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LINCOLN LOGS LTD  
Form 8-K  
November 13, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 8-K/A

AMENDMENT TO FORM 8-K CURRENT REPORT

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

AMENDMENT NO. 1

Date of Report (Date of earliest event reported): August 29, 2003

LINCOLN LOGS LTD.  
(Exact name of small business issuer as specified in its charter)

|   |                          |   |
|---|--------------------------|---|
| New York  | 0-12172                  | 14-158                                  |
| (State or other jurisdiction<br>of incorporation) | (Commission File Number) | (I.R.S. Employer<br>Identification No.) |

5 Riverside Drive, Chestertown, New York 12817  
(Address of principal executive offices)

(518) 494-5500  
(Issuer's telephone number)

Neither name, address nor fiscal year has changed since last report  
(Former name, former address, and former fiscal year, if changed since last  
report)

Lincoln Logs Ltd. hereby amends Item 7 of its Current Report on Form 8-K  
filed on September 15, 2003, in order to file certain financial statements and  
information.

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Item 7. Financial Statements, Pro Forma Information and Exhibits

(a) Financial Statements of Businesses Acquired

This item is amended to include the following:

- I. Hart & Son Industries Ltd.
- (i) Auditors' Report
  - (ii) Balance Sheets as of August 29, 2003 (date of acquisition) and  
June 30, 2003 (unaudited)
  - (iii) Statements of Retained Earnings for the periods April 1, 2003  
to August 29, 2003 and for the year ended June 30, 2003  
(unaudited)
  - (iv) Statement of Loss for the periods April 1, 2003 to August 29,  
2003 and for the year ended June 30, 2003 (unaudited)
  - (v) Statement of Cash Flows for the periods April 1, 2003 to August  
29, 2003 and for the year ended June 30, 2003 (unaudited)
  - (vi) Notes to the Financial Statements

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### II. True-Craft Log Structures Ltd.

- (i) Auditors' Report
- (ii) Balance Sheets as of August 29, 2003 (date of acquisition) and June 30, 2003 (unaudited)
- (iii) Statement of Income and Deficit for the periods April 1, 2003 to August 29, 2003 and for the year ended June 30, 2003 (unaudited)
- (iv) Statement of Cash Flows for the periods April 1, 2003 to August 29, 2003 and for the year ended June 30, 2003 (unaudited)
- (v) Notes to the Financial Statements

Audited financial statements of the acquired businesses have been provided for the five (5) month period ended August 29, 2003. Due to the poor condition of the acquired businesses' historical financial information, audited financial statements of the acquired businesses for the most recent year as required by Section 310 of Regulation S-B are not practicable.

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### (b) Pro Forma Financial Information

This item is amended to include the following:

#### I. Lincoln Logs Ltd.

- (i) Introductory information
- (ii) Unaudited Pro Forma Consolidated Balance Sheet as of July 31, 2003
- (iii) Unaudited Pro Forma Consolidated Statement of Operations for the six months ended July 31, 2003
- (iv) Unaudited Pro Forma Consolidated Statement of Operations for the year ended January 31, 2003
- (v) Notes to the Unaudited Pro Forma Financial Statements

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HART & SON INDUSTRIES LTD.  
FINANCIAL STATEMENTS  
AUGUST 29, 2003  
(Cdn\$)

### AUDITORS' REPORT

To the Directors of:  
Hart & Son Industries Ltd.

We have audited the balance sheet of Hart & Son Industries Ltd. as at August 29, 2003 and the statements of retained earnings, loss and cash flows for the period April 1, 2003 to August 29, 2003. 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 Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance 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

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significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at August 29, 2003 and the results of its operations and cash flows for the period April 1, 2003 to August 29, 2003 in accordance with Canadian generally accepted accounting principles.

The comparative financial statements for the year ended June 30, 2003 were compiled by other accountants, and their report thereon dated September 30, 2003 stated they did not audit or review those financial statements and, accordingly, express no opinion or other form of assurance on them.

/s/ LDMB Advisors Inc.

Chartered Accountants  
Langley, British Columbia  
October 9, 2003

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HART & SON INDUSTRIES LTD.  
BALANCE SHEET  
(Cdn\$)

| AS AT   | August 29,<br>2003 | June 30,<br>2003<br>(Unaudited) |
|---|--------------------|---------------------------------|
| <b>ASSETS</b>   |                    |                                 |
| <b>CURRENT</b>  |                    |                                 |
| Accounts receivable, net of allowance of \$7,392<br>(June 30, 2003 - \$5,175) | \$ 31,523          | \$ 41,086                       |
| Goods and services tax receivable   | 13,530             | 11,614                          |
| Inventory and work-in-progress (Note 3)                                       | 430,810            | 412,411                         |
| Income taxes recoverable  | 47,000             | 36,000                          |
|   | 522,863            | 501,111                         |
| LOAN RECEIVABLE, RELATED PARTY (Note 4)                                       | 5,133              | 6,322                           |
| PROPERTY, PLANT AND EQUIPMENT (Note 5)  | 336,345            | 346,727                         |
| INCORPORATION COSTS   | 456                | 456                             |
|   | \$ 864,797         | \$ 854,616                      |
|   | =====              | =====                           |
| <b>LIABILITIES</b>  |                    |                                 |
| <b>CURRENT</b>  |                    |                                 |
| Bank indebtedness (Note 6)  | \$ 30,488          | \$ 29,785                       |
| Bank loan payable (Note 6)  | 170,000            | 185,000                         |
| Trade accounts payable  | 254,124            | 188,188                         |
| Accrued payroll, related taxes and withholdings                               | 37,923             | 30,121                          |
| Accrued expenses  | 37,618             | 20,425                          |
| Loans payable, shareholders (Note 7)  | 135,000            | ---                             |
| Customer deposits   | 134,593            | 159,244                         |
| Capital lease obligation (Note 8)   | 12,399             | 15,878                          |
| Loan payable, related party (Note 9)  | 6,946              | 3,982                           |
|   | 819,091            | 632,623                         |

