

JAKKS PACIFIC INC
Form 8-K/A
April 26, 2006

Table of Contents

**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 8-K/A

Amendment No. 1

CURRENT REPORT

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

Date of Report (Date of earliest event reported):

April 26, 2006 (February 14, 2006)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- .. Written Communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Table of Contents

This Form 8-K/A is an amendment to the registrant's current report on Form 8-K filed on February 14, 2006 (relating to the registrant's asset acquisition of Creative Designs International, Ltd. and Arbor Toys Company Limited (collectively, "CDI")), to file the financial statements and pro forma financial information omitted from the initial filing of the Current Report, in accordance with Item 9.01.

ITEM 2.01. COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS.

For a description of the Registrant's asset acquisition of CDI, refer to Item 2.01 of the Registrant's Current Report on Form 8-K, filed on February 14, 2006, which Item 2.01 is incorporated in its entirety herein by reference.

Table of Contents

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements of Business Acquired

1. Creative Designs International, Ltd. audited financial statements as of December 31, 2002, 2003 and 2004 and for the three years in the period ended December 31, 2004.
2. Arbor Toys Company Limited audited financial statements as of December 31, 2002, 2003 and 2004 and for the three years in the period ended December 31, 2004.
3. Creative Designs International, Ltd. unaudited financial statements as of September 30, 2004 and September 30, 2005 and for the nine months ended September 30, 2004 and 2005.
4. Arbor Toys Company Limited unaudited financial statements as of September 30, 2004 and September 30, 2005 and for the nine months ended September 30, 2004 and 2005.

(b) Pro Forma Financial Information

Table of Contents

CREATIVE DESIGNS INTERNATIONAL, LTD.
DECEMBER 31, 2003
CONTENTS

	Page
Independent auditors' report	1
Financial statements:	
Balance sheets	2
Statements of income	3
Statements of retained earnings	4
Statements of cash flows	5-6
Notes to financial statements	7-10
Supplemental information:	
Independent auditors' supplemental report	11
Statements of operating expenses	12

Table of Contents

INDEPENDENT AUDITORS REPORT

To the Board of Directors
Creative Designs International, Ltd.
Feasterville, PA 19053

We have audited the accompanying balance sheets of Creative Designs International, Ltd. (A Pennsylvania S Corporation) as of December 31, 2003 and 2002, and the related statements of income, retained earnings, and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require 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 management, as well as evaluating the overall financial statement presentation. We believe our audits provide 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 Creative Designs International, Ltd. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Gable Peritz Mishkin, LLP

March 30, 2004

Table of Contents

CREATIVE DESIGNS INTERNATIONAL, LTD.
BALANCE SHEETS
DECEMBER 31, 2003 AND 2002

ASSETS	2003	2002
Current assets		
Cash	\$ 2,171,637	\$ 4,467,977
Accounts receivable trade	8,307,539	3,206,612
Accounts receivable affiliate	12,667,771	12,392,780
Miscellaneous receivable	798,946	505,924
Inventory	1,025,520	1,132,240
Prepaid expenses	97,554	90,405
Total current assets	25,068,967	21,795,938
Property and equipment		
Fixed assets	3,001,296	3,189,607
Less accumulated depreciation	1,412,712	1,250,104
Net property and equipment	1,588,584	1,939,503
Total assets	\$ 26,657,551	\$ 23,735,441

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities		
Loan payable affiliate	\$ 2,000,000	\$ 3,000,000
Accounts payable trade	268,022	38,988
Accounts payable affiliate	220,712	4,428,440
Rebates payable	1,077,379	1,343,732
Accrued royalties	1,373,935	826,115
Accrued commissions	894,136	707,477
Accrued state and local taxes	314,486	179,058
Total current liabilities	6,148,670	10,523,810
Stockholders equity		
Common stock no par value; 200 shares authorized, issued and outstanding	2,000	2,000
Retained earnings	20,506,881	13,209,631

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Total stockholders' equity	20,508,881	13,211,631
Total liabilities and stockholders' equity	\$ 26,657,551	\$ 23,735,441

See independent auditors' report and
accompanying notes to financial statements.

