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JANEX INTERNATIONAL INC
Form 10-Q
June 21, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 10549

FORM 10-QSB

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from: not applicable

Commission File No. 0-17927

JANEX INTERNATIONAL, INC.
(Name of small business issuer in its charter)

COLORADO
(State or other jurisdiction of
incorporation or organization)

84-1034251
(I.R.S. Employer
Identification No.)

1609 FOURTH STREET
BERKELEY, CALIFORNIA
(Address of principal executive offices)

07724
(Zip Code)

Issuer's telephone number, including area code: (510) 524-7400

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, NO PAR VALUE

(TITLE OF CLASS)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

As of June 13, 2001, the issuer had 17,692,896 shares of its common stock and 5,000,000 shares of preferred stock issued and outstanding. There are a substantial number of additional shares committed for issuance. See Part II, Item 5, Other Information in this Report.

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JANEX INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2000	March 31, 2001 (Unaudited)
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,079	\$ 24,641
Accounts receivable, net.....	--	538,934
Inventories, net	--	652,378
Other current assets	17,818	217,634
	-----	-----
Total current assets	22,897	1,433,587
Property and equipment, net	--	333,803
Goodwill, net.....	--	821,828
	-----	-----
Total assets	\$ 22,897	\$ 2,589,218
	=====	=====
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Note payable - Shareholder	\$ --	\$ 128,849

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Notes payable - Banks	331,943	1,451,942
Accounts payable	1,361,423	2,024,936
Accrued expenses	1,063,750	1,352,220
Due to Futech Interactive Products, Inc.	1,606,199	1,687,199
Loans Payable	228,183	250,063
Due to Related Parties.....	228,183	313,640
	-----	-----
Total current liabilities	4,601,498	7,208,849
Shareholders' deficit:		
Class A convertible preferred stock, no par value:		
Authorized shares - 5,000,000		
Issued and outstanding shares - 5,000,000 at		
December 31, 2000 and March 31, 2001,		
Respectively	569,022	569,022
Common stock, no par value:		
Authorized shares - 20,000,000		
Issued and outstanding shares - 12,740,259 and		
17,240,259 at December 31, 2000 and March 31,		
2001, respectively	16,289,321	16,515,971
Less: Treasury stock, at cost: 15,330,129 at		
December 31, 2000 and March 31, 2001	(3,056,083)	(3,056,083)
Additional paid-in capital	554,517	570,767
Accumulated deficit	(26,027,904)	(26,382,184)
	-----	-----
	(11,671,127)	(11,782,507)
Due to Related Parties	7,092,526	7,092,526
	-----	-----
Due to Bank	--	70,350
	-----	-----
Total Shareholders' Deficit	(4,578,601)	(4,619,631)
	-----	-----
Total liabilities and shareholders' deficit	\$ 22,897	\$ 2,589,218
	=====	=====

See accompanying summary of accounting policies and notes to
Financial statements.

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JANEX INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended March 31,	
	2000	2001
	-----	-----
Sales	\$ 2,530	\$ 622,483
Royalty Income	5,956	--
	-----	-----
Less: Returns and Allowances	--	(3,593)

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Discounts - Domestic	--	(31,846)
Discounts - International	--	(58,576)
Freight	--	18,609
Miscellaneous Charges	--	563
	-----	-----
Net Sales	2,530	547,640
Cost of Sales		
Direct	(430)	(272,652)
Indirect	--	(53,891)
	-----	-----
Total Cost of Sales	(430)	(326,542)
Gross margin	8,056	221,097
Operating Expenses:		
Selling, general and administrative	178,774	444,670
Stock based compensation	6,070,950	62,500
Depreciation and amortization	10,005	32,154
	-----	-----
Loss from operations	(6,251,673)	(318,227)
Other income (expense)		
Interest expense	(7,398)	(26,179)
Other income (expense)	--	--
	-----	-----
Total other income (expense)	(7,398)	(26,179)
Net Earnings before R&D	(6,259,071)	(344,406)
R&D Project Expense	--	(9,874)
	-----	-----
Loss before income taxes	(6,259,071)	(354,280)
Income tax provision	(2,000)	--
	-----	-----
Net Loss	\$ (6,261,071)	\$ (354,280)
	=====	=====
Loss per common share	\$ (0.33)	\$ (0.02)
	=====	=====
Weighted average number of Common shares outstanding	18,920,728	15,817,703
	=====	=====

See accompanying summary of accounting policies and notes to
financial statements.

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JANEX INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

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For the Three Months Ended March 31,

	2000	2001
Cash flows from operating activities		
Net loss	\$(6,261,071)	\$(354,280)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	10,005	32,154
Stock based compensation	6,070,950	62,500
Allowance for doubtful accounts.....	--	5,353
Imputed interest.....	--	16,250
Changes in operating assets and liabilities:		
Accounts receivable	(5,956)	232,484
Inventories	--	(12,517)
Other current assets	7,254	(4,512)
Accounts payable	163,350	51,749
Accrued expenses	138,694	--
NET CASH USED BY OPERATING ACTIVITIES	(15,468)	29,181
Cash flows from investing activities		
Paid for DaMert acquisition.....	--	(220,000)
Cash provided by DaMert at acquisition.....	--	64,861
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	--	(155,139)
Cash flows from financing activities		
Advances (reductions) from Futech Interactive Products, Inc.	20,260	--
Payments on borrowings.....	--	(180,000)
Increase in loans.....	--	11,880
Loans from related parties.....	--	313,640
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	20,260	145,520
Net change in cash and cash equivalents	4,792	19,562
Cash and cash equivalents, beginning of year	3,920	5,079
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 8,712	\$ 24,641
Supplemental cash flow Information:		
Cash paid for interest	\$ 3,858	\$ 26,969
Cash paid for income taxes	\$ --	\$ --
Non-cash investing activity:		
Acquisition of DaMert.....	--	\$ 1,534,500

See accompanying summary of accounting policies and notes to financial statements.

