts from the theatrical distribution of the film. Pursuant to the agreement, such receipts shall be paid as follows: (i) the first 75% shall be paid to the Company to reimburse it for all direct expenses it incurs in connection with the distribution of the film, (ii) then 25% shall be paid to the Company to reimburse same for its advance payment of the retainer to ALF, (iii) next, the distributor shall be paid its 25% of the receipts its advance, and (iv) finally, the remaining gross receipts shall be remitted to the Company.

The film eventually was released to five New York and three Los Angeles theaters whereupon it had a limited run during the fall of 1998 and received marginal reviews. Although the Company has been unsuccessful in securing video, syndicated, network, and cable television, and pay-per-view distribution, it intends to continue its efforts to distribute the film.

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

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

Production of "Machiavelli Rises"

In April 1998, the Company entered into a co-production agreement with North Folk Films, Inc. ("North Folk") for the production of a film entitled "Machiavelli Rises." The Company and North Folk formed a limited liability company, Battle Studies Productions, LLC ("Battle Studies"), to finance, produce, and distribute the film which commenced production in April 1998. Principal photography was completed in May 1998 at a total cost of $265,000. Post-production work on the film was completed in November 1998. The film was written, directed, and co-produced by Efraim Horowitz and can be characterized as a contemporary ghost story about power, greed, love, and Leonardo Da Vinci's lost notebook. Total production costs to date have aggregated approximately $425,000 of which the Company has funded 50%. In accordance with the terms of the co-production agreement, the proceeds of the film will be distributed as follows: first, both parties shall be entitled to recoup their initial investment in the film, at 135% thereof; then, after repayment to the respective parties of additional costs incurred by same, any remaining proceeds shall be distributed 50% to North Folk and 50% to the Company. The film was shown in January 1999 in both New York and at the Brussels Film Festival.

More recently, in February 2000, "Machiavelli Rises" was one of thirty-eight films showcased at the New York Independent Film Festival ("NYIFF") in New York City where it was honored with the award for Best Screenplay. In addition, it has been chosen (along with only six other films) for presentment at the Los Angeles distribution of the NYIFF on April 28, 2000. The Company hopes that its recent exposure and award will result in increased interest from the distribution community.

Regulations

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

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

Competition in the Film Industry

The Company competes, and will continue to compete, with other institutions which produce, distribute, and exploit and finance films, some of which have substantial financial and human resources considerably more extensive than the Company's. These institutions include the major film studios - including Disney, Universal, MGM, and Sony - as well as the television networks. Industry members compete substantially for the hire or purchase of a limited number of producers, directors, actors, and screenplays which are able to attract major distribution in all media and all markets throughout the world.

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

Swimwear Business

General

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

Pursuant to its license agreement with Kawasaki Motors Corp. USA ("Kawasaki"), commencing in the latter half of calendar 1998, the Company expanded its market by selling boys' swimwear, wet suits, cover-ups, and jackets under the "Jet Ski" trade name. The "Jet Ski" line was discontinued in October 1998, however, upon management's reevaluation of and dissatisfaction with the potential profitability of same.

Breaking Waves markets swimwear under private brand labels including "Breaking Waves," "All Waves," and "Making Waves." Under a license agreement with Beach Patrol, Inc. ("Beach Patrol"), Breaking Waves also markets and manufactures a line of children's swimwear under the name "Daffy Waterwear" and has the exclusive right to use the "All Waves," "Breaking Waves," "Making Waves," and other marks in connection with its manufacture and sale of girls' swim and beach wear.

Products, Design, Supplies and Inventory

Breaking Waves designs, manufactures, and sells both private label and name brand girl's swimwear and accessories. It has an office in Homestead, Florida where its designer designs all styles for its swimwear lines and accessory items. Each season, roughly 20-25 prints and fabrics are developed for the "Breaking Waves" line, 15-18 prints and fabrics are developed for the "All Waves" line, and 12-16 prints are developed for the "Daffy Waterwear" line. These lines each comprised approximately one-third of Breaking Waves' volume for the year ended December 31, 1999.

In designing its children's swimwear, Breaking Waves adapts certain of the prints and styles it is provided by Beach Patrol which management feels are appropriate for children's wear. Of each fabric or print chosen, the Company usually manufactures two swimsuits: a one-piece model and a two-piece model.

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

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

For the year ended December 31, 1999, approximately 50%, 40%, and 10% of Breaking Waves' finished products were purchased from two Indonesian manufactures and one Samoan manufacturer, respectively, whereas for the year ended December 31, 1998, 50%, 40%, and 10% of Breaking Waves' finished products were purchased from two Indonesian manufacturers and one Philippine manufacturer. Although management of Breaking Waves is of the opinion that the fabrics and non-fabric sub-materials it uses are readily available and that there are numerous manufacturers for such piece goods who offer similar terms and prices, there can be no assurance that management is correct in such belief. The unavailability of fabrics or the absence of clothiers, or the availability of either at unreasonable cost, could adversely affect the operations of Breaking Waves and, hence, the Company.

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

Financing Arrangements

In August 1997, Breaking Waves terminated its accounts receivable financing agreement with NationsBanc and entered into a Factoring and Revolving Inventory Loan and Security Agreement (the "Heller Agreement") with Heller Financial, Inc. ("Heller") pursuant to which Heller agreed to (i) purchase all of Breaking Waves' accounts receivables, (ii) provide advances against such accounts receivables, (iii) provide a revolving loan, and (iv) guarantee letters of credit in excess of $1.5 million as well as provide certain other services. The Company is a guarantor of Breaking Waves' obligations to Heller. The Company maintains a letter of credit with a financial institution in support of and as a condition to its factoring agreement. The financial institution requires the Company to maintain $1.15 million on deposit as collateral for such letter of credit. Breaking Waves may take advances of up to 85% of the purchase price of its eligible accounts receivable.

Initially, the Heller Agreement provided that at the time Heller purchased each receivable, it would charge Breaking Waves a factoring commission of 1%, but in no event less than $3.00 per invoice. In addition to advances, Heller would make revolving loans to Breaking Waves, on Breaking Waves' request, of up to 50% of eligible inventory. Moreover, Breaking Waves would pay Heller interest on the daily balance of outstanding advances and revolving loans at the Base Rate. "Base Rate" means a variable rate of interest per annum equal to the higher of (a) the rate of interest from time to time as published by the Board of Governors of the Federal Reserve System as the "Bank Prime Loan" rate in Federal Reserve Statistical Release H.15 (519) entitled "Selected Interest Rates" or any successor publication of the Federal Reserve System reporting the Bank Prime Loan rate or its equivalent, or (b) the Federal Funds effective rate.

In December 1998, Breaking Waves and Heller amended the Heller Agreement to provide (i) factoring commissions of (a) 0.85% on the first $5 million in accounts sold and assigned to Heller during each year and (b) 0.65% on all accounts in excess of $5 million sold and assigned to Heller during each year, but in no event less than $3 per invoice; and (ii) on accounts bearing terms greater than 90 days, an increase in commission by 0.25% for each 30 days or part thereof that the terms exceed 60 days. The interest expense paid to Heller under the Heller Agreement totaled approximately $228,772 for the year ended December 31, 1999.

Marketing and Sales

The "Daffy Waterwear" label is sold to department and specialty stores. The "Breaking Waves" label is also distributed through better department and specialty stores. The "All Waves" label is sold to mass merchants and also as promotional goods in department stores. Private label programs are supplied to several major chains and department store groups. For the year ended December 31, 1999, the "Breaking Waves," "All Waves," and "Daffy Waterwear" labels each accounted for approximately 1/3 of Breaking Waves' volume, and the "Jet Ski" label accounted for approximately 1% of same.

Breaking Waves sells its swimwear and accessory items through its showroom sales staff and through independent sales representatives. Its customers include the Dillard and Federated department store groups as well as Kids R Us, Sears, Wal-Mart, T.J. Maxx, Kohl's Department Store, and Marshalls. Pursuant to a sales agreement entered into with Play Co. Toys & Entertainment Corp. ("Play Co.," (a toy retailer and publicly traded company whose board chairman is the President of both the Company and Breaking Waves), Breaking Waves also sells its swimwear in certain of Play Co.'s toy stores. (See "--Acquisition of Minority Interest in Play Co. Toys & Entertainment Corp.") For the years ended December 31, 1999 and 1998, Breaking Waves had four and three concentrations of customers, respectively, comprising 17%, 13%, 12%, and 10% and 13%, 13%, and 11% of net sales, respectively.

Breaking Waves' merchandise is shipped pursuant to purchase orders sent by its customers and is sent f.o.b. (freight on board) meaning Breaking Waves is neither responsible for the goods during shipment nor for the delivery charge. Payment is due 30 days after shipment. No goods are shipped on consignment; therefore, except for non-conforming or damaged goods, all goods shipped are considered sold.

In addition to its in-house sales and showroom personnel, approximately twenty independent sales representatives throughout the United States sell

Breaking Waves merchandise. These representatives service department stores and smaller specialty retailers. Separate independent representatives sell the "Daffy Waterwear" line. None of these representatives is under contract with Breaking Waves; nor does any receive a salary from same. Rather, each is paid a commission based upon his sales. In addition to showroom sales and sales representatives calling on customers, Breaking Waves exhibits its products at major trade shows. End of season and discontinued merchandise is sold to off-price stores.

Internet Sales

In March 1999, Breaking Waves launched an online wholesale children's swimwear website at www.breakingwaves.com. The website was designed to complement the company's wholesale distribution efforts by providing retailers instant access to more than 200 styles of Breaking Waves swimwear. The entire line of Breaking Waves swimwear, including products marketed under the "Breaking Waves," "All Waves," "Daffy Waterwear," and "Jet Ski" brands, was available for online purchase by retailers. The Breaking Waves website is hosted by Mindspring and incorporates e-commerce features from Cybercash and Mercantec, Inc.

Management believed that the website would fill the needs of existing and potential customers since, through the Internet, retailers can purchase merchandise online in a matter of minutes, at their own convenience, instead of having to wait for delivery of a printed wholesale catalog. Management believed that the advantages and efficiencies created by the website also would assist Breaking Waves in increasing brand awareness as well as market share. The Company expected to utilize marketing strategies for "driving" retailers to the site including co-op trade advertisements, tradeshow exposure, direct mail, and inclusion of the website address on all corporate collateral and product labels.

The Company has since found that most individual consumers do not purchase swimwear until April or May and that the Company's website thus is ineffective, for the Company has sold all of its merchandise to retailers by March, leaving nothing for internet consumers to purchase. Accordingly, at present, the www.breakingwaves.com website and the two others created by the Company in May 1999 (www.usa-shopnet.com and www.smallwavesswimwear.com) lie dormant.

Also dormant at present are the two websites developed by the Company last fall (www.videonostalgia.com, www.videooncall.com) for the purpose of selling full length motion pictures and short subjects on video cassette and DVD. These sites were developed with the intention of offering up to 5,000 motion pictures: from musicals, action and horror films, and vintage motion pictures to more contemporary, collector, out of print, genre, and foreign films and film memorabilia. In mid-1999, after extensive consideration of the costs required to market and advertise these sites and to purchase the films, the Company decided to delay the launch of these e-commerce websites.

Work in Progress

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

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

November to May, with January through March being the peak shipping time.

Trademarks and Licensing; New Product Line

Breaking Waves relies on common law trademarks for usage of its private label swimwear lines. In addition, in October 1995, it entered into a licensing agreement with Beach Patrol to use the trademark "Daffy Waterwear." Beach Patrol supplies prints and designs used under this agreement for the Daffy line. Pursuant to the licensing agreement, Breaking Waves was given the right to use those designs for a children's line under the "Daffy Waterwear" label from January 1, 1996 to June 30, 1998. Thereafter, the agreement provided for a three year extension, at the option of Breaking Waves, through and until June 30, 2001. Breaking Waves has exercised this option, thereby so extending the agreement. For its right to use the trademark, Breaking Waves agreed to pay Beach Patrol, subject to certain variables, the greater of 5% of net sales or as follows: (i) during the first six months, an aggregate of $75,000, (ii) during the next twelve months, an aggregate of $85,000, (iii) during the final twelve months, an aggregate of $100,000, and (iv) during each of the final three years of the agreement, an aggregate of $150,000, $175,000, and $200,000, respectively.

Breaking Waves also entered into a licensing agreement with Kawasaki to use the trademark "Jet Ski" for a line of girls', boys', and men's swimwear and accessories. In October 1998, the "Jet Ski" line was discontinued. The license agreement expired May 31, 1999.

In addition to the foregoing, Breaking Waves has registered trademarks for the "Breaking Waves" and "All Waves" labels. There can be no assurance that such trademarks or the marks licensed by Breaking Waves adequately will be protected against infringement. In addition, there can be no assurance that Breaking Waves will not be found to be infringing on another company's trademark. In the event Breaking Waves finds another party to be infringing upon one of its trademarks, if registered, or is found by another company to be infringing upon such company's trademark, there can be no assurance that Breaking Waves will have the financial means to litigate such matters.

On October 31,1996, Breaking Waves entered into a license agreement with North-South Books, Inc. ("NSB") for the exclusive use of certain art work and text in the making of swimsuits and accessories in the United States and Canada. The agreement expired on March 1, 1999. Breaking Waves recorded $784 and $4,852 in royalties under this agreement during the years ended December 31, 1999 and 1998, respectively.

Competition

There is intense competition in the swimwear apparel industry. Breaking Waves competes with many other manufacturers in these markets, many of which are larger and have greater resources than it does. Major competitors in the swimwear industry include "Ocean Pacific," "Gottex," and "Speedo." In addition, department stores and retailers have their own private label programs which are the major competition in the mass merchant business.

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

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

Seasonality

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

Employees

During the year ended December 31, 1999, the Company had two executive officers (and one administrative assistant) to oversee both its operations and those of Breaking Waves. In January 2000, the Company's secretary (and director), Robert DiMilia, resigned from his position. Most screenwriters, performers, directors, and technical personnel who are or will be involved in the Company's films are members of guilds or unions which bargain collectively with producers on an industry-wide basis from time to time. Any work stoppages or other labor difficulties could delay the production of the films resulting in increased production costs and delayed return of investments. Breaking Waves has three executive officers - including two vice presidents in charge of design, merchandising, marketing, and sales - and one administrative assistant. Breaking Waves has approximately twenty independent road sales people and accounting and clerical staff.

