

JAKKS PACIFIC INC  
Form 8-K/A  
August 06, 2004

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**Table of Contents**

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported):  
August 6, 2004 (June 10, 2004)

JAKKS PACIFIC, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

0-28104  
(Commission  
File Number)

95-4527222  
(I.R.S. Employer  
Identification No.)

22619 Pacific Coast Highway, Malibu, California  
(Address of principal executive offices)

90265  
(Zip Code)

Registrant's telephone number, including area code:

(310) 456-7799

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ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

SIGNATURES

EXHIBIT INDEX

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This Form 8-K/A is an amendment to the registrant's current report on Form 8-K filed on June 16, 2004 (relating to the registrant's asset acquisition of Play Along, Inc., Play Along (Hong Kong) Limited and PA Distribution, Inc. (collectively "Play Along")) to file the financial statements and pro forma financial information omitted from the initial filing of the Current Report, in accordance with Items 7(a)(4) and (b)(2), respectively.

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS.

For a description of the Registrant's asset acquisition of Play Along, refer to Item 2 of the Registrant's Current Report on Form 8-K, filed on June 16, 2004, which Item 2 is incorporated in its entirety herein by reference.

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ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements of Business Acquired

1. Play Along, Inc. audited financial statements as of March 31, 2003, March 31, 2002, and December 31, 2003 and for the two years ended March 31, 2003 and 2002 and the nine months ended December 31, 2003.
2. PA Distribution, Inc. audited financial statements as of March 31, 2003, March 31, 2002, and December 31, 2003 and for the two years ended March 31, 2003 and 2002 and the nine months ended December 31, 2003.
3. Play Along (Hong Kong) Limited audited financial statements as of March 31, 2003, March 31, 2002, and December 31, 2003 and for the two years ended March 31, 2003 and 2002 and the nine months ended December 31, 2003.
4. Play Along, Inc. unaudited financial statements as of March 31, 2004 and March 31, 2003 and for the three months ended March 31, 2004 and 2003.
5. PA Distribution, Inc. unaudited financial statements as of March 31, 2004 and March 31, 2003 and for the three months ended March 31, 2004 and 2003.
6. Play Along (Hong Kong) Limited unaudited financial statements as of March 31, 2004 and March 31, 2003 and for the three months ended March 31, 2004 and 2003.

(b) Pro Forma Financial Information

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Michael I. Daszkal, CPA, P.A.  
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**INDEPENDENT AUDITORS REPORT**

The Board of Directors  
Play Along, Inc.  
Fort Lauderdale, Florida

We have audited the accompanying balance sheets of Play Along, Inc. as of March 31, 2003, 2002 and December 31, 2003 and the related statements of operations, changes in stockholders' equity (deficit) and cash flows for the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by managements, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Play Along, Inc. as of March 31, 2003, 2002 and December 31, 2003, and the results of its operations and its cash flows for the periods then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Daszkal Bolton LLP

Boca Raton, Florida  
February 13, 2004

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Private Companies Practice Sections             Worldwide

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**PLAY ALONG, INC.**

**FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED  
DECEMBER 31, 2003 AND  
FOR THE YEARS ENDED  
MARCH 31, 2003 AND 2002**