2

Table of Contents

CREATIVE DESIGNS INTERNATIONAL, LTD.
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Revenues		
Commission income	\$ 24,689,165	\$ 21,474,092
Sales	18,496,985	10,794,760
Design fee	158,710	158,710
Total revenues	43,344,860	32,427,562
Direct costs		
Cost of sales	13,182,663	9,986,791
Direct selling costs	8,320,915	4,942,077
Product development costs	462,581	497,099
	21,966,159	15,425,967
Gross profit	21,378,701	17,001,595
General and administrative expenses	2,373,439	1,842,325
Income before other income and expenses	19,005,262	15,159,270
Other income and expenses		
Interest income	89,750	42,254
Other income	18,004	3,176
Depreciation	(665,767)	(709,038)
Loss on sale of assets	(6,152)	
	(564,165)	(663,608)
Net income before officer's compensation	18,441,097	14,495,662
Officer's compensation	2,143,847	5,195,545
Net income	\$ 16,297,250	\$ 9,300,117

See independent auditors' report and
accompanying notes to financial statements.

Table of Contents

CREATIVE DESIGNS INTERNATIONAL, LTD.
STATEMENTS OF RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Balance, January 1	\$ 13,209,631	\$ 7,909,514
Net income	16,297,250	9,300,117
	29,506,881	17,209,631
Less distributions	9,000,000	4,000,000
Balance, December 31	\$ 20,506,881	\$ 13,209,631

See independent auditors' report and
 accompanying notes to financial statements.

4

Table of Contents

CREATIVE DESIGNS INTERNATIONAL, LTD.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Cash flows from operating activities		
Net income	\$ 16,297,250	\$ 9,300,117
Adjustment to reconcile net income to net cash provided by operating activities		
Depreciation	665,767	709,038
Loss on sale of property and equipment	6,152	
(Increase) decrease in assets		
Accounts receivable trade	(5,100,927)	(841,816)
Accounts receivable affiliate	(274,991)	(4,191,043)
Miscellaneous receivable	(293,022)	(505,924)
Inventory	106,720	329,816
Prepaid expenses	(7,149)	(16,976)
Increase (decrease) in liabilities		
Accounts payable trade	229,034	(9,652)
Accounts payable affiliate	(4,207,728)	(338,666)
Rebates payable	(266,353)	239,848
Accrued royalties	547,820	699,860
Accrued commissions	186,659	285,847
Accrued state and local taxes	135,428	38,712
Net cash provided by operating activities	8,024,660	5,699,161
Cash flows from investing activities	(355,000)	(1,328,513)
Acquisition of property and equipment	(355,000)	(1,328,513)
Proceeds from sale of property and equipment	34,000	
Net cash used by investing activities	(321,000)	(1,328,513)

See independent auditors report and
accompanying notes to financial statements.

Table of Contents

CREATIVE DESIGNS INTERNATIONAL, LTD.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Cash flows from financing activities		
Net advances and repayments of notes payable officers	\$ (1,000,000)	\$ 3,000,000
Distributions paid	(9,000,000)	(4,000,000)
Net cash used by financing activities	(10,000,000)	(1,000,000)
Net increase (decrease) in cash	(2,296,340)	3,370,648
Cash, January 1	4,467,977	1,097,329
Cash, December 31	\$ 2,171,637	\$ 4,467,977

See independent auditors' report and
accompanying notes to financial statements.

Table of Contents

CREATIVE DESIGNS INTERNATIONAL, LTD.
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of Creative Designs International, Ltd. is presented to assist in understanding the Company's financial statements. The financial statements and accompanying notes are representations of the Company's management, who are also responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Business Activity and Concentration of Credit Risk

The Company is engaged in the development and marketing of toys and related products internationally and the sale of those products to specific customers in the United States.

The Company maintains its checking accounts with one bank. Cash balances with the bank in excess of \$100,000 exceed the insurable limits as allowed by FDIC. Total cash balances with the bank at December 31, 2003 exceeded the insurable limits by \$2,443,222.

Use of Estimates

Management has made estimates and assumptions relating to the reporting of assets and liabilities and related reporting of revenues and expenses to prepare these financial statements in accordance with generally accepted accounting principles. Actual results could differ from those estimates.

