

Edgar Filing: RRUN VENTURES NETWORK INC - Form 10QSB

RRUN VENTURES NETWORK INC  
Form 10QSB  
May 20, 2002

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2002

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 000-27233  
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RRUN VENTURES NETWORK, INC.  
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(Exact name of Registrant as specified in its charter)

NEVADA -----	98-0204736 -----
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
62 W. 8th Avenue, 4th Floor Vancouver, British Columbia, Canada -----	V5Y 1M7 -----
(Address of principal executive offices)	(Zip Code)
Issuer's telephone number, including area code:	(604) 682-6541 -----

Check whether the issuer

(1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and

(2) has been subject to such filing requirements for the past 90 days.  
Yes ( X ) No ( ).

State the number of shares outstanding of each of the issuer's classes of common equity, as of the last practicable date.

Class -----	Outstanding as of March 31, 2002 -----
\$0.0001 par value Common Stock	15,614,724

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

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## Item 1. Financial Statements

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-QSB and Item 310 (b) of Regulation S-B, and, therefore, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, cash flows, and stockholders' equity in conformity with generally accepted accounting principles. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature. Operating results for the three months ended March 31, 2002 are not necessarily indicative of the results that can be expected for the year ending December 31, 2002.

2

RRUN VENTURES NETWORK INC.  
(A Development Stage Company)

### CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2002  
(Unaudited)  
(Stated in U.S. Dollars)

RRUN VENTURES NETWORK INC.  
(A Development Stage Company)

CONSOLIDATED BALANCE SHEETS  
(Unaudited)  
(Stated in U.S. Dollars)

	MARCH 31	DECEMBER 31
	2002	2001
-----		
ASSETS		
Current		
Cash	\$ 31,993	\$ 1,421
Goods and Services Tax recoverable	1,671	5,014
Prepaid expense	14,089	342
	-----	-----

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	47,753	6,777
Capital Assets	34,241	36,929
Investment	6,750	6,750
	-----	-----
	\$ 88,744	\$ 50,456
=====		
LIABILITIES		
Current		
Accounts payable	\$ 1,678,415	\$ 1,113,855
Loans and advances payable	552,912	518,998
	-----	-----
	2,231,327	1,632,853
	-----	-----
STOCKHOLDERS' DEFICIENCY		
Share Capital		
Authorized:		
100,000,000 common shares,		
par value \$0.0001 per share		
Issued and outstanding:		
15,614,724 common shares		
at March 31, 2002 and		
14,614,724 at		
December 31, 2001	1,562	1,462
Add: Share subscriptions received:		
571,250 common shares at		
March 31, 2002 and		
50,000 at December		
31, 2000	109,000	10,000
Additional paid-in capital	219,644	109,744
Deficit	(2,472,789)	(1,703,603)
	-----	-----
	(2,142,583)	(1,582,397)
	-----	-----
	\$ 88,744	\$ 50,456
=====		

RRUN VENTURES NETWORK INC.  
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT  
(Unaudited)  
(Stated in U.S. Dollars)

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	THREE MONTHS ENDED MARCH 31		INCEPTION OCTOBER 12 2000 TO MARCH 31 2002
	2002	2001	2002
Revenue	\$ 25,000	\$ -	\$ 29,000
Expenses			
Administrative services	6,101	43,771	95,984
Amortization	2,687	226	9,115
Business development	191,166	-	407,574
Consulting	260,001	267,524	307,560
Equipment leases	7,474	-	22,395
Investor relations	171,774	-	297,921
Marketing	541	-	35,902
Media design	15,983	-	76,106
Office, rent and sundry	50,972	15,034	159,869
Professional fees	25,605	4,475	160,117
Software development	38,888	-	817,146
Travel	9,650	6,654	78,281
Wages and benefits	13,344	-	21,683
	794,186	337,684	2,489,653
Loss Before The Following	769,186	337,684	2,460,653
Minority Interest In Loss Of Subsidiary	-	-	(219)
Net Loss For The Period	\$ 769,186	\$ 337,684	\$2,460,434
Net Loss Per Share	\$ 0.05	\$ 0.06	
Weighted Average Number Of Common Shares Outstanding	14,781,391	6,108,780	