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BALANCE SHEETS**

|  | <b>December 31,<br/>2003</b> | <b>March 31,<br/>2003</b> | <b>March 31,<br/>2002</b> |
|--|------------------------------|---------------------------|---------------------------|
|  | <u>          </u>            | <u>          </u>         | <u>          </u>         |
| <b>ASSETS</b>  |                              |                           |                           |
| Current assets:  |                              |                           |                           |
| Cash   | \$ 218,651                   | \$ 29,589                 | \$ 17,698                 |
| Prepaid expenses   | 11,586                       | 19,635                    |                           |
| Deferred tax asset   | 93,727                       | 102,113                   | 4,877                     |
|  | <u>          </u>            | <u>          </u>         | <u>          </u>         |
| Total current assets   | 323,964                      | 151,337                   | 22,575                    |
|  | <u>          </u>            | <u>          </u>         | <u>          </u>         |
| Property and equipment, net  | 94,862                       | 68,249                    | 62,092                    |
|  | <u>          </u>            | <u>          </u>         | <u>          </u>         |
| Other assets:  |                              |                           |                           |
| Other receivable   | 755                          | 644                       | 8,579                     |
| Due from related parties   |                              | 237,338                   | 75,000                    |
| Deposits   | 42,024                       | 42,564                    | 23,556                    |
|  | <u>          </u>            | <u>          </u>         | <u>          </u>         |
| Total other assets   | 42,779                       | 280,546                   | 107,135                   |
|  | <u>          </u>            | <u>          </u>         | <u>          </u>         |
| Total assets   | \$ 461,605                   | \$ 500,132                | \$ 191,802                |
|  | <u>          </u>            | <u>          </u>         | <u>          </u>         |
| <b>LIABILITIES AND STOCKHOLDERS<br/>EQUITY (DEFICIT)</b>   |                              |                           |                           |
| Current liabilities:   |                              |                           |                           |
| Accounts payable and accrued expenses  | \$ 169,092                   | \$ 622,244                | \$ 135,834                |
| Taxes payable  |                              | 708                       |                           |
| Due to related parties   | 423,503                      |                           |                           |
|  | <u>          </u>            | <u>          </u>         | <u>          </u>         |
| Total current liabilities  | 592,595                      | 622,952                   | 135,834                   |
|  | <u>          </u>            | <u>          </u>         | <u>          </u>         |
| Commitments and Contingencies  |                              |                           |                           |
| Stockholders equity (deficit):   |                              |                           |                           |
| Common stock, \$0.01 par value; 20,000 shares<br>authorized; 7,000, 10,000 and 10,000 shares<br>issued and outstanding, respectively | 70                           | 100                       | 100                       |

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|  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
| Additional paid in capital                           | (970)             |                   |                   |
| Retained earnings (Accumulated deficit)              | <u>(130,090)</u>  | <u>(122,920)</u>  | <u>55,868</u>     |
| Total stockholders' equity (deficit)                 | <u>(130,990)</u>  | <u>(122,820)</u>  | <u>55,968</u>     |
| Total liabilities and stockholders' equity (deficit) | <u>\$ 461,605</u> | <u>\$ 500,132</u> | <u>\$ 191,802</u> |

See accompanying notes to financial statements.

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STATEMENTS OF OPERATIONS**

|  | <b>Nine months<br/>ended<br/>December 31,<br/>2003</b> | <b>March 31,<br/>2003</b> | <b>March 31,<br/>2002</b> |
|--|--|---------------------------|---------------------------|
|  | <hr/>  | <hr/>                     | <hr/>                     |
| Revenues                                   | \$2,774,376  | \$3,164,663               | \$2,370,200               |
| Operating expenses:                        |  |                           |                           |
| Selling expenses                           | 50,086   | 98,938                    | 1,174                     |
| Advertising expenses                       | 114,205  | 168,730                   | 126,702                   |
| Royalty expenses                           |  | 1,194                     |                           |
| Product development expenses               | 39,785   | 270,759                   | 62,838                    |
| General and administrative expenses        | 2,547,575  | 2,877,561                 | 2,024,409                 |
| Depreciation                               | 21,120   | 21,365                    | 20,206                    |
|  | <hr/>  | <hr/>                     | <hr/>                     |
| Total operating expenses                   | 2,772,771  | 3,438,547                 | 2,235,329                 |
|  | <hr/>  | <hr/>                     | <hr/>                     |
| Income (loss) from operations              | 1,605  | (273,884)                 | 134,871                   |
|  | <hr/>  | <hr/>                     | <hr/>                     |
| Other expense:                             |  |                           |                           |
| Interest expense                           | 389  | 1,432                     | 377                       |
|  | <hr/>  | <hr/>                     | <hr/>                     |
| Income (loss) before income tax<br>expense | 1,216  | (275,316)                 | 134,494                   |
| Income tax expense (benefit)               | 8,386  | (96,528)                  | 55,233                    |
|  | <hr/>  | <hr/>                     | <hr/>                     |
| Net income (loss)                          | \$ (7,170)   | \$ (178,788)              | \$ 79,261                 |
|  | <hr/>  | <hr/>                     | <hr/>                     |

See accompanying notes to financial statements.