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JANEX INTERNATIONAL, INC. AND SUBSIDIARIES
 UNAUDITED PRO-FORMA STATEMENT OF OPERATIONS
 FOR THE QUARTER ENDED MARCH 31,

	2000 ----	2001 ----
Sales	\$ 1,027,200 =====	\$ 1,289,709 =====
Loss from continuing operations	\$ 6,688,105 =====	\$ 434,416 =====
Net loss	\$ 6,688,105 =====	\$ 434,416 =====
Loss per share	\$ (0.30) =====	\$ (0.02) =====
Weighted average shares outstanding	22,420,728 =====	19,317,703 =====

The pro forma data above assumes that the acquisition of DaMert Company occurred at the beginning of each quarter, January 1, 2000 and 2001.

The pro forma results include adjustments as follows:

- (1) reduction of interest cost of \$70,000 in 2000 and \$74,000 in 2001;
- (2) amortization of goodwill of \$44,000 in 2000 and \$65,000 in 2001;
- (3) imputed interest on \$1,300,000 at 10% (\$32,500) for 2000 and 2001;
- (4) earnings per share, is based on the weighted average of historical shares outstanding plus the issuance, in both periods, of 3,500,000 shares in connection with the acquisition.

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JANEX INTERNATIONAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2001 AND 2000
 (UNAUDITED)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Janex International, Inc. and subsidiaries (including DaMert Toys and Games, Inc.) (the Company) are in the business of developing,

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marketing, and selling toys and functional children's products which are manufactured by subcontractors. The Company sells its products both domestically and internationally.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. All balance sheet accounts of the Company's foreign subsidiaries are translated at the current exchange rate, at the balance sheet date, while income statement items are translated at the average currency exchange rates for each period presented. The resulting translation adjustments, if significant (at the periods under review, the adjustment was not significant), are recorded as comprehensive income.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The financial statements have been prepared assuming the Company will continue as a going concern. The Company has incurred significant operating losses in the past several years, continuing negative net worth, and negative working capital at March 31, 2001, and has continued to experience a significant decline in revenues. The Company has nominal cash and is experiencing a severe working capital deficiency. Accordingly, management has been unable to devote resources to the development of products or sales. Currently, the Company does not have sufficient authorized and unissued shares of common stock to execute its business and financial plans. The Company expects that the absence of available shares of common stock will make it substantially more difficult for it to raise capital, as any transaction involving its common stock will have to be made subject to an increase in the number of authorized shares of such stock. As soon as practicable, the Company plans to seek stockholder approval of an increase in the number of authorized shares of common stock.

The Company experienced a severe shortage of capital during 2000, which had the effect of substantially curtailing the Company's operating activities, to the point that the Company had essentially become inactive from an operating point of view. In order to restart the Company's business operations, the Company seeks to acquire businesses that focus on children's toys and educational products.

On February 15, 2001, the Company completed the acquisition of DaMert Company, which is focused on the production, marketing and distribution of toys and gifts. The consolidated statement of operations for the three months ended March 31, 2001 includes the operations of DaMert Toys and Games, Inc. from February 16, 2001 to March 31, 2001. The Company's ultimate ability to continue as a going concern depends on market acceptance of products, an increase in revenues, and the achievement of operating profits and positive cash flow. The Company will also require additional financial resources from other sources to provide near-term operating cash to enable the Company to execute its plans to move toward profitability. Management believes that future financings, the acquisitions described elsewhere in this Form 10Q-SB and additional sales to be generated from new product lines that are being developed, will be sufficient to allow the Company to continue in operation. These factors raise significant doubt as to the Company's ability to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CASH EQUIVALENTS

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined using the average cost method.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets which range from three to ten years for molds, machinery and equipment, and furniture and fixtures.

FAIR VALUE OF FINANCIAL INSTRUMENTS

At March 31, 2001, the Company has the following financial instruments: cash and cash equivalents, accounts payable, accrued expenses, and short-term debt. The carrying value of cash and cash equivalents, accounts payable, and accrued expenses and short term debt approximates their fair value based on the liquidity of these financial instruments or based on their short-term nature.

INTANGIBLE ASSETS

Intangible assets consist of goodwill.

Costs of business acquisitions in excess of net asset of subsidiaries acquired (goodwill) are amortized on a straight-line basis over a ten year period. The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the estimated undiscounted cash flows from those assets are less than the carrying amounts of those assets. This methodology includes intangible assets acquired. Goodwill relating to specific intangible assets is included in the related impairment measurements to the extent it is identified with such assets.

Management reviews goodwill periodically for possible impairment. This policy includes recognizing write-downs if it is probable that measurable undiscounted future cash flows and/or the aggregate net cash flows of an asset, as measured by current revenues and costs (exclusive of depreciation) over the asset's remaining depreciable life, are not sufficient to recover the net book value of an asset.

CONCENTRATION OF CREDIT RISK AND MAJOR CUSTOMERS

The Company transacts business on a credit basis with its customers. The Company routinely assesses the financial strength of its customers and, as a consequence, believes that its trade accounts receivable credit risk exposure is limited. The Company does not require collateral to support customer receivables. The Company

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maintains an allowance for potential credit losses and such losses have been within management's expectations.

REVENUE RECOGNITION

The Company recognizes revenue upon shipment of the product to the customer, with appropriate allowances made for estimated returns and uncollectible accounts.

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INCOME TAXES

Income taxes are accounted for in accordance with Statement of Financial Accounting Standards (SFAS) 109 "Accounting for Income Taxes." The statement employs an asset and liability approach for financial accounting and reporting of deferred income taxes. Generally, SFAS 109 allows for recognition of deferred tax assets in the current period for the future benefit of net operating loss carryforwards and items for which expenses have been recognized for financial statement purposes but will be deductible in future periods. A valuation allowance is recognized, if the weight of available evidence indicates that it is more likely than not that some portion or all of the deferred tax assets will not be realized.

STOCK-BASED COMPENSATION

The company accounts for stock-based employee compensation arrangements in accordance with provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and complies with the disclosure provisions of SFAS No. 123, "Accounting for Stock Based Compensation." Under APB Opinion No. 25, compensation expense for employees is based on the excess, if any, on the date of grant, of the fair value of the company's stock over the exercise price.

