SHOPNET COM INC
Form 10KSB
April 17, 2001

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, 2000

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 [ ].

The Registrant's revenues for its fiscal year ended December 31, 2000 were

$5,713,133.

The aggregate market value of the voting stock on March 31, 2001 (consisting of Common Stock, par value $0.001 per share) held by non-affiliates was approximately $4,626,843, based upon the closing price for such Common Stock on said date ($1.00), as reported by a market maker. On such date, there were 7,472,224 of Registrant's Common Stock outstanding.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

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

History

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

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

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

Motion Picture Business

General

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).

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 attempts to secure foreign and domestic distributors.

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

Distribution, Billing and Revenues

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 can show numerous movies at the same time. There is a continuous demand for new films. In negotiating with a distributor to sign onto 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 its release. 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 its profits as described in the Production Agreement. Rogue also retained the right to produce a live comedy or musical upon the earlier of five years after Dirty Laundry's release or the Company's approval. In addition, Michael Normand, a principal of Rogue, retained the right to adapt the screenplay of Dirty Laundry into a novel on the Company's approval of the compensation it is to receive therefrom. The Production Agreement provided for the principals of Rogue to direct and retain creative control of the production of the film while the Company retains final approval.

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

In June 1998, the Company entered into an agreement with Artistic License Films, Inc. ("ALF") whereupon ALF agreed to use its best efforts to distribute (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. To date, the film has not generated any significant revenues for the Company.

The film was released to five New York and three Los Angeles theaters. It had a limited run during the fall of 1998 and received marginal reviews. Currently, the Company is reviewing plans to distribute the film through numerous distribution channels, including video, syndicated, network and cable television and pay-per-view.

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 co-starred in the motion picture "Mr. Holland's Opus" and is known for his television work in "Love & War," "Cheers," "Murphy Brown," and "Mork & Mindy," and, most recently, is hosting WTJM "Jammin" 105.1 FM, a New York radio station which hopes to air nationwide. 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."

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 $433,000, of which the Company has funded approximately $217,500. In accordance with the terms of the co-production agreement, the proceeds of the film will be distributed as follows: first, both parties shall be entitled to recoup their initial investment in the film, at 135% thereof; then, after repayment to the respective parties of additional costs incurred by same, any remaining proceeds shall be distributed 50% to North Folk and 50% to the Company. The film was shown in January 1999 in both New York and at the Brussels Film Festival.

In February 2000, "Machiavelli Rises" was one of thirty-eight films showcased at the New York Independent Film Festival ("NYIFF") in New York City where it was honored with the award for Best Screenplay. In addition, it was chosen (along with only six other films) for presentment at the Los Angeles distribution of the NYIFF in April, 2000. Recently, Battle Studies has entered into agreements with Raven Pictures International and Koan, Inc. for the distribution of "Machiavelli Rises" internationally and domestically, respectively. See "Management's Discussion and Analysis or Plan of Operation - Investment in Joint Ventures - Battle Studies Productions, LLC."

Production of "The Girl"

In July 1999, the Company entered into an agreement with ALF with respect to the production of a film entitled "The Girl." Pursuant to such agreement, the Company and ALF formed a limited liability company, The Girl, LLC ("Girl LLC"), to finance, produce and distribute the film. As of December 31, 2000, the Company invested $35,000 for a 22.533% interest in Girl LLC. "The Girl" is completed, has been exhibited at several film festivals and Girl LLC is in the process of attempting to secure distribution arrangements.

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, 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.

Breaking Waves markets swimwear under private brand labels including "Breaking Waves," "All Waves," and "Making Waves." In July 2000, Breaking Waves added a new line of girls' swimwear which is sold under the label, "Coral Cove." 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," "Coral Cove" and other marks in connection with its manufacture and sale of girls' swim and beach wear.

During June 2000, Breaking Waves entered into a license agreement with an effective date of November 1, 2000 with Gottex Models Ltd., an Israeli Corporation and Gottex Models (USA) Corp., a New York Corporation for the use of the trademark "Gottex" in the United States for children's swimwear. See "Agreement with Gottex Models Ltd."

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 and 15 prints and fabrics are developed for "Karl Cove." For the year ended December 31, 2000, the "All Waves" line accounted for approximately one-third of Breaking Waves' total volume, and the remaining three lines accounted for, in equal parts, the remainder of Breaking Waves' volume.