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|                               |       |            |            |
|-------------------------------|-------|------------|------------|
| FUTURE INCOME TAXES (Note 10) | ---   | 21,100     |            |
|                               | ----- | -----      |            |
| TOTAL LIABILITIES             |       | 819,091    | 653,723    |
| SHAREHOLDERS' EQUITY          |       |            |            |
| Share capital (Note 11)       |       | 101        | 101        |
| Retained earnings             |       | 45,605     | 200,792    |
|                               |       | -----      | -----      |
| TOTAL SHAREHOLDERS' EQUITY    |       | 45,706     | 200,893    |
|                               |       | -----      | -----      |
|                               |       | \$ 864,797 | \$ 854,616 |
|                               |       | =====      | =====      |

SUBSEQUENT EVENTS (Note 12)

COMMITMENT (Note 13)

The accompanying notes are an integral part of these financial statements.

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HART & SON INDUSTRIES LTD.  
STATEMENT OF RETAINED EARNINGS  
(Cdn\$)

|  | April 1, 2003<br>to<br>August 29, 2003 | July 1, 2002<br>to<br>June 30, 2003 |             |
|--|--|-------------------------------------|-------------|
| FOR THE PERIOD   |  |                                     | (Unaudited) |
| RETAINED EARNINGS, beginning of period<br>as previously reported | \$ 162,852                             | \$ 397,905                          |             |
| PRIOR PERIOD ADJUSTMENT (Note 14)                                | (20,300)                               | (20,300)                            |             |
|  | -----                                  | -----                               |             |
| RETAINED EARNINGS, beginning of period<br>as restated            | 142,552                                | 377,605                             |             |
| NET LOSS FOR THE PERIOD  | (96,947)                               | (176,813)                           |             |
|  | -----                                  | -----                               |             |
| RETAINED EARNINGS, end of period                                 | \$ 45,605                              | \$ 200,792                          |             |
|  | =====                                  | =====                               |             |

The accompanying notes are an integral part of these financial statements.

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HART & SON INDUSTRIES LTD.  
STATEMENT OF LOSS  
(Cdn\$)

|                | April 1, 2003<br>to<br>August 29, 2003 | July 1, 2002<br>to<br>June 30, 2003 |             |
|----------------|--|-------------------------------------|-------------|
| FOR THE PERIOD |  |                                     | (Unaudited) |
| SALES          | \$ 1,402,061                           | \$ 3,317,109                        |             |
| COST OF SALES  | 1,091,587                              | 2,785,237                           |             |
|                | -----                                  | -----                               |             |

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|  |         |           |              |
|--|---------|-----------|--------------|
| GROSS PROFIT                             |         | 310,474   | 531,872      |
| OPERATING EXPENSES                       |         |           |              |
| Commissions                              |         | 14,828    | 65,461       |
| Selling, general and administrative      | 284,931 | 676,983   |              |
| Retirement expense (Note 15)             | 135,000 | ---       |              |
|  |         | -----     | -----        |
| TOTAL OPERATING EXPENSES                 |         | 434,759   | 742,444      |
|  |         | -----     | -----        |
| LOSS FROM OPERATIONS                     |         | (124,285) | (210,572)    |
| OTHER INCOME (EXPENSES)                  |         | 7,038     | (1,441)      |
|  |         | -----     | -----        |
| LOSS BEFORE INCOME TAXES                 |         | (117,247) | (212,013)    |
| PROVISION FOR (RECOVERY OF) INCOME TAXES |         |           |              |
| Current                                  |         |           | ---          |
| Future (Note 14)                         |         | (20,300)  | 800          |
|  |         | -----     | -----        |
|  |         |           | (20,300)     |
|  |         |           | -----        |
|  |         |           | (35,200)     |
|  |         | -----     | -----        |
| NET LOSS FOR THE PERIOD                  | \$      | (96,947)  | \$ (176,813) |
|  |         | =====     | =====        |

The accompanying notes are an integral part of these financial statements.

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HART & SON INDUSTRIES LTD.  
STATEMENT OF CASH FLOWS  
(Cdn\$)

|  | April 1, 2003<br>to<br>August 29, 2003 | July 1, 2002<br>to<br>June 30, 2003 |             |
|--|--|-------------------------------------|-------------|
| FOR THE PERIOD                                     |  |                                     | (Unaudited) |
| CASH FLOWS (USED IN) PROVIDED BY:                  |  |                                     |             |
| OPERATING ACTIVITIES                               |  |                                     |             |
| Net loss   | \$ (96,947)                            | \$ (176,813)                        |             |
| Adjustments for items not affecting cash:          |  |                                     |             |
| Amortization                                       | 28,842                                 | 73,840                              |             |
| Future income taxes                                | (20,300)                               | 800                                 |             |
| Changes in non-cash working capital balances:      |  |                                     |             |
| Accounts receivable                                | 26,592                                 | 171,591                             |             |
| Goods and services tax receivable                  | 26,596                                 | (3,530)                             |             |
| Inventory and work-in-progress                     | (11,970)                               |                                     | 42,523      |
| Prepaid expenses                                   | 3,603                                  | ---                                 |             |
| Trade accounts payable                             | (121,125)                              | (130,011)                           |             |
| Accrued payroll, related taxes and withholdings    | 7,953                                  | 15,175                              |             |
| Accrued expenses                                   | 33,910                                 | 12,525                              |             |
| Income taxes recoverable                           | (21,433)                               |                                     | (63,919)    |
| Customer deposits                                  | 44,431                                 | 62,353                              |             |
|  |  | -----                               | -----       |
|  |  | (99,848)                            | 4,533       |
| FINANCING ACTIVITIES                               |  |                                     |             |
| Increase (decrease) in bank loan payable           | 10,000                                 | (80,000)                            |             |
| Increase (decrease) in loan payable, related party | (31,514)                               | 3,982                               |             |