Accounts Receivable - Trade

Accounts receivable - trade is recorded at the amount the Company expects to collect on balances outstanding at year-end. Management closely monitors outstanding balances and writes off, as of year-end, all balances that they anticipate they will not collect as of the time the financial statements are issued.

There was no bad debt expense charged to operations for the years ended December 31, 2003 and 2002.

Inventory

Inventory, consisting of finished goods, is valued at the lower of cost (first-in, first-out basis) or market.

Table of Contents**CREATIVE DESIGNS INTERNATIONAL, LTD.**
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Property and Equipment and Depreciation

Property and equipment are stated at cost. Depreciation is provided under the straight-line and accelerated methods over the estimated useful lives of the related assets.

Maintenance and repairs are expensed as incurred. Additions, betterments, and renewals, unless of minor amounts, are capitalized and depreciated. When property and equipment are sold or otherwise disposed of, the cost and related accumulated depreciation accounts are relieved, and the resulting gain or loss is included in operations.

Advertising Expense

The Company's policy is to expense advertising costs as incurred. Advertising expense charged to operations for the years ended December 31, 2003 and 2002 was \$94,783 and \$10,257, respectively.

Income Taxes

The Company, with the consent of its shareholders, elected to be taxed as an S corporation for federal and state tax purposes, effective in 1986. Under these provisions, the shareholders are taxed on their proportionate share of the Company's taxable income on their individual tax returns. The Company still pays franchise and gross receipts taxes to various municipalities.

2. Property and Equipment

A summary of property and equipment at December 31, 2003 and 2002 is as follows:

	2003	2002
Molds	\$ 1,690,892	\$ 1,969,528
Leasehold improvements	295,971	274,249
Furniture and fixtures	137,863	137,863
Computer equipment	233,247	233,247
Transportation equipment	643,323	574,720
	3,001,296	3,189,607
Less accumulated depreciation	1,412,712	1,250,104
	\$ 1,588,584	\$ 1,939,503

Depreciation expense charged to operations for the years ended December 31, 2003 and 2002 was \$665,767 and \$709,038, respectively.

Table of Contents

CREATIVE DESIGNS INTERNATIONAL, LTD.
NOTES TO FINANCIAL STATEMENTS

3. Major Customers

The Company had a significant customer which represented 90% and 78% of the total sales for the years ended December 31, 2003 and 2002. This customer represented 93% and 64% of the accounts receivable balance at December 31, 2003 and 2002.

4. Related Party Transactions

The Company conducts its primary business operations in a facility leased from its stockholders under a lease which expires in 2010. The rental expense for this property was \$74,142 and \$59,748 for the years ended December 31, 2003 and 2002, respectively.

The following is a schedule of future minimum lease payments as of December 31, 2003:

Year ending December 31, 2004	\$ 74,340
2005	78,060
2006	81,960
2007	86,064
2008	90,360
Thereafter	194,508

The Company's affiliate, Arbor Toys, Ltd. (Arbor), is a Hong Kong based company. Significant related party transactions with Arbor are as follows:

The Company receives a commission from Arbor Toys, Ltd. on all Arbor sales for its marketing and licensing arrangements with customers. In addition, it receives various overrides on products sold. The total amount is recorded as commission income and was \$24,689,165 and \$21,474,092 for the years ended December 31, 2003 and 2002, respectively.

The Company receives design fees for the development of product lines. Total fees were \$158,710 for both years ended December 31, 2003 and 2002.

The Company purchases all of its toys from Arbor. Total purchases for the year ended December 31, 2003 and 2002 were \$10,720,712 and \$7,288,944, respectively.

Table of Contents

CREATIVE DESIGNS INTERNATIONAL, LTD.
NOTES TO FINANCIAL STATEMENTS

5. Commitments and Contingencies

The Company leases showroom space at an industry toy exhibit under a noncancellable operating lease expiring in April, 2010. Future minimum rental payments under operating leases (excluding operating expenses) are as follows:

Year ending December 31, 2004	\$ 33,150
2005	33,150
2006	33,150
2007	33,150
2008	33,150
Thereafter	44,202

The total rent expense for this and related party leases (See Note 3) was \$113,402 and \$97,942 for the years ended December 31, 2003 and 2002, respectively.