LOSS PER SHARE

Loss per common share is calculated in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share," (Statement 128). Basic earnings per share is computed using the weighted average number of common shares outstanding. Diluted earnings per common share include the potential exercise of employee stock options. Common share equivalents have been excluded from the calculation of loss per share for all periods presented, as their effect is anti-dilutive.

COMPREHENSIVE LOSS/INCOME

As of January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income," (Statement 130). Statement 130 establishes new rules for the reporting and display of comprehensive loss/income and its components. The components, relative to the company, include the effect of foreign currency translation. Comprehensive loss for the Company is the same as net loss for all periods presented as the effect of foreign currency translation is not material.

PENSION PLAN

The Company has a 401K Plan for the benefit of the employees of the Company. Under the provisions of the 401K, employees may make

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contributions on a tax-deferred basis to their 401K accounts, up to the legal limits provided for by United States income tax regulations. The Company, at its discretion, may contribute a portion of the Company's profits to the 401K. Such contributions are allocated between members of the 401K plan based on a pre-stated formula. Employer contributions vest with 401K participants at the rate of 20% per year, beginning in year two and ending in year six of employment. The Company did not make contributions to the 401K for 1999 and 2000, or for the three months ended March 31, 2001.

NEW ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) issued several pronouncements and interpretations and the Securities and Exchange Commission (SEC) issued several Staff Accounting Bulletins (SAB). Certain of these pronouncements may have future applicability, Statement of Financial Accounting Standards (SFAS) No. 132 "Employers Disclosures about Pensions and other Postretirement Benefits," effective June 15, 2000, and No. 137 "Accounting for Derivative Instruments and Hedging Activities," effective June 15, 2000 would not have impacted the financial statements as the Company has not participated in derivative transactions nor does the company have a defined benefit plan.

In December 1999, the SEC issued SAB No. 101 "Revenue Recognition in Financial Statements". SAB 101 summarizes certain areas of the SEC's views in applying generally accepted accounting principles to revenue recognition in

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financial statements. The Company believes that its current revenue recognition policies comply with SAB 101.

In March 2000 the FASB issued FASB Interpretation No. 44 "Accounting for Certain Transactions involving Stock Compensation", and interpretations of Accounting Principles Board No. 25. This interpretation is effective July 1, 2000. The effects of applying this interpretation would be recognized on a prospective basis from July 1, 2000. The impact of this interpretation is not expected to be material.

In August 1999, the SEC issued SAB No. 99 "Materiality". SAB 99 provides that exclusive reliance on certain quantitative benchmarks to assess materiality in preparing financial statements is inappropriate; misstatements are not immaterial simply because they fall beneath a numerical threshold. Management believes the company is in compliance with SAB 99.

3. NOTES PAYABLE - BANKS

Notes payable banks consist of the following:

Acquisition note	\$1,120,000
Short-term note	331,942

	\$1,451,942
	=====

(a) Acquisition Note

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The Acquisition Note is payable as follows: \$400,000 due May 15, 2001 (in default) and \$712,000 payable in five equal quarterly installments of \$116,667 beginning August 15, 2001, and one final quarterly payment of \$136,666. The note is guaranteed by the Chairman and Chief Executive Officer.

(b) Short-term note

The Short-term note is due July 1, 2001

4. LITIGATION

See PART II. ITEM 1. LEGAL PROCEEDINGS in this Form 10Q-SB.

5. STOCK OPTIONS AND STOCK BASED COMPENSATION

A summary of the Company's stock option activity and related information is as follows:

	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Balance, December 31, 1998	45,000	\$ 1.67
Granted		
Exercised		
Forfeited	(25,000)	(1.25)
Balance, December 31, 1999	20,000	2.13
Granted	5,940,000	\$ (1.45)
Exercised	(5,730,000)	
Forfeited	(20,000)	2.13
Balance, December 31, 2000 and march 31, 2001	210,000	\$ 0

The exercise price for options outstanding as of March 31, 2001 is \$.001 per share.

In March 2000, the Company adopted the 2000 Combination Stock Option Plan and amended and restated such plan in October, 2000 and June 2001 ("the Plan"). This Plan is to be made available to employees of the Company and its subsidiaries and to individuals whose services contribute to the growth and

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development of the Company. Options to purchase up to 9,075,000 shares may be issued under the Plan, and options may be awarded for up to ten (10) years.

In February 2001, the Company granted Vincent Goett, its chairman, immediately exercisable options to purchase 1,000,000 shares of common stock at a price of \$.001 per share. The options have since been exercised.

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6. COMMON STOCK

The Company had 100,000 warrants outstanding with an exercise price of \$.64 per share, which expired unexercised on March 26, 2001.

7. ACQUISITIONS

By 1999, it was apparent to Company management that the level of sales was not sufficient to sustain the Company as a going concern without significant growth in revenue and profitability, and that there would need to be a substantial increase in the Company's business volume and product availability to support future growth. Accordingly, during 1999, Company management sought acquisitions of, and relationships with, companies having complementary products. The Company entered into a global merger agreement that involved the Company combining with several other companies. The proposed merger transaction was not consummated and the parties withdrew from the overall transaction. The Company believes that the focus of the Company's management on the acquisitions had an adverse impact upon the Company's financial condition and results of operations.

As a result, the Company experienced a severe shortage of capital during 2000, which had the effect of substantially curtailing the Company's operating activities, to the point that the Company had essentially become inactive from an operating point of view. In order to restart the Company's business operations, the Company has sought to acquire businesses that focus on children's toys and educational products.