In designing its children's swimwear, Breaking Waves adapts certain of the prints and styles it is provided by Beach Patrol 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, 2000, half of Breaking Waves' finished products were purchased from an Indonesian manufacturer and half were purchased from a Samoan manufacturer, whereas for the year ended December 31, 1999, 50%, 40%, and 10% of Breaking Waves' finished products were purchased from two Indonesian manufacturers and one Samoan manufacturer. Although management of Breaking Waves believes that the fabrics and non-fabric sub-materials it uses are readily available and that there are numerous manufacturers for such piece goods who offer similar terms and prices, there can be no assurance that management is correct in such belief. The unavailability of fabrics or the absence of clothiers, or the availability of either at unreasonable cost, could adversely affect the operations of Breaking Waves and, 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.

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.

Breaking Waves sells its swimwear and accessory items through its showroom sales staff and through independent sales representatives. Over the past several years, certain of its customers have included the Dillard and Federated department store groups as well as Kids R Us, Sears, Wal-Mart, T.J. Maxx, Kohl's Department Store, and Marshalls. For the year ended December 31, 2000, Breaking Waves had three customers representing 22%, 14% and 10% of net sales, respectively. 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 and a company in which Breaking Waves owns 1,270,000 Shares of Common Stock), 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.")

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

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

Breaking Waves merchandise. 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.

Suspended Internet Activities

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

Work in Progress

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

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

Trademarks and Licensing; New Product Line

Breaking Waves relies on common law trademarks for usage of its private label swimwear lines. On October 16, 1995, Breaking Waves entered into a license agreement with Beach Patrol, Inc. ("Beach") for the exclusive use of certain trademarks in the United States. The agreement covered a term from January 1, 1996 to June 30, 1998 and contained a provision for an additional three year extension, at the option of Breaking Waves, through and until June 30, 2001. Breaking Waves has exercised this opinion, thereby 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. Breaking Waves has negotiated an additional two year extension thereby extending the agreement through and until June 30, 2003, and it contains a provision for an additional two year extension, at the option of Breaking Waves, through and until June 30, 2005. The new agreement signed February 28, 2001 and effective July 1, 2001 calls for minimum annual royalties of $50,000 to $87,500 over the life of the extension with options based on sales levels from $1,000,000 for the seventh year to $1,750,000 in the tenth year. Breaking Waves recorded royalties under this agreement totaling $163,009 and $162,501 during the years ended December 31, 2000 and 1999, respectively.

During June 2000, Breaking Waves entered into a license agreement with an effective date of November 1, 2000 with Gottex Models Ltd., an Israeli Corporation and Gottex Models (USA) Corp., a New York Corporation for the use of the trademark "Gottex" in the United States for children's swimwear. The agreement calls for a royalty fee of 7% of net sales (as defined in the license agreement) with guaranteed minimum annual royalties of $70,000 to $140,000 over the life of the agreement, subject to certain exceptions. The license agreement also requires the Company to expend certain minimum amounts on advertising each year. The license agreement is for a term of three years, subject to earlier termination in accordance with its terms.

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.

Competition

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

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

Many of the national clothing manufacturers have extensive advertising campaigns which develop and reinforce brand recognition. In addition, many of such manufacturers have agreements with department stores and national retail clothing chains to jointly advertise and market their products. Since Breaking Waves does 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, 2000, 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 these positions and was replaced in February 2000 by Jeanne Falletta, who is also a Controller of Breaking Waves. 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 two full-time executive officers including a vice president of design, marketing and sales and a controller, and a part-time employee--a vice president of design, marketing and sales. 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. Breaking Waves attempts to anticipate consumer preferences. There can be no assurance, however, that it will be successful in this regard, and if it misjudges the market for any of its products, it may be faced with unsold finished goods, inventory, and work in process, which could have an adverse effect on the Company's operations as a whole.

ITEM 2. DESCRIPTION OF PROPERTY

The Company'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

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

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

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

Not applicable.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Market Information

The Company's Common Stock is 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 December 31, 2000. Sales prices reflect prices between dealers and do not include resale mark-ups, mark-downs, or other fees or commissions.