**Table of Contents****PLAY ALONG, INC.****STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIT)**

|                               | Common Stock |        | Additional<br>Paid in<br>Capital | Retained<br>Earnings     | Total        |
|-------------------------------|--------------|--------|----------------------------------|--------------------------|--------------|
|                               | Shares       | Amount |                                  | (Accumulated<br>Deficit) |              |
| Balance, March 31, 2001       | 10,000       | \$ 100 | \$                               | \$ (23,393)              | \$ (23,293)  |
| Net income                    |              |        |                                  | 79,261                   | 79,261       |
| Balance, March 31, 2002       | 10,000       | 100    |                                  | 55,868                   | 55,968       |
| Net loss                      |              |        |                                  | (178,788)                | (178,788)    |
| Balance, March 31, 2003       | 10,000       | 100    |                                  | (122,920)                | (122,820)    |
| Repurchase of shares          | (3,000)      | (30)   | (970)                            |                          | (1,000)      |
| Net loss                      |              |        |                                  | (7,170)                  | (7,170)      |
| Balance, December 31,<br>2003 | 7,000        | \$ 70  | \$ (970)                         | \$ (130,090)             | \$ (130,990) |

See accompanying notes to financial statements.

**Table of Contents****PLAY ALONG, INC.  
STATEMENTS OF CASH FLOWS**

|  | <b>December 31,<br/>2003</b> | <b>March 31,<br/>2003</b> | <b>March 31,<br/>2002</b> |
|--|------------------------------|---------------------------|---------------------------|
|  | <hr/>                        | <hr/>                     | <hr/>                     |
| Cash flows from operating activities:  |                              |                           |                           |
| Net income (loss)  | \$ (7,170)                   | \$(178,788)               | \$ 79,261                 |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: |                              |                           |                           |
| Depreciation   | 21,120                       | 21,365                    | 20,206                    |
| Provision (benefit) for income taxes   | 8,386                        | (96,528)                  | 55,233                    |
| (Increase) decrease in:  |                              |                           |                           |
| Prepays and other receivables  | 7,938                        | (11,700)                  | (7,452)                   |
| Deposits   | 540                          | (19,008)                  | 7,383                     |
| Increase (decrease) in:  |                              |                           |                           |
| Accounts payable and accrued expenses  | (453,152)                    | 486,410                   | (7,875)                   |
| Taxes payable  | (708)                        |                           | (14,870)                  |
|  | <hr/>                        | <hr/>                     | <hr/>                     |
| Net cash provided by (used in) operating activities                                  | (423,046)                    | 201,751                   | 131,886                   |
|  | <hr/>                        | <hr/>                     | <hr/>                     |
| Cash flows from investing activities:  |                              |                           |                           |
| Purchase of equipment  | (47,733)                     | (27,522)                  | (1,633)                   |
|  | <hr/>                        | <hr/>                     | <hr/>                     |
| Cash flows from financing activities:  |                              |                           |                           |
| Advances from (repayments to) related parties  | 660,841                      | (162,338)                 | (147,982)                 |
| Repurchase of shares   | (1,000)                      |                           |                           |
|  | <hr/>                        | <hr/>                     | <hr/>                     |
| Net cash provided by (used in) financing activities                                  | 659,841                      | (162,338)                 | (147,982)                 |
|  | <hr/>                        | <hr/>                     | <hr/>                     |
| Net increase (decrease) in cash  | 189,062                      | 11,891                    | (17,729)                  |
| Cash, beginning of period  | 29,589                       | 17,698                    | 35,427                    |
|  | <hr/>                        | <hr/>                     | <hr/>                     |
| Cash, end of period  | \$ 218,651                   | \$ 29,589                 | \$ 17,698                 |
|  | <hr/>                        | <hr/>                     | <hr/>                     |
| Supplemental disclosures:  |                              |                           |                           |
| Taxes paid   | \$                           | \$ 250                    | \$                        |
|  | <hr/>                        | <hr/>                     | <hr/>                     |
| Interest paid  | \$                           | \$ 1,422                  | \$ 160                    |



See accompanying notes to financial statements.