Business Risks

The Company anticipates that the motion pictures it produces will cost between $1 million and $3 million, depending on the film. The likelihood of the success of each film and the Company's ability to stay on budget and on schedule for each film must be considered in light of the problems, expenses, difficulties, complications, and delays frequently encountered in connection with the production of a motion picture. Due to unforeseen problems and delays including illness, weather, technical difficulty, and human error, by completion, most films are considerably over budget. In addition, the lack of experience of management in this industry, the limited operating history and capital of the Company, and the competitive environment in which the Company operates may cause increased expenses due to mistakes and delays in the production of the films.

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

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

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

10% Common Stock Dividend

On January 7, 2000, the Company's Board of Directors authorized the issuance of a 10% stock dividend to all holders of shares of the Company's common stock, par value $0.001 per share (the "Common Stock"), as of January 20, 1999 (the "Record Date"). Pursuant to the terms of the dividend (i) every ten shares of Common Stock owned by a shareholder generated one additional share of Common Stock and (ii) owners of five or more shares but less than ten shares were issued one share of Common Stock as were owners of five or more shares in excess of the ten share "block" which generated the dividend. Shareholders owning (i) fewer than five shares in total or (ii) four or fewer shares in excess of the ten share "block" did not receive the dividend on such shares. The dividend was paid on February 1, 2000.

The exercise terms of the Company's outstanding warrants (the "Warrants") were adjusted to reflect the dividend such that a warrantholder must exercise three Warrants, at an aggregate exercise price of $8.10, in order to purchase two shares of Common Stock. No single shares are issuable.

Consulting Agreement

In September 1999, the Company entered into a consulting agreement with Robb Peck McCooey Clearing Corporation ("RPMCC") pursuant to which RPMCC agreed to perform corporate finance and advisory services to the Company in exchange for compensatory options as follows: 100,000 options exercisable at $2.50 per share, 100,000 exercisable at $3.00 per share, 100,000 exercisable at $3.50 per share, and 100,000 exercisable at $4.00 per share, all of which options expire in September 2000.

100% Common Stock Dividend

On January 14, 1999, the Company's Board of Directors authorized the issuance of a stock dividend to all holders of shares of the Company's Common Stock as of January 29, 1999. Pursuant to such dividend, each share of Common Stock held on January 29, 1999 generated the issuance of one additional share. The dividend was paid on February 5, 1999.

Frankfurt Exchange

In July 1999, the Company's Common stock was listed on the Third Segment of the Frankfurt Stock Exchange.

Acquisition of Minority Interest in Play Co. Toys & Entertainment Corp.

On November 24, 1998, pursuant to a sales agreement (the "Sales Agreement") entered into in September 1998 by and between Breaking Waves and

Play Co. (a toy retailer and publicly traded company whose board chairman is the President of both the Company and Breaking Waves), Breaking Waves purchased 1.4 million unregistered shares of Play Co.'s common stock in a private transaction. As a result of this stock purchase, Breaking Waves acquired approximately 25.4% of the then total issued and outstanding shares of Play Co. common stock. As consideration for the stock, Breaking Waves remitted $504,000, which represented an approximate price of $0.36 per share: $300,000 of the consideration was remitted in cash, and the remaining $204,000 was provided in the form of merchandise, primarily girls' swimsuits.

Prior to entering the Sales Agreement Breaking Waves had sold a limited number of pieces of its swimwear to Play Co. in order to engage in a market test of the sale of same from certain of Play Co.'s toy stores. Since the test proved successful, Breaking Waves entered into the Sales Agreement pursuant to which it agreed to sell to Play Co. on a wholesale basis (and Play Co. agreed to purchase from Breaking Waves, during each season during which swimwear is purchased) an agreed upon number of pieces of merchandise for its retail locations. Play Co. further agreed to provide advertising, promotional materials, and ads of the merchandise in all of its brochures, advertisements, catalogs, and all other promotional materials, merchandising programs, and sales promotion methods, in all mediums utilized by same. The sales agreement bore an initial term of one year and provides for automatic one-year extensions unless either Breaking Waves or Play Co. terminates same.

Private Offerings of Common Stock and Registration Thereof

In February 1998, pursuant to private transactions, the Company sold 660,000 shares of Common Stock for approximately $195,000. In May 1998, pursuant to private transactions, the Company sold an additional 770,000 shares of Common Stock for an aggregate $560,000. The proceeds from these private offerings were utilized by the Company for general working capital and to fund the Company's interest in Battle Studies.

In May 1998, the Company filed a Form S-3 registration statement to register the 660,000 shares issued in the February 1998 private placement and an additional 2,156,770 shares (adjusted for the Company's stock splits and dividends) of Common Stock held by the Company's then majority shareholder, European Ventures Corp. ("EVC"), a company whose sole officer and director is related to the Company's president. The registration was deemed effective by the Securities and Exchange Commission (the "SEC") on July 30, 1998.

Warrant Distribution

On April 15, 1998, the Company's Board of Directors authorized the distribution of Warrants (the "Distribution Warrants") to all holders of shares of the Company's Common Stock as of May 8, 1998 (the "Warrant Record Date"). Pursuant to the distribution, each share held on the Warrant Record Date shall generate the issuance of one Distribution Warrant to purchase one share of Common Stock at an exercise price of $4.00 per share. The Distribution Warrants, which are exercisable for a period of three years commencing one year after issuance, shall be issued and distributed once the Company has filed a registration statement for same and same has been declared effective by the SEC. The Company intends to file the registration statement in the summer of 2000.

One for Three Reverse Split

In February 1998, the Company effected a one for three reverse split of its Common Stock.

Initial Public Offering and Acquisition of Breaking Waves, Inc.

In September 1996, the Company consummated a public offering of 586,667 shares of its Common Stock and 1,600,000 Warrants through Euro-Atlantic Securities, Inc. ("Euro-Atlantic"). The Company received net proceeds of $3,813,294 from the offering. Also included in the offering were 1,026,667 shares and 2,000,000 Warrants registered for resale by EVC, the then majority shareholder of the Company.

Pursuant to a stock purchase agreement, dated May 31, 1996, entered into between the Company and the shareholders of Breaking Waves, the shareholders of Breaking Waves exchanged all of the issued and outstanding shares of Breaking Waves common stock for 110,000 shares of the Company's Common Stock. The acquisition (the "Acquisition") was consummated contemporaneously with the closing of the Company's initial public offering.

Pursuant to the terms of the agreement, on the closing date of the Acquisition, Breaking Waves performed a recapitalization and exchanged of all of its common stock for new common stock and for a series of preferred stock designated the "Series A Preferred Stock." For each share of Breaking Waves' common stock exchanged, the holder received one share of new common stock and 28 shares of Series A Preferred Stock. In connection therewith, Breaking Waves amended its certificate of incorporation to authorize 5,600 shares of preferred stock, designated as the Series A Preferred Stock. One-half of the Series A Preferred Stock was redeemable by Breaking Waves at $100 per share on January 1, 1997, and the remaining one-half was redeemable at $100 per share on January 1, 1998. All Series A Preferred Stock, which had no dividend, conversion, or voting rights (but had a preference on liquidation equal to $100 per share), has been redeemed.

Also pursuant to the terms of the agreement, the Company replaced the personal guarantees the prior shareholders of Breaking Waves has issued to NationsBanc Commercial Corp. ("NationsBanc"), in accordance with the Company's then line of credit. The Company replaced the guarantees with letters of credit secured by bank deposits. The Company contributed $100,000 of the proceeds to the capital of Breaking Waves, and simultaneously, Breaking Waves repaid loans made by Daniel Stone and Susan Stone in the aggregate amount of $100,000. Immediately preceding the consummation of the Acquisition, Breaking Waves distributed to its shareholders an amount equal to 45% of the net income before taxes of Breaking Waves for the period from January 1, 1996 to the closing date. This was done in order to pay taxes owed by such shareholders, since Breaking Waves was a subchapter S corporation.

UNLESS OTHERWISE NOTED, ALL SHARE AND PER SHARE INFORMATION CONTAINED IN THIS ANNUAL REPORT REFLECTS RETROACTIVE APPLICATION OF THE COMPANY'S REVERSE STOCK SPLIT OF FEBRUARY 1998 AND ITS COMMON STOCK DIVIDENDS OF FEBRUARY 1999 AND FEBRUARY 2000.

ITEM 2. DESCRIPTION OF PROPERTY

The Company's executive offices are located at 14 East 60th Street, Suite 402, New York, New York 10022, (212) 688-9223, and comprise approximately 1,800 square feet. The Company leased its office space in November 1996 for a term of five years, at an approximate base annual rental of $70,000. The Company has the option to terminate this lease anytime after November 1999.

Breaking Waves maintains its executive offices and showroom at 112 West 34th Street, New York, New York 10120. Until January 1998, this space was approximately 1,000 square feet and comprised only office space. In January 1998, Breaking Waves amended its lease and rented an additional 1,000 square feet. The lease is for a term of seven years, expiring December 2004, and carries an annual rental of $71,600. Breaking Waves also maintains a Florida office, which it moved in January 1999 from Miami to 19865 Southwest 328th Street, Homestead, Florida 33030. This office, comprising approximately 780 square feet, houses Breaking Waves' design operation and is rented month to month for approximately $900.

ITEM 3. LEGAL PROCEEDINGS

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

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

On May 10, 1999, the Company held a special meeting of its shareholders to vote on a proposal to authorize an amendment to the Company's Certificate of Incorporation to effect a change in the name of the Company from Hollywood Productions, Inc. to Shopnet.com, Inc. The proposal was approved: votes cast for same aggregated 2,966,569; votes cast against same aggregated 9,666; and abstentions aggregated 666.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Market Information

The Company's Common Stock is quoted on the SmallCap Market of the Nasdaq Stock Market and the Third Segment of the Frankfurt Stock Exchange. The following table sets forth representative high and low sale prices as reported by a market maker for the Company's Common Stock and Warrants, during the period from January 1, 1998 through March 31, 2000. Sales prices reflect prices between dealers and do not include resale mark-ups, mark-downs, or other fees or commissions.

	Common Stock		War
Calendar Period	Low	High	Low
1998			
01/01/98 - 02/04/98 (1)	7/32	5/16	1/32
02/05/98 - 03/31/98	2 3/4	3 3/16	1/32
04/01/98 - 06/30/98	2 1/16	4 13/16	1/16
07/01/98 - 09/30/98	7/16	3/32	1/32
10/01/98 - 12/31/98	5/16	1 1/4	1/32
1999 (2)			
01/01/99 - 03/31/99	1/2	2 25/32	1/32
04/01/99 - 06/30/99	1 1/16	3 3/32	1/16
07/01/99 - 09/30/99	2 1/16	2 3/4	1/8
10/01/99 - 12/31/99	2 1/16	3 7/16	1/8
2000			
01/01/00 - 03/31/00	2 9/16	7 23/32	1/8

(1) The above prices reflect the price per pre-reverse split shares and Warrants through February 5, 1998. The Company's one for three reverse stock split and corresponding Warrant adjustment became effective on February 5, 1998; accordingly, for dates thereafter, the above table reflects the price for post-split shares and post-adjustment Warrants commencing on that date.

(2) The table reflects the price for post-dividend shares and post-adjustment Warrants since February 5, 1999.

As of March 31, 2000, there were 54 holders of record of the Company's Common Stock, although the Company believes that there are approximately 900 additional beneficial owners of shares of Common Stock held in street name. As of March 31, 2000, the number of outstanding shares of the Company's Common Stock was 6,010,199. (This number is subject to change, nominally, as the 2,751 pre-reverse split and pre-dividend shares which have not been exchanged as yet are offered for such exchange by the Company's shareholders.)

Initially, each Warrant entitled the holders thereof to purchase one share of the Company's Common Stock at an exercise price of $6.50 per share, until September 9, 2001. On June 23, 1997, the Board of Directors approved a reduction in the exercise price of the Warrants from $6.50 to $3.00. On February 5, 1998, the Company effected a one for three reverse split of the Company's Common Stock. Accordingly, the Company adjusted the terms of the Warrants to reflect the reverse split such that exercise of three Warrants would entitle the holder to purchase one share of Common Stock at an exercise price of $9.00. On February 5, 1999, the Company issued a 100% Common Stock dividend and accordingly adjusted the terms of the Warrants such that exercise of three Warrants at $9.00 would entitle the holder to purchase two shares of Common Stock. On February 1, 2000, the Company issued a 10% Common Stock dividend and adjusted the terms of the Warrants accordingly, such that pursuant to the existing terms, exercise of three Warrants at an aggregate $8.10 will entitle the holder thereof to two shares of Common Stock.

Euro-Atlantic, the underwriter of the Company's initial public offering, was a dominant influence in the market for the Company's securities until February 1997, at which time Euro-Atlantic's clearing firm, WS Clearing Corp., ceased operations resulting in a freeze of all of the accounts of Euro-Atlantic, including its clients' accounts and firm trading account. Euro-Atlantic ceased operations immediately thereafter. The market for the Company's securities has been significantly affected by the loss of Euro-Atlantic's participation in the market. The loss of such market making activities of the Company's securities significantly decreased the liquidity of an investment in such securities.

On April 15, 1998, the Company's Board of Directors authorized the distribution of Distribution Warrants to all holders of shares of the Company's Common Stock as of the May 8, 1998 Warrant Record Date. Pursuant to the distribution, each share held on the Warrant Record Date shall generate the issuance of one Distribution Warrant to purchase one share of Common Stock at an exercise price of $4.00 per share. The Distribution Warrants, which are exercisable for a period of three years commencing one year after issuance, shall be issued and distributed once the Company has filed a registration statement for same and same has been declared effective by the SEC. The Company intends to file the registration statement in the summer of 2000.

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

Recent Sales of Unregistered Securities

Except where otherwise indicated, the sales of securities of the Company described below were exempt from registration under the Securities Act of 1933, as amended (the "Act"), in reliance upon the exemption afforded by Section 4(2) of the Act for transactions not involving a public offering. All certificates evidencing such sales bear an appropriate restrictive legend.