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|  |             |             |           |
|--|-------------|-------------|-----------|
| Increase in loans payable, shareholders        | 137,528     | ---         |           |
| Principal repayments of long-term debt         | ---         | (199,669)   |           |
| Repayment of capital lease obligation          | (7,715)     | (21,076)    |           |
|  |             | -----       | -----     |
|  |             | 108,299     | (296,763) |
| <br>INVESTING ACTIVITIES                       |             |             |           |
| Purchase of property, plant and equipment      |             | (12,391)    | (22,753)  |
| Decrease in loan receivable, related party     | 5,005       | 301,541     |           |
|  |             | -----       | -----     |
|  |             | (7,386)     | 278,78    |
|  |             | -----       | -----     |
| INCREASE (DECREASE) IN CASH                    |             | 1,065       | (13,441)  |
| CASH AND CASH EQUIVALENTS, beginning of period | (31,553)    | (16,344)    |           |
|  |             | -----       | -----     |
| CASH AND CASH EQUIVALENTS, end of period       | \$ (30,488) | \$ (29,785) |           |
|  |             | =====       | =====     |
| <br>SUPPLEMENTAL INFORMATION                   |             |             |           |
| Cash paid during the period to:                |             |             |           |
| Interest                                       |             | \$ 12,725   | \$ 43,107 |
| Income taxes                                   | \$ 31,433   | \$ 31,433   |           |

The accompanying notes are an integral part of these financial statements.

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HART & SON INDUSTRIES LTD.  
 NOTES TO THE FINANCIAL STATEMENTS  
 (Cdn\$)

### 1. NATURE OF BUSINESS AND REPORTING PERIOD

The Company was incorporated under the laws of the Province of British Columbia on July 15, 1974. The Company manufactures and designs log homes, wood windows and doors.

The statements of retained earnings, loss and cash flows are audited for the period of April 1, 2003 to August 29, 2003, as this period is inclusive of the earliest date from which opening inventory could be independently verified to the effective date of sale of the outstanding shares of the Company.

The most recent fiscal year of the Company ended on June 30, 2003. The unaudited balance sheet as at June 30, 2003 and unaudited statements of retained earnings, loss and cash flows for the year ended June 30, 2003 are presented for information purposes.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework

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of the accounting policies summarized below:

(a) Functional currency

The functional currency of the Company is Canadian dollars.

(b) Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is provided annually at rates calculated to write off the assets over their estimated useful lives as follows:

|                                   | Rate       | Basis               |
|-----------------------------------|------------|---------------------|
| Buildings                         | 4%         | diminishing balance |
| Computer equipment                | 30%        | diminishing balance |
| Manufacturing equipment           | 20%        | diminishing balance |
| Furniture and fixtures            | 20%        | diminishing balance |
| Automotive and forklift equipment | 20%        | diminishing balance |
| Leasehold improvements            | 5-10 years | straight line       |

In the year of acquisition, these rates are reduced by one-half.

(c) Inventory and work-in-progress

Inventory has been stated at the lower of cost or estimated replacement cost on a first-in, first-out basis.

Work-in-progress relates to products that were in the process of being manufactured at the end of the period. Work-in-progress includes all costs for labour, materials and overhead and is stated at the lower of cost or recoverable amount.

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HART & SON INDUSTRIES LTD.  
NOTES TO THE FINANCIAL STATEMENTS, Continued  
(Cdn\$)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

(d) Revenue recognition

Revenue is recognized when products are shipped from the manufacturing facility.

Deposits received in advance are reflected in current liabilities until the sale is completed.

(e) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the rate of exchange prevailing at the end of the period. Revenue and expense items are translated at the average rate of exchange for the period.

(f) Financial instruments

The Company's financial instruments consist of: accounts receivable; goods and sales tax receivable; income taxes recoverable; loan receivable, related party; bank loan payable; trade accounts payable;

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accrued payroll, related taxes and withholdings; accrued expenses; loans payable, shareholders; customer deposits; capital lease obligation; and loan payable, related party.

Management is of the opinion that the Company is not subject to significant interest, currency or credit risks on the financial instruments included in these financial statements, except as noted. The fair market values of these financial instruments approximate their carrying values. Included in cash is \$1,782 denominated in US dollars.

### (g) Future income taxes

Future income taxes represent the estimated taxes payable on the difference between the values of assets and liabilities recorded for accounting purposes and the values that would be used for the calculation of income taxes.

Effective July 1, 2002, the Company adopted Section 3465 of the Canadian Institute of Chartered Accountants Handbook, "Accounting for Income Taxes" which requires an asset and liability approach to financial accounting and reporting for income taxes. Future income tax assets and future income tax liabilities are computed annually for differences between the financial statement values and tax values, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

### (h) Cash and cash equivalents

The Company's cash and cash equivalents consist of cash on hand and bank indebtedness. Foreign currencies are converted to Canadian dollars at the exchange rate in effect at the balance sheet date.

### (i) Warranties

The Company sells housing kits with warranties against manufacturer's defects. The Company has reviewed the history of warranty claims and has determined that the incidence and value of previous claims have not been material.

Based on the claims experience, the Company has not provided for such claims and will treat any costs relating to manufacturer's defects as a period cost.

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HART & SON INDUSTRIES LTD.  
NOTES TO THE FINANCIAL STATEMENTS, Continued  
(Cdn\$)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

### (j) United States generally accepted accounting principles

Differences that would exist between these financial statements as presented and the financial statements if prepared in accordance with United States generally accepted accounting principles ("US GAAP") are that incorporation costs would have been expensed under US GAAP.

## 3. INVENTORY AND WORK-IN-PROGRESS



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|                  | August 29, 2003 | June 30, 2003 |
|------------------|-----------------|---------------|
| Raw materials    | \$ 413,126      | \$ 387,633    |
| Work-in-progress |                 | 9,854         |
| Finished goods   | 17,684          | 14,924        |
|                  | -----           | -----         |
|                  | \$ 430,810      | \$ 412,411    |
|                  | =====           | =====         |

#### 4. LOAN RECEIVABLE, RELATED PARTY

|   | August 29, 2003 | June 30, 2003 |
|---|-----------------|---------------|
| Due from True-Craft Log Structures Ltd. | \$ 5,133        | \$ 6,322      |

The amount due from a company under common control is not secured, bears no interest and has no fixed terms of repayment.

