

JAKKS PACIFIC INC
Form 8-K/A
September 07, 2004

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1 TO 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):
September 7, 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 2.01. ACQUISITION OR DISPOSITION OF ASSETS.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS.

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This Amendment No. 1 to Form 8-K/A is being filed to amend the auditor's report covering the financial statements filed as an exhibit to our Current Report on Form 8-K/A filed on August 6, 2004 (the "8-K/A"), as well as certain of the notes to such financial statements. The financial information included in the 8-K/A was filed as a result of our June 10, 2004 asset acquisition (the "Acquisition") of Play Along, Inc., Play Along (Hong Kong) Limited and PA Distribution, Inc. (collectively, "Play Along").

We intend to file shortly a registration statement on Form S-3 covering the shares issued at the time of the Acquisition to the principals of Play Along (the "Registration Statement"). Play Along's Hong Kong auditor has determined that, in order for it to be able to issue its report in connection with the Registration Statement, it is required to perform certain accounting procedures in support of the financial information included in the 8-K/A.

The performance of these additional procedures did not result in any changes to the financial information included in the 8-K/A. Nevertheless, Play Along's Hong Kong auditor determined that the report it delivered in connection with the financial information included in the 8-K/A, as well as the description of certain applicable accounting policies included in the notes to such financial statements, were required to be amended.

Accordingly, this Amendment No. 1 to Form 8-K/A is being filed to reflect such amendments.

ITEM 2.01. 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 9.01. 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.
Jeffrey A. Bolton, CPA, P.A.
Timothy R. Devlin, CPA, P.A.
Michael S. Kridel, CPA, P.A.
Marjorie A. Horwin, CPA, P.A.
Patrick D. Heyn, CPA, P.A.

2401 N.W. Boca Raton Boulevard
Boca Raton, FL 33431
t: 561.367.1040
f: 561.750.3236
www.daszkalbolton.com

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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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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Table of Contents**PLAY ALONG, INC.
BALANCE SHEETS**

	December 31, 2003	March 31, 2003	March 31, 2002
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
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>
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)			
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 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)		
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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Table of Contents**PLAY ALONG, INC.
STATEMENTS OF OPERATIONS**

	Nine months ended December 31, 2003	March 31, 2003	March 31, 2002
	<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 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)**

	<u>Common Stock</u>		<u>Additional Paid in Capital</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, March 31, 2001	10,000	\$ 100	\$	\$ (23,393)	\$ (23,293)
Net income				79,261	79,261
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance, March 31, 2002	10,000	100		55,868	55,968
Net loss				(178,788)	(178,788)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
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)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance, December 31, 2003	<u>7,000</u>	<u>\$ 70</u>	<u>\$ (970)</u>	<u>\$ (130,090)</u>	<u>\$ (130,990)</u>

See accompanying notes to financial statements.

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

	December 31, 2003	March 31, 2003	March 31, 2002
	<u> </u>	<u> </u>	<u> </u>
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)
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by (used in) operating activities	(423,046)	201,751	131,886
	<u> </u>	<u> </u>	<u> </u>
Cash flows from investing activities:			
Purchase of equipment	(47,733)	(27,522)	(1,633)
	<u> </u>	<u> </u>	<u> </u>
Cash flows from financing activities:			
Advances from (repayments to) related parties	660,841	(162,338)	(147,982)
Repurchase of shares	(1,000)		
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by (used in) financing activities	659,841	(162,338)	(147,982)
	<u> </u>	<u> </u>	<u> </u>
Net increase (decrease) in cash	189,062	11,891	(17,729)
Cash, beginning of period	29,589	17,698	35,427
	<u> </u>	<u> </u>	<u> </u>
Cash, end of period	\$ 218,651	\$ 29,589	\$ 17,698
	<u> </u>	<u> </u>	<u> </u>
Supplemental disclosures:			
Taxes paid	\$	\$ 250	\$
	<u> </u>	<u> </u>	<u> </u>
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:

	December 31 2003	March 31 2003	March 31 2002
	<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:

	December 31 2003	March 31 2003	March 31 2002
	<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:

December 31	March 31	March 31
------------------------	-----------------	-----------------

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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)	<u>\$ 93,727</u>	<u>\$ 102,113</u>	<u>\$ 4,877</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:

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

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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Table of Contents**PLAY ALONG, INC.
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:

Year ending December 31	Operating Leases
_____	_____
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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Michael I. Daszkal, CPA, P.A.
Jeffrey A. Bolton, CPA, P.A.
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2401 N.W. Boca Raton Boulevard
Boca Raton, FL 33431
t: 561.367.1040
f: 561.750.3236
www.daszkalbolton.com

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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PA DISTRIBUTION, INC.

FINANCIAL STATEMENTS

**FOR THE NINE MONTHS ENDED
DECEMBER 31, 2003 AND
FOR THE YEARS ENDED
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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>
ASSETS			
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>
LIABILITIES AND STOCKHOLDERS DEFICIT			
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**