	Common Stock		Warrants
Calendar Period	Low	High	Low
1999(1)(2)			
01/01/99 - 03/31/99	.50	2.78	.03
04/01/99 - 06/30/99	1.06	3.09	.06
07/01/99 - 09/30/99	2.06	2.75	.13

10/01/99 - 12/31/99	2.06	3.44	.13
2000(2)			
01/01/00 - 03/31/00	2.56	7.72	.13
04/01/00 - 06/30/00	2.44	5.13	.13
07/01/00 - 09/30/00	2.38	3.98	.25
10/01/01 - 12/31/00	.25	3.00	.16
2001(2)			
01/01/01 - 03/31/01	.19	.89	.09
04/01/01 - 04/12/01	1.00	1.45	.16

As of March 31, 2001, 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, 2001, the number of outstanding shares of the Company's Common Stock was 7,472,224. (This number includes an aggregate of 2,420 shares of Common Stock being held by the Company on behalf of certain shareholders pending their submission for exchange of stock certificates outstanding on the date of the Company's one-for-three reverse stock split, as adjusted for the reverse stock split and subsequent stock dividends.)

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

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

Common Stock Dividends

20% Common Stock Dividend

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

10% Common Stock Dividend

On January 7, 2000, the Company's Board of Directors authorized the issuance of a 10% stock dividend to all holders of shares of the Company's common stock, par value $0.001 per share (the "Common Stock"), as of January 20, 1999, payable February 1, 2000.

100% Common Stock Dividend

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

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

Recent Sales of Unregistered Securities

In February 1998, in private transactions, the Company sold an aggregate of 792,000 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 an aggregate of 924,000 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 120,000 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 were 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 OPERATION
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 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, to which it assigned its film production business thereby rendering Shopnet a holding company for Hollywood and another wholly-owned subsidiary, Breaking Waves. Shopnet was formed initially for the purpose of acquiring screenplays and producing motion pictures. In September 1996, in connection with the completion of its IPO it acquired all of the capital stock of Breaking Waves which designs, manufactures, and distributes private and brand name label children's swimwear.

The consolidated financial statements at December 31, 2000 and 1999 include the accounts of Shopnet and its wholly owned subsidiaries, Breaking Waves and Hollywood (collectively referred to as the "Company" except where otherwise indicated), after elimination of all significant intercompany transactions and accounts.

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

Year ended December 31, 2000 as compared to the year ended December 31, 1999

Breaking Waves

For the years ended December 31, 2000 and 1999, Breaking Waves generated net sales of $5,713,133 and $4,756,497, respectively with a cost of sales amounting to $3,764,258 and $3,214,704, respectively. The increase in sales amounting to $956,636, or approximately 20%, from 1999 to 2000 was primarily attributable to the introduction of the new "Coral Cove" product line. The gross profit for the year ended December 31, 2000 amounted to $1,948,875, or 34%, as compared to the year ended December 31, 1999 during which it amounted to $1,541,793, or 32%.

Selling, general, and administrative expenses during the years ended December 31, 2000 and 1999 amounted to $1,638,809 and $1,503,993, respectively. The increase, amounting to $134,816, is primarily attributable to increased factoring and warehousing costs.

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

	2000
Officers, office staff and	

designer salaries and related benefits	$	535,137	$
Commission expense		94,489	
Warehousing costs		228,934	
Royalty fees		171,869	
Rent expense		87,690	
Factor commissions		56,683	
Miscellaneous general corporate overhead expenses		464,007	

In November 1998, Breaking Waves purchased 1,400,000 shares of Play Co. Toys & Entertainment Corp. ("Play Co.") for a total of $504,000 comprised of $300,000 in cash and by shipping $204,000 in merchandise. After the purchase, Breaking Waves owned 25.4% of the outstanding common stock of Play Co.

For the year ended December 31, 1999, Breaking Waves recognized $994,305 of equity loss (non-cash loss) in Play Co. in connection with the equity method of accounting.

During the year ended December 31, 2000, certain Play Co. preferred shareholders converted their Series E Convertible Preferred Stock into Play Co's common stock thereby diluting Breaking Waves ownership interest in Play Co. The percentage ownership of Breaking Waves' investment was diluted to approximately 1.5% as of December 31, 2000. Breaking Waves accounted for its investment in Play Co. pursuant to the equity method through the point it maintained at least a 20% ownership interest. Once its investment fell below 20%, Breaking Waves used the cost method of accounting. At the time that Breaking Waves shifted from the equity to the cost method of accounting its basis in Play Co. was $0 since its share of Play Co.'s loss for 1999 exceeded its cost basis. In accordance with SFAS No. 115 "Accounting for certain investments in debt and equity securities," since such securities are classified as available for sale, the value of such investment was revalued and recorded at the fair market value which was approximately $108,000 as of December 31, 2000. Accordingly, Breaking Waves recorded an unrealized gain of approximately $108,000 for the year ended December 31, 2000, which has been recorded as a component of comprehensive income (loss) on the statements of operations.