Table of Contents

SUPPLEMENTAL INFORMATION

11

Table of Contents

**INDEPENDENT AUDITORS REPORT
ON SUPPLEMENTAL INFORMATION**

To the Board of Directors
Creative Designs International, Ltd.
Feasterville, PA 19053

Our report on our audit of the basic financial statements of Creative Designs International, Ltd. for December 31, 2003 and 2002 appears on Page 1. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gable Peritz Mishkin, LLP

March 30, 2004

11

Table of Contents

CREATIVE DESIGNS INTERNATIONAL, LTD.
STATEMENTS OF GENERAL AND ADMINISTRATIVE EXPENSES
YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Advertising	\$ 94,783	\$ 10,257
Auto expense	19,737	13,902
Computer expenses	98,747	62,162
Contributions	35,707	60,350
Dues and subscriptions	12,439	12,808
Employee benefits	104,058	71,887
Equipment rental	3,754	2,728
Gifts	16,583	8,750
Insurance	146,753	133,706
Interest expense		4,765
Meals and entertainment	55,908	26,665
Miscellaneous	59,303	105,709
Professional fees	48,193	65,093
Office expense	111,554	58,661
Payroll	660,269	375,929
Payroll taxes	87,703	136,630
Postage	4,543	3,514
Rent	113,402	97,942
Repairs and maintenance	13,784	15,353
Storage	3,588	2,776
Taxes other	423,966	344,069
Telephone	37,986	42,419
Travel	191,925	175,693
Utilities	28,754	10,557
	\$ 2,373,439	\$ 1,842,325

See independent auditors supplemental report.

12

Table of Contents

CREATIVE DESIGNS INTERNATIONAL, LTD.
DECEMBER 31, 2004
CONTENTS

	Page
Independent auditors' report	1
Financial statements:	
Balance sheets	2
Statements of income	3
Statements of retained earnings	4
Statements of cash flows	5-6
Notes to financial statements	7-10
Supplemental information:	
Independent auditors' supplemental report	11
Schedules of general and administrative expenses	12

Table of Contents

INDEPENDENT AUDITORS REPORT

To the Board of Directors
Creative Designs International, Ltd.
Feasterville, PA 19053

We have audited the accompanying balance sheets of Creative Designs International, Ltd. (A Pennsylvania S Corporation) as of December 31, 2004 and 2003, and the related statements of income, retained earnings, and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require 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 management, as well as evaluating the overall financial statement presentation. We believe our audits provide 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 Creative Designs International, Ltd. as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

May 6, 2005

Table of ContentsCREATIVE DESIGNS INTERNATIONAL, LTD.BALANCE SHEETSDECEMBER 31, 2004 AND 2003ASSETS

	2004	2003
Current assets		
Cash	\$ 7,574,936	\$ 2,171,637
Accounts receivable trade	6,019,263	8,307,539
Accounts receivable affiliate	27,618,821	12,667,771
Miscellaneous receivable	23,091	798,946
Due from affiliates	6,404	
Inventory	3,077,067	1,025,520
Prepaid expenses	94,524	97,554
 Total current assets	 44,414,106	 25,068,967
 Property and equipment, net of accumulated depreciation	 1,940,633	 1,588,584
 Total assets	 \$ 46,354,739	 \$ 26,657,551

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities		
Loan payable affiliate	\$	\$ 2,000,000
Accounts payable trade	319,165	268,022
Accounts payable affiliate	15,031,467	220,712
Rebates payable	2,076,841	1,077,379
Accrued royalties	3,272,007	1,373,935
Accrued commissions	484,017	894,136
Accrued state and local taxes	155,000	314,486
Payroll taxes payable	4,775	
 Total current liabilities	 21,343,272	 6,148,670
 Stockholders equity		
Common stock no par value; 200 shares authorized, issued and outstanding	2,000	2,000
Retained earnings	25,009,467	20,506,881
 Total stockholders equity	 25,011,467	 20,508,881
 Total liabilities and stockholders equity	 \$ 46,354,739	 \$ 26,657,551

See independent auditors' report and
accompanying notes to financial statements.