In September 1996, simultaneously with the Company's initial public offering and pursuant to a stock purchase agreement, dated May 31, 1996, entered into between the Company and the shareholders of Breaking Waves, the Company issued 110,000 shares of Common Stock to the shareholders of Breaking Waves in exchange for all of said shareholders' issued and outstanding shares of Breaking Waves common stock

In February 1998, in private transactions, the Company sold 660,000 shares of Common Stock to three entities at a price of $0.295 per share for an aggregate price of $195,000. These shares were purchased by the following accredited investors: Full Moon Development, Inc., Volcano Trading, Inc., and American Telecom Corp. (whose president, secretary, and a director is related to the Company's President). The private offering was conducted in reliance upon Rule 506 of the General Rules and Regulations under the Act. The proceeds from these sales were used by the Company for general working capital and to fund the Company's interest in Battle Studies. No underwriter was used in connection with this offering.

In April 1998, in private transactions, the Company sold 770,000 shares of Common Stock to three entities at a price of $0.73 per share for an aggregate price of $560,000. These shares were purchased by the following accredited investors: Amir Overseas Capital, Ltd., HDS Capital Corp. (whose secretary is related to the Company's President), and Galit Capital, Ltd. The private offering was conducted in reliance upon Rule 506 of the General Rules and Regulations under the Act. The proceeds from these sales were used by the Company for general working capital and to fund the Company's interest in Battle Studies. No underwriter was used in connection with this offering.

In February 2000, in a private transaction, the Company sold 100,000 shares of Common Stock to Value Management & Research, AG for an aggregate price of $300,000. The private offering was conducted in reliance upon Rule 506 of the General Rules and Regulations under the Act. The proceeds from the sale are being used by the Company for general corporate purposes. No underwriter was used in connection with this offering.

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

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

General

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

The consolidated financial statements at December 31, 1999 include the accounts of Shopnet and its wholly owned subsidiaries, Breaking Waves and Hollywood (collectively referred to as the "Company" except where specific delineation is required), after elimination of all significant intercompany transactions and accounts. As of December 31, 1998, the consolidated financial statements include the accounts of Shopnet and Breaking Waves.

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

Year ended December 31, 1999 as compared to the year ended December 31, 1998

Breaking Waves

For the years ended December 31, 1999 and 1998, Breaking Waves generated net sales of $4,756,497 and $5,156,247 (inclusive of $204,000 of sales made to an affiliate), respectively with a cost of sales amounting to $3,214,704 and $3,221,238, respectively. The decrease in sales amounting to $399,750, or approximately 8%, from 1998 to 1999 was primarily attributable to the late arrival of goods caused by material delays at ports. These delays resulted from companies having accelerated their shipments and receipts of goods in order to avoid any disruption anticipated by the year 2000 issue. Breaking Waves was unable to receive its goods and ship its orders on a timely basis since a majority of such goods remained on board one such ship which was delayed. The gross profit for the year ended December 31, 1999 amounted to $1,541,793, or 32%, as compared to the year ended December 31, 1998 during which it amounted to $1,935,009, or 38%.

Selling, general, and administrative expenses during the years ended December 31, 1999 and 1998 amounted to $1,503,993 and $1,665,524, respectively. The decrease, amounting to $161,531, is primarily attributable to the discontinuation of its Jet Ski line in the latter part of 1998 and early 1999 in addition to an effort to reduce overall corporate costs.

The major components of the Breaking Waves selling, general, and administrative expenses are as follows for the years ended December 31:

	1999	1998
Officers, office staff and designer salaries and related benefits	$499,642	$554,402
Commission expense	112,475	123,016
Warehousing costs	178,479	213,471
Royalty fees	173,700	140,989
Rent expense	96,404	85,917
Factor commissions	50,956	56,545
Miscellaneous general corporate overhead expenses	392,337	491,184

In November 1998, Breaking Waves acquired a then 25.4% interest in Play Co. Toys & Entertainment Corp. ("Play Co.") by paying $300,000 in cash and by shipping $204,000 in merchandise. In connection with the $504,000 investment in Play Co., representing a 25.4% ownership percentage, Breaking Waves recognized $473,270 of equity earnings in Play Co.'s earnings from November 24, 1998 to December 31, 1998.

Play Co.'s operations are highly seasonal with approximately 30-40% of its net sales historically falling within the last three months of the calendar year. Accordingly, the equity earnings in Play Co. are not indicative of the results to be expected if the investment in Play Co. had been consummated at the beginning of the year.

The following unaudited pro forma information presents the results of operations of Breaking Waves for the year ended December 31, 1998 as if the investment in Play Co. had been consummated at the beginning of the year:

		Year Ended December 31, 1998 (Unaudited)
Net Sales	$	5,156,247
Cost of Sales		3,221,238
Selling, general and administrative expenses		1,665,524
Other Income (Expenses)		(315,091)
Net Loss		(81,912)

These unaudited pro forma results of operations have been prepared for comparative purposes only and do not purport to be indicative of either (a) the results of operations which would have actually resulted had the acquisition occurred on the date indicated or (b) of future results of operations.

Breaking Waves generated net (loss) income of $(1,025,449) and $436,420, respectively, for the years ended December 31, 1999 and 1998 after an income tax (benefit) provision of $(41,085) and $36,306, respectively, for the years ended December 31, 1999 and 1998. The net loss generated for the year ended December 31, 1999 includes an equity loss pick up of $994,305 from Play Co. This equity loss reduced the carrying value of Play Co. to $ -0-. The remaining portion of the 1999 net loss, after the equity loss pick up from Play

Co. and the gain on the sale of a portion of Play Co.'s common stock, is primarily attributable to a decrease of approximately 6% in Breaking Waves' gross profit as a result of its discontinuance and selling off of the Jet Ski line.

Subsequent to December 31, 1999, as a result of the conversion of Play Co.'s series E preferred stock into common stock, Breaking Waves' ownership percentage was reduced to 16.9%. Therefore, the investment in Play Co. will no longer be recorded under the equity method.

Interest expense in connection with its factoring agreement amounted to $228,772 and $224,192 for the years ended December 31, 1999 and 1998 respectively.

Hollywood

On May 12, 1999, Shopnet incorporated a wholly-owned subsidiary, Hollywood, to which it assigned its film production business. All film related operations for 1998 and prior to May 12, 1999 were conducted by Shopnet under its former name.

For the years ended December 31, 1999 and 1998, Hollywood generated sales from its motion picture "Dirty Laundry" amounting to $ -0- and $120,211, respectively. Although sales have been minimal since the completion of the motion picture, the Company expects increases in sales during 2000 and thereafter as a result of a new marketing strategy. Upon a review of the net realizable value of the movie costs, management has determined that a $261,000 write down was necessary as of December 31, 1999. Accordingly, Hollywood generated a loss for the fiscal year in the approximate amount of $265,000.

Shopnet.com

For the years ended December 31, 1999 and 1998, Shopnet generated minimal revenue comprised of interest from its money market and minimal sublet rental income from its corporate office.

Shopnet's selling, general, and administrative expense amounted to $630,014 and $683,986 for the years ended December 31, 1999 and 1998, respectively. This represents a decrease of $53,972, or approximately 8%.

The major components of the Company's expenses are as follows for the years ended December 31:

	1999	
Salaries (officer and office staff) and stock compensation and related benefits	$231,631	$
Rent	74,907	
Legal and professional fees	61,634	
Consulting fees	57,824	
Other general corporate and administrative expenses	204,018	

Shopnet generated a net loss of $614,524 after an income tax expense of $53,369 for the year ended December 31, 1999. The income tax expense was primarily a result of an increase in the valuation allowance associated with some of the Company's federal net operating losses. The Company has a consolidated net operating loss carry forward of approximately $1,860,000 for federal tax purposes which is expected to be utilized in the future as a result of filing consolidated federal income taxes with its subsidiaries, Breaking Waves and Hollywood. For the year ended December 31, 1998, the Company had a net loss of $334,476 with an income tax benefit of $229,658.

Liquidity and Capital Resources

At December 31, 1999, the Company has a consolidated working capital amounting to $797,447. The Company anticipates that its current available cash will be sufficient for the next twelve months and does not anticipate any cash shortfalls. Breaking Waves' ownership interest in Play Co. amounted to approximately 23% as of December 31, 1999 as evidenced by the 1,270,000 shares of common stock. Play Co.'s stockholder's equity amounted to $16,322,547 as of December 31, 1999 as to which Breaking Waves' proportionate interest amounted to $3,754,186. As of December 31, 1999, Breaking Waves has written down its investment in Play Co. to -0- since pursuant to the equity method of accounting, it must record its proportionate share of Play Co. although such shares have a material fair market value.

The Company considers highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Included in cash are certificates of deposit of $1,150,874. Shopnet maintains cash deposits in accounts which are in excess of Federal Deposit Insurance Corporation limits by approximately $1,051,000. Shopnet believes that such risk is minimal. Shopnet maintains a letter of credit with a financial institution as a condition of its factoring agreement. The financial institution requires Shopnet to maintain $1,150,000 on deposit as collateral for the letter of credit. In addition, during 1999, Breaking Waves was required to transfer a $200,000 cash collateral deposit to its factoring agent. Accordingly, both cash amounts are designated as restricted.

For the year ended December 31, 1999, the Company reported a consolidated net loss of $1,976,079 after an income tax provision of $12,273 whereas for the year ended December 31, 1998, the Company reported consolidated net income of $30,994 after an income tax benefit of $192,383.

Investment in Joint Venture

Pursuant to a co-production agreement dated April 17, 1998, the Company invested $212,500 for a 50% interest in a newly formed entity, Battle Studies Productions, LLC ("Battle Studies"), a limited liability company. North Folk Films, Inc., an unrelated party, also invested $212,500 for the remaining 50% interest in Battle Studies. Battle Studies will be treated as a joint venture in order to co-produce motion pictures and to finance the costs of production and distribution of such motion pictures. The joint venture retains all rights to the motion pictures, the screenplays, and all ancillary rights attached thereto. Total production costs to date have aggregated approximately $425,000 of which the Company has funded 50%. In accordance with the terms of the co-production agreement, the proceeds of the film will be distributed as follows: first, both parties shall be entitled to recoup their initial investment in the film, at 135% thereof; then, after repayment to the respective parties of additional costs incurred by same, any remaining proceeds shall be distributed 50% to North Folk and 50% to the Company. The film was shown in January 1999 in both New York and at the Brussels Film Festival.

More recently, in February 2000, "Machiavelli Rises" was one of thirty-eight films showcased at the New York Independent Film Festival ("NYIFF") in New York City where it was honored with the award for Best Screenplay. In addition, it has been chosen (along with only six other films) for presentment at the Los Angeles distribution of the NYIFF on April 28, 2000. The Company hopes that its recent exposure and award will result in increased interest from the distribution community.

The Company accounts for the investment in Battle Studies on the equity method. Accordingly, as of December 31, 1999, the Company has only recorded its initial $212,500 investment in the joint venture since operations have not yet commenced.

Factoring Arrangements

On August 20, 1997, Breaking Waves entered into a factoring and revolving inventory loan and security agreement (as amended December 9, 1998) with Heller Financial, Inc. ("Heller") pursuant to which Heller agreed to (i) purchase all of Breaking Waves' accounts receivables, (ii) provide advances against such accounts receivables, (iii) provide a revolving loan, and (iv) guarantee letters of credit in excess of $1,500,000 as well as provide certain other services. Shopnet is a guarantor of Breaking Waves' obligations to Heller. Shopnet maintains a letter of credit with a financial institution in support of and as a condition to its factoring agreement. The financial institution requires Shopnet to maintain $1,150,000 on deposit as collateral for such letter of credit. Breaking Waves may take advances of up to 85% of the purchase price of its eligible accounts receivable.

The factoring agreement provides (i) factoring commissions of (a) 0.85% on the first $5 million in accounts sold and assigned to Heller during each year and (b) 0.65% on all accounts in excess of $5 million sold and assigned to Heller during each year, but in no event less than $3 per invoice; and (ii) on accounts bearing terms greater than 90 days, an increase in commission by 0.25% for each 30 days or part thereof that the terms exceed 60 days. Interest expense related to this agreement totaled $228,772 and $224,603, respectively, for the years ended December 31, 1999 and 1998. Heller has a continuing interest in Breaking Wave's inventory as collateral for the advances. As of December 31, 1999, the net advances to Breaking Waves from the factor amounted to $1,776,274.

Capital Lease Obligations

During 1998, the Company acquired computer equipment and proprietary software for its subsidiary, Breaking Waves, pursuant to the following terms and conditions:

On August 13, 1998, the Company acquired various computer and related components for $28,583 by entering into a capital lease obligation with interest at approximately 9.2% per annum, requiring 48 monthly payments of principal and interest of $762. The lease is secured by the related computer equipment.

On September 13, 1998, the Company acquired proprietary software for $32,923 by entering into a capital lease obligation with interest at approximately 10.9% per annum, requiring 48 monthly payments of principal and interest of $850. The lease is secured by the related software.

Lease Commitments

Shopnet and its subsidiaries have entered into lease agreements for administrative offices. Shopnet leases its administrative office pursuant to a 5 year lease expiring November 30, 2001 at annual rent amounting to approximately $70,000, before annual escalations. Breaking Waves leased administrative offices through January 1998 pursuant to a lease requiring annual payments of approximately $64,000. Breaking Waves cancelled such lease and simultaneously entered into a new lease for additional space with the same landlord requiring annual payments of $71,600 expiring December 2004. Breaking Waves also leases an offsite office for one of its designers on a month to month basis with annual payments approximating $11,000.

Rent expense for the years ended December 31, 1999 and 1998 amounted to approximately $172,709 and $158,174, respectively.