#### 5. PROPERTY, PLANT AND EQUIPMENT

|                                   | Cost        | Accumulated<br>Amortization | August 29,<br>2003 | Net<br>June 30,<br>2003 |
|-----------------------------------|-------------|-----------------------------|--------------------|-------------------------|
| Buildings                         | \$ 7,140    | \$ 3,218                    | \$ 3,922           | \$ 3,948                |
| Computer equipment                | 46,759      | 39,551                      | 7,208              | 7,582                   |
| Manufacturing equipment           | 821,076     | 593,104                     | 227,972            | 235,282                 |
| Furniture and fixtures            | 49,122      | 37,215                      | 11,907             | 12,312                  |
| Automotive and forklift equipment | 109,031     | 81,503                      | 27,528             | 28,467                  |
| Leasehold improvements            | 80,819      | 23,011                      | 57,808             | 59,136                  |
|                                   | -----       | -----                       | -----              | -----                   |
|                                   | \$1,113,947 | \$ 777,602                  | \$ 336,345         | \$ 346,727              |
|                                   | =====       | =====                       | =====              | =====                   |

Included in manufacturing equipment is equipment acquired under capital lease with a cost of \$82,672 and accumulated amortization of \$37,070 (June 30, 2003 - \$36,297).

The expenses include amortization of \$28,842 (June 30, 2003 - \$73,840). The amortization expense includes amortization on assets under capital lease of \$773 (June 30, 2003 - \$5,153).

#### 6. BANK INDEBTEDNESS AND BANK LOAN PAYABLE

The Company has demand operating loan facilities which total \$430,000. The loans bear interest at the bank's prime overdraft rate plus 1.15% and are secured by a general security agreement, security provided by the shareholders and a guarantee of a related corporation.

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HART & SON INDUSTRIES LTD.  
NOTES TO THE FINANCIAL STATEMENTS, Continued  
(Cdn\$)

#### 7. LOANS PAYABLE, SHAREHOLDERS

The amounts due to the shareholders are unsecured, bear no interest and have no fixed terms of repayment.

#### 8. CAPITAL LEASE OBLIGATION

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The Company has entered into a lease agreement to acquire equipment which has been financed by a long-term liability. The capital lease obligation represents the minimum lease payments payable net of imputed interest at an average rate of 13% per annum and is secured by equipment owned by the Company.

The Company's obligation under capital lease consists of:

|  | August 29, 2003             | June 30, 2003               |
|--|-----------------------------|-----------------------------|
| National Leasing - Planer:   |                             |                             |
| The lease is repayable in monthly instalments of \$1,839 and is secured by certain manufacturing equipment | \$ 14,712                   | \$ 18,391                   |
| Less: imputed interest   | 2,313                       | 2,513                       |
|  | -----<br>\$ 12,399<br>===== | -----<br>\$ 15,878<br>===== |

Included in the interest expense is interest related to the capital lease of \$1,481 (June 30, 2003 - \$993).

Future minimum annual lease payments payable under the capital lease are as follows:

|              |           |
|--------------|-----------|
| Year ending: |           |
| 2004         | \$ 14,712 |

### 9. LOAN PAYABLE, RELATED PARTY

|                             | August 29, 2003 | June 30, 2003 |
|-----------------------------|-----------------|---------------|
| Legacy Windows & Doors Ltd. | \$ 6,946        | \$ 3,982      |

The amount due to a company controlled by a Director is unsecured, bears no interest and has no fixed terms of repayment.

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HART & SON INDUSTRIES LTD.  
NOTES TO THE FINANCIAL STATEMENTS, Continued  
(Cdn\$)

### 10. INCOME TAXES

The Company has non-capital losses of \$126,000 available to apply against future income for tax purposes. The tax effect of this future benefit has been included in the calculation of future income taxes on the Company's balance sheet.

Future income tax assets:

|                              |                          |
|------------------------------|--------------------------|
| Operating loss carryforwards | \$ 24,500                |
| Valuation allowance          | (24,500)                 |
|                              | -----<br>\$ ---<br>===== |

Management believes that it is not more likely than not that the Company will create taxable income sufficient to realize its future income tax assets.

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### 11. SHARE CAPITAL

#### Authorized:

10,000 common shares without par value

|                   | August 29, 2003 | June 30, 2003 |
|-------------------|-----------------|---------------|
| Issued:           |                 |               |
| 101 common shares | \$ 101          | \$ 101        |

### 12. SUBSEQUENT EVENTS

Subsequent to August 29, 2003, the Company entered into the following transactions:

All the issued and outstanding shares were purchased by Lincoln Logs (Canada) Ltd. ("Parent Company").

Repaid the bank loan in the amount of \$170,000 and cancelled the operating loan facility.

Repaid the loans payable, shareholders in the amount of \$135,000.

Repaid the outstanding balance of the capital lease obligations in full on October 1, 2003.

Obtained a loan from the Parent Company in the amount of \$305,000.

Repaid the loan payable, related party with funds from the Parent Company.

Leased the manufacturing premises from the Parent Company on a month-to-month basis on the same terms and conditions as the lease between the Parent Company and the lessor. The lease is for a five year term at a monthly rental amount of \$11,800, exclusive of operating costs.

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### HART & SON INDUSTRIES LTD.

#### NOTES TO THE FINANCIAL STATEMENTS, Continued (Cdn\$)

### 13. COMMITMENT

Pursuant to the agreement entered into for the purchase of shares of Hart & Son Industries Ltd., the Company has agreed to supply a previous Director with one log cabin house per year, for a period of seven years, at the manufacturer's cost of the log cabin house.