Interest expense in connection with its factoring agreement amounted to $305,309 and $228,772, for the years ended December 31, 2000 and 1999, respectively.

Breaking Waves' generated a net income (loss) of $663 and ($1,025,449) for the years ended December 31, 2000 and 1999, respectively. The net loss generated for the year ended December 31, 1999 includes an equity loss (non - cash loss) of $994,305 from Play Co.

Breaking Waves'comprehensive income was $108,615 for the year ended December 31, 2000 versus a comprehensive loss of $1,025,449 for the year ended December 31, 1999. The comparisons of the comprehensive net income (loss) for the two years excluding the affect of the investment in Play Co. are $663 for 2000 and ($31,144) for 1999.

Hollywood

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

For the years ended December 31, 2000 and 1999, Hollywood generated no sales from its motion picture "Dirty Laundry." Although sales prior to the year ended December 31, 1999 were minimal, the Company expects to effect increased sales during 2001 and thereafter as a result of the implementation of a new marketing strategy which, among other things, emphasizes the development of new marketing and distribution arrangements for "Dirty Laundry." There can be no assurance that the Company's new marketing and distribution strategies will be successful in generating sales from "Dirty Laundry." Upon a review of the net realizable value of the movie costs, management determined that a $308,564 and $261,000 write down was necessary as of December 31, 2000 and 1999, respectively. Accordingly, Hollywood generated a loss of approximately $314,000 and $265,000 for the years ended December 31, 2000 and 1999, respectively. In addition to "Dirty Laundry," Hollywood has also invested in other movie ventures which are in the distribution phase, which the Company believes will generate revenue in the future. See "- Liquidity and Capital Resources."

Shopnet.com

For the years ended December 31, 2000 and 1999, Shopnet generated minimal revenue comprised of interest from its money market and other ancillary revenue from its corporate office.

Shopnet's selling, general, and administrative expense amounted to $554,434 and $630,014 for the years ended December 31, 2000 and 1999, respectively. This represents a decrease of $75,580, or approximately 12%.

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

	2000	
Salaries (officer and office staff) and stock compensation and related benefits	$ 192,135	$
Rent	76,234	
Legal and professional fees	99,610	
Consulting fees	27,080	
Other general corporate and administrative expenses	159,375	

Shopnet generated a net loss of $594,576 and $685,476 after an income tax (benefit) expense of ($8,140) and $53,369 for the years ended December 31, 2000 and 1999, respectively. The income tax expense in 1999 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 $2,148,000 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.

Liquidity and Capital Resources

At December 31, 2000, the Company's consolidated working capital amounted to $515,984. 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 1.5% as of December 31, 2000 as evidenced by the 1,270,000 shares of common stock it currently owns. As of December 31, 2000, Breaking Waves' investment in Play Co. increased to $107,950 based on the fair market value of its common stock holdings. On March 28, 2001, Play Co. and certain of its subsidiaries all filed for protection under Title 11 of the United States Code with the United States Bankruptcy Court for the Southern District of New York.

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 $900,690. Shopnet maintains cash deposits in accounts which are in excess of Federal Deposit Insurance Corporation limits by approximately $800,000. 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. The $900,690 of certificates of deposit represents a portion of the $1,150,000. In addition, during 1999, Breaking Waves was required to transfer a $200,000 cash deposit to its factoring agent as additional collateral. Accordingly, both cash amounts are designated as restricted.

For the years ended December 31, 2000 and 1999, the Company reported a consolidated net loss of ($906,976) and $1,976,079 after an income tax (benefit of) provision of ($6,004) and $12,273 and a comprehensive net loss of ($799,026) and($1,976,079) respectively

Investment in Joint Ventures

Battle Studies Productions, LLC

In April 1998, the Company entered into a co-production agreement with North Fork for "Machiavelli Rises." The Company and North Fork formed Battle Studies to finance, produce and distribute the film. 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 $433,000 of which the Company has funded approximately $217,500. In accordance with the terms of the co-production agreement, the proceeds of the film will be distributed as follows: first, both parties shall be entitled to recoup their initial investment in the film, at 135% thereof; then, after repayment to the respective parties of additional costs incurred by same, any remaining proceeds shall be distributed 50% to North Folk and 50% to the Company. The film was shown in January 1999 in both New York and at the Brussels Film Festival.