Table of Contents

CREATIVE DESIGNS INTERNATIONAL, LTD.
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Revenues		
Commission income	\$ 32,692,754	\$ 24,689,165
Sales	28,360,733	18,496,985
Design fee	164,000	158,710
Total revenues	61,217,487	43,344,860
Direct costs		
Cost of sales	19,760,539	13,182,663
Direct selling costs	12,397,351	8,320,915
Product development costs	824,809	462,581
	32,982,699	21,966,159
Gross profit	28,234,788	21,378,701
General and administrative expenses	3,137,328	2,373,439
Income before other income and expenses	25,097,460	19,005,262
Other income and expenses		
Interest income	88,591	89,750
Loss on sale of property and equipment		(6,152)
Other income		18,004
Depreciation	(534,265)	(665,767)
	(445,674)	(564,165)
Income before officer s compensation	24,651,786	18,441,097
Officer s compensation	3,149,200	2,143,847
Net income	\$ 21,502,586	\$ 16,297,250

See independent auditors' report and
accompanying notes to financial statements.

Table of Contents

CREATIVE DESIGNS INTERNATIONAL, LTD.
STATEMENTS OF RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Balance, January 1	\$ 20,506,881	\$ 13,209,631
Net income	21,502,586	16,297,250
	42,009,467	29,506,881
Less distributions	17,000,000	9,000,000
Balance, December 31	\$ 25,009,467	\$ 20,506,881

See independent auditors' report and
 accompanying notes to financial statements.

4

Table of Contents

CREATIVE DESIGNS INTERNATIONAL, LTD.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Cash flows from operating activities		
Net income	\$ 21,502,586	\$ 16,297,250
Adjustment to reconcile net income to net cash provided by operating activities		
Bad debts	80,033	
Depreciation	534,265	665,767
Loss on sale of property and equipment		6,152
(Increase) decrease in assets		
Accounts receivable trade	2,208,243	(5,100,927)
Accounts receivable affiliate	(14,951,050)	(274,991)
Miscellaneous receivable	775,855	(293,022)
Inventory	(2,051,547)	106,720
Prepaid expenses	3,030	(7,149)
Increase (decrease) in liabilities		
Accounts payable trade	51,143	229,034
Accounts payable affiliate	14,810,755	(4,207,728)
Rebates payable	999,462	(266,353)
Accrued royalties	1,898,072	547,820
Accrued commissions	(410,119)	186,659
Accrued state and local taxes	(159,486)	135,428
Payroll taxes payable	4,775	
Net cash provided by operating activities	25,296,017	8,024,660
Cash flows from investing activities		
Acquisition of property and equipment	(965,627)	(355,000)
Proceeds from sale of property and equipment		34,000
Net cash used by investing activities	(965,627)	(321,000)

See independent auditors report and
accompanying notes to financial statements.

Table of Contents

CREATIVE DESIGNS INTERNATIONAL, LTD.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Cash flows from financing activities		
Net advances and repayments of notes payable officers	\$ (2,000,000)	\$ (1,000,000)
Net advances and repayments of amounts due to/from affiliates	72,909	
Distributions paid	(17,000,000)	(9,000,000)
Net cash used by financing activities	(18,927,091)	(10,000,000)
Net increase (decrease) in cash	5,403,299	(2,296,340)
Cash, January 1	2,171,637	4,467,977
Cash, December 31	\$ 7,574,936	\$ 2,171,637

See independent auditors report and
accompanying notes to financial statements.

Table of Contents

CREATIVE DESIGNS INTERNATIONAL, LTD.
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of Creative Designs International, Ltd. is presented to assist in understanding the Company's financial statements. The financial statements and accompanying notes are representations of the Company's management, who are also responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Business Activity and Concentration of Credit Risk

The Company is engaged in the development and marketing of toys and related products internationally and the sale of those products to specific customers in the United States.

The Company maintains its checking accounts with one bank. Cash balances with the bank in excess of \$100,000 exceed the insurable limits as allowed by FDIC. Total cash balances with the bank at December 31, 2004 exceeded the insurable limits by \$8,572,038.

The Company had a significant customer which represented 83% and 90% of the total sales for the years ended December 31, 2004 and 2003. This customer represented 46% and 93% of the accounts receivable balance at December 31, 2004 and 2003.