### 14. ADJUSTMENT FOR CHANGE TO INCOME TAXES ACCOUNTING POLICY

The Company has adopted the asset and liability approach to accounting for income taxes. The prior year adjustment reflects the change from the taxes payable basis. The change in the accounting policy has resulted in a decrease in opening retained earnings of \$20,300.

The change in accounting policy has been applied retroactively and comparative information has been changed to reflect the change in accounting policy. As a result of the change in accounting policy, the net loss for the period has decreased by \$20,300. The net loss for the comparative period increased by \$800.

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### 15. RETIREMENT EXPENSE

The retirement expense incurred during the period related to the retirement on August 29, 2003 of two Directors of the Company.

At August 29, 2003 the Company has no additional liability to fund any further employee future benefits.

### 16. RELATED PARTY TRANSACTIONS

During the period, the Company entered into the following transactions with related parties at costs determined to approximate fair market values:

Paid consulting fees in the amount of \$32,645 (June 30, 2003 - \$81,047) to a company controlled by a Director.

Paid rent for premises, exclusive of property taxes, in the amount of \$16,672 (June 30, 2003 - \$40,012) to a company controlled by a Director.

Paid rent for the use of equipment in the amount of \$1,500 (June 30, 2003 - \$2,700) to a company controlled by a Director.

### 17. COMPARATIVE FIGURES

The unaudited financial statements prepared for the year ended June 30, 2003, which are presented for comparative purposes only, were compiled by other accountants. Certain of the June 30, 2003 amounts have been reclassified to conform with the current year's presentation.

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TRUE-CRAFT LOG STRUCTURES LTD.  
FINANCIAL STATEMENTS  
AUGUST 29, 2003  
(Cdn\$)

### AUDITORS' REPORT

To the Directors of:  
True-Craft Log Structures Ltd.

We have audited the balance sheet of True-Craft Log Structures Ltd. as at August 29, 2003 and the statements of income and deficit and cash flows for the period April 1, 2003 to August 29, 2003. 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 Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance 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.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at August 29, 2003 and the results of its operations and cash flows for the period April 1, 2003 to August 29, 2003 in accordance with Canadian generally accepted accounting

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principles.

The comparative financial statements for the year ended June 30, 2003 were compiled by other accountants, and their report thereon dated September 30, 2003 stated they did not audit or review those financial statements and, accordingly, express no opinion or other form of assurance on them.

/s/ LDMB Advisors Inc.

Chartered Accountants  
Langley, British Columbia  
October 9, 2003

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TRUE-CRAFT LOG STRUCTURES LTD.  
BALANCE SHEET  
(Cdn\$)

| AS AT  |                 | August 29,<br>2003 | June 30,<br>2003<br>(Unaudited) |
|--|-----------------|--------------------|---------------------------------|
| <b>ASSETS</b>  |                 |                    |                                 |
| <b>CURRENT</b>   |                 |                    |                                 |
| Cash   | \$              | 44                 | \$ ---                          |
| PROPERTY, PLANT AND EQUIPMENT (Note 3)                 | 3,300           | 3,412              |                                 |
|  |                 | -----              | -----                           |
| <b>TOTAL ASSETS</b>                                    | <b>\$</b>       | <b>3,344</b>       | <b>\$ 3,412</b>                 |
|  |                 | =====              | =====                           |
| <b>LIABILITIES</b>                                     |                 |                    |                                 |
| <b>CURRENT</b>   |                 |                    |                                 |
| Bank indebtedness                                      | \$              | ---                | \$ 584                          |
| LOAN PAYABLE, RELATED PARTY (Note 4)                   | 5,133           | 6,322              |                                 |
|  |                 | -----              | -----                           |
| <b>TOTAL LIABILITIES</b>                               |                 | <b>5,133</b>       | <b>6,906</b>                    |
|  |                 | =====              | =====                           |
| <b>SHARE CAPITAL AND DEFICIT</b>                       |                 |                    |                                 |
| Share capital (Note 5)                                 |                 | 77                 | 77                              |
| Deficit  |                 | (1,866)            | (3,577)                         |
|  |                 | -----              | -----                           |
| <b>TOTAL SHARE CAPITAL AND DEFICIT</b>                 | <b>(1,789)</b>  | <b>(3,494)</b>     |                                 |
|  |                 | -----              | -----                           |
| <b>TOTAL LIABILITIES AND SHARE CAPITAL AND DEFICIT</b> | <b>\$ 3,344</b> | <b>\$ 3,412</b>    |                                 |
|  |                 | =====              | =====                           |
| SUBSEQUENT EVENT (Note 8)                              |                 |                    |                                 |

The accompanying notes are an integral part of these financial statements.

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TRUE-CRAFT LOG STRUCTURES LTD.  
STATEMENT OF INCOME AND DEFICIT  
(Cdn\$)

| FOR THE PERIOD                      | April 1, 2003<br>to<br>August 29, 2003 | July 1, 2002<br>to<br>June 30, 2003 | (Unaudite |
|-------------------------------------|--|-------------------------------------|-----------|
| REVENUE                             | \$ 1,500                               | \$ 2,700                            |           |
| OPERATING EXPENSES                  |  |                                     |           |
| Commissions                         | 250                                    | 250                                 |           |
| Selling, general and administrative | 602                                    | 1,141                               |           |
| TOTAL OPERATING EXPENSES            | 852                                    | 1,391                               |           |
| INCOME FROM OPERATIONS              | 648                                    | 1,309                               |           |
| OTHER INCOME                        | 400                                    | 329                                 |           |
| NET INCOME                          |  | 1,048                               | 1         |
| DEFICIT, beginning of period        | (2,914)                                | (5,209)                             |           |
| DEFICIT, end of period              | \$ (1,866)                             | \$ (3,571)                          |           |

The accompanying notes are an integral part of these financial statements.