License Agreements

On October 16, 1995, Breaking Waves entered into a license agreement with Beach Patrol, Inc. ("Beach"). Pursuant to the licensing agreement, Breaking Waves was given the right to use certain designs for its children's line under the "Daffy Waterwear" label from January 1, 1996 to June 30, 1998. Thereafter, the agreement provided for a three year extension, at the option of Breaking Waves, through and until June 30, 2001. Breaking Waves has exercised this option, thereby so extending the agreement. For its right to use the trademark, Breaking Waves agreed to pay Beach, subject to certain variables, the greater of 5% of net sales or as follows: (i) during the first six months, an aggregate of $75,000, (ii) during the next twelve months, an aggregate of $85,000, (iii) during the final twelve months, an aggregate of $100,000, and (iv) during each of the final three years of the agreement, an aggregate of $150,000, $175,000, and $200,000, respectively. The Company recorded royalties and advertising under this agreement totaling $162,501 and $135,000 during the years ended December 31, 1999 and 1998, respectively.

On October 31, 1996, Breaking Waves entered into a license agreement with North-South Books, Inc. ("N-S") for the exclusive use of certain art work and text in the making of swimsuits and accessories in the United States and Canada. The agreement expired on March 1, 1999. The Company recorded royalties totaling $784 and $4,852 under this agreement during the years ended December 31, 1999 and 1998, respectively.

On October 17, 1997, Breaking Waves entered into a license agreement with Kawasaki Motors Corp., U.S.A. ("KMC") with an effective date of July 1, 1997 for the exclusive use of certain trademarks in the making of swimwear in the United States. The fee for the exclusive use of certain trademarks is five percent (5%) of net sales. The agreement expired May 31, 1999. The Company recorded royalties under this agreement totaling $10,415 and $- 0 - during the years ended December 31, 1999 and 1998, respectively.

Internet Sales

In March 1999, Breaking Waves launched an online wholesale children's swimwear website at www.breakingwaves.com. The website was designed to complement the company's wholesale distribution efforts by providing retailers instant access to more than 200 styles of Breaking Waves swimwear. The entire line of Breaking Waves swimwear, including products marketed under the "Breaking Waves," "All Waves," "Daffy Waterwear," and "Jet Ski" brands, was available for online purchase by retailers. The Breaking Waves website is hosted by Mindspring and incorporates e-commerce features from Cybercash and Mercantec, Inc.

Management believed that the website would fill the needs of existing and potential customers since, through the Internet, retailers can purchase merchandise online in a matter of minutes, at their own convenience, instead of having to wait for delivery of a printed wholesale catalog. Management believed that the advantages and efficiencies created by the website also would assist Breaking Waves in increasing brand awareness as well as market share. The Company expected to utilize marketing strategies for "driving" retailers to the site including co-op trade advertisements, tradeshow exposure, direct mail, and inclusion of the website address on all corporate collateral and product labels.

The Company has since found that most individual consumers do not purchase swimwear until April or May and that the Company's website thus is ineffective, for the Company has sold all of its merchandise to retailers by

March, leaving nothing for internet consumers to purchase. Accordingly, at present, the www.breakingwaves.com website and the two others created by the Company in May 1999 (www.usa-shopnet.com and www.smallwavesswimwear.com) lie dormant.

Also dormant at present are the two websites developed by the Company last fall (www.videonostalgia.com, www.videooncall.com) for the purpose of selling full length motion pictures and short subjects on video cassette and DVD. These sites were developed with the intention of offering up to 5,000 motion pictures: from musicals, action and horror films, and vintage motion pictures to more contemporary, collector, out of print, genre, and foreign films and film memorabilia. In mid-1999, after extensive consideration of the costs required to market and advertise these sites and to purchase the films, the Company decided to delay the launch of these e-commerce websites.

Loans from Play Co.

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

In November 1999, Breaking Waves borrowed $400,000 from Play Co. pursuant to a promissory note bearing interest at 9% per annum. Breaking Waves has repaid $100,000 of the loan, the balance to be remitted on April 30, 2000.

Common Stock Dividend

On January 7, 2000, the Company declared a 10% common stock dividend to all shareholders of record as of January 20, 2000. The dividend was paid on February 1, 2000.

Stock Options Granted

During April 1999, the Company granted its President and then Vice President approximately 50,000 stock options. The options are exercisable at 85% of the closing bid price on April 16, 1999. In accordance with the grant of options, the Company recorded $12,250 as compensation expense.

ITEM 7. FINANCIAL STATEMENTS

See attached Financial Statements.

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

Not Applicable.

PART III

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

Officers and Directors

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

Name	Age	Position

Harold Rashbaum	72	President, CEO, and Director
Alain Le Guillou, M.D.	43	Director
James B. Frakes	43	Director
Jeanne Falletta	42	Director

All directors are elected at an annual meeting of the Company's shareholders and hold office for a period of one year or until the next annual meeting of shareholders or until their successors are duly elected and qualified. Vacancies on the Board of Directors may be filled by the remaining directors. Officers are appointed annually by, and serve at the discretion of, the Board of Directors. There are no family relationships between or among any officers or directors of the Company, except Mr. Rashbaum is the father-in-law of Dr. Alain Le Guillou. Dr. Le Guillou receives a director's fee of $1,000 per month for his participation as director. The Company does not have key man insurance on the lives of any of its officers or directors.

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

Harold Rashbaum has been the President, Chief Executive Officer, and a Director of the Company since January 1997. Since September 1996, he has also been the President, Secretary, and sole Director of Breaking Waves. From May 1996 to January 1997, Mr. Rashbaum served as Secretary and Treasurer of the Company. Mr. Rashbaum has been the Chairman of the Board of Directors of Play Co. since September 10, 1996. Mr. Rashbaum was a management consultant to Play Co. from July 1995 to September 10, 1996. In May 1998, he was elected as a Director of Toys International, Inc. ("Toys," a wholly-owned subsidiary of Play Co.). Since February 1996, Mr. Rashbaum has also been the President and a Director of H.B.R. Consultant Sales Corp. ("HBR"), of which his wife is the sole shareholder. Prior thereto from February 1992 to June 1995, Mr. Rashbaum was a consultant to 47th Street Photo, Inc., an electronics retailer. Mr. Rashbaum held this position at the request of the bankruptcy court during the time 47th Street Photo, Inc. was in Chapter 11. From January 1991 to February 1992, Mr. Rashbaum was a consultant for National Wholesale Liquidators, Inc., a major retailer of household goods and housewares.

Jeanne Falletta was elected Secretary of the Company in February 2000. Since October 1997, Ms. Falletta has been the controller of Breaking Waves where she has been employed since February 1997, initially having been hired as a bookkeeper. From January 1996 to February 1997, Ms. Falletta consulted with various companies as a freelance accountant. From September 1994 to December 1995, Ms. Falletta was employed by Nostalgia Jeans, Inc. as an accountant. Ms. Falletta received a bachelors degree in accounting from the Rochester Institute of Technology in 1981.

Alain Le Guillou, M.D. has been a Director of the Company since May 1996. Since July 1995, Dr. Le Guillou has been a doctor of pediatrics at Montefiore Medical Group. From July 1992 to June 1995, Dr. Le Guillou was a pediatric resident at the University of Minnesota, Gillette Hospital, St. Paul, Minnesota. Dr. Le Guillou is the son-in-law of Harold Rashbaum.

James Frakes was elected Director of the Company in January 1998. Mr. Frakes was appointed Chief Financial Officer and Secretary of Play Co. in July 1997. In August 1997, he was elected as a Director of Play Co. In January 1998, Mr. Frakes was appointed Secretary and Chief Financial Officer of Toys. He was elected as a Director thereof in May 1998. From June 1990 to March 1997, Mr. Frakes was Chief Financial Officer of Urethane Technologies, Inc. ("UTI") and two of its subsidiaries, Polymer Development Laboratories, Inc. ("PDL") and BMC Acquisition, Inc. These were specialty chemical companies, which focused on the polyurethane segment of the plastics industry. Mr. Frakes was also Vice President and a Director of UTI during this period. In March 1997, three unsecured creditors of PDL filed a petition for the involuntary bankruptcy of PDL. From 1985 to 1990, Mr. Frakes was a manager for Berkeley International Capital Corporation, an investment banking firm specializing in later stage venture capital and leveraged buyout transactions. In 1980, Mr. Frakes obtained a Masters in Business Administration from University of Southern California. He obtained his Bachelor of Arts degree in history from Stanford University, from which he graduated with honors in 1978.

Significant Employees

Malcolm Becker, 64, has been the Vice President of Design, Merchandising, and Production of Breaking Waves since its inception in 1991.

Michael Friedland, 62, has been the Vice President of Design, Marketing, and Sales of Breaking Waves since its inception in 1991.

The Company has agreed to indemnify its officers and directors with respect to certain liabilities including liabilities which may arise under the Act. Insofar as indemnification for liabilities arising under the Act may be permitted to directors, officers, and controlling persons of the Company pursuant to any charter, provision, by-law, contract, arrangement, statute, or otherwise, the Company has been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid by a director, officer, or controlling person of the Company in the successful defense of any such action, suit, or proceeding) is asserted by such director, officer, or controlling person of the Company in connection with the securities being registered, the Company will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

Compliance with Section 16(a) of the Exchange Act.

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

No person ("a Reporting Person") who during the fiscal year ended December 31, 1999 was a director, officer, or beneficial owner of more than ten percent of the Company's Common Stock [which is the only classes of equity securities of the Company registered under ss.12 of the Securities Exchange Act of 1934], failed to file on a timely basis reports required by ss.16 of the Act during the most recent fiscal year except that Mr. Rashbaum and Mr. DiMilia have not filed Forms 4 or Forms 5, and EVC has not filed a Form 5. The foregoing is based solely upon a review by the Company of (i) Forms 3 and 4 during the most recent fiscal year as furnished to the Company under Rule 16a-3(e) under the Act, (ii) Forms 5 and amendments thereto furnished to the Company with respect to its most recent fiscal year, and (iii) any representation received by the Company from any reporting person that no Form 5 is required, except as described herein.

ITEM 10. EXECUTIVE COMPENSATION

Summary of Cash and Certain Other Compensation

The following table provides certain information concerning all Plan and Non-Plan (as defined in Item 402 (a)(ii) of Regulation S-B) compensation awarded to, earned by, or paid to the named executive officer during the periods ended December 31, 1999, 1998, and 1997:

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long Awards
		($)	($)		
Name and Principal Position	Year	Salary	Bonus	Other Annual Compen-sation	Restricted Stock Award(s) ($)
Harold Rashbaum President, CEO, And Director	1999	162,000	--	--	--
	1998	156,000	--	--	--
	1997	147,000	--	--	--

(1) Represents shares of Common Stock underlying an option granted in April 1999. Initially, the option entitled Mr. Rashbaum to purchase 33,334 shares at $1.38 per share. In accordance with the Company's February 2000 10% Common Stock Dividend, the shares underlying the options have been adjusted to 36,667.

(2) Represents shares of Common Stock underlying an granted in March 1997 under the Company's Senior Management Incentive Plan. Initially, the

option entitled Mr. Rashbaum to purchase 100,000 shares at $5.125 per share. In March 1998, the Board of Directors approved a revision of the terms of the options granted to Mr. Rashbaum in accordance with the 1 for 3 reverse split of the Company's Common Stock. The revised terms reduced the number of shares underlying the option to 33,333 shares and decreased the exercise price to $2.93. In February 1999, the Board of Directors approved a second revision of the terms in accordance with the Company's issuance of a 100% Common Stock dividend. The revised terms increased the number of shares underlying the option to 66,666 and decreased the exercise price from to $1.46. In February 2000, the Board of Directors approved another revision of the terms in accordance with the Company's issuance of the 10% Common Stock dividend. Pursuant to the current terms, Mr. Rashbaum holds an option to purchase 73,333 shares of Common Stock at an exercise price of $1.46 per share. See "Senior Management Incentive Plan."

Stock Options

The following table provides information with respect to (i) the exercise of stock options by the named executive officer during the fiscal year ended December 31, 1999 and (ii) the fiscal year end value of all unexercised options:

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION/SAR VALUES

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options/SAR's at FY-End (#) Exercisable/ Unexercisable	U In Opti F Ex Un
Harold Rashbaum	0	0	73,333/0 (1)	$94
Harold Rashbaum	0	0	36,667/0 (3)	$50

(reference is made to the table on the previous page)

*Value rounded to the nearest dollar.

(1) Represents shares of Common Stock underlying an granted in March 1997 under the Company's Senior Management Incentive Plan. Initially, the option entitled Mr. Rashbaum to purchase 100,000 shares at $5.125 per share. In March 1998, the Board of Directors approved a revision of the terms of the options granted to Mr. Rashbaum in accordance with the 1 for 3 reverse split of the Company's Common Stock. The revised terms reduced the number of shares underlying the option to 33,333 shares and decreased the exercise price to $2.93. In February 1999, the Board of Directors approved a second revision of the terms in accordance with the Company's

issuance of a 100% Common Stock dividend. The revised terms increased the number of shares underlying the option to 66,666 and decreased the exercise price from to $1.46. In February 2000, the Board of Directors approved another revision of the terms in accordance with the Company's issuance of the 10% Common Stock dividend. Pursuant to the current terms, Mr. Rashbaum holds an option to purchase 73,333 shares of Common Stock at an exercise price of $1.46 per share. See "Senior Management Incentive Plan."

(2) The closing sales price on December 31, 1999 was $2.75 per share.

(3) Represents shares of Common Stock underlying an option granted in April 1999. Initially, the option entitled Mr. Rashbaum to purchase 33,334 shares at $1.38 per share. In accordance with the Company's February 2000 10% Common Stock Dividend, the shares underlying the options have been adjusted to 36,667.

Employment and Consulting Agreements

Shopnet.com, Inc.

Before he became an officer and director of the Company, Harold Rashbaum provided consulting services to the Company through HBR, a company of which he is an officer and director and of which his wife is the sole shareholder. HBR entered into an oral consulting agreement with the Company whereby it will receive 5% of the net profits received by the Company from the distribution of "Dirty Laundry". In addition, HBR received $40,000 and 5,500 shares of the Company's Common Stock at the closing of the Company's initial public offering. From October 1996 through March 1997, Mr. Rashbaum received a salary of $104,000 per annum for being an officer and director of the Company. In March 1997, Mr. Rashbaum's salary was increased to $156,000 per annum. In addition, Mr. Rashbaum received 36,666 shares of Common Stock under the Company's Senior Management Incentive Plan, one half of which shares vested in each of June 1997 and June 1998. These shares were sold. See "Certain Relationships and Related Transactions."