Use of Estimates

Management has made estimates and assumptions relating to the reporting of assets and liabilities and related reporting of revenues and expenses to prepare these financial statements in accordance with generally accepted accounting principles. Actual results could differ from those estimates.

Accounts Receivable Trade

Accounts receivable trade is recorded at the amount the Company expects to collect on balances outstanding at year-end. Management closely monitors outstanding balances and writes off, as of year-end, all balances that they anticipate they will not collect as of the time the financial statements are issued.

Bad debt expense charged to operations for the years ended December 31, 2004 and 2003 were \$80,033 and \$0-, respectively.

Inventory

Inventory, consisting of finished goods, is valued at the lower of cost (first-in, first-out basis) or market.

Table of Contents**CREATIVE DESIGNS INTERNATIONAL, LTD.**
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Property and Equipment and Depreciation

Property and equipment are stated at cost. Depreciation is provided under the straight-line and accelerated methods over the estimated useful lives of the related assets.

Maintenance and repairs are expensed as incurred. Additions, betterments, and renewals, unless of minor amounts, are capitalized and depreciated. When property and equipment are sold or otherwise disposed of, the cost and related accumulated depreciation accounts are relieved, and the resulting gain or loss is included in operations.

Shipping and Handling Costs

The company's policy is to reflect shipping and handling costs associated with the sale of inventory as a component of cost of goods sold.

Advertising Expense

The Company's policy is to expense advertising costs as incurred. Advertising expense charged to operations for the years ended December 31, 2004 and 2003 was \$24,183 and \$94,783, respectively.

Income Taxes

The Company, with the consent of its shareholders, elected to be taxed as an S corporation for federal and state tax purposes, effective in 1986. Under these provisions, the shareholders are taxed on their proportionate share of the Company's taxable income on their individual tax returns. The Company still pays franchise and gross receipts taxes to various municipalities.

2. Property and Equipment

A summary of property and equipment at December 31, 2004 and 2003 is as follows:

	2004	2003
Molds	\$ 2,249,497	\$ 1,690,892
Leasehold improvements	308,186	295,971
Furniture and fixtures	163,001	137,863
Computer equipment	233,247	233,247
Transportation equipment	532,393	643,323
	3,486,324	3,001,296
Less accumulated depreciation	1,545,691	1,412,712
	\$ 1,940,633	\$ 1,588,584

Table of Contents

CREATIVE DESIGNS INTERNATIONAL, LTD.
NOTES TO FINANCIAL STATEMENTS

2. Property and Equipment (Cont d.)

Depreciation expense charged to operations for the years ended December 31, 2004 and 2003 was \$534,265 and \$665,767, respectively.

3. Royalties

The Company has entered into various license agreements whereby the Company may use certain characters and properties in conjunction with its products. Such license agreements call for royalties to be paid at 6% to 15% of net sales with minimum guarantees and advance payments. The agreements expire at various intervals through December 31, 2007. Royalties expense was \$9,191,707 and \$5,395,227 for the years ended December 31, 2004 and 2003, respectively, and is included in direct selling costs.

4. Related Party Transactions and Commitments and Contingencies

The Company conducts its primary business operations in a facility leased from its stockholders under a lease which expires in 2010. The rental expense for this property was \$70,800 for both years ended December 31, 2004 and 2003. The following is a schedule of future minimum lease payments as of December 31, 2004:

Year ending December 31, 2005	\$81,960
2006	86,064
2007	90,360
2008	94,878
2009	99,622

The Company's affiliate, Arbor Toys, Ltd. (Arbor), is a Hong Kong based company. Significant related party transactions with Arbor are as follows:

The Company receives a commission from Arbor Toys, Ltd. on all Arbor sales for its marketing and licensing arrangements with customers. In addition, it receives various overrides on products sold. The total amount is recorded as commission income and was \$32,692,754 and \$24,689,165 for the years ended December 31, 2004 and 2003, respectively.

The Company receives design fees for the development of product lines. Total fees received were \$164,000 and \$158,710 for the years ended December 31, 2004 and 2003, respectively.

Table of Contents

CREATIVE DESIGNS INTERNATIONAL, LTD.
NOTES TO FINANCIAL STATEMENTS

4. Related Party Transactions and Commitments and Contingencies (Cont d.)

The Company purchases all of its toys from Arbor. Total purchases for the year ended December 31, 2004 and 2003 were \$18,096,759 and \$10,720,712, respectively.