The Company accounts for the investment in Battle Studies on the equity method. As of December 31, 2000, the Company has recorded its investment at $213,210. This represents its initial investment of $217,500 less $4,290 of equity loss for its proportionate share of Battle Studies.

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

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

The Girl, LLC

Pursuant to an agreement dated July 1, 1999 with ALF for the production of a film entitled "The Girl," Hollywood invested through December 31, 2000 $35,000 for a 22.533% interest in a new entity, The Girl, LLC, a limited liability company ("Girl LLC"). In return for its participation in Girl LLC, Hollywood shall be entitled to receive a non-contested, non-dilutable 22.533% ownership interest in Girl LLC, a recoupment of its investment on no less favorable terms than any other investor and 22.533% of 100% of any contingent compensation which shall be actually received by Girl LLC. Girl LLC retains all rights to the motion pictures, the screenplays, and all ancillary rights attached thereto. "The Girl" is completed and has been exhibited at several film festivals. Girl LLC is in the process of attempting to secure distribution rights for the film.

Hollywood accounts for the investment in The Girl under the equity method. Accordingly, as of December 31, 2000 and 1999, the Company has only recorded its initial $35,000 investment since no revenues have been derived from this film as of December 31, 2000.

Factoring Arrangements

CIT Group

On August 20, 1997, Breaking Waves entered into a factoring and revolving inventory loan and security agreement (as amended December 9, 1998) with CIT Group (formerly, Heller Financial, Inc. "CIT") to sell their interest in all present and future receivables without recourse. Breaking Waves paid CIT a factoring commission of .85% of the first $5,000,000 of receivables sold and .65% of receivables sold in excess of $5,000,000 for each year. Breaking Waves took advances of up to 85% of the 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 of cash as collateral for the standby letter of credit. Interest expense related to this agreement totaled $204,821 and $228,772 for the years ended December 31, 2000 and 1999, respectively. CIT had a continuing interest in Breaking Wave's inventory as collateral for the advances. As of December 31, 2000, the net due to Breaking Waves from CIT amounted to $312. On or about September 12, 2000 the agreement with CIT was cancelled and a new factoring agreement was entered into with Century Business Credit Corporation ("Century").

Century Business Credit Corporation

On or about September 12, 2000, Breaking Waves entered into a factoring and revolving inventory loan and security agreement with Century to sell their interest in all present and future receivables without recourse. Breaking Waves submits all sales offers to Century for credit approval prior to shipment, and pays a factoring commission of .75% of receivables sold. Century retains from the amount payable to Breaking Waves a reserve for possible obligations such as customer disputes and possible credit losses on unapproved receivables. Breaking Waves may take advances of up to 85% of the receivables, with interest at the rate of 1 3/4% over prime. In connection with the factoring agreement, the Company agreed to maintain $1,150,000 of cash in a segregated account in order to collateralize standby letters of credit for Breaking Waves. Additionally, Breaking Waves was required to pledge as additional collateral $200,000 of its own cash and its investment in Play Co. which is represented by 1,270,000 shares of Play Co.'s common stock. Pursuant to the terms of a Reimbursement and Compensation Agreement, a trust ("Trust"), the beneficiary of which is a relative of the Company's President and Chief Executive Officer and a relative of a majority stockholder, pledged assets as collateral for securing a $250,000 letter of credit to replace a portion of a letter of credit previously pledged by the Company. Accordingly, on December 20, 2000 the original agreement with the factor was amended to allow such replacement of collateral. Breaking Waves' Loan and Security Agreement with Century dated December 20, 2000 requires the provision of one or more letters of credit in the aggregate amount of $1,150,000 to partially secure the line of credit.

Breaking Waves agreed to reimburse the Trust for any and all losses, fees, charges and expenses to the Trust in the event the letter of credit is called by Century and/or the issuing bank demands reimbursement from the Trust. Breaking Waves' obligations to the Trust are secured by a subordinate security interest in Breaking Waves' assets. In addition, the Company has guaranteed Breaking Waves' obligations to the Trust; such guaranty is secured by a security interest in all of the Company's assets. 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. Interest expense related to this agreement totaled $100,488 for the year ended December 31, 2000. Century has a continuing interest in Breaking Wave's inventory as collateral for the advances. As of December 31, 2000, the net advances to Breaking Waves from Century amounted to $3,165,597.