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**PLAY ALONG, INC.  
NOTES TO FINANCIAL STATEMENTS**

***NOTE 1 NATURE OF BUSINESS***

Play Along, Inc. (the Company) is located in Deerfield Beach, Florida and was incorporated on May 15, 2000 under the statutes of the state of Delaware. The Company is engaged in providing management and marketing services exclusively to its related companies: Play Along (Hong Kong), Ltd. and PA Distribution, Inc. Play Along (Hong Kong), Ltd. is a toy manufacturer. PA Distribution, Inc. is a wholesale distributor of toys. See Note 5 regarding transactions between these entities and the Company.

***NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

*Cash Equivalents*

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2003, March 31, 2003 and 2002.

*Property and Equipment*

Property and equipment are stated at cost. The Company provides for depreciation and amortization using the straight-line method over the estimated useful lives of the asset, which range from three to five years. The Company reviews the valuation of property and equipment and their remaining economic lives annually and adjusts depreciation accordingly.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Revenue Recognition*

The Company recognizes revenue when persuasive evidence of an arrangement exists, service has been provided to the customer, price is fixed or determinable and collectibility is reasonably assured.

*Fair Value of Financial Instruments*

The Company's financial instruments are cash and cash equivalents and accounts payable. The recorded values of cash and cash equivalents and accounts payable approximate their fair values based on their short-term nature.

*Advertising Costs*

The Company expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising event takes place.

**Table of Contents****PLAY ALONG, INC.  
NOTES TO FINANCIAL STATEMENTS****NOTE 3 PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

|                                 | <b>December 31<br/>2003</b> | <b>March 31<br/>2003</b> | <b>March 31<br/>2002</b> |
|---------------------------------|-----------------------------|--------------------------|--------------------------|
|                                 | <u>          </u>           | <u>          </u>        | <u>          </u>        |
| Office furniture and fixtures   | \$ 51,314                   | \$ 15,190                | \$ 8,002                 |
| Computer software and equipment | 120,470                     | 108,861                  | 88,527                   |
| Less: accumulated depreciation  | (76,922)                    | (55,802)                 | (34,437)                 |
|                                 | <u>          </u>           | <u>          </u>        | <u>          </u>        |
| Property and equipment, net     | <u>\$ 94,862</u>            | <u>\$ 68,249</u>         | <u>\$ 62,092</u>         |

Depreciation expense is \$21,120, \$21,365 and \$20,206 for the nine months ended December 31, 2003 and for the years ended March 31, 2003 and 2002, respectively.

**NOTE 4 INCOME TAXES**

The non-deductibility of certain expenses and temporary differences in depreciation expense and accrued expenses resulted in an increase in the effective tax rate. Income tax expense consisted of the following:

|                                    | <b>December<br/>31<br/>2003</b> | <b>March 31<br/>2003</b> | <b>March 31<br/>2002</b> |
|------------------------------------|---------------------------------|--------------------------|--------------------------|
|                                    | <u>          </u>               | <u>          </u>        | <u>          </u>        |
| Current                            | \$                              | \$ 708                   | \$                       |
| Deferred                           | 8,386                           | (97,236)                 | 55,233                   |
|                                    | <u>          </u>               | <u>          </u>        | <u>          </u>        |
| Total income tax expense (benefit) | <u>\$ 8,386</u>                 | <u>\$(96,528)</u>        | <u>\$55,233</u>          |

Under FAS No. 109, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of deferred tax assets are as follows:

| <b>December<br/>31</b> | <b>March 31</b> | <b>March 31</b> |
|------------------------|-----------------|-----------------|
|------------------------|-----------------|-----------------|



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|                                      | <u>2003</u>       | <u>2003</u>       | <u>2002</u>       |
|--------------------------------------|-------------------|-------------------|-------------------|
| Deferred tax asset (liability)       |                   |                   |                   |
| Accrued expenses                     | \$ 110,493        | \$ 121,610        | \$ 13,258         |
| Depreciation                         | (25,609)          | (17,223)          | (7,288)           |
| Other                                | 8,843             | (2,274)           | (1,093)           |
|                                      | <u>          </u> | <u>          </u> | <u>          </u> |
| Total deferred tax asset (liability) | \$ 93,727         | \$ 102,113        | \$ 4,877          |
|                                      | <u>          </u> | <u>          </u> | <u>          </u> |

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**Table of Contents****PLAY ALONG, INC.  
NOTES TO FINANCIAL STATEMENTS****NOTE 5 RELATED PARTY TRANSACTIONS**