In February 2001, the Company completed the acquisition of DaMert Company, which is focused on the production, marketing and distribution of toys and gifts. In connection with the Acquisition of DaMert, the Company paid the following consideration: (i) 2,000,000 shares of common stock; (ii) a promissory note in the approximate amount of \$129,000 to an officer of DaMert (in replacement of a note in the same amount owed by DaMert to such officer); (iii) the issuance of an aggregate of 3,000,000 shares of common stock to Amresco Financial I, L.P. ("Amresco") (a creditor of DaMert), of which 1,500,000 shares were issued at the closing of the acquisition and the remaining 1,500,000 shares are issuable by June 15, 2001 (Company currently in default); (iv) \$220,000 in cash was paid (at or before the closing) to Amresco in satisfaction of certain indebtedness of DaMert; and (v) a promissory note, personally guaranteed by Vincent Goett, the Company's Chairman, in the principal amount of \$1,300,000 was issued to Amresco (the note is payable as follows: \$180,000 by April 15, 2001 (paid); \$400,000 by May 15, 2001 (Company currently in default); and the \$720,000 is payable beginning August 15, 2001 in five equal installments of \$116,667 and one final quarterly installment of \$136,666). In addition, the Company issued options to purchase an aggregate of 1,000,000 shares of the Company's common stock, at a price of \$.001 per share to Fred and Gail DaMert (who are employees of DaMert). See Note 10, Subsequent Events, for a description of certain Company defaults under the agreement with Amresco. The note is secured by certain personal property of the Company.

In the event that the quoted price of the Company's common stock does not average at least \$1.00 per share, over a twenty-day trading period during the 24 months following the closing, the Company will be obligated to pay Fred and Gail DaMert in the aggregate (in cash or stock at their option) an amount equal to the excess of \$1 million over the product of 1 million and the highest 20 day average quoted

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price of the common stock during the 24 months following the closing.

See Note 10, Subsequent Events, for a description of the Company's acquisition of certain assets of Futech Interactive Products, Inc.

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8. RELATED PARTY BORROWINGS

In January 2001, the Company's Board of Directors authorized the Company to borrow up to \$1,300,000 from an affiliate of Vincent Goett, Palmilla Ventures Limited Partnership ("Palmilla Ventures") (which borrowings may consist of Mr. Goett's personal guarantee of Company obligations), of which, as of April 12, 2001, approximately \$312,000 has already been advanced to or for the benefit of the Company. Of the aggregate \$312,000 advanced, approximately \$31,000 has been advanced to or for the benefit of Janex, approximately \$61,000 has been advanced on behalf of Janex to Futech as a down-payment on the \$150,000 due at closing of the asset purchase, and the remaining \$220,000 was used as a portion of the consideration given in connection with the acquisition of the DaMert Company. The advances made by Palmilla Ventures are payable on demand and bear interest at the rate of 10% per annum. Such advances are secured by all the assets of the Company and DaMert Toys and Games, Inc., the Company's wholly-owned subsidiary. If the Company defaults on its obligations under the note, the secured party (or any assignee) would be able to force a sale of the assets constituting the collateral to satisfy the debt. As additional consideration for making the \$1,300,000 loan to the Company, the Company has agreed to issue Palmilla Ventures that number of shares of common stock equal to approximately 19% of the issued and outstanding common stock, on a fully-diluted basis, after giving effect to certain specified transactions. Based on the amount advanced to date (approximately \$312,000 of the total \$1.3 million), the Company is obligated to issue Palmilla Ventures that number of shares of common stock equal to approximately 4.6% of the issued and outstanding common stock on a fully-diluted basis, after giving effect to certain specified transactions. In addition, in connection with the acquisition of DaMert in February 2001, Vincent Goett personally guaranteed approximately \$1,300,000 of the obligation of the DaMert Company to Amresco Financial I, L.P. (a creditor of DaMert). In consideration of making this guarantee, the Company has agreed to issue Mr. Goett (or his designee) that number of shares of common stock equal to approximately 19% of the issued and outstanding common stock, on a fully-diluted basis, after giving effect to certain specified transactions. The issuance of the foregoing shares is subject to an increase to 125,000,000 in the number of authorized and unissued shares of the Company's common stock.

See Note 10, Subsequent Events, for a description of related party transactions occurring after March 31, 2001.

9. ACCOUNTS RECEIVABLE FINANCING

In March 2001, the Company entered into an agreement of Purchase of Accounts whereby the Company sells its interest in certain accounts receivable. The purchaser will advance 80% of the receivables sold with the balance being retained by the purchaser subject to certain provisions as to the collection period of the account(s) sold. At March 31, 2001 approximately \$85,000 of receivables were sold.

10. SUBSEQUENT EVENTS

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ACQUISITION OF FUTECH

On May 29, 2001, the Company, acquired certain assets of Futech Interactive Products, Inc., an Arizona corporation ("Futech"), by virtue of an asset purchase. Futech had previously filed for protection from creditors under Chapter 11 of the United States Bankruptcy Code. The United States Bankruptcy Court handling the Futech bankruptcy proceeding approved the Company's purchase of certain Futech assets. The acquired assets of Futech consist of, among other things, accounts receivable, physical inventory, furniture and fixtures, and customer lists.

The consideration paid by the Company for the acquired assets consisted of: (i) an aggregate of up to approximately 22 million shares of Janex common stock; (ii) the assumption of an aggregate of approximately \$3 million of indebtedness; and (iii) the payment of approximately \$150,000 in cash. The shares of common stock are issuable within approximately 150 days.

\$2,000,000 of the \$3,000,000 of indebtedness assumed by the Company is to be personally guaranteed by Vincent Goett, the Company's Chairman/CEO. The

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\$150,000 paid to/on behalf of Futech by the Company in connection with the closing of the acquisition was loaned to the Company by Palmilla Ventures Limited Partnership, a limited partnership controlled by Vincent Goett, the Company Chairman/CEO.

Prior to the acquisition, Vincent W. Goett, then Chairman of the Board and a significant shareholder of the Company, was interim Chief Executive Officer and a significant shareholder of Futech.