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 Breaking Waves 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 leases its administrative offices pursuant to a lease 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.

Rent expense for the years ended December 31, 2000 and 1999 amounted to approximately $163,924 and $172,709, respectively.

License Agreements

On October 16, 1995, Breaking Waves entered into a license agreement with Beach Patrol, Inc. 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 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. Breaking Waves has negotiated an additional two year extension thereby extending the agreement through and until June 30, 2003, and it contains a provision for an additional two year extension, at the option of Breaking Waves, through and until June 30, 2005. The new agreement signed February 28, 2001 and effective July 1, 2001 calls for minimum annual royalties of $50,000 to $87,500 over the life of the extension with options based on sales levels from $1,000,000 for the seventh year to $1,750,000 in the tenth year. Breaking Waves recorded royalties under this agreement totaling $163,009 and $162,501 during the years ended December 31, 2000 and 1999, respectively.

On October 31, 1996, Breaking Waves entered into a license agreement with North-South Books, Inc. 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 royalties totaling $784 under this agreement during the year ended December 31, 1999.

On October 17, 1997, Breaking Waves entered into a license agreement with Kawasaki Motors Corp., U.S.A. 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 and was not renewed. Breaking Waves recorded royalties under this agreement totaling $10,415 during the year ended December 31, 1999.

During June 2000, Breaking Waves entered into a license agreement with an effective date of November 1, 2000 with Gottex Models Ltd., an Israeli Corporation and Gottex Models (USA) Corp., a New York Corporation for the use of the trademark "Gottex" in the United States of America for children's swimwear. The agreement calls for a royalty fee of 7% of net sales with guaranteed minimum annual royalties of $70,000 to $140,000 over the life of the agreement, subject to certain exceptions. The license agreement also requires the Company to expend certain minimum amounts on advertising each year. The License agreement is for a term of three years, subject to earlier termination in accordance with its terms. Breaking Waves recorded royalties under this agreement totaling $8,859 for the year ended December 31, 2000.

In connection with such licensing agreement, Breaking Waves entered into a consulting agreement with Larry Nash, Inc. ("Consultant") a New York corporation, whereby Mr. Nash, the Consultant's sole stockholder shall provide sales and consulting services in connection with Breaking Waves' new Gottex line. Mr. Nash has provided similar services for the past twelve years with another company for which he represented the Gottex children's swimwear line. This agreement is effective August 5, 2000 and shall continue to August 5, 2001 and from year to year thereafter unless cancelled by either party on thirty (30) days' prior written notice.

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	73	President, CEO, and Director
Jeanne Falletta	43	Secretary and Director
Alain Le Guillou, M.D.	43	Director
James B. Frakes	44	Director
Michael Friedland	63	Director
Debra Riggs	47	Director

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

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

Harold Rashbaum, age 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. On March 28, 2001, Play Co., Toys and Play Co. Toys Canyon Country, Inc. ("Play Co. Toys Canyon") each filed for protection under Title 11 of the United States Code with the United States Bankruptcy Court for the Southern District of New York. 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. On March 28, 2001, Play Co., Toys and Play Co. Toys Canyon each filed for protection under Title 11 of the United States Code with the United States Bankruptcy Court for the Southern District of New York. 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. On March 28, 2001, Play Co., Toys and Play Co. Toys Canyon each filed for protection under Title 11 of the United States Code with the United States Bankruptcy Court for the Southern District of New York. From June, 1998 through January, 1999, Ms. Riggs was Controller of National Customer Engineering, a private company. Prior to NCE, Ms. Riggs was Assistant Controller of Factory 2-U Inc., a public company with over 200 retail stores in the business of selling discount clothing.

Compliance with Section 16(A) of the Exchange Act

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

No person ("a Reporting Person") who during the fiscal year ended December 31, 2000 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, each of Mr. Michael Friedland and Ms. Falletta and Riggs, all directors of the Company, filed their Forms 3 in March 2001. In addition, to the Company's knowledge, Mr. Rashbaum and Mr. Di Milia (a former officer of the Company) did not file Forms 4 or Forms 5, and EVC did not file a Form 5 for the year ended December 31, 1999. The foregoing is based solely upon a review by the Company of (i) Forms 3 and 4 during the most recent fiscal year as furnished to the Company under Rule 16a-3(e) under the Act, (ii) Forms 5 and amendments thereto furnished to the Company with respect to its most recent fiscal year, and (iii) any representation received by the Company from any reporting person that no Form 5 is required, except as described herein.