Breaking Waves, Inc.

In January 1996, Dan Stone entered into a two year consulting agreement with Breaking Waves pursuant to which he was to oversee the operation of Breaking Waves in return for a yearly consulting fee of $100,000. Mr. Stone received $50,000 from the proceeds of the Company's initial public offering, as payment in advance of one half of the 1997 consulting fee, the balance of which was paid in weekly installments. On January 1, 1998, the consulting agreement expired, and Mr. Stone's relationship with Breaking Waves was terminated.

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

Stock, subject to a vesting schedule, annually during the term of his agreement. The number of shares of Common Stock issuable thereunder is based on the market value (as hereinafter defined) of $25,000 on the date of issuance, subject to the following vesting schedule: (i) 1/2 of the shares issued on November 27, 1996 vested 90 days from issuance, and the balance vested 270 days from the date of issuance and (ii) for each subsequent annual issuance commencing November 27, 1997, 1/2 of the shares vested six months from issuance, and the balance vested on the following anniversary. "Market Value" shall mean (i) $5.00 per share with respect to the shares issued in November 1996 and (ii) the average of the closing bid and asked prices for a share of Common Stock for a period of 30 days ending five days prior to the date of issuance, as officially reported by the principal securities exchange on which the Common Stock is quoted. The agreements include non-disclosure and non-compete clauses.

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

In January 1998, Mr. Friedland's employment agreement was amended to provide for an increase in salary to $130,000 per annum, and Mr. Becker's employment agreement was amended to reflect a reduction in the amount of time Mr. Becker would be required to devote to the business of Breaking Waves, a concomitant reduction in salary to $60,000 per annum, and a reduction in the number of shares of Common Stock to be issued (the number to equal a market value of $13,636). In January 1999, Mr. Becker's employment agreement was further amended to reflect an increase in the amount of time Mr. Becker would be required to devote to the business of Breaking Waves and a concomitant increase in salary to $70,000 per annum.

In November 1998, pursuant to their respective employment agreements, Messrs. Becker and Friedland were entitled to their final share issuances, 1/2 of which would have vested in May 1999, and the other 1/2 of which would have vested in November 1999. Messrs. Becker and Friedland agreed to postpone the issuance, however, and in March 2000, they amended such portion of their respective employment agreements as set forth herein: Mr. Becker agreed to accept his aggregate 78,074 shares in two allotments, 38,037 shares of Common Stock to be issued on May 27, 2000 and 38,037 shares of Common Stock to be issued on November 27, 2000. Mr. Friedland also agreed to accept his aggregate 139,471 shares in two allotments, 69,735 shares of Common Stock to be issued on May 27, 2000 and 69,736 shares of Common Stock to be issued on November 27, 2000. Such shares, when issued, will be fully vested and saleable in accordance with Rule 144 of the General Rules and Regulations under the Act, as amended. As part of the foregoing transaction, each of Messrs. Becker and Friedland granted an option to BBC Capital Corp. ("BBC") allowing same to purchase his shares as follows: BBC has the right to purchase from each of Messrs. Becker and Friedland all shares to be issued to same in May 2000, for a period of one year from the date of issuance, at an exercise price of $4.50 per share; likewise, BBC has the right to purchase from each of Messrs. Becker and Friedland all shares to be issued to same in November 2000, for a period of one year from the date of issuance, at an exercise price of $4.50 per share.

Senior Management Incentive Plan

General

In May 1996, the Board of Directors adopted the Senior Management Incentive Plan (the "Management Plan") which was adopted by shareholder consent. The Management Plan provides for the issuance of an aggregate of 128,333 shares of Common Stock (adjusted for the February 1998 reverse split and the February 1999 and 2000 Common Stock dividends) in connection with the issuance of stock options and other stock purchase rights to executive officers, key employees, and consultants.

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

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

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

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

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

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

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

Payment for shares of Common Stock purchased pursuant to exercise of stock options may be remitted in cash or by certified check or at the discretion of the Administrator (i) by promissory note, (ii) promissory note combined with cash, (iii) by shares of Common Stock having a fair market value equal to the

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

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

In March 1997, the Company granted to each of Mr. Rashbaum and Mr. DiMilia an option to purchase 73,333 and 36,665 shares, respectively, of Common Stock at an exercise price of $1.46 per share, pursuant to the Management Plan. See "Certain Relationships and Related Transactions."

Incentive Stock Rights

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

Stock Appreciation Rights (SARs)

SARs may be granted to recipients of stock options under the Management Plan. In the discretion of the Board of Directors, SARs may be granted simultaneously with, or subsequent to, the grant of a related stock option and may be exercised to the extent that the related option is exercisable, except that no general SAR (as hereinafter defined) may be exercised within a period of six months of the date of grant of such SAR, and no SAR granted with respect to an ISO may be exercised unless the fair market value of the Common Stock on the date of exercise exceeds the exercise price of the ISO. An option holder may be granted general SARs ("general SARs"), limited SARs ("limited SARs"), or both.

General SARs permit the holder thereof to receive - without payment of cash or property to the Company - cash, shares of Common Stock, or a combination of both in an amount determined by dividing (i) that portion, elected by the option holder, of the total number of shares which the holder is eligible to purchase multiplied by the amount, if any, by which the fair market value of a share of Common Stock (on the exercise date) exceeds the option exercise price of the related option by (ii) the fair market value of a share of Common Stock on the exercise date. Limited SARs are similar to general SARs except that, unless the Administrator determines otherwise, limited SARs may be exercised only during a prescribed period following the occurrence of one or more of the following "change of control" transactions: (i) the approval of the Board of Directors and shareholders of the Company of a consolidation or merger in which the Company is not the surviving corporation, the sale of all or substantially all of the assets of the Company, or the liquidation or dissolution of the Company, (ii) the commencement of a tender or exchange offer for the Company's Common Stock (or securities convertible into Common Stock) without the prior consent of the Board, (iii) the acquisition of beneficial ownership by any person or other entity (other than the Company or any employee benefit plan sponsored by the Company) of securities of the Company representing 25% or more of the voting power of the Company's outstanding securities, or (iv) in the event, during any period of two consecutive years or less, individuals who at the beginning of such period constitute the entire Board cease to constitute a majority of the Board, unless the election, or the nomination for election, of each new director is approved by at least a majority of the directors then still in office.

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

Restricted Stock Purchase Agreements

Restricted share agreements provide for the issuance of restricted shares of Common Stock to eligible participants under the Management Plan. The Board of Directors may determine the price to be paid by the participant for the shares or that the shares may be issued for no monetary consideration. The shares issued shall be subject to restrictions for a stated restricted period during which the participant must remain in the Company's employ in order to retain the shares. Payment may be made in cash, by promissory note, or via a combination of both. In June 1996, the Company issued an aggregate of 54,999 restricted shares under the Management Plan: (i) each of Mr. Rashbaum and Mr. Melillo received 36,666 shares and (ii) Charles Rosen, a consultant to the Company, received 18,333 shares. All such shares were subject to a vesting schedule whereby half of the shares were to vest in each of June 1997 and 1998. Upon the termination of Mr. Rosen's consulting agreement, his 18,333 shares were cancelled by the Company; likewise, Mr. Mellilo's 36,666 shares were cancelled upon his resignation.

Restricted shares awarded under the Management Plan will be subject to a period of time, designated by the Administrator as the "restricted period," during which the holder has limited rights with respect to such shares. The Administrator may also impose other restrictions, terms, and conditions that must be fulfilled before the restricted shares may vest. Upon the grant of restricted shares, stock certificates registered in the name of the recipient will be issued, and such shares will constitute issued and outstanding shares of Common Stock for all corporate purposes. The holder will have the right to vote the restricted shares and to receive all regular cash dividends (and such other distributions as the Administrator may designate, other than distributions made solely with respect to the restricted shares ("retained distributions")), if any, which are paid or distributed on the restricted shares and, generally, to exercise all other rights as a holder of Common Stock except that until the end of the restricted period: (i) the holder will not be entitled to take possession of the stock certificates representing the restricted shares or receive retained distributions, and (ii) the holder will not be entitled to sell, transfer, or otherwise dispose of the restricted shares. A breach of any restrictions, terms, or conditions established by the Administrator with respect to any restricted shares will cause a forfeiture of such restricted shares.

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

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

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

A "Control Purchase" is defined as circumstances in which any person (as such term is defined in Sections 13(d)(3) and 14(d)(2) of the Exchange Act), corporation, or other entity (other than the Company or any employee benefit plan sponsored by the Company) (i) shall purchase any Common Stock of the Company (or securities convertible into the Company's Common Stock) for cash, securities, or any other consideration pursuant to a tender offer or exchange offer, without the prior consent of the Board of Directors or (ii) shall become the "beneficial owner" (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing twenty-five percent (25%) or more of the combined voting power of the then outstanding securities of the Company ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of directors (calculated as provided in paragraph (d) of such Rule 13d-3 in the case of rights to acquire the Company's securities).

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

Non-Executive Director Stock Option Plan

The Company terminated its Non-Executive Director Stock Option Plan on December 31, 1998, in accordance with the terms thereof.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of the outstanding shares of the Company's Common Stock as of March 31, 2000 (aggregating 6,010,199) by (i) each beneficial owner of 5% or more of the Company's Common Stock; (ii) each of the Company's executive officers, directors and key employees; and (iii) all executive officers, directors, and key employees as a group. All numbers reflected herein and in the footnotes hereto have been adjusted to reflect the 1 for 3 reverse split effected on February 5, 1998, the Common Stock dividend paid on February 5, 1999, and the Common Stock dividend paid on February 1, 2000.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned (1)	Percent of Common Owned
European Ventures Corp.		
P.O. Box 47	1,486,370 (4)	2

Road Town, Tortola, British Virgin Islands		
Harold Rashbaum c/o Shopnet.com, Inc. 14 East 60th Street, Suite 402 New York, New York 10022	210,000(5)	3

(table continued from previous page)

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned (1)	Percent of Common Owned
Alain Le Guillou, M.D. c/o Shopnet.com, Inc. 14 East 60th Street, Suite 402 New York, New York 10022	--	
James Frakes c/o Shopnet.com, Inc. 14 East 60th Street, Suite 402 New York, New York 10022	--	
All Officers and Directors as a Group (four persons)	210,000(5)	3

(1) Unless otherwise noted, all of the shares shown are held by individuals or entities possessing sole voting and investment power with respect to such shares. Shares not outstanding but deemed beneficially owned by virtue of the right of an individual or entity to acquire them within 60 days, whether by the exercise of options or Warrants, are deemed outstanding in determining the number of shares beneficially owned by such person or entity.

(2) The "Percent of Common Stock Beneficially Owned" is calculated by dividing the "Number of Shares Beneficially Owned" by the sum of (i) the total outstanding shares of Common Stock of the Company, and (ii) the number of shares of Common Stock that such person or entity has the right to acquire within 60 days, whether by exercise of options or Warrants. The "Percent of Common Stock Beneficially Owned" does not reflect shares beneficially owned by virtue of the right of any person, other than the person named and affiliates of said person, to acquire them within 60 days, whether by exercise of options or Warrants.

(3) Does not give effect to the issuance of (i) 2,560,000 shares of Common Stock issuable upon exercise of the 3,840,000 outstanding Warrants, pursuant to the following terms: exercise of three warrants at an aggregate exercise price of $8.10 will entitle the holder thereof to two shares of Common Stock or (ii) 128,333 shares of Common Stock reserved for issuance under the Company's Senior Management Incentive Plan.

(4) Includes 1,600 shares of Common Stock underlying 2,400 Warrants owned by EVC, the president of which is the son-in-law of the Company's president.

(5) Includes 110,000 shares of Common Stock underlying options. See "Executive Compensation."

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In November 1999, Breaking Waves borrowed $400,000 from Play Co. pursuant to a promissory note bearing interest at 9% per annum. Breaking Waves has repaid $100,000 of the loan, the balance to be repaid on April 30, 2000.

In October 1999, the Company borrowed $50,000 from Play Co. (a toy retailer and publicly traded company whose board chairman is the President of both the Company and Breaking Waves), and Breaking Waves borrowed $200,000 from Play Co. The loans bore interest at 9% and were repaid in March 2000.

In April 1999, the Company granted options to purchase 36,667 shares to Mr. Rashbaum and 18,335 shares to Mr. DiMilia. The options are exercisable at $1.38 per share.

On February 1, 1999, the Company loaned $100,000 to Play Co. and received in exchange therefor an unsecured promissory note bearing interest at 9% per annum. The note was paid in full. In each of April and May 1999, the Company loaned an additional $100,000 to Play Co. pursuant to unsecured notes bearing interest at 9% per annum. All notes have been repaid.

On November 24, 1998, pursuant to a sales agreement entered into by and between Breaking Waves and Play Co., Breaking Waves purchased 1.4 million unregistered shares of Play Co.'s Common Stock in a private transaction. The shares purchased represented approximately 25.4% of the then total Common Stock issued and outstanding after the transaction. Pursuant to the agreement - which bore an initial term of one year and automatically extended for an additional one year term since it was not terminated by either of the parties - Play Co. agreed to purchase (on a wholesale basis) a minimum of 250 pieces of merchandise for each of its retail locations and to provide advertising promotional materials and ads of the merchandise in all of its brochures, advertisements, catalogs, and all other promotional materials, merchandising programs, and sales promotion methods. Breaking Waves had previously sold a limited number of pieces of its swimwear to Play Co. As consideration for the stock, Breaking Waves remitted $504,000, which represented an approximate price of $0.36 per share: $300,000 of the consideration was remitted in cash, and the remaining $204,000 was provided in the form of merchandise, primarily girls' swimsuits.

On July 15, 1998, Breaking Waves loaned $300,000 to Play Co. and received in exchange therefor an unsecured promissory note bearing interest at 9% per annum. The note called for five monthly installments of principal and interest commencing on August 15, 1998 and ending December 30, 1998 and has been repaid in full.