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TRUE-CRAFT LOG STRUCTURES LTD.  
STATEMENT OF CASH FLOWS  
(Cdn\$)

| FOR THE PERIOD                                | April 1, 2003<br>to<br>August 29, 2003 | July 1, 2002<br>to<br>June 30, 2003 | (Unaudite |
|---|--|-------------------------------------|-----------|
| CASH FLOWS (USED IN) PROVIDED BY:             |  |                                     |           |
| OPERATING ACTIVITIES                          |  |                                     |           |
| Net income                                    | \$ 1,048                               | \$ 1,638                            |           |
| Adjustments for items not affecting cash:     |  |                                     |           |
| Amortization                                  | 325                                    | 853                                 |           |
| Changes in non-cash working capital balances: |  |                                     |           |
| Accounts payable and accrued liabilities      | ---                                    | (333)                               |           |
|   |  | 1,373                               | 2,158     |
| FINANCING ACTIVITIES                          |  |                                     |           |
| Decrease in share subscriptions receivable    | ---                                    | (75)                                |           |
| Decrease in loan payable, related party       | (5,005)                                | (11,380)                            |           |
| DECREASE IN CASH                              |  | (3,632)                             | (9,1      |

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|  |       |       |    |       |
|--|-------|-------|----|-------|
| CASH AND CASH EQUIVALENTS, beginning of period | 3,676 | 8,563 |    |       |
|  |       |       |    |       |
| CASH AND CASH EQUIVALENTS, end of period       | \$    | 44    | \$ | (584) |
|  |       |       |    |       |

The accompanying notes are an integral part of these financial statements.

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TRUE-CRAFT LOG STRUCTURES LTD.  
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF BUSINESS

The Company was incorporated under the laws of the Province of British Columbia on March 14, 1972. The Company rents manufacturing equipment to a related corporation.

The balance sheet as at August 29, 2003 and the statements of income and deficit and cash flows for the period April 1, 2003 to August 29, 2003 are audited to be consistent with the period being audited for a related company, Hart & Son Industries Ltd.

The most recent fiscal year of the Company ended on June 30, 2003. The unaudited balance sheet as at June 30, 2003 and unaudited statements of income and deficit and cash flows for the year ended June 30, 2003 are presented for information purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

(a) Functional currency

The functional currency of the Company is Canadian dollars.

(b) Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is provided annually at rates calculated to write off the assets over their estimated useful lives as follows:

|                         | Rate | Basis               |
|-------------------------|------|---------------------|
| Manufacturing equipment | 20%  | diminishing balance |

In the year of acquisition, these rates are reduced by one-half.

(c) Revenue recognition

Revenue is recognized in accordance with the rental agreement

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established with the related corporation.

(d) Financial instruments

The Company's financial instruments consist of cash and loan payable, related party.

Management is of the opinion that the Company is not subject to significant interest, currency or credit risks on the financial instruments included in these financial statements. The fair market values of these financial instruments approximate their carrying values.

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TRUE-CRAFT LOG STRUCTURES LTD.  
NOTES TO THE FINANCIAL STATEMENTS, Continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

(e) Future income taxes

Future income taxes represent the estimated taxes payable on the difference between the values of assets and liabilities recorded for accounting purposes and the values that would be used for the calculation of income taxes.

Effective July 1, 2002, the Company has adopted Section 3465 of the Canadian Institute of Chartered Accountants Handbook, "Accounting for Income Taxes" which requires an asset and liability approach to financial accounting and reporting for income taxes. Future income tax assets and future income tax liabilities are computed annually for differences between the financial statement values and tax values, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

(f) United States generally accepted accounting principles

No material differences exist between these financial statements as presented and the financial statements if prepared in accordance with United States generally accepted accounting principles.

(g) Cash and cash equivalents

The Company's cash and cash equivalents consist of cash on hand and bank indebtedness. Foreign currencies are converted to Canadian dollars at the exchange rate in effect at the balance sheet date.

3. PROPERTY, PLANT AND EQUIPMENT

|                         |           |                             |                    | Net              |  |
|-------------------------|-----------|-----------------------------|--------------------|------------------|--|
|                         | Cost      | Accumulated<br>Amortization | August 29,<br>2003 | June 30,<br>2003 |  |
| Manufacturing equipment | \$ 60,140 | \$ 56,840                   | \$ 3,300           | \$ 3,412         |  |

The selling, general and administrative expenses include amortization of \$325 (June 30, 2003 - \$853).

4. LOAN PAYABLE, RELATED PARTY



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|                                   | August 29,<br>2003 | June 30,<br>2003 |
|-----------------------------------|--------------------|------------------|
| Due to Hart & Son Industries Ltd. | \$ 5,133           | \$ 6,322         |

The amount due to a company under common control, is not secured, bears no interest and has no fixed terms of repayment.

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TRUE-CRAFT LOG STRUCTURES LTD.  
NOTES TO THE FINANCIAL STATEMENTS, Continued

5. SHARE CAPITAL

Authorized:  
10,000 common shares without par value

|                     | August 29,<br>2003 | June 30,<br>2003 |
|---------------------|--------------------|------------------|
| Issued:             |                    |                  |
| 7,500 common shares | \$ 77              | \$ 77            |

6. RELATED PARTY TRANSACTION

During the period ended August 29, 2003, the Company entered into the following transaction with a related party at a price which approximates fair market value:

Received rental revenue in the amount of \$1,500 (June 30, 2003 - \$2,700) from a company controlled by the Directors.

7. INCOME TAXES

The Company has non-capital losses of \$1,900 available to apply against future income for tax purposes. The tax effect of this future benefit has been included in the calculation of future income taxes on the Company's balance sheet.

Future income tax assets:

|                               |         |
|-------------------------------|---------|
| Operating loss carryforwards  | \$ 684  |
| Property, plant and equipment | 2,275   |
|                               | -----   |
|                               | 2,959   |
| Valuation allowance           | (2,959) |
|                               | -----   |
|                               | \$ ---- |
|                               | =====   |

Management believes that it is not more likely than not that the Company will create taxable income sufficient to realize its future income tax assets.