RELATED PARTY TRANSACTIONS

In May 2001, the Company's Board of Directors authorized the Company to borrow up to an additional \$2,000,000 (in addition to the \$1,300,000 previously authorized) (See Note 8, Related Party Borrowings) from an affiliate of Vincent Goett, Palmilla Ventures Limited Partnership ("Palmilla Ventures") (which borrowings may take the form of Mr. Goett's personal guarantee of loans to the Company by third parties and discharge of accrued salary owing by the Company to Mr. Goett). Any such advances made by Palmilla Ventures are to bear interest at the rate of 10% per annum. To the extent Mr. Goett "loans" such additional amounts to the Company, then, as additional consideration for making such loans to the Company, the Company has agreed to issue Palmilla Ventures that number of shares of common stock equal to up to approximately 19% of the issued and outstanding common stock, on a fully-diluted basis, after giving effect to certain specified transactions (assuming the full \$2,000,000 is advanced; if less than the full \$2,000,000 is advanced, Mr. Goett will be entitled to a pro rata number of shares). In addition, in connection with the acquisition of DaMert, Vincent Goett personally guaranteed approximately \$1,300,000 of the obligation of the DaMert Company to Amresco Financial I, L.P. (a creditor of DaMert). In consideration of making this guarantee, the Company has agreed to issue Mr. Goett (or his designee) that number of additional shares of common stock equal to approximately 19% of the issued and outstanding common stock, on a

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fully-diluted basis, after giving effect to certain specified transactions. The issuance of the foregoing shares is subject to an increase to 125,000,000 in the number of authorized and unissued shares of our common stock. As further consideration to Mr. Goett for loans to the Company and personal guarantee of Company obligations, the Board of Directors in May, 2001 authorized the Company to assume \$331,000 of personal indebtedness of Mr. Goett, which indebtedness is payable in September 2002.

In May 2001, the Board of Directors authorized the Company to pay Vincent Goett \$400,000 for inventory of children's products owned by Mr. Goett, having a cost basis to Mr. Goett of \$275,000. The \$400,000 will be due in May of 2002 and is non-interest bearing.

In May 2001, the Board of Directors authorized the Company to acquire a patent from Vincent Goett in exchange for 8,000,000 shares of the Company's common stock. The patent concerns the use of liquid crystal display technology in conjunction with Futtech's conductive ink technology.

In June 2001, two stockholders surrendered an aggregate 2,000,000 shares of Company common stock to the Company. One of the stockholders surrendered 500,000 shares of common stock and the other stockholder, Frederick A. DaMert and Gail Patton DaMert, as trustees of DaMert Trust, surrendered 1,500,000 shares. In consideration of the surrender of the 2,000,000 shares, in addition to agreeing to replace the 2,000,000 shares upon an increase to 125,000,000 in the number of authorized common shares of the Company, the Company agreed to issue an aggregate 1,250,000 shares to the surrendering stockholders as compensation for surrendering their shares. Of the 1,250,000 compensation shares, 1,000,000 of such shares are issuable to Gail Patton DaMert and Frederick A. DaMert, as trustees of DaMert Trust. Gail Patton DaMert and Frederick A. DaMert are officers of DaMert Toys and Games, Inc., the Company's wholly-owned subsidiary. The foregoing stock issuances are all subject to an increase to 125,000,000 in the number of the Company's authorized common shares.

LOAN DEFAULTS

As described above, pursuant to a promissory note in the principal amount of \$1,300,000, the Company was obligated to pay Amresco \$400,000 on May 15,

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2001, which the Company has not paid as of June 22, 2001. On May 16, 2001, counsel for Amresco Financial delivered a default notice to the Company alleging, among other defaults, failure to make the \$400,000 payment on May 15, 2001. The default notice states that if the alleged defaults are not cured by May 23, 2001, Amresco intends to, among other things, foreclose on its interest in all collateral pledged as security for the loan, including all assets of DaMert Toys and Games, Inc. Further, the Company has not yet issued to Amresco the 1,500,000 shares of common stock that it was obligated to issue June 15, 2001 under the Agreement with Amresco. The Company is currently in discussions with Amresco regarding the notice of default and the stock issuance.

STOCK OPTIONS

During the quarter ended June 30, 2001, the Company issued options to

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purchase an aggregate 1,995,000 shares of common stock, of which 995,000 were issued to a consultant of the Company at an exercise price of \$.02 per share and 1,000,000 were issued to Vincent Goett, the Company's Chairman/CEO, at an exercise price of \$.001 per share. As of the grant date, the quoted price of the common stock on the OTC Bulletin Board was \$.05.

JANEX INTERNATIONAL, INC. AND SUBSIDIARIES

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

OVERVIEW

As described above, in February 2001, the Company completed the acquisition of DaMert Company, which is focused on the production, marketing and distribution of toys and gifts. The acquisition of DaMert had a significant impact on the Company's operations during the current quarter. The DaMert acquisition has resulted in a substantial increase in revenues, as well as associated operating expenses. In addition, in May 2001, the Company completed the acquisition of certain assets of Futech. See Part II. Item 5, Other Information.

As a result of consummating the DaMert and Futech acquisitions, the Company expects to generate substantially more revenue in fiscal 2001, compared to fiscal 2000. The Company also expects to incur substantially greater expenses in 2001, compared to the prior year. The Company expects to incur negative cash flow for the foreseeable future. The accounts of both Janex and DaMert have been consolidated for the first time in the interim financial statements for the period ended March 31, 2001 (See Part I. Item 1, Financial Statements). The consolidated statement of operations for the quarter ended March 31, 2001 reflects the operations of DaMert from February 16, 2001 to March 31, 2001. The pro-forma financial statements for the three months ended March 31, 2000 and 2001, have been prepared as if the acquisition occurred as of the beginning of the periods.

For a description of the DaMert and Futech acquisitions, see Part II. Item 5, Other Information.

MATERIAL CHANGES IN RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2001 AND MARCH 31, 2000

The following discussion compares the results of operations of the Company for the three months ended March 31, 2000 and the consolidated results of operations of the Company and its wholly-owned subsidiary, DaMert, for the three months ended March 31, 2001. The consolidated results of operations for the quarter ended March 31, 2001 include the operations of DaMert from February 16, 2001 to March 31, 2001.

NET LOSS

Net Loss for the three months ended March 31, 2001 was \$354,280, as compared to a net loss of \$6,261,071 for the comparable period in 2000. Excluding \$6,070,950 in stock-based (non-cash) compensation for the prior quarter, net loss for the prior quarter would have been \$190,121.

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NET SALES

Net Sales for the three months ended March 31, 2001 were \$547,640, consisting entirely of DaMert sales, as compared to \$2,530 for the three months ended March 31, 2000. Our lack of operating capital is having an adverse effect upon our ability to fund growth in the Company's business.

At March 31, 2001, the Company had a backlog of approximately \$269,727 of unfilled orders, compared to no backlog at March 31, 2000. The backlog is exclusively for DaMert product.