ITEM 10. EXECUTIVE COMPENSATION

Summary Of Cash And Certain Other Compensation

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

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long-Term C	
					Awards	
Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compen-sation ($)	Restricted Stock Award(s) ($)	Securities Underlying Options/ SARs (#)
Harold Rashbaum President, CEO, And Director	2000	160,000	--	--	--	--
	1999	162,000	--	--	--	44,000(1)
	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

Value
O

Name	Shares Acquired on Exercise	Value Realized	Year End Exercisable	Unexercisable	Exerc
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.)

Employment and Consulting Agreements

ShopNet.com, Inc.

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

Breaking Waves, Inc.

In November 1996, Breaking Waves entered into employment agreements with each of Malcolm Becker and Michael Friedland; these agreements expired in November 1999. The agreements initially provided that Messrs. Becker and Friedland each would be compensated at a salary of $110,000 per annum during the term of his agreement and that each would be issued restricted shares of Common Stock, subject to a vesting schedule, annually during the term of his agreement. 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 91,289 shares in two allotments, 45,644 shares of Common Stock to be issued on May 27, 2000 and 45,645 shares of Common Stock to be issued on November 27, 2000. Mr. Friedland also agreed to accept his aggregate 167,365 shares in two allotments, 83,683 shares of Common Stock to be issued on May 27, 2000 and 83,683 shares of Common Stock to be issued on November 27, 2000. Such shares were issued. As part of the foregoing transaction, Messrs. Becker and Friedland each granted an option to BBC Capital Corp. ("BBC"), a company controlled by Ilan Arbel, to purchase an aggregate of 76,074 shares of common stock in the case of Mr. Becker and 139,471 shares in the case of Mr. Friedland, at an exercise price of $4.50 per share. Such options expire to the extent of 1/2 of the underlying shares on May 27, 2001 and the balance on November 21, 2001 for each such individual.

Effective August 5, 2000, Breaking Waves entered into a consulting agreement with Larry Nash, Inc. ("Consultant") a New York corporation, pursuant to which the Consultant shall provide sales and consulting services in connection with, and be in charge of sales of Breaking Waves' Gottex and Coral Cove lines. Consultant is to be paid a commission equal to a percentage of net sales on specified orders, as further set forth in the consulting agreement. This agreement continues annually, unless cancelled by either party on thirty (30) days' prior written notice.

Senior Management Incentive Plan

General

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

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

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

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

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

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

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

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

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

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

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

Incentive Stock Rights

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

Stock Appreciation Rights (SARs)

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

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

Restricted Stock Purchase Agreements

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

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

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

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

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

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

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

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 information as of April 12, 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.
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 7,472,224 shares of common stock outstanding as of April 12, 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 34.7% 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.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Breaking Waves' Loan and Security Agreement with Century Business Credit Corporation ("Century") dated December 20, 2000 requires the provision of one or more letters of credit in the aggregate amount of $1,150,000 to partially secure the line of credit. Pursuant to the terms of a Reimbursement and Compensation Agreement, 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, which was subsequently reduced to 1,270,000 shares. The shares purchased represented approximately 25.4% of the outstanding common stock of Play Co. immediately after the transaction. Such percentage has since been reduced to approximately 1.5% of Play Co.'s outstanding common stock. Pursuant to the agreement which bore an initial term of one year and automatically extended for an additional one year term since it was not terminated by either of the parties - Play Co. agreed to purchase (on a wholesale basis) a minimum of 250 pieces of merchandise for each of its retail locations and to provide advertising promotional materials and ads of the merchandise in all of its brochures, advertisements, catalogs, and all other promotional materials, merchandising programs, and sales promotion methods. Breaking Waves had previously sold a limited number of pieces of its swimwear to Play Co. As consideration for the stock, Breaking Waves remitted $504,000, which represented an approximate price of $0.36 per share: $300,000 of the consideration was remitted in cash, and the remaining $204,000 was provided in the form of merchandise, primarily girls' swimsuits.

In October 1996, pursuant to a promissory note, the Company loaned Harold Rashbaum its President 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 and 1999 the Company paid $49,080 and $24,000 respectively, in financial consulting fees to DRA Consulting, Inc., a company whose president is the daughter of the Company's President and Chief Executive Officer.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

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

(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