8. SUBSEQUENT EVENT

Subsequent to August 29, 2003, all the issued and outstanding shares were purchased by Lincoln Logs (Canada) Ltd.

9. COMPARATIVE FIGURES

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The unaudited financial statements for the year ended June 30, 2003, which are presented for comparative purposes only, were compiled by other accountants. Certain of the June 30, 2003 amounts have been reclassified to conform with the current year's presentation.

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### LINCOLN LOGS LTD. PRO FORMA FINANCIAL INFORMATION INTRODUCTORY INFORMATION

On August 29, 2003, Lincoln Logs Ltd. ("Lincoln Logs") acquired both Hart & Son Industries Ltd. ("Hart & Son") and True-Craft Log Structures Ltd. ("True-Craft"). The combined purchase had an aggregate consideration of approximately Cdn\$2,865,000, and consisted of a combination of cash, promissory notes and common stock.

The unaudited pro forma consolidated balance sheet was prepared as if the acquisition had occurred on July 31, 2003. For purposes of consolidating the unaudited balances of Lincoln Logs and the acquired businesses as of July 31, 2003, the unaudited balance sheets of the acquired businesses as of June 30, 2003 have been used to approximate the acquired businesses' financial position as of July 31, 2003.

The unaudited pro forma consolidated statements of operations for the year ended January 31, 2003 and for the six months ended July 31, 2003 were prepared as if the acquisition had taken place as of February 1, 2002. Due to the poor condition of the acquired businesses' historical financial information, it is not practicable to bring the acquired businesses' statements of operations to within 93 days of Lincoln Logs' fiscal year end, as prescribed by Article 11 of Regulation S-X. For purposes of consolidating the unaudited statement of operations of Lincoln Logs and the acquired businesses for the year ended January 31, 2003, the unaudited statements of operations of the acquired businesses for the year ended June 30, 2003 have been used to approximate the results of their operations as of January 31, 2003. For purposes of consolidating the unaudited statements of operations of Lincoln Logs and the acquired businesses for the six months ended July 31, 2003, the unaudited statements of operations of the acquired businesses for the six months ended June 30, 2003 have been used to approximate the results of their operations as of July 31, 2003.

For the purpose of presenting pro forma financial information, all transactions between Lincoln Logs, Hart & Son and True-Craft have been eliminated as if the acquisition had been consummated on the assumed effective date. The pro forma financial information reflects other adjustments that are directly attributable to the acquisition as described in the accompanying notes.

For the purposes of this presentation, certain pro forma adjustments have been made to the balance sheet and results of operations to provide information as to how the acquisition might have affected the financial position and statements of operations. This unaudited pro forma financial information does not purport to be indicative of the results of operations that would have been obtained if the operations had been combined as of the beginning of the period presented, and is not intended to be a projection of future results.

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LINCOLN LOGS LTD.

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UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET  
 JULY 31, 2003  
 (All amounts in US Dollars)

ASSETS

|  |            | Hart & Son | True-Cra  |
|--|------------|------------|-----------|
| CURRENT ASSETS:  |            |            |           |
| Cash and cash equivalents  | \$         |            | \$        |
| Trade accounts receivable, net of allowance<br>for doubtful accounts of \$20,199 | 29,738     |            | 481,      |
| Inventories:   |            |            |           |
| Raw materials  |            | 291,370    |           |
| Work in Process  |            | 7,132      |           |
| Prepaid expenses and other current assets  | 8,406      |            | 606,      |
| Due from related parties   |            | 4,576      |           |
| Mortgage and note receivable   |            |            |           |
| Prepaid income taxes   |            | 26,057     |           |
|  |            | -----      | -----     |
| Total current assets   |            | 367,279    |           |
| PROPERTY, PLANT AND EQUIPMENT:   |            |            |           |
| Cost   |            | 806,273    | 43,529    |
| Less: accumulated depreciation   | ( 555,313) | (          | 41,060)   |
|  |            | -----      | -----     |
| Property, plant and equipment - net  | 250,960    | 2,469      | 2,556,750 |
| OTHER ASSETS:  |            |            |           |
| Mortgage receivable  |            |            |           |
| Assets held for resale   |            | 330        |           |
| Goodwill   |            |            |           |
| Deposits and other assets  |            |            |           |
| Other intangible assets, net of accumulated<br>amortization of \$209,182         |            |            |           |
|  |            | -----      | -----     |
| Total other assets   |            | 330        |           |
|  |            | -----      | -----     |
| TOTAL ASSETS   | \$         | 618,569    | \$ 2,469  |
|  |            | =====      | =====     |
|  |            |            | \$ 5,960, |

See accompanying notes to pro forma consolidated financial statements.

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LINCOLN LOGS LTD.  
 UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET  
 JULY 31, 2003  
 (All amounts in US Dollars)

LIABILITIES

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|  |            | Hart & Son       | True-Cra     |
|--|------------|------------------|--------------|
| <b>CURRENT LIABILITES:</b>   |            |                  |              |
| Current installment of long-term debt  | \$ 166,953 | \$ 423           | \$ 104,569   |
| Current installment of long-term debt,<br>related parties  |            |                  |              |
| Current installments of note payable   |            |                  |              |
| Trade accounts payable   |            | 136,207          |              |
| Accrued salaries and wages   |            | 21,802           |              |
| Accrued income taxes   |            | 15,272           |              |
| Accrued expenses   |            | 14,783           |              |
| Due to related parties   |            | 2,882            | 4,576        |
| Customer deposits  |            | 115,261          |              |
|  |            | -----            | -----        |
| Total current liabilities  |            | 473,160          | 4,999 4,219, |
| <b>LONG TERM DEBT, net of current installments:</b>  |            |                  |              |
| Mortgage payable   |            |                  |              |
| Note payable   |            |                  |              |
| Note payable - related party   |            |                  |              |
| Other  |            |                  |              |
|  |            | -----            | -----        |
| Total long term liabilities  |            |                  |              |
|  |            | -----            | -----        |
| Total liabilities  |            | 473,160          | 4,999 5,293, |
| <b>STOCKHOLDERS' EQUITY:</b>   |            |                  |              |
| Preferred stock, \$.01 par value; authorized<br>1,000,000 shares; issued and outstanding<br>-0- shares |            | 73               | 56           |
| Common stock, \$.01 par value; authorized<br>10,000,000 shares; issued 8,046,799 shares                |            |                  |              |
| Additional paid-in capital   |            |                  |              |
| Retained Earnings (Accumulated deficit)  |            | 145,333 ( 2,585) | (2,830,      |
|  |            | -----            | -----        |
|  |            | 145,406          | ( 2,529)     |
| Less cost of 504,240 shares of common stock<br>in treasury   |            |                  |              |
|  |            | -----            | -----        |
| Total stockholders' equity   | 145,406    | ( 2,529)         | 2,412,821    |
|  |            | -----            | -----        |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  | \$ 618,566 | \$ 2,470         | \$ 7,706,420 |
|  |            | =====            | =====        |