GROSS PROFIT

Gross profit was \$221,097 for the three months ended March 31, 2001, as compared to a gross profit of \$8,056, for the three months ended March 31, 2000. Gross profit is equal to revenues less the cost of goods sold and royalties paid.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE

Selling, general and administrative ("SG&A") expenses were \$444,670 for the three months ended March 31, 2001 (of which Janex incurred \$199,454 and DaMert incurred \$281,288), compared to \$178,774 for the three months ended March 31, 2000, resulting in an increase of \$20,680 for the Janex portion of the expense, and of \$302,968 for the consolidated company. The increase in SG&A for Janex is attributable primarily to added general provisions for the legal and accounting expenses associated with the acquisitions of DaMert and Futech.

STOCK-BASED COMPENSATION

For the three months ended March 31, 2001, the Company incurred stock-based compensation (non-cash) in the amount of \$62,500, compared to \$6,070,950 during the three months ended March 31, 2000. The decrease in stock based compensation is due to a decrease in the number of stock options granted and stock issuances in the period to employees and consultants for services rendered. The Company expects that it will incur additional stock based compensation in future periods.

DEPRECIATION AND AMORTIZATION

Janex had fully depreciated all of its fixed assets as of December 31, 2000, resulting in no depreciation provision for the three months ended March 31, 2001. Depreciation and amortization for DaMert in the three months ended March 31, 2001 was \$32,154.

SEASONALITY AND QUARTERLY FLUCTUATIONS

The Company's business normally follows closely that of other companies with children-oriented product lines, which tend to generate the greater part of both sales and profits during the Christmas selling season. The Company expects that sales will be higher in the third and fourth quarters of the year, as compared to the first and second quarters of the year.

LIQUIDITY AND CAPITAL RESOURCES

We continue to experience a severe working capital deficiency and negative cash flow. We currently have no cash reserves, and are unable to meet our financial obligations as they become due or implement our

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business plans. We have an immediate and urgent need for cash.

Our working capital deficiency at March 31, 2001 was \$4,088,063 (excluding \$1,687,199 which Futech claimed we owed it and which was discharged in connection with our acquisition of Futech in May 2001), compared to a working capital deficiency of \$2,972,402 at December 31, 2000 (excluding \$1,606,199 Futech claimed we owed it and which has been discharged), an increase in working capital deficiency of \$1,115,661. The increase of approximately \$1,115,000 in our working capital deficiency is due primarily to an increase of \$1,269,000 in notes payable in relation to the acquisition of DaMert, an increase of \$952,000 in accounts payable and accrued expenses, and a \$314,000 increase in due to related parties, partially offset by an increase of \$539,000 in accounts receivable, \$652,000 in inventory, and \$200,000 in other current assets.

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Although we completed the acquisition of the DaMert Company in February, 2001 and are now generating revenue, we are continuing to incur negative cash flow. Further, our working capital deficiency has increased significantly in connection with completing the Futech acquisition in May 2001. The completion of the Futech acquisition will also exacerbate our cash flow problems until we are able to benefit from expected increases in sales.

Based on current cash on hand, we need to raise additional funds immediately in order to continue as a going concern. We are attempting to reduce the working capital deficiency by raising additional capital in the form of either debt or equity financings. We have experienced difficulty raising the capital we need to fund our operations. We are also reviewing operating expenses, with a view to reducing them wherever possible. We may not be able to raise sufficient funds to reduce the working capital deficiency or to fund our costs and expenses. Currently, we do not have sufficient authorized and unissued shares of common stock to execute our business and financial plans. We expect that the absence of available shares of common stock will make it substantially more difficult for us to raise capital, as any transaction involving our common stock will have to be made subject to an increase in the number of authorized shares of such stock. As soon as we obtain the necessary funds, we plan to seek stockholder approval of an increase in the number of authorized shares of our common stock. If we are unable to raise sufficient capital in a timely fashion to reduce the working capital deficiency and to fund our operations, our business will be materially and adversely affected and we will not be able to continue as a going concern. Our lack of operating capital is currently having an adverse affect on our ability to generate revenues.

Our auditors' report as of December 31, 2000 indicates, and our auditors continue to believe, that certain factors raise substantial doubt about our ability to continue as a going concern. Our auditors issued a going concern opinion on both our and DaMert's financial statements because:

- each of us has nominal cash;
- each of us has experienced declining revenues;
- we have continuing negative net worth;
- we have a severe working capital deficiency;
- we do not have sufficient authorized and unissued shares of common stock to execute our business and financing plans; and

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- each of us has recurring losses.

Our ultimate ability to continue as a going concern depends on: (1) obtaining additional capital to provide near-term operating cash; and (2) generating positive cash flow.

Based upon our current budget and business planning, we believe that we will need approximately \$4,000,000 of additional capital to fund our planned operations over the next twelve months. We cannot be sure that we will be able to internally generate or raise sufficient funds to continue our operations, or that our auditors will not issue another going concern opinion.

We are involved in various legal proceedings, as described in Part II, Item 1: Legal Proceedings. In connection with such proceedings, default judgments in the aggregate amount of approximately \$500,000 have been entered against us. We currently do not have the ability to pay these judgments. The enforcement of these judgments will have a material adverse effect on our business and financial condition and our ability to continue as a going concern.

In connection with our acquisition of DaMert, we issued a promissory note, personally guaranteed by Vincent Goett, our Chairman, in the principal amount of \$1,300,000 to Amresco (then a creditor of DaMert), payable as follows: \$180,000 by April 15, 2001 (paid); \$400,000 by May 15, 2001 (Company currently in default); and the remaining \$720,000 is payable beginning August 15, 2001 in five equal quarterly installments of \$116,667 and one final

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quarterly installment of \$136,666. This \$1,300,000 promissory note is secured by certain personal property of the Company. The Company was not able to pay Amresco the \$400,000 that was due on May 15, 2001. On May 16, 2001, counsel for Amresco delivered a default notice to the Company alleging, among other defaults, failure to make the \$400,000 payment on May 15, 2001. The default notice states that if the alleged defaults are not cured by May 23, 2001, Amresco intends to, among other things, foreclose on its interest in all collateral pledged as security for the loan, including all assets of DaMert Toys and Games, Inc. Further, the Company has not yet issued to Amresco the 1,500,000 shares of common stock that it was obligated to issue June 15, 2001 under the Agreement with Amresco. The Company is currently in discussions with Amresco regarding the notice of default and the stock issuance. Due to the Company's default under the note, the secured party (or any assignee) could proceed to force a sale of the Company assets constituting the collateral to satisfy the debt.