The Company leases showroom space at an industry toy exhibit under a noncancellable operating lease expiring in April, 2010. Future minimum rental payments under operating leases (excluding operating expenses) are as follows:

Year ending December 31, 2005	\$33,150
2006	33,150
2007	33,150
2008	33,150
2009	33,130
Thereafter	11,052

The total rent expense for all operating leases was \$114,373 and \$113,402 for the years ended December 31, 2004 and 2003, respectively.

Table of Contents

SUPPLEMENTAL INFORMATION

Table of Contents

**INDEPENDENT AUDITORS REPORT
ON SUPPLEMENTAL INFORMATION**

To the Board of Directors
Creative Designs International, Ltd.
Feasterville, PA 19053

Our report on our audit of the basic financial statements of Creative Designs International, Ltd. for December 31, 2004 and 2003 appears on Page 1. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

May 6, 2005

Table of Contents

CREATIVE DESIGNS INTERNATIONAL, LTD.
STATEMENTS OF GENERAL AND ADMINISTRATIVE EXPENSES
YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Advertising	\$ 24,183	\$ 94,783
Auto expense	21,590	19,737
Bad debts	80,033	
Computer expenses	48,744	98,747
Contributions	12,884	35,707
Dues and subscriptions	26,195	12,439
Employee benefits	121,176	104,058
Equipment rental	14,632	3,754
Gifts	46,965	16,583
Insurance	213,589	146,753
Meals and entertainment	39,355	55,908
Miscellaneous	28,150	59,303
Professional fees	161,277	48,193
Office expense	71,689	111,554
Payroll	976,277	660,269
Payroll taxes	127,260	87,703
Postage	4,019	4,543
Rent	114,373	113,402
Repairs and maintenance	13,147	13,784
Storage	3,731	3,588
Taxes other	640,204	423,966
Telephone	31,074	37,986
Travel	285,991	191,925
Utilities	30,790	28,754
	\$ 3,137,328	\$ 2,373,439

See independent auditors' supplemental report.

Table of Contents

**ARBOR TOYS COMPANY LIMITED
FINANCIAL STATEMENTS
DECEMBER 31, 2002**

MICHAEL YAM & COMPANY
Certified Public Accountants
HONG KONG

ARBOR TOYS COMPANY LIMITED
CONTENTS

	<u>Page</u>
<u>Company Information</u>	2
<u>Report of the Directors</u>	3-4
<u>Report of the Auditors</u>	5-6
<u>Balance Sheet</u>	7
<u>Profit and Loss Statement</u>	8
<u>Statement of Changes in Equity</u>	9
<u>Notes to Financial Statements</u>	10-15
<u>Cash Flow Statement</u>	16
<u>Detailed Profit and Loss Statement</u>	17-18
MICHAEL YAM & CO.	

Table of Contents

ARBOR TOYS COMPANY LIMITED
COMPANY INFORMATION

DIRECTORS

Mr. Marvin Greenberg
Mr. Ho Chiu Ming
M. Y. Director No. 1 Limited
Mr. Ho Wai Kam Jimmy

SECRETARY

M. Y. Secretaries Limited
23rd Floor
Chekiang First Bank Building
58-63 Gloucester Road
Wanchai

HONG KONG

REGISTERED OFFICE

Suite 816
Chinachem Golden Plaza
77 Mody Road
Tsimshatsui East
Kowloon

HONG KONG

COMPANY NUMBER

265154

AUDITORS

Michael Yam & Company
23rd Floor
Chekiang First Bank Building
58-63 Gloucester Road
Wanchai

HONG KONG

MICHAEL YAM & CO.

- 2 -

Table of Contents

ARBOR TOYS COMPANY LIMITED
REPORT OF THE DIRECTORS

The Directors present their annual report and the audited financial statements for the year ended December 31, 2002.

1. **PRINCIPAL ACTIVITY**

The Company's principal activity is trading in toys and related products.

2. **FINANCIAL STATEMENTS**

The profit of the Company for the year ended December 31, 2002 and the state of the Company's affairs at that date are set out in the financial statements on pages 7 to 16.