Activity with related parties are summarized below:

|  | <b>December 31<br/>2003</b> | <b>March 31<br/>2003</b> | <b>March 31<br/>2002</b> |
|--|-----------------------------|--------------------------|--------------------------|
|  | <hr/>                       | <hr/>                    | <hr/>                    |
| Receivable from related parties                      | \$ 141,130                  | \$ 352,727               | \$75,000                 |
| Payable to related parties, end of year              | (564,633)                   | (115,389)                | <hr/>                    |
|  | <hr/>                       | <hr/>                    | <hr/>                    |
| Receivable (Payable) to related parties, end of year | \$(423,503)                 | \$ 237,338               | \$75,000                 |
|  | <hr/>                       | <hr/>                    | <hr/>                    |

During the nine-months ended December 31, 2003 and the years ended March 31, 2003 and 2002, the Company received \$800,000, \$600,000 and \$570,200 in management and marketing fees from a related company, PA Distribution, Inc., for rent, administrative and other related services provided.

During the nine-months ended December 31, 2003 and the years ended March 31, 2003 and 2002, the Company received \$1,974,376, \$2,564,663 and \$1,800,000 in management and marketing fees from a related company, Play Along (Hong Kong), Ltd, for administrative and other related services provided.

**NOTE 6 CONCENTRATION OF CREDIT RISK***Cash*

The Company maintains its cash bank deposits at one financial institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation up to \$100,000 and the balances, at times, may exceed federally insured limits. At December 31, 2003, March 31, 2003 and 2002 the balances in each bank account were over this limit by an aggregate of \$166,035, \$0, and \$0, respectively.

*Revenues*

In the periods ended December 31, 2003, March 31, 2003 and March 31, 2002, 100% of all revenues were earned from related companies as noted in Note 5. One of these two customers is Play Along (Hong Kong), Ltd which is located in the People's Republic of China ( PRC ). The loss of this customer could have a material adverse effect on the Company. The customer's operations in the PRC are subject to special consideration and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The customer's production and therefore, the Company's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

***NOTE 7 DEFINED CONTRIBUTION PENSION PLAN***

The Company sponsors a simplified employers' pension plan covering all eligible employees. The Company funds the plan at its discretion. Pension expense for the Company was \$30,759, \$23,078 and \$13,436 for the nine months ended December 31, 2003 and for the years ended March 31, 2003 and 2002, respectively.

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NOTES TO FINANCIAL STATEMENTS****NOTE 8 COMMITMENTS**

The Company leases its office facilities under long-term operating lease agreements. Rent expense for all operating leases was \$195,973, \$275,336 and \$187,938 for the nine-months ended December 31, 2003 and the years ended March 31, 2003 and 2002, respectively.

At December 31, 2003, future minimum lease payments for these leases are as follows:

| <b>Year ending December 31</b> | <b>Operating<br/>Leases</b> |
|--------------------------------|-----------------------------|
| _____                          | _____                       |
| 2004                           | \$ 192,288                  |
| 2005                           | 124,671                     |
| 2006                           | 114,934                     |
| 2007                           | 43,587                      |
| 2008                           | 11,391                      |
| Thereafter                     | 949                         |
|                                | _____                       |
| Total minimum lease payments   | \$487,820                   |
|                                | _____                       |

**NOTE 9 LITIGATION**

The Company is a defendant in a lawsuit with respect to a claim of infringement of patent on certain products sold by its related companies: Play Along (Hong Kong), Ltd. ( PAHK ) and PA Distribution, Inc. ( PAD ). The plaintiff in the suit is seeking unspecified damages. PAHK has accrued \$1,844,626 as a liability under this lawsuit as of December 31, 2003, based on legal counsel's assessment of the estimated damages that could be awarded and the fees that may be incurred if a Court were to find in favor of the plaintiff. As of December 31, 2003, the Company has been fully indemnified for all costs and expenses in this claim by its related company, PAHK. Therefore, no additional liability is reflected in these financial statements of the Company as of December 31, 2003, March 31, 2003 or March 31, 2002.