In the event that the quoted price of the Company's common stock does not average at least \$1.00 per share over a twenty-day trading period during the 24 months following the closing of the DaMert acquisition, the Company will be obligated to pay Fred and Gail DaMert in the aggregate (in cash or stock at their option) an amount equal to the excess of \$1 million over the product of 1 million and the highest 20-day average quoted price of the common stock during the 24 months following the closing. Based on the current quoted price of the common stock, we could be subject to a potentially significant liability (over \$900,000).

In connection with completion of the Futech acquisition, we are obligated to repay approximately \$3,000,000 of bank indebtedness we

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assumed as follows: (i) with respect to \$1,500,000 of such indebtedness, interest only will be payable monthly over three years and the principal (\$1,500,000) will be payable on the third anniversary of the closing of the transaction (May 2004); and (ii) with respect to the remaining \$1,500,000 of indebtedness, principal (\$1,500,000) and interest will be payable in thirty-six equal monthly installments commencing on the closing of the transaction. This indebtedness will be secured by certain collateral acquired from Futech. Repayment of principal and interest on this indebtedness is estimated to cost approximately 75,000 per month, with a \$1,500,000 principal payment due in 2004.

At April 12, 2001, we were indebted to our Chairman in the amount of approximately \$312,000. This indebtedness is payable on demand and secured by all the assets of the Company and DaMert. If the Company defaults on its obligations under the note, the secured party (or any assignee) would be able to force a sale of the assets constituting the collateral to satisfy the debt. In addition, our board of directors has authorized us to acquire childrens' products inventory owned by Mr. Goett for \$400,000, which will be due and payable May 2002.

As further consideration to Mr. Goett for loans to the Company and personal guarantee of Company obligations, the Board of Directors in May, 2001 authorized the Company to assume \$331,000 of personal indebtedness of Mr. Goett, which indebtedness is payable in September 2002.

At March 31, 2001, the Company has \$332,000 outstanding under a line of credit that bears interest at the bank's prime rate (8.00% at March 31, 2001) plus 0.25%. The debt has been extended from time to time and is currently due July 1, 2001. The note is personally guaranteed by three significant shareholders, one of whom is a director and former President of the Company. The note is collateralized by certificates of deposit in the name of the shareholders and a UCC Security Agreement executed by the Company covering all corporate assets. If the Company defaults on its obligations under the note, the secured party (or any assignee) would be able to force a sale of the assets constituting the collateral to satisfy the debt. Interest on the note has been paid by one of the guarantors.

CASH FLOWS

Our operating activities generated \$29,000 of cash for the three months ended March 31, 2001, as compared to using \$15,488 for the comparable prior period.

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The cash generated by our operating activities is primarily attributable to the operations of DaMert since the date of acquisition.

Our investing activities used \$155,000 during the three months ended March 31, 2001, compared to generating no cash during the same period in 2000. The increase in cash used by investing activities is a result of our acquisition of DaMert.

As of March 31, 2001, subject to the availability of operating capital, we plan to make capital expenditures over the next twelve months of up to \$800,000 to fund new product development, including initial licensing charges and tooling.

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INFLATION

We do not believe that inflation has had a significant impact on our costs and profits during the past two years.

FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this report that are subject to a number of risks and uncertainties including, without limitation, those described below and other risks and uncertainties indicated from time to time in our filings with the SEC. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include the information concerning possible or assumed future results of operations. Also, when we use words such as "believe," "expect," "anticipate" or similar expressions, we are making forward-looking statements. Readers should understand that the following important factors, in addition to those discussed in the referenced SEC filings, could affect our future financial results, and could cause actual results to differ materially from those expressed in our forward-looking statements:

- * the implementation of our growth strategy, including our ability to consummate the planned acquisitions;
- * the effects of the DaMert and Futech acquisitions and new relationships with complementary companies;
- * the availability of additional capital;
- * variations in stock prices and interest rates;
- * fluctuations in quarterly operating results; and
- * other risks and uncertainties described in our filings with the SEC.

We make no commitment to disclose any revisions to forward-looking statements, or any facts, events or circumstances after the date hereof that may bear upon forward-looking statements.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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On May 16, 2000, Golden Books Family Entertainment, Inc., as plaintiff ("Golden Books"), served us with a Second Amended Complaint which names Futech, Vincent W. Goett ("Goett"), and us as defendants. We were not named in the original complaint or the first amended complaint. The case was pending in the United States Bankruptcy court for the Southern District of New York (Bankruptcy case No. 99-10030). In March, 2001, Golden Books and the Company entered into a stipulation to suspend this litigation until the earliest to occur of: (1) the closing of the transactions contemplated by the Agreement with Futech for the Purchase and Sale of Assets, as amended (the "Agreement"); (2) rescission or invalidation of the Agreement; or (3) July 2, 2001.

The proceeding originally commenced in June 1999. The Second Amended

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Complaint alleges, among other things, (i) that Futech is indebted to Golden Books in the amount of \$1 million under a promissory note dated August 14, 1996 ("Note"), (ii) that Futech has defaulted on its obligations under the Note, (iii) that Goett has personally guaranteed performance of Futech's obligations under the Note, (iv) that Goett in January 2000 caused Futech to transfer all or virtually all of its assets to the Company, and (v) that the transfer was made by Goett and Futech knowingly with intent to deplete Futech of assets and that we accepted the transfer knowingly and with intent to assist Goett and Futech in depleting Futech of assets and thereby rendering it judgment-proof or, in the alternative, that Futech, on or about January 2000, transferred to us Futech's Interactive Books division and all of the assets and liabilities thereof. On the basis of the foregoing, the Second Amended Complaint alleges that Futech, Goett and the Company (or in the alternative Goett and the Company) are jointly and severally liable for the \$1 million under the Note, plus interest, costs and reasonable attorney's fees.