In April 1998, the Company completed a private placement of 770,000 shares of the Company's Common Stock at a price of $0.73 per share. HDS Capital Corp., a company whose secretary is related to the Company's President, purchased 275,000 such shares thereby. See "Description of Business-Private Offerings of Common Stock and Registration Thereof."

On March 1, 1998 Breaking Waves loaned $250,000 to Play Co. and received in exchange therefor an unsecured promissory note bearing interest at 15% interest per annum. The note called for ten monthly installments of principal and interest commencing on March 31, 1998 and ending on December 31, 1998 and has been repaid in full.

In February 1998, the Company completed a private placement of 660,000 shares of the Company's Common Stock at a price of $0.295 per share. American Telecom Corporation, a company whose president, secretary, and a director is related to the Company's President, purchased 220,000 shares thereby. See "Description of Business-Private Offerings of Common Stock and Registration Thereof."

During the years ended December 31, 1999, 1998, and 1997, the Company remitted $24,000, $27,000, and $69,500, respectively, in financial consulting fees to DRA Consulting, Inc., a company whose president is related to the Company's President.

In March 1997, the Company granted to each of Harold Rashbaum and Robert DiMilia an option to purchase 100,000 and 50,000 pre-reverse split shares, respectively, of Common Stock at an exercise price of $5.125 per share, pursuant to the Management Plan. The terms of such options were revised in accordance with the February 1998 reverse split of the Company's Common Stock and the February 1999 Common Stock dividend to provide for the purchase of 66,666 and 33,332 shares, respectively, at $1.46 per share. In accordance with the Company's February 2000 Common Stock dividend, the terms of the options were amended again to provide that Mr. Rashbaum has the option to purchase 73,333 shares of Common Stock and Mr. DiMilia has the option to purchase 36,665 shares of Common Stock. The terms of See "Executive Compensation - Senior Management Incentive Plan."

In October 1996, in exchange for two promissory notes, the Company loaned Mr. Rashbaum and Robert Melillo (the former Chief Executive Officer, President, and Director of the Company) an aggregate of $87,000 bearing interest at 6 1/2% payable over three years. In January 1997, the balance of Mr. Melillo's note, aggregating $30,130, was forgiven as part of a severance package provided to same.

In June 1996, the Company issued 36,666 shares of Common Stock to Mr. Melillo under the Management Plan. The shares were to vest at the rate of in each of June 1997 and 1998. On January 10, 1997, Mr. Melillo resigned and agreed to return 18,333 shares to the Company. Mr. Melillo failed to comply with the terms of his resignation; therefore, all 36,666 shares were cancelled. See "Executive Compensation - Senior Management Incentive Plan."

Before he became an Officer and Director of the Company, Mr. Rashbaum provided consulting services to the Company through HBR, a company of which he is an officer and director and of which his wife is the sole shareholder. HBR entered into an oral consulting agreement with the Company whereby it will receive 5% of the net profits received by the Company from the distribution of Dirty Laundry. In addition, HBR received $40,000 and 5,500 shares of the Company's Common Stock at the closing of the Company's initial public offering. From October 1996 through March 1997, Mr. Rashbaum received a salary of $104,000 per annum for being an officer and director of the Company. In March 1997, Mr. Rashbaum's salary was increased to $156,000 per annum. In addition, Mr. Rashbaum received 73,333 shares of Common Stock under the Management Plan, one half of which shares vested in each of June 1997 and June 1998. See "Executive Compensation - Employment and Consulting Agreements."

In January 1996, Dan Stone entered into a two year consulting agreement with Breaking Waves pursuant to which he was to oversee the operation of Breaking Waves in return for a yearly consulting fee of $100,000. Mr. Stone received $50,000 from the proceeds of the Company's initial public offering, as payment in advance of one half of the 1997 consulting fee, the balance of which was paid in weekly installments. On January 1, 1998, the consulting agreement expired, and Mr. Stone's relationship with Breaking Waves was terminated. See "Executive Compensation - Employment and Consulting Agreements."

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

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

(b) No reports on Form 8-K were filed during the last quarter of the period covered by this report.

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

3.1	Certificate of Incorporation of the Company
3.2	Amendment to Certificate of Incorporation of the Company, filed in June
3.4	By-Laws of the Company
3.6	Certificate of Incorporation of Breaking Waves, Inc.
3.7	By-Laws of Breaking Waves, Inc.
3.8*	Certificate of Amendment to Certificate of Incorporation
4.1	Specimen Common Stock Certificate
4.2	Specimen Warrant Certificate
4.4	Form of Warrant Agreement between the Company, the Underwriter and
4.5	Form of Restricted Stock Agreement
10.2	The Company's Senior Management Incentive Plan
10.4	Consulting Agreement between Breaking Waves, Inc. and Dan Stone
10.5	Lease for premises at 112 West 34th Street, New York, New York
10.6	Lease for premises at 8410 N.W. 53rd Terrace, Miami, Florida
10.6(a)	Amendment to lease at 8410 N.W. 53rd Terrace, Miami, Florida
10.7	Stock Purchase Agreement between the Company, European Ventures Corp
10.9	Property Acquisition Agreement between the Company and Rogue Features,
10.10	Co-production agreement between the Company and Rogue Features, Inc.,
10.11	Right of First Refusal Agreement with principals of Rogue Features, Inc.
10.13	Shippers Agency Agreement between Hollywood Productions, Inc.,
10.14	License Agreement between Breaking Waves, Inc. and Beach Patrol, Inc.
10.16	Employment Agreement with Michael Friedland (incorporated by referen
10.17	Employment Agreement with Malcolm Becker (incorporated by referenc
10.18	Termination of Employment Agreement with Robert Melillo (incorporated
10.19	Trident Releasing, Inc. License Agreement (incorporated by referen

10.20	Cyclone Option Agreement (incorporated by reference to the indica
10.21	Cyclone Co-Writer Agreement (incorporated by reference to the indica
10.22	Heller Financial Agreement (incorporated by reference to the indica
10.23	Non-Executive Director Stock Option Plan (incorporated by reference t
10.24	Kawasaki Motors Corp., USA "Jet Ski" License Agreement (incorporated
10.25	Amendment to lease at 112 West 34th Street, New York, New York (incorp
10.26	Form of Subscription Agreement used in connection with the Company's Fe
10.27	Form of Subscription Agreement used in connection with the Company
10.28	Amendment to Employment Agreement with Michael Friedland dated
10.29	Amendment to Employment Agreement with Malcolm Becker dated January 1,
10.30	Second Amendment to Employment Agreement with Malcolm Becker dat
10.31	Lease for premises at 14 East 60th Street, Room 402, New York, New York
10.32	Option Agreement - Robb Peck McCooey Clearing Corporation (incorpora
16.1	Letter from Scarano & Tomaro, P.C. regarding dismissal of Scarano & T
21.1*	Subsidiaries of the Registrant
27.1*	Financial Data Schedule

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the Undersigned hereunto duly authorized on the 10th day of April, 2000.

Shopnet.com, Inc.

By: /s/ Harold Rashbaum
Harold Rashbaum
Chief Executive Officer

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

/s/ Harold Rashbaum Harold Rashbaum	Chief Executive Officer, President, and Director	04/10/00 Date
/s/ Alain Guillou, M.D. Alain Le Guillou, M.D.	Director	04/10/00 Date
/s/ James B. Frakes James B. Frakes	Director	04/10/00 Date

SHOPNET. COM, INC. AND SUBSIDIARIES
(FORMERLY HOLLYWOOD PRODUCTIONS, INC.)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

SHOPNET.COM, INC. AND SUBSIDIARIES
(FORMERLY HOLLYWOOD PRODUCTIONS, INC.)
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Shopnet.com, Inc. (formerly Hollywood Productions, Inc.)

We have audited the accompanying consolidated balance sheet of Shopnet.com, Inc. (formerly Hollywood Productions, Inc.) and subsidiaries (the "Company"), as of December 31, 1999 and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 1999 and 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the 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 the Company as of December 31, 1999 and the consolidated results of its operations and cash flows for the years ended December 31, 1999 and 1998 in conformity with generally accepted accounting principles.

Massella, Tomaro & Co., LLP
Jericho, New York
February 25, 2000, except for
Note 12 as to which
the date is March 29, 2000

SHOPNET.COM, INC. AND SUBSIDIARIES
(FORMERLY HOLLYWOOD PRODUCTIONS, INC.)
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1999

ASSETS

Current assets:

Cash $ ....
Cash - restricted ....
Accounts receivable, net ....
Prepaid expenses ....
Inventory ....
Advances to officer ....
Deferred tax asset ....

Total current assets ....

Furniture, computer equipment, and leasehold improvements, net ....
Film production and distribution costs, net ....
Costs in excess of net assets of business acquired ....
Investments in joint venture ....
Organizational costs, net ....
Deferred tax asset - non current ....
Other assets ....

Total assets ....

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:
Accounts payable ....
Accrued expenses ....
Due to factor ....
Due to related party ....
Capital lease obligations ....
Deferred tax liability ....

Total current liabilities	
Capital lease obligations, net of current portion	
Total liabilities	
Commitments and contingencies (Note 9)	
Stockholders' equity:	
Common stock - $.001 par value, 20,000,000 shares authorized, 6,127,009 shares issued, outstanding and subscribed (Notes 1 and 13)	
Additional paid-in capital	
Accumulated deficit	
Total stockholders' equity	
Total liabilities and stockholders' equity	

See accompanying notes to consolidated financial statements

SHOPNET.COM, INC. AND SUBSIDIARIES
(FORMERLY HOLLYWOOD PRODUCTIONS, INC.)
CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31,

Net sales	$
Cost of sales	
Gross profit	
Expenses:	
Selling, general, and administrative expenses	
Amortization of costs in excess of net assets of business acquired	
Total expenses	
Loss before other income (expense) and provision for income taxes	

Other income (expense):	
Equity in (loss) earnings of affiliate	
Write down of film costs	
Gain on sale of equity investment in affiliate	
Rental income	
Cancellation (issuance) of stock issued in lieu of compensation	
Public offering costs	
Interest and finance expense	
Interest income	
Total other income (expense)	(
Loss before (benefit) provision for income taxes	(
Provision for (benefit of) income taxes	
Net (loss) income	(
Other items of comprehensive income	
Comprehensive net (loss) income	$ (
Basic:	
Net (loss) income	$
Weighted average number of common shares outstanding	

See accompanying notes to consolidated financial statements

SHOPNET.COM, INC. AND SUBSIDIARIES
(FORMERLY HOLLYWOOD PRODUCTIONS, INC.)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Acc D
Balances at December 31, 1997	4,499,612	$ 4,499	$ 5,615,809	$

Sale of common stock	1,430,000	1,430	753,552	
Cancellation of common stock in connection with Senior Management Plan	(18,335)	(18)	(62,482)	
Net income for the year ended December 31, 1998	-	-	-	
Balances at December 31, 1998	5,911,277	5,911	6,306,879	
Stock due pursuant to employment agreements	215,732	216	38,420	
Net loss for the year ended December 31, 1999	-	-	-	
Balances at December 31, 1999	6,127,009	$ 6,127	$ 6,345,299	$

See accompanying notes to consolidated financial statements

SHOPNET.COM, INC. AND SUBSIDIARIES
(FORMERLY HOLLYWOOD PRODUCTIONS, INC.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999
Cash flows from operating activities:	
Net income (loss)	$ (1,976,079)
Adjustments to reconcile net income (loss) to net cash (used for) operating activities:	
Equity loss (earnings) in affiliate	994,305
Amortization and depreciation	114,974
Expensing of deferred offering cost	-
Sale of inventory to acquire common stock	-
Deferred income tax (benefit) expense	(8,961)
Write down of film costs	261,153
Stock issued for services rendered	38,636
Decrease (increase) in:	
Accounts receivable	22,124
Prepaid expenses	(17,991)
Inventory	(199,050)
Film production costs	(53,495)
Security deposits	-
Increase (decrease) in:	
Accounts payable	209,516

Accrued expenses	368,153
Due to factor	(287,280)
Net cash (used for) operating activities	(533,995)
Cash flows from investing activities:	
Proceeds from sale of investment in affiliate	130,093
Acquisition of furniture, computer equipment, and leasehold improvements	(7,964)
Acquisition costs	(17,035)
Investment in common stock of affiliate	-
Investment in joint venture	(12,500)
Subsidiary's redemption of preferred stock	-
Net cash provided by (used for) investing activities	92,594
Cash flows from financing activities:	
Sale of common stock	-
Advances from related parties	650,000
Repayments to related parties	(130,000)
Principal payments on capital leases	(11,886)
Net cash provided by financing activities	508,114
Net increase (decrease) in cash	66,713
Cash, beginning of period	1,309,526
Cash, end of period	$ 1,376,239

See accompanying notes to consolidated financial statements.

SHOPNET.COM, INC. AND SUBSIDIARIES
(FORMERLY HOLLYWOOD PRODUCTIONS, INC.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1999 and 1998

	1999
Supplemental disclosure of non-cash flow information:	
Cash paid during the year for:	

Interest	$ 235,098
Income taxes	$ 16,225
In connection with the issuance (cancellation) of compensation, 215,732 and 18,335 shares of common stock were issued (cancelled), respectively	$ 50,886
Schedule of non-cash investing activities:	
Acquisition of office equipment and software in connection with capital lease obligations	$ -
Acquisition of an equity interest in Play Co. Toys & Entertainment Corp., in exchange for merchandise inventory	$ -

See accompanying notes to consolidated financial statements.

SHOPNET.COM, INC. AND SUBSIDIARIES
(FORMERLY HOLLYWOOD PRODUCTIONS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

NOTE 1 - ORGANIZATION

Shopnet.com, Inc. (the "Company") was incorporated in the State of Delaware on December 1, 1995 under the name of Hollywood Productions, Inc. The Company was formed for the purpose of acquiring screenplays and producing motion pictures. On May 10, 1999, the Company filed an amendment to its Articles of Incorporation to change its name to Shopnet.com, Inc. In accordance with the name change, the Company also changed its Nasdaq symbols from "FILM" and "FILMW" to "SPNT" and SPNTW," respectively. On May 12, 1999, the Company incorporated a new wholly owned subsidiary, Hollywood Productions, Inc. ("Hollywood"), to which the Company has assigned all of its film rights. Accordingly, the Company is considered a holding Company. During September 1996, simultaneously with the completion of its Initial Public Offering ("IPO"), the Company acquired all of the capital stock of Breaking Waves, Inc. ("Breaking Waves"). Breaking Waves designs, manufactures, and distributes private and brand name labels of children's swimwear nationally.