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RRUN VENTURES NETWORK INC.  
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(Stated in U.S. Dollars)

	THREE MONTHS ENDED MARCH 31		INCEPTION OCTOBER 12 2000 TO MARCH 31 2002
	2002	2001	
-----			
Cash Flows From			
Operating Activities			
Net loss for the period	\$ (769,186)	\$ (337,684)	\$ (2,460,434)
Adjustments To Reconcile Net Loss To Net Cash Used By Operating Activities			
Amortization	2,687	226	9,115
Issue of common stock for expenses	60,000	-	68,200
Minority interest in loss of subsidiary	-	-	(219)
Goods and Services Tax recoverable	3,343	-	(1,671)
Prepaid expense	(13,747)	500	(14,089)
Accounts payable	614,561	218,732	1,652,612
Loans and advances payable	33,914	117,139	594,250
	(68,428)	(1,087)	(152,236)
-----			
Cash Flows From			
Investing Activities			
Net asset deficiency of legal parent at date of reverse take-over transaction	-	-	(12,355)
Purchase of capital assets	-	(6,022)	(43,357)
	-	(6,022)	(55,712)
-----			
Cash Flows From			
Financing Activities			
Shares issued for cash	-	-	13,400
Share subscriptions received	99,000	-	109,000
	99,000	-	122,400
-----			
Increase (Decrease) In Cash	30,572	(7,109)	(85,548)
Cash Acquired On Acquisition Of Subsidiary	-	-	117,541
Cash, Beginning Of Period	1,421	10,794	-

Cash, End Of Period \$ 31,993 \$ 3,685 \$ 31,993

RRUN VENTURES NETWORK INC.  
(A Development Stage Company)

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY

MARCH 31, 2002  
(Unaudited)  
(Stated in U.S. Dollars)

	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	DEFICIT	TOTAL
Shares issued for cash and services	4,200,000	\$ 4,200	\$ -	\$ -	\$ 4,200
Adjustment to number Of shares issued and outstanding as a result of the acquisition of RAHX, Inc.					
RAHX, Inc.	(4,200,000)	(4,200)	-	-	(4,200)
RRUN Ventures Inc.	5,708,780	5,709	(1,509)	-	4,200
Adjustment to stated value of stockholders' equity to reflect minority interest in the net assets of RAHX, Inc. at the acquisition date	-	-	(219)	-	(219)
Net asset deficiency of legal parent at date of reverse take-over transaction	-	-	-	(12,355)	(12,355)
Shares issued to acquire investment in Kaph Data					

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Engineering Inc.	400,000	400	6,350	-	6,750
Loss for the period	-	-	-	(79,249)	(79,249)
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Balance, December 31, 2000	6,108,780	6,109	4,622	(91,604)	(80,873)
Adjustment to number of shares issued and outstanding as a result of the acquisition of RRUN Ventures, Inc.					
RRUN Ventures, Inc.	(6,108,780)	(6,109)	(4,622)	-	(10,731)
RRUN Ventures Network Inc.	288,420	288	10,443	-	10,731
Fair value of shares issued in connection with the acquisition of RRUN Ventures, Inc.					
	305,439	306	28,325	-	28,631
<hr/>					
	593,859	594	38,768	(91,604)	(52,242)
Increase in issued shares due to 20 for 1 stock split					
	11,283,321	594	(594)	-	-
Shares issued for debt					
	1,867,544	187	54,257	-	54,444
Shares issued for cash					
	670,000	67	13,333	-	13,400
Shares issued for services					
	200,000	20	3,980	-	4,000
Loss for the year	-	-	-	(1,611,999)	(1,611,999)
<hr/>					
Balance, December 31, 2001	14,614,724	1,462	109,744	(1,703,603)	(1,592,397)
Shares issued for debt					
	500,000	50	49,950	-	50,000
Shares issued for services					
	500,000	50	59,950	-	60,000
Loss for the period	-	-	-	(769,186)	(769,186)
<hr/>					
Balance, March 31, 2002	15,614,724	\$ 1,562	\$219,644	\$ (2,472,789)	\$ (2,251,583)
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RRUN VENTURES NETWORK INC.