The Second Amended Complaint also alleges (i) that Futech transferred its assets to us with intent to hinder, delay or defraud Golden Books in pursuit of its claim against Futech, (ii) that such transfer was made without receiving a reasonably equivalent value for the transfer, (iii) that Futech was insolvent at the time of transfer (or became insolvent as a result), (iv) that the transfer included all or substantially all of Futech's assets to the Company, (v) that the transfer of Futech assets to us was a "fraudulent conveyance" under Arizona law, and (vi) that Goett conspired with Futech and Janex to effect the asset transfer with the intent and for the purpose of hindering, delaying and defrauding Futech's creditors, including rendering Futech judgment-proof, and that such conduct was malicious and intended to injure Golden Books.

Based on the foregoing, Golden Books claims it is entitled to garnishment, avoidance of the transfer, and attachment or other provisional remedy and \$1 million, plus interest and punitive damages.

As described above, we have consummated the planned acquisition of the specified Futech assets (excluding assets constituting collateral of Golden Books) and, further, the U.S. Bankruptcy Court has approved the acquisition of such assets. Consequently, we believe that we have strong defenses against the foregoing claims and intend to vigorously defend against them. Although we believe that we have strong defenses, no assurance can be given as to the outcome of the litigation, which could have a material adverse effect on us.

On June 20, 2000, Jon Weber, d/b/a Alma Designs, as plaintiff ("Weber"), served us with a Complaint which names Futech and us as defendants. The case is pending in the United States District court for the Northern District of California, San Jose Division (Case No. CA-00 20670). The Complaint alleges, among other things, (i) that the defendants solicited the plaintiff to ship goods valued in excess of \$240,000, and failed to pay for the goods after their sale, (ii) that Futech issued purchase orders to the plaintiff, (iii) that we are the parent company of Futech, and that we caused Futech to transfer substantially all of its liquid assets to us, and (iv) that the defendants fraudulently induced the plaintiff to ship the merchandise knowing that it did not have sufficient funds to pay the amount due and with the intent of not paying the amounts due. On the basis of the foregoing, the Complaint demands judgment for \$243,000, interest and costs and punitive damages of \$200,000. On August 2, 2000, the Court awarded a Default Judgment

against us and Futech in the amount of approximately \$237,000. We are not the parent company of Futech and, although we have consummated the acquisition of Futech's assets, we did so pursuant to Bankruptcy Court approval. We intend to attempt to have the Default Judgment vacated, as we believe that we have strong defenses against the foregoing claims. We cannot assure you that we will be able to have the Default Judgment vacated, and we have accrued the full amount of the default judgment as of December 31, 2000. Even if we are able to have the Default Judgment vacated, we cannot give you any assurance as to the outcome of the litigation, which could have a material adverse affect on us.

On January 26, 2000, Caterpillar, Inc., as plaintiff ("Caterpillar"), served us with a Complaint which names us and Futech as defendants. The case was pending in the Circuit Court of the Tenth Judicial Circuit of Illinois, Peoria County (case No. 00 L26). The Complaint alleged that we are indebted to Caterpillar in the amount of \$45,000 in unpaid minimum royalty payments under a Trademark Merchandise License Agreement dated April 15, 1997. On May 23, 2000, the Court awarded a Default Judgment against us and Futech in the amount of \$60,621.80.

On May 16, 2000, A.H. Warner Properties. L.L.C., as plaintiff ("Warner"), served us with a Complaint which names us, Futech, and others as defendants. The case was pending in the Superior Court of the State of California for the County of Los Angeles (case No. 00B03229). The Complaint alleges that we are indebted to Warner for unpaid rent pursuant to a lease for a property located in Woodland Hills, California, and seeks judgment for the debt and interest, legal fees and expenses. The lease on the subject property expired on June 30, 2000. On July 17, 2000, the Court awarded a Default Judgment against us in the amount of approximately \$22,000.

On June 30, 2000, CarrAmerica Realty Corporation, L.P., as Plaintiff, served us with a Complaint which names us and others as defendants. On July 7, 2000 we were served with a first amended Complaint which changed the Plaintiff to CarrAmerica Realty, L.P. ("Carr"). The case is pending in the Superior Court of the State of Arizona in and for the County of Maricopa (case No. CV2000-012389). The Complaint alleges that, on or about June 1, 2000, we issued a check for \$61,812.78 which was returned to Carr for insufficiency of funds. The Complaint further alleges that we intended to defraud Carr. We issued the check to Carr in payment of a portion of the rent owed by Futech Interactive Products, Inc. ("Futech") to Carr on a property located in Phoenix, Arizona. Carr seeks judgment against us for twice the amount of the check (that is, \$123,635.56), in addition to interest, court costs and reasonable attorneys' fees. On September 14, 2000 we answered the amended Complaint and asserted several affirmative defenses. The outcome of this litigation is uncertain and could materially adversely affect our financial condition.

On October 24, 2000 Carr served us and Futech, among others, with a Complaint for forcible entry and detainer. The case was filed in the Superior Court of the State of Arizona, in and for the County of Maricopa (case no. CU2000-019259). The Complaint alleges that Carr's lease with Futech was deemed rejected by operation of law in connection with Futech's bankruptcy proceeding and sought to have all the defendants vacate the leased premises. We have stipulated to a

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judgment ordering the defendants (including us) to vacate the premises leased by Futech at 2999 North 44th Street, Phoenix, Arizona, and we have since vacated such premises.

On March 8, 2001, Carr filed a motion for summary judgment against us, seeking judgment in the approximate amount of \$75,000. The Company has not filed a responsive pleading and the due date for such pleading has passed. The Company anticipates that a judgment will be entered against it in the approximate amount of \$75,000.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

In February, 2001, in connection with our acquisition of DaMert, we issued (i) 2,000,000 shares of common stock to Fred and Gail DaMert, the then stockholders of DaMert Company, and (ii) 1,500,000 shares of common stock to Amresco, a creditor of DaMert.

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The Company believes that the foregoing transaction was exempt from registration under Section 4(