The Company, directly and through Breaking Waves, has investments in a joint venture and an affiliate, which are accounted for on the equity method.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of Consolidation

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

b) Cash and cash equivalents

The Company considers highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Included in these amounts are certificates of deposit of approximately $1,151,000. The Company maintains cash deposits in accounts which are in excess of Federal Deposit Insurance Corporation limits by approximately $1,051,000. The Company believes that such risk is minimal. The Company maintains a letter of credit with a financial institution as a condition of its factoring agreement. The financial institution requires the Company to maintain $1,150,000 on deposit as collateral for the letter of credit. In addition, during 1999, the Company was required to transfer a $200,000 cash collateral deposit to its factoring agent. Accordingly, both cash amounts are designated as restricted.

SHOPNET.COM, INC. AND SUBSIDIARIES
(FORMERLY HOLLYWOOD PRODUCTIONS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

c) Inventory

Inventory amounting to $2,862,053 at December 31, 1999 consists of finished goods and is valued at the lower of cost (using the first-in, first-out method) or market. All inventory is pledged as collateral for factored receivables pursuant to a factoring agreement with a financial institution.

d) Film production and distribution costs

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

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

For the year ended December 31, 1999, the Company has written down film production and distribution costs by $261,153 in order to reduce the balance to its estimated net realizable value.

e) Income taxes

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

SHOPNET.COM, INC. AND SUBSIDIARIES
(FORMERLY HOLLYWOOD PRODUCTIONS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

f) Revenue and cost recognition

Breaking Waves' sales are recognized upon shipment from the warehouse. Sales returns are recorded upon acceptance of the goods by the warehouse. Duty costs, which are a component of cost of sales, are recorded upon the clearance of such goods through customs.

Revenues from the theatrical distribution of motion pictures are recognized when motion pictures are exhibited. Revenues from video sales are recognized, together with related costs, on the date that video units are made widely available for sale by retailers. Revenues from the licensing of feature films, together with related costs, are recorded when the material is available for telecasting by the licensee and when certain other conditions are met. Film production and distribution costs are stated at the lower of unamortized cost or estimated net realizable value. In accordance with SFAS 53, "Financial reporting by Producers and Distributors of Motion Pictures Films," the individual film forecast method is used to amortize film costs.

g) Earnings per share

During 1997, the Financial Accounting Standards Board issued SFAS No. 128, "Earnings Per Share." SFAS No. 128 replaced the previously required reporting of primary and fully diluted earnings per share with basic and diluted earnings per share, respectively. Unlike the previously reported primary earnings per share, basic earnings per share excludes the dilutive effects of stock options. Diluted earnings per share is similar to the previously reported fully diluted earnings per share. Earnings per share amounts for all periods presented have been calculated in accordance with the requirements of SFAS No. 128.

h) Use of estimates

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

i) Fair value disclosure at December 31, 1999

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

SHOPNET.COM, INC. AND SUBSIDIARIES
(FORMERLY HOLLYWOOD PRODUCTIONS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

j) Reclassifications

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

k) Deferred compensation

Deferred compensation consists of common stock issued in lieu of compensation pursuant to the 1996 Senior Management Incentive Plan ("Incentive Plan") and management employment agreements. Such costs have been amortized using the straight line method over the period of the vesting rights of the respective shares.

l) Organizational costs

Organizational costs consist of common stock issued in lieu of cash payment for legal costs incurred in the establishment of the Company. Organizational costs are being amortized on a straight line basis over their estimated useful lives of five years.

m) Costs in excess of net assets of business acquired

Costs in excess of net assets of business acquired in connection with the acquisition of Breaking Waves are being amortized on a straight line basis over the estimated useful life of the related assets acquired for a period of fifteen years.

n) Deferred offering costs

Deferred offering costs incurred during 1997 consist of professional fees and advances to an underwriter in connection with an IPO of Breaking Waves which was terminated during 1998. Accordingly, all such costs related to the IPO have been expensed and charged to operations in 1998.

o) Accounting for stock-based compensation

The Company elected to continue to measure compensation cost using Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," as is permitted by SFAS No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the options issued under the Incentive Plan as the exercise price and market value at the date of grant were the same. For companies that choose to continue applying APB No. 25, SFAS No. 123 requires certain pro forma disclosures as if the fair value method had been utilized. Had compensation cost for the Company's stock- based compensation plan been determined

SHOPNET.COM, INC. AND SUBSIDIARIES
(FORMERLY HOLLYWOOD PRODUCTIONS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

o) Accounting for stock-based compensation (cont'd)

based on the fair value at the grant dates for awards under the plan consistent with the method of SFAS no. 123, the Company's net income (loss) and earnings per share would have been reduced to the pro forma amounts indicated below

utilizing the Black-Sholes option pricing model:

		1999	
Net income (loss)-			
	as reported	$ (1,988,329)	$
	pro forma	$ (2,000,579)	$
Basic EPS -	as reported	$ (.33)	$
	pro forma	$ (.33)	$

================= ==

p) Effect of New Accounting Standards

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

q) Furniture, Computer Equipment, and Leasehold Improvements

Furniture, computer equipment, and leasehold improvements are recorded at cost less accumulated depreciation and amortization which is provided on the straight line basis over the estimated useful lives of the assets which range between five and seven years. Expenditures for maintenance and repairs are expensed as incurred.

r) Equity Method of Accounting

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

s) Accounts Receivables

The Company utilizes the allowance method for recognizing the collectibility of its accounts receivables. The allowance method recognizes bad debt expense based on a review of the individual accounts outstanding based on the surrounding facts. As of December 31, 1999, no allowance was deemed necessary by management.

SHOPNET.COM, INC. AND SUBSIDIARIES
(FORMERLY HOLLYWOOD PRODUCTIONS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

NOTE 3 - FURNITURE, COMPUTER EQUIPMENT & LEASEHOLD IMPROVEMENTS

Furniture, computer equipment, and leasehold improvements are as follows at December 31, 1999:

Furniture & fixtures	$	37,944
Computer equipment and software		72,630
Leasehold improvements		5,946

		116,520
Less: accumulated depreciation and amortization		48,703
	$	67,817

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

Depreciation and amortization expense for the years ended December 31, 1999 and 1998 amounted to $19,023 and $11,340, respectively.

NOTE 4 - ACQUISITION OF BREAKING WAVES, INC.

Pursuant to a stock purchase agreement dated May 31, 1996 (the "Agreement"), on September 24, 1996, the Company issued 110,000 shares of common stock in exchange for all of the issued and outstanding capital stock of Breaking Waves. The transaction was accounted for using the purchase method of accounting. As a result of the transaction, excess of cost over net assets acquired totaling $1,064,283 was recorded and is being amortized over the useful lives of the related assets which is fifteen years. Amortization expense totaled $70,952 for each of the years ended December 31, 1999 and 1998.

On the closing date of the IPO, Breaking Waves performed a re-capitalization and exchanged all of its existing common stock for new common stock, and a series of preferred stock. Pursuant to the Agreement, Breaking Waves issued 5,600 shares of its newly authorized Series A Preferred Stock to its previous stockholders in proportion to their respective holdings. The holders of the shares of Series A Preferred Stock had the right to redemption whereby, on each of January 1, 1997 and 1998, Breaking Waves redeemed one-half of the outstanding shares of the Series A Preferred Stock, at a redemption price of $100 per share on a pro rata basis. During January 1997 and 1998, 2,800 such shares of the Series A Preferred Stock of Breaking Waves were redeemed for a total of $280,000 in each year.

SHOPNET.COM, INC. AND SUBSIDIARIES
(FORMERLY HOLLYWOOD PRODUCTIONS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

NOTE 5 - INVESTMENTS IN JOINT VENTURE AND AFFILIATE

a) Investment in Joint Venture

Pursuant to a co-production agreement dated April 17, 1998, the Company invested $212,500 for a 50% interest in a newly formed entity, Battle Studies Productions, LLC ("Battle Studies") a limited liability company. North Folk Films, Inc.

("NFF"), an unrelated party, also invested $212,500 for the remaining 50% interest in Battle Studies. Battle Studies will be treated as a joint venture in order to co-produce motion pictures and to finance the costs of production and distribution of such motion pictures. The joint venture retains all rights to the motion pictures, the screenplays, and all ancillary rights attached thereto. During the year ended December 31, 1999 and subsequent thereto, the motion picture was shown at various film festivals.

The Company accounts for the investment in Battle Studies on the equity method. Accordingly, as of December 31, 1999, the Company has only recorded its initial $212,500 investment in the joint venture since no operations have begun as of December 31, 1999.

b) Investment in Affiliate

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

Breaking Waves accounts for its investment under the equity method. For the year ended December 31, 1999, Breaking Waves recorded a $994,305 equity loss for its proportionate share of Play Co.'s loss for that year. For the year ended December 31, 1998, Breaking Waves recorded $473,270 of equity earnings for its proportionate share in Play Co.'s earnings from November 24, 1998 to December 31, 1998.

During the year ended December 31, 1999, Breaking Waves' investment in Play Co. was reduced to $-0- since its share of Play Co.'s loss for 1999 exceeded its cost basis. In addition, during the year ended December 31, 1999, as a result of Play Co.'s issuance of additional common stock, and Breaking Waves' sale of 130,000 shares of Play Co.'s common stock, Breaking Waves' percentage of Play Co's common stock was reduced to 22.88% as of December 31, 1999.

Subsequent to December 31, 1999, as a result of the conversion of Play Co.'s series E preferred stock into common stock, Breaking Waves' common stock percentage was reduced

NOTE 5 - INVESTMENTS IN JOINT VENTURE AND AFFILIATE (cont'd)

b) Investment in Affiliate (cont'd)

to 16.9%. Therefore, the investment in Play Co. will be accounted for under the requirements of SFAS

SHOPNET.COM, INC. AND SUBSIDIARIES
(FORMERLY HOLLYWOOD PRODUCTIONS, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

No. 115, " Accounting for Certain Investments in Debt and Equity Securities."

Play Co.'s operations are highly seasonal with approximately 30-40% of its net sales historically falling within the last three months of the calendar year. Accordingly, the equity earnings in Play Co. are not indicative of the results to be expected if the investment in Play Co. was consummated at the beginning of the year.

The following unaudited pro forma information presents the results of operations of the Company for the year ended December 31, 1998 as if the investment in Play Co. on January 1, 1998:

		(Unaudited)
Net Sales	$	5,276,459
Cost of Sales		3,343,364
Total Expenses		2,420,462
Other Income (Expenses)		(192,354)
Net Loss		(487,338)
Net Loss per share		(.10)

These unaudited pro forma results of operations have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which would have actually resulted had the acquisition occurred on the date indicated, or of future results of operations.

NOTE 6 - ACCRUED EXPENSES

Accrued expenses consist of the following at December 31, 1999:

Purchases	$
Commissions	
Payroll and other taxes	
Deferred rent	
Professional fees	
Interest	
Other	
	--
	$

NOTE 7 - DUE TO FACTOR

On August 20, 1997, Breaking Waves entered into a factoring and revolving inventory loan and security agreement (as amended December 9, 1998) with Heller Financial, Inc. ("Heller") to sell their interest in all present and future receivables without recourse. Breaking Waves submits all sales offers to Heller for credit approval prior to shipment, and pays Heller a factoring commission of .85% of the first $5,000,000 of receivables sold and .65% of receivables sold in excess of $5,000,000 for each year. Heller retains from the amount payable to Breaking Waves a reserve for possible obligations such as customer disputes and possible credit losses on unapproved receivables. Breaking Waves may take

advances of up to 85% of the receivable, with interest at the rate of 1 3/4% over prime. In connection with the factoring agreement, the Company agreed to maintain $1,150,000 of cash in a segregated account in order to collateralize standby letters of credit. In addition, during 1999, the Company was required to transfer an additional $200,000 cash collateral deposit to Heller. Interest expense related to this agreement totaled $228,772 and $224,603, respectively, for the years ended December 31, 1999 and 1998. Heller has a continuing interest in Breaking Wave's inventory as collateral for the advances. As of December 31, 1999, the net advances to Breaking Waves from the factor amounted to $1,776,274.

NOTE 8 - CAPITAL LEASE OBLIGATIONS

During 1998, the Company acquired computer equipment and proprietary software for its subsidiary, Breaking Waves, pursuant to the following terms and conditions:

i) On August 13, 1998, the Company acquired various computer and related components for $28,583 by entering into a capital lease obligation with interest at approximately 9.2% per annum, requiring 48 monthly payments of principal and interest of $762. The lease is secured by the related computer equipment.

ii) On September 13, 1998, the Company acquired proprietary software for $32,923 by entering into a capital lease obligation with interest at approximately 10.9% per annum, requiring 48 monthly payments of principal and interest of $850. The lease is secured by the related software.

NOTE 8 - CAPITAL LEASE OBLIGATIONS (cont'd)

At December 31, 1999, the aggregate future minimum lease payments due pursuant to the above capital lease obligations are as follows:

		Year ended December 31:
2000	$	19,335
2001		19,335
2002		13,486
Total minimal lease payments		52,156
Less: Amounting representing Interest		6,677
Present value of net minimum lease payments	$	45,479

At December 31, 1999 equipment and software under capital leases is carried at a book value of $44,752.