3. **DIVIDEND AND RESERVE**

An interim dividend of HK\$287 per ordinary share, totalling HK\$28,700,000 was paid during the year.

The Directors do not recommend the payment of a final dividend or the transfer of any amount to reserve for the financial year ended December 31, 2002.

4. **FIXED ASSETS**

Movements in fixed assets during the year are set out in note 6 to the financial statements.

5. **DIRECTORS**

During the year and up to the date of this report, the following Directors held office :-

Mr. Marvin Greenberg

Mr. Ho Chiu Ming

M. Y. Director No. 1 Limited

Mr. Ho Wai Kam Jimmy

In accordance with the Company's Articles of Association, all the Directors retire from the Board and, being eligible, offer themselves for re-election.

MICHAEL YAM & CO.

Table of Contents

ARBOR TOYS COMPANY LIMITED
REPORT OF THE DIRECTORS
(CONTINUED)

6. **DIRECTORS INTERESTS IN CONTRACTS**

No contracts of significance to which the Company was a party, and in which a Director had a material interest, subsisted at the end of the year or at any time during the year.

7. **DIRECTORS RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

At no time during the year was the Company a party to any arrangements to enable a Director of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

8. **AUDITORS**

Michael Yam & Company have expressed their willingness to continue as Auditors of the Company.

9. **OTHER MATTERS**

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.

FOR AND ON BEHALF OF THE BOARD

/s/ Ho Chiu Ming

CHAIRMAN/SECRETARY

DATE : 30 JUN 2003
MICHAEL YAM & CO.

Table of Contents

MICHAEL YAM & COMPANY

**23RD FLOOR, CHEKIANG FIRST BANK BUILDING
58-63, GLOUCESTER ROAD, WANCHAI, HONG KONG**

TEL.: (852) 2529 9301 FAX: (852) 2529 7920 E-MAIL:

mychk@myc.com.hk

**AUDITORS REPORT TO THE SHAREHOLDERS OF
ARBOR TOYS COMPANY LIMITED**

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 7 to 16 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Table of Contents

MICHAEL YAM & COMPANY

**23RD FLOOR, CHEKIANG FIRST BANK BUILDING
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mychk@myc.com.hk

**AUDITORS REPORT TO THE SHAREHOLDERS OF
ARBOR TOYS COMPANY LIMITED**

(Incorporated in Hong Kong with limited liability)

(CONTINUED)

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at December 31, 2002 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

MICHAEL YAM & COMPANY

/s/ Michael Yam & Company

CERTIFIED PUBLIC ACCOUNTANTS

HONG KONG: 30 JUN 2003

Table of Contents

ARBOR TOYS COMPANY LIMITED
BALANCE SHEET AS AT DECEMBER 31, 2002
(Amounts Expressed In Hong Kong Dollars)

12/31/2001			
	CURRENT ASSETS		
\$ 36,610,576	Cash	\$ 63,052,640	
31,200,000	Time deposits	-0-	
14,046,551	Bills receivable	33,838,466	
8,742,749	Accounts receivable	9,984,072	
6,021,121	Prepayments, rental and utility deposits	5,242,044	
3,000,000	Trade deposits	230,989	
10,079	Inventories	-0-	
99,631,076			\$ 112,348,211
706,490	FIXED ASSETS (Note 6)		1,855,829
\$ 100,337,566			\$ 114,204,040
	CURRENT LIABILITIES		
\$ 37,119,661	Accounts payable and accrued charges	\$ 79,257,997	
28,988,250	Dividend payable	-0-	
4,440,000	Provision for taxation	5,335,000	
70,547,911			\$ 84,592,997
	SHAREHOLDERS EQUITY		
1,000,000	Share capital (Note 7)	1,000,000	
28,789,655	Retained profits	28,611,043	
29,789,655			29,611,043

THE FINANCIAL STATEMENTS ON PAGES 7 TO 16 WERE APPROVED
AND AUTHORISED FOR ISSUE BY THE BOARD OF DIRECTORS ON
30 JUN 2003

/s/ Marvin Greenberg

/s/ Ho Chiu Ming

DIRECTOR

DIRECTOR

\$ 100,337,566

\$ 114,204,040

MICHAEL YAM & CO.

- 7 -