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(A Development Stage Company)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2002

(Unaudited)

(Stated in U.S. Dollars)

### 1. BASIS OF PRESENTATION

The unaudited consolidated financial statements as of March 31, 2002 included herein have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. It is suggested that these consolidated financial statements be read in conjunction with the December 31, 2001 audited consolidated financial statements and notes thereto.

### 2. NATURE OF OPERATIONS

#### a) Organization

The Company was incorporated in the State of Nevada, U.S.A., on October 12, 2000.

#### b) Development Stage Activities

The Company was organized as a holding company to develop or acquire innovative ventures with an emphasis on serving the lifestyle needs of the 18 - 34 year Digital Generation through the production and marketing of lifestyle products and services. The Company's initial venture is RAHX, a business concept focused on delivering, for its customers, a consolidated Entertainment Experience Network comprised of many services ranging from digital media peer to peer file exchange to live entertainment and online video games. The Company's other venture is AXXUS, an enhanced e-commerce and communication backbone technology.

RRUN VENTURES NETWORK INC.  
(A Development Stage Company)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2002

(Unaudited)

(Stated in U.S. Dollars)

### 2. NATURE OF OPERATIONS (Continued)

#### c) Going Concern

Since inception, the Company has suffered recurring losses, net cash outflows from operations and, at March 31, 2002, has a working capital deficiency of \$ 2,183,574. The Company expects to continue to incur substantial losses to complete the development and testing of its technology. Since its inception,



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the Company has funded operations through common stock issuances and related party loans in order to meet its strategic objectives. Management believes that sufficient funding will be available to meet its business objectives, including anticipated cash needs for working capital, and is currently evaluating several financing options. However, there can be no assurance that the Company will be able to obtain sufficient funds to continue the development of and, if successful, to commence the sale of its products under development. As a result of the foregoing, there exists substantial doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements for a period necessarily involves the use of estimates which have been made using careful judgement.

The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

#### a) Consolidation

These consolidated financial statements include the accounts of the Company, its 100% owned subsidiaries, RRUN Labs Inc. and AXXUS Corporation, and its 67% owned subsidiary, RAHX, Inc.

RRUN VENTURES NETWORK INC.  
(A Development Stage Company)

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2002  
(Unaudited)  
(Stated in U.S. Dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### b) Development Stage Company

The Company is a development stage company as defined in the Statements of Financial Accounting Standards No. 7. The Company is devoting substantially all of its present efforts to establish a new business and none of its planned principal operations have commenced. All losses accumulated since inception have been considered as part of the Company's development stage activities.

#### c) Investments

Investments in companies owned less than 20% are recorded at the lower of cost or fair market value.

#### d) Software Development Costs

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The costs to develop new software products and enhancements to existing software products will be expensed as incurred until technological feasibility has been established. Once technological feasibility has been established, any additional costs will be capitalized.

### e) Income Taxes

The Company has adopted Statement of Financial Accounting Standards No. 109 - "Accounting for Income Taxes" (SFAS 109). This standard requires the use of an asset and liability approach for financial accounting and reporting on income taxes. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

### f) Amortization

Capital assets are being amortized on the declining balance basis at the following rates:

Computer equipment	30%
Computer software	100%
Office furniture and equipment	20%

RRUN VENTURES NETWORK INC.  
(A Development Stage Company)

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2002  
(Unaudited)  
(Stated in U.S. Dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### g) Stock Based Compensation

The Company accounts for stock based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25 - "Accounting for Stock Issued to Employees" (APB No. 25) and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123 - "Accounting for Stock Based Compensation" (SFAS No. 123). Under APB No. 25, compensation expense is recognized based on the difference, if any, on the date of grant between the estimated fair value of the Company's stock and the amount an employee must pay to acquire the stock. Compensation expense is recognized immediately for past services and rateably for future services over the option vesting period.

#### h) Financial Instruments

The Company's financial instruments consist of cash, GST recoverable, prepaid expenses and accounts payable.

Unless otherwise noted, it is management's opinion that this Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

#### i) Net Loss Per Share

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Net loss per share is calculated using the weighted average number of common shares outstanding during the period. Fully diluted loss per share is not presented as the impact of the exercise of options is anti-dilutive.