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Jeffrey A. Bolton, CPA, P.A.  
Timothy R. Devlin, CPA, P.A.  
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**INDEPENDENT AUDITORS REPORT**

The Board of Directors  
PA Distribution, Inc.  
Fort Lauderdale, Florida

We have audited the accompanying balance sheets of PA Distribution, Inc. as of March 31, 2003, 2002 and December 31, 2003 and the related statements of operations, changes in stockholders' deficit and cash flows for the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by managements, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PA Distribution, Inc. as of March 31, 2003, 2002 and December 31, 2003, and the results of its operations and its cash flows for the periods then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Daszkal Bolton LLP

Boca Raton, Florida  
February 13, 2004

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Private Companies Practice Sections    Worldwide

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**PA DISTRIBUTION, INC.**

**FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED  
DECEMBER 31, 2003 AND  
FOR THE YEARS ENDED  
MARCH 31, 2003 AND 2002**

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| Statement of Operations for the nine months ended December 31, 2003 and for the years ended March 31, 2003 and 2002                      | 3    |
| Statement of Changes in Stockholders Deficit for the nine months ended December 31, 2003 and for the years ended March 31, 2003 and 2002 | 4    |
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**Table of Contents****PA DISTRIBUTION, INC.  
BALANCE SHEETS**

|  | <u>December 31, 2003</u> | <u>March 31, 2003</u> | <u>March 31, 2002</u> |
|--|--------------------------|-----------------------|-----------------------|
| <b>ASSETS</b>  |                          |                       |                       |
| Current assets:  |                          |                       |                       |
| Cash   | \$ 3,927,375             | \$ 107,411            | \$ 15,540             |
| Accounts receivable, net   | 6,701,152                | 9,590,481             | 658,764               |
| Inventory  | 11,158,415               | 6,571,787             | 1,127,524             |
| Prepaid expenses   | 31,648                   |                       |                       |
|  | <u>21,818,590</u>        | <u>16,269,679</u>     | <u>1,801,828</u>      |
| Total current assets   |                          |                       |                       |
| Property and equipment, net  | <u>156,168</u>           | <u>46,257</u>         | <u>31,054</u>         |
| Other assets:  |                          |                       |                       |
| Other receivable   | 11,803                   | 1,401                 | 5,001                 |
| Employee receivable  | 25,000                   | 14,430                |                       |
| Certificate of deposit   | 160,000                  | 160,000               |                       |
|  | <u>196,803</u>           | <u>175,831</u>        | <u>5,001</u>          |
| Total other assets   |                          |                       |                       |
| Total assets   | <u>\$22,171,561</u>      | <u>\$16,491,767</u>   | <u>\$ 1,837,883</u>   |
| <b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>  |                          |                       |                       |
| Current liabilities:   |                          |                       |                       |
| Accounts payable and accrued expenses  | \$ 451,510               | \$ 834,341            | \$ 201,772            |
| Note payable   |                          | 940,053               | 191,907               |
| Taxes payable  |                          | 150,070               |                       |
| Due to related parties   | 22,815,866               | 15,650,500            | 3,644,922             |
|  | <u>23,267,376</u>        | <u>17,574,964</u>     | <u>4,038,601</u>      |
| Total current liabilities  |                          |                       |                       |
| Commitments and Contingencies  |                          |                       |                       |
| Stockholders deficit:  |                          |                       |                       |
| Common stock, \$0.01 par value; 20,000 shares authorized; 7,000, 10,000 and 10,000 shares issued and outstanding, respectively | 70                       | 100                   | 100                   |



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|  |                     |                     |                     |
|--|---------------------|---------------------|---------------------|
| Additional paid in capital                 | (970)               |                     |                     |
| Accumulated deficit                        | <u>(1,094,915)</u>  | <u>(1,083,297)</u>  | <u>(2,200,818)</u>  |
| Total stockholders deficit                 | <u>(1,095,815)</u>  | <u>(1,083,197)</u>  | <u>(2,200,718)</u>  |
| Total liabilities and stockholders deficit | <u>\$22,171,561</u> | <u>\$16,491,767</u> | <u>\$ 1,837,883</u> |

See accompanying notes to financial statements.

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**PA DISTRIBUTION, INC.  
STATEMENTS OF OPERATIONS**

| <b>Nine Months<br/>ended<br/>December 31,<br/>2003</b> | <b>March 31,<br/>2003</b> | <b>March 31, 2002</b> |
|--|---------------------------|-----------------------|
| <hr/>  | <hr/>                     | <hr/>                 |