See accompanying notes to pro forma consolidated financial statements.

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LINCOLN LOGS LTD.  
 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS  
 FOR THE SIX MONTHS ENDED JULY 31, 2003  
 (All amounts in US Dollars)

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|                                     | Hart & Son   | True-Craf |
|-------------------------------------|--------------|-----------|
| NET SALES                           | \$ 1,331,232 | \$ 434    |
| COST OF SALES                       | 1,092,799    | ---       |
| GROSS PROFIT                        | 238,433      | 434       |
| OPERATING EXPENSES:                 |              |           |
| Commissions                         | 22,697       | 90        |
| Selling, general and administrative | 277,442      | 413       |
| Total operating expenses            | 300,139      | 503       |
| INCOME (LOSS) FROM OPERATIONS       | ( 61,706)    | ( 69)     |
| OTHER INCOME (EXPENSE):             |              |           |
| Interest income                     |              |           |
| Interest expense                    |              |           |
| Other                               | ( 2,362)     | 119       |
| Total other income (expense) - net  | ( 2,362)     | 119       |
| INCOME (LOSS) BEFORE INCOME TAXES   | ( 64,068)    | 50        |
| INCOME TAXES BENEFIT                | ( 13,175)    | ---       |
| NET INCOME (LOSS)                   | \$ ( 50,893) | \$ 50     |
| PER SHARE DATA:                     |              |           |
| Basic earnings (loss) per share     |              |           |

See accompanying notes to pro forma consolidated financial statements.

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LINCOLN LOGS LTD.  
 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS  
 FOR THE YEAR ENDED JANUARY 31, 2003  
 (All amounts in US Dollars)

|                                     | Hart & Son   | True-Craf |
|-------------------------------------|--------------|-----------|
| NET SALES                           | \$ 2,400,919 | \$ 1,954  |
| COST OF SALES                       | 2,015,951    | ---       |
| GROSS PROFIT                        | 384,968      | 1,954     |
| OPERATING EXPENSES:                 |              |           |
| Commissions                         | 47,381       | 181       |
| Selling, general and administrative | 489,999      | 826       |
| Total operating expenses            | 537,380      | 1,007     |

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|                                    |               |          |        |
|------------------------------------|---------------|----------|--------|
| INCOME FROM OPERATIONS             | ( 152,412)    | 947      | 1,187, |
| OTHER INCOME (EXPENSE):            |               |          |        |
| Interest income                    |               |          |        |
| Interest expense                   |               |          |        |
| Other                              | ( 1,043)      |          | 238    |
| Total other income (expense) - net | ( 1,043)      | 238      | 36,876 |
| INCOME BEFORE INCOME TAXES         | ( 153,455)    | 1,185    | 1,224, |
| INCOME TAXES / (BENEFIT)           | ( 25,478)     | ---      | 2      |
| NET INCOME                         | \$ ( 127,977) | \$ 1,185 | \$     |

PER SHARE DATA:

Basic earnings per share

Dilutive earnings per share

See accompanying notes to pro forma consolidated financial statements.

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LINCOLN LOGS LTD.  
NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

Pro Forma Adjustments

a.) Balance Sheet:

- i.) Upon consummation of the transaction, the purchase price paid to the shareholders of Hart and Son Industries, Ltd. and True-Craft Log Structures, Ltd., including amounts paid for pre-acquisition costs, consisted of \$782,276 paid in cash, \$954,158 of promissory notes, on a discounted basis, payable over five to seven years, and 287,500 shares of common stock with certain restrictions valued at \$143,750.
- ii.) The purchase price was allocated \$929,515 to fixed assets, \$260,567 to identifiable intangible assets, and the balance of \$690,102 to goodwill.

b.) Statement of Operations:

- i.) The pro forma statements of operations have been adjusted to reflect additional expenses that would have been incurred had the acquisition taken place at the beginning of the periods shown. Those expenses included adjustments for such items as salaries, rent, depreciation, amortization, and other similar items.
- ii.) The tax provision has been adjusted to reflect the combined impact of the pro forma adjustments by incorporating the tax benefit for the net losses of the acquired companies with the income tax provision of Lincoln Logs for the twelve-month period ended January 31, 2003 and the six-month period ended July 31, 2003.

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- iii.) The weighted average number of shares outstanding has been adjusted as if the shares issued as part of the consideration paid were issued at the beginning of the respective periods shown. The weighted average number of shares used to calculate basic loss per share for the six-month period ended July 31, 2003 was 8,046,827. The weighted average number of shares used to calculate basic earnings per share and diluted earnings per share for the twelve-month period ended January 31, 2003 was 7,542,559 and 8,782,650, respectively.
- iv.) Certain reclassifications have been made to the operating expenses of Hart and Son Industries, Ltd. and True-Craft Log Structures, Ltd. to conform to the classifications based on the historical presentation of Lincoln Logs Ltd.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

LINCOLN LOGS LTD.

Dated: November 13, 2003

By: /s/ William J. Thyne

William J. Thyne  
Chief Financial Officer

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