### Item 2. Management's Discussion and Analysis or Plan of Operations

#### FORWARD LOOKING STATEMENTS

This report on Form 10-QSB contains certain forward-looking statements within the meaning of section 21(e) of the Securities Exchange Act of 1934, as amended, and other applicable securities laws. All statements other than statements of historical fact are "forward-looking statements" for purposes of these provisions, including any projections of earnings, revenues, or other financial items; any statements of the plans, strategies, and objectives of management for future operation; any statements concerning proposed new products, services, or developments, any statements regarding future economic conditions or performance, statements of belief, and any statement of assumptions underlying any of the foregoing. Such forward-looking statements are subject to inherent risks and uncertainties, and actual results could differ materially from those anticipated by the forward-looking statements.

#### RESULTS OF OPERATIONS

Calendar Year Ended December 31, 2000

For the year ended December 31, 2000, we earned no revenues. During the year we incurred expenses of \$79,468. The expenses incurred were predominately administrative, consulting and professional fees relating primarily to the merger of RRUN Ventures Inc. with United Management Inc. Since we had no revenues, we incurred a net loss from operations of \$79,249 for the fiscal year after a Minority Interest In Loss of Subsidiary of \$219.

Calendar Year Ended December 31, 2001

For the year ended December 31, 2001, we earned revenues of \$4000. These one time revenues were from Digital Design Interactive services provided by one of our internal support units. These revenues will not be recurring as that internal support unit is not a revenue producing unit. During the year we incurred expenses of \$1,615,999. Of these expenses, \$778,258 were software development costs. We incurred a net loss from operations of \$1,611,999 for the fiscal year.

Calendar Quarter Ended March 31, 2002

For the quarter ended March 31, 2002, we earned revenues of \$25,000. The revenues were from licensing of rights for the use of our AXXUS technology. The licensing agreement was executed during the quarter and additional revenue will be earned from that agreement.

During the quarter, we incurred expenses of \$794,186. These operating expenses included \$38,888 in software development, \$260,001 in consulting fees and \$191,166 in business development costs.

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We incurred a net loss from operations of \$769,186 for the fiscal quarter ended March 31, 2002.

We do not anticipate significant revenue growth until such time as:

1. the development of RAHX 1.0 software is completed, commercially released and has secured a significant customer base to generate revenues and;
2. the development and launch our RAHX Live business division unit .

At this time, we continue to be a development stage company and can provide no assurance that we will be successful in completing development of our software or that we will earn revenues from our software, web site and related products once development is complete.

### Liquidity and Financial Condition

We had cash-on hand of totaling \$31,993 as of March 31 2002.

We require approximately \$6,000,000 in operational capital for the 12 month. We hopes to secure the financing to satisfy the capital needs for each phase through the execution of various funding methods, primarily private placement investments. We hopes to achieve this by securing relationships with investment bankers, venture capitalist, and/or finance advisors that have the experience and relationships to aid the Company with its capital raising efforts. The source of the private placement financing will be comprised of a mix of principal shareholders, private investors and venture capital companies. If the funding is unavailable, in whole or in part, at the expected time, we will delay implementation of entire components of certain aspects of the implementation plan until the necessary funding is secured. There cannot be any assurance that we will raise sufficient capital to meet it business plan. In addition to delays to the implementation plan, if sufficient capital is not raised, we may suffer consequences including but not limited to the following; we may have to suspend or discontinue operations of one or more of its business units, such as RAHX; we may have to suspend or discontinue operations.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

Other than the proceedings described herein, RRUN is not a party to any material legal proceedings and to RRUN's knowledge, no such proceedings are threatened or contemplated. At this time we have no bankruptcy, receivership or similar proceedings pending.

4

Randolph C. Demuyneck filed a lawsuit in February, 2002 in the Lynchburg General District Court for the Commonwealth of Virginia. The action concerned an alleged claim for unpaid wages of an employee of RRUN Labs, Inc., a subsidiary of RRUN Ventures Network, Inc. The amount of the lawsuit is \$7,524.42, not including interest accruing from October 30, 2001 at 9% plus court costs of \$56.

James E. Silverstrim filed a lawsuit in February, 2002 in the Lynchburg General District Court for the Commonwealth of Virginia. The action concerned an alleged claim for unpaid wages of an employee of RRUN Labs, Inc., a subsidiary of RRUN Ventures Network, Inc. The amount of the lawsuit is \$11,439.67, not including interest accruing from October 30, 2001 at 9% plus court costs of \$56.