NOTE 9 - PROVISION (BENEFIT) FOR INCOME TAX

Provision (benefit) for income tax is comprised of the following for the years ended December 31, 1999 and 1998:

	1999	
Current:		
Federal	$ -	$
State and local	21,234	
	21,234	
Deferred:		
Federal	-	
State and local	(8,961)	
	(8,961)	
Total provision (benefit) for income taxes	$ 12,273	$

NOTE 9 - PROVISION (BENEFIT) FOR INCOME TAX (cont'd)

A reconciliation of the provision for income taxes on income per the federal statutory rate to the reported income tax expense is as follows for the years ended December 31, 1999 and 1998:

	1999
Federal statutory rate applied to pretax loss	$ -
State and local income taxes, net of federal income tax benefit, applied to pretax loss	-
Permanent differences	-
(Decrease) Increase in valuation allowance	34,298
Current provision for state and local taxes	21,234
(Increase) in deferred tax assets	-
(Decrease) increase in deferred tax liability	(43,259)
Total provision (benefit) for income taxes	$ 12,273

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related to differences between the financial statement and tax bases of assets and liabilities for financial statement and income tax reporting purposes. Deferred tax assets and liabilities represent the future tax return consequences of these temporary differences, which will either be taxable or deductible in the year when the assets or liabilities are recovered or settled. Accordingly, measurement of the deferred tax assets and liabilities attributable to the book-tax basis differentials are computed at a rate of 34% federal and 12% state and local pursuant to SFAS No. 109.

The tax effect of significant items comprising the Company's current deferred tax assets are as follows as of December 31, 1999:

Net operating loss carryforwards
Section 263A inventory capitalization
Valuation allowance
Deferred current tax asset

NOTE 9 - PROVISION (BENEFIT) FOR INCOME TAX (cont'd)

The tax effect of significant items comprising the Company's net non-current deferred tax asset and liability are as follows as of December 31, 1999:

Net operating loss carryforwards
Valuation allowance

Deferred non-current tax asset

Equity earnings of affiliate
Depreciable assets

Deferred non-current tax liability

Net non-current deferred tax asset

The Company and its subsidiaries file a consolidated tax return for federal tax purposes. For state and local purposes, the Company and its subsidiaries file separate tax returns. As such, each entity computes its state and local tax based on its own taxable income or loss.

At December 31, 1999, the Company had a net operating loss carryforward (NOL) for federal and state tax purposes of approximately $1,860,000 and $1,549,000, respectively, both of which expire between 2010 and 2014. Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax asset.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

a) Lease commitments

The Company and its subsidiaries have entered into lease agreements for administrative offices. The Company leases its administrative office pursuant to a 5 year lease expiring November 30, 2001 at annual rent amounting to approximately $70,000, before annual escalations. Breaking Waves leased administrative offices through January 1998 pursuant to a lease requiring annual payments of approximately $64,000. Breaking Waves cancelled such lease and simultaneously entered into a new lease for additional space with the same landlord requiring annual payments of $71,600 expiring December 2004.

Lastly, Breaking Waves leases an offsite office for one of its designers on a month to month basis with annual payments approximating $11,000.

NOTE 10 - COMMITMENTS AND CONTINGENCIES (cont'd)

a) Lease commitments (cont'd)

The Company and Breaking Waves' approximate future minimum rentals under non-cancelable operating leases in effect on December 31, 1999 are as follows:

2000	$	141,2
2001		135,4
2002		71,6
2003		71,6
2004		71,6
Thereafter		
	$	491,5

Rent expense for the years ended December 31, 1999 and 1998 amounted to approximately $172,709 and $158,174, respectively.

b) Significant vendors and customers

Breaking Waves purchases 100% of its inventory from two vendors in Indonesia and one in Samoa. For the year ended December 31, 1999 Breaking Waves had four customers, which comprise 17%, 13%, 12%, and 10%, of net sales, respectively. For the year ended December 31, 1998, Breaking Waves had three customers which compromised 13%, 13%, and 11% of net sales, respectively.

c) Seasonality

Breaking Waves' business is considered seasonal with a large portion of its revenues and profits being derived between November and March. Each year from April through October, Breaking Waves engages in the process of designing and manufacturing the following season's swimwear lines, during which time its incurs the majority of its production costs with limited revenues.

d) License agreements

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

NOTE 9 - COMMITMENTS AND CONTINGENCIES (cont'd)

d) License agreements (cont'd)

through and until June 30, 2001. Breaking Waves has exercised this option, thereby so extending the agreement. The agreement calls for minimum annual royalties of $75,000 to $200,000 over the life of the agreement with options based on sales levels from $1,000,000 for the first year to $4,000,000 in the sixth year. The Company recorded royalties and advertising under this agreement totaling $162,501 and $135,000 during the years ended December 31, 1999 and 1998, respectively.

ii) On October 31, 1996, Breaking Waves entered into a license agreement with North-South Books, Inc. ("N-S") for the exclusive use of certain art work and text in the making of swimsuits and accessories in the United States and Canada. The agreement expired on March 1, 1999 and was not renewed. The Company recorded royalties totaling $784 and $4,852 under this agreement during the years ended December 31, 1999 and 1998, respectively.

iii) On October 17, 1997, Breaking Waves entered into a license agreement with Kawasaki Motors Corp., U.S.A. ("KMC") with an effective date of July 1, 1997 for the exclusive use of certain trademarks in the making of swimwear in the United States. The fee for the exclusive use of certain trademarks is five percent (5%) of net sales. The agreement expired on May 31, 1999 and was not renewed. The Company recorded royalties under this agreement totaling $10,415 and $-0- during the years ended December 31, 1999 and 1998, respectively.

e) Co-production and property purchase agreements

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

As of December 31, 1999, the Company invested $2,006,956 for the co-production and distribution of such motion picture whereas the co-producers have invested $100,000. For the years ended December 31, 1999 and 1998, revenue associated with the motion picture amounted to $-0- and $120,211, respectively, and amortized film costs amounted to $-0-and $122,126, respectively.

For the year ended December 31, 1999, the Company has written down its film production and distribution costs by $261,153 in order to reduce the balance to its estimated net realizable value.

NOTE 10 - COMMITMENTS AND CONTINGENCIES (cont'd)

f) Employment agreements

On November 27, 1996, the Company entered into two employment agreements (as amended) with two key employees of Breaking Waves. Such employees are responsible for the designing, marketing and sales of Breaking Waves. The employment agreements are for a term of three years with annual salaries of $110,000 each for 1997 and $60,000 and $130,000 for 1998 (as amended), respectively. One of the employment agreements was further amended effective January 1, 1999 with an annual salary increase from $60,000 to $70,000. In addition to the salaries, the Company agreed that the employees are entitled to receive on each of November 27, 1996, 1997, and 1998, shares of common stock in the amount equal to the fair market value of $25,000 (before amendment) to each employee subject to a vesting schedule. In connection with the decrease in salary from originally $110,000 per year to $70,000 per year for one of the key employees, the Company reduced the value of shares to be issued to $13,636 for November 27, 1998. The shares the employees were entitled on November 27, 1998 did not vest until during the year ended December 31, 1999. Although the shares have not yet been issued, the Company recorded compensation expense amounting to $38,636 during the year ended December 31, 1999, since the shares vested as of May 1999.

As of December 31, 1999, the Company has not renegotiated the employment agreements with the two key employees of Breaking Waves and accordingly, all prior arrangements are in effect.

NOTE 11 - STOCKHOLDER'S EQUITY

a) Private placement

During February and May 1998, pursuant to two separate private transactions, the Company sold 660,000 and 770,000 shares of its common stock for a total of approximately $195,000 and $560,000, respectively to various entities. An officer of two of the entities who invested in the Company's private placement is affiliated with the Company's President.

b) 1996 Senior Management Incentive Plan

During May 1996, the Board of Directors adopted the Incentive Plan. The Incentive Plan provides for the issuance of up to 128,333 shares of Common Stock in connection with the issuance of stock options and common shares.

On March 14, 1997, the Company granted 109,998 options to purchase shares of common stock pursuant to the Company's Incentive Plan consisting of 73,333 options to the Company's President and 36,665 options to another officer. The exercise price of each option was fixed at $1.46 (as revised) per share and such options expire March 2002.

NOTE 11 - STOCKHOLDER'S EQUITY (cont'd)

A summary of the status of the Company's stock options outstanding as of December 31, 1999 and changes during the years ended December 31, 1999 and 1998 is as follows:

	Number of Options	Exer
Outstanding at December 31, 1997	109,998	$
Granted	-	
Exercised	-	
Cancelled	-	
Outstanding at December 31, 1998	109,998	
Granted	-	
Exercised	-	
Cancelled	-	
Outstanding at December 31, 1999	109,998	$

c) Cancellation of shares

During 1998, the 36,667 shares of common stock previously issued and vested to a former officer of the Company and recorded as compensation expense amounting to $62,500 during 1997 were cancelled by the Company.

d) Distribution Warrants

On April 15, 1998, the Company's Board of Directors authorized the distribution of warrants to all holders of shares of the Company's common stock as of May 8, 1998. Pursuant to the distribution, each shareholder of record received one warrant to purchase one share of common stock at an exercise price of $4.00 per share. The warrants, which are exercisable for a period of three years, commencing one year after issuance, shall be issued and distributed once the Company has filed a registration statement for same and same has been declared effective by the Securities and Exchange Commission. The Company intends to file the registration statement during the year 2000.

f) Stock Dividend - 1999

On January 14, 1999, the Company declared a 100% stock dividend to all shareholders of record as of January 29, 1999 amounting to a total of 2,686,944 shares of common stock. The stock dividend was issued on February 5, 1999. In order for shareholders to receive their stock dividend, they must exchange the old shares for the new shares. As a result of such stock dividend, the Company issued 2,686,027 shares of its common stock. An additional 917 shares are entitled to the dividend, and such shares shall be issued to the holders upon then redeeming the old shares.

NOTE 11 - STOCKHOLDER'S EQUITY (cont'd)

f) Stock Dividend - 1999 (cont'd)

These additional shares are included in the total issued and outstanding common stock at December 31, 1999.

g) Stock Dividend - 2000

On January 7, 2000, the Company declared a 10% stock dividend to all shareholders of record as of January 20, 2000 amounting to 557,000 shares of common stock. Such stock dividend was issued on February 1, 2000. The stock dividend has been retroactively reflected in the financial statements.

h) Grant of Stock Options

i) In connection with a consulting and option agreement entered on September 1, 1999, the Company granted 400,000 options to purchase shares of the Company as follows; 100,000 shares at an exercise price of $2.50 per share, 100,000 shares at an exercise of $3 per share, 100,000 shares at an exercise price of $3.50 per share and 100,000 shares at an exercise price of $4.00 per share. No consulting expenses were recorded in connection with such options based on the underlying value of the stock on the grant date. As of December 31, 1999, no options have been exercised.

ii) During April 1999, the Company granted its President and Vice President approximately 50,000 stock options. The options are exercisable as 85% of the closing bid price on April 16, 1999.

NOTE 12 - RELATED PARTIES TRANSACTIONS

a) During June 1996, the Company issued 36,666 shares to each of two officers of the Company as consideration for services rendered. Vesting of such shares will be 50% one year from date of issuance and 50% two years from date of issuance. Such shares were valued at 50% of the IPO price or $2.50. For the year ended December 31, 1998 the Company recorded compensation expense amounting to $31,250.

b) During November 1998, the Company agreed to issue shares of common stock in the amount equal to the fair market value of $25,000 and $13,636, respectively, to two key employees of Breaking Waves in connection with their employment agreements. Although the shares have not yet been issued, the Company recorded compensation expense amounting to $38,636 during the year ended December 31, 1999, since the shares vested as of November 1999.

NOTE 12 - RELATED PARTIES TRANSACTIONS (cont'd)

c) For the years ended December 31, 1999 and 1998, $24,000 and $27,000, respectively of financial consulting fees were paid to an affiliate of the Company's President.

d) For the year ended December 31, 1998, included in net sales is $204,000 of sales made to Play Co. in lieu of cash payment for the acquisition of 25.4% of Play Co.'s common stock. The Company's President is also the Chairman of the Board of Play Co.

e) During October 1996, pursuant to two promissory notes, the Company loaned two of its officers a total of $87,000 bearing interest at six and one-half percent (6 1/2%) payable over three years. As of December 31, 1999, the one note remains which amounted to $37,000, which has been classified as current As of December 31, 1999, the Company's President was also advanced additional funds totaling $3,000 which are non-interest bearing and due on demand and are classified as current.

f) During October 1999, Play Co loaned funds to Breaking Waves in return for an unsecured promissory note in the amount of $200,000. Such note was due and was repaid in full on March 29, 2000 plus interest at 9% per annum.

g) On November 29, 1999, Play Co. loaned additional funds to Breaking Waves in return for an unsecured promissory note in the amount of $400,000. Such note is due in two installments. The first installment of $100,000 was due January 30, 2000 (which was repaid) and the second installment of $300,000 is due April 30, 2000. Interest accrues at 9% per annum.

h) During October 1999, Play Co. loaned funds to the Company in return for an unsecured promissory note in the amount of $50,000. Such note is due in full and was repaid on March 29, 2000 plus interest at 9% per annum.

i) During February and May 1998, pursuant to two separate private transactions, the Company sold 660,000 and 770,000 shares of its common stock for a total of approximately $195,000 and $560,000, respectively to various entities. An officer of two of the entities who invested in the Company's private placement is affiliated with the Company's President.

NOTE 13 - INDUSTRY SEGMENTS

The Company's operations have been classified into two segments: swimwear sales and film productions. Information about the two segments for the years ended December 31, 1999 and 1998, is as follows:

	1999 Segment	1999 Consolidated	199 Segment
Sales:			
Swimwear sales	$ 4,758,296		$ 5,156,24
Film production	-		120,21
Total Sales		$ 4,758,296	
Operating profit (loss):			
Swimwear sales		$ 35,872	
Film production		(265,153)	
		$ (229,281)	
Corporate:			
General and administrative expense		(638,425)	
(Loss) equity in earnings of affiliate		(994,305)	
Gain on sale of equity investment		130,093	
Amortization expense		(70,952)	
Interest income		56,212	
Interest and finance expense		(243,148)	
Other		13,750	
Loss from operations before (benefit) provision for income tax		(1,976,056)	
(Benefit) provision for income tax		12,273	
Net (loss) income		$ (1,988,329)	
Identifiable assets:			
Swimwear sales		$ 3,219,328	
Film productions		1,906,064	
Corporate		2,302,228	
Total assets		$ 7,427,620	

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

NOTE 14 - SUBSEQUENT EVENTS

On February 1, 2000, the Company sold 100,000 shares of common stock for $300,000 pursuant to a transaction with an unrelated party.