In April, 2002, the Company received notice that Luke Kolesar filed a lawsuit against the Company in Lynchburg General District Court for the Commonwealth of Virginia. The action concerned an alleged claim for unpaid wages of an employee

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of RRUN Labs, Inc., a subsidiary of RRUN Ventures Network, Inc. The amount of the lawsuit is \$6,853.85, not including interest accruing from October 30, 2001 at 9% plus court costs of \$56.

In addition, the Company believes that there are approximately two-dozen other former employees of RRUN Labs, Inc. who are owed wages by RRUN Labs, Inc. The total amount of unpaid wages claims, not yet subject to any lawsuit against the Company, is approximately \$168,000.

### Item 2. Changes in Securities

#### Recent Sales of Unregistered Securities

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During January of 2002, we issued 100,000 shares of its previously authorized, but unissued common stock. The shares were issued to one person in exchange for cash. The transaction was valued at \$0.25 per share. The transaction was an isolated transaction with a person having a close affiliation with us and was exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) of the Act because of not being part of a public offering. The offering was for a limited purpose and did not use the machinery of public distribution.

During February of 2002, we issued 500,000 shares of its previously authorized, but unissued common stock. The shares were issued to two individuals in exchange for consulting services. The transaction was valued at \$0.12 per share. The shares were registered on Form S-8 filed by the Company with the Securities and Exchange Commission.

During March of 2002, we issued 500,000 shares of its previously authorized, but unissued common stock. The shares were issued to one person in exchange for cancellation of debt. The shares were registered on Form S-8 filed by the Company with the Securities and Exchange Commission.

5

During March of 2002, we issued 31,250 shares of its previously authorized, but unissued common stock. The shares were issued to one unrelated company in exchange for cash. The transaction was valued at \$0.32 per share. The transaction was an isolated transaction with a person having a close affiliation with us and was exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) of the Act because of not being part of a public offering. The offering was for a limited purpose and did not use the machinery of public distribution.

During March of 2002, we issued 10,000 shares of its previously authorized, but unissued common stock. The shares were issued to one unrelated company in exchange for cash. The transaction was valued at \$0.30 per share. The transaction was an isolated transaction with a person having a close affiliation with us and was exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) of the Act because of not being part of a public offering. The offering was for a limited purpose and did not use the machinery of public distribution.

As at March 31, 2002, we also issued incentive stock options to the following officers, directors and consultants.

Optionee	Options Granted
-----	-----
Ray Hawkins	200,000
Pavel Bains	150,000

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Edwin Kwong	180,000
Emanuel Koseos	120,000
Other Consultants and employees	1,550,000
	-----
Total # of Options Granted	2,200,000

These options were issued at various exercise prices between \$0.10/share and \$0.20/share. One Million Five Hundred Fifty Thousand (1,550,000) of these options were awarded to 8 employees and consultants working for RRUN, and Six Hundred Fifty Thousand (650,000) options were awarded to 4 Officers and Directors of RRUN.

As at March 31, 2002, we also issued warrants to purchase common stock to consultants and advisors. The warrants issued allow the holders to purchase One Million (1,000,000) shares of our common stock at exercise prices ranging from \$0.10 to \$1.00 per share. No warrants were issued to our directors or

6

officers. No warrant holder received an issuance of warrants to make such warrant holder a 5% or greater stockholder of the Company.

As at March 31, 2002, of all warrants issued, one warrant was exercised by one individual for a total of 180,000 shares at \$0.20 per share. In addition, one warrant to one unrelated company for 100,000 shares was cancelled.

### Item 3. Defaults upon Senior Securities

None

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

None

### Item 5. Other Information

None

### Item 6. Exhibits and Reports on Form 8-K.

#### (a) Exhibits

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#### 99.1 Risk Factors

#### (b) Reports on Form 8-K

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None

7

## SIGNATURES

In accordance with the requirements of the Securities and Exchange Act of 1934,

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the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorised.

RRUN Ventures Network, Inc.

Date: May 20, 2002

By: /s/ Ray Hawkins

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Ray Hawkins, President

By: /s/ Edwin Kwong

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Edwin Kwong, Principal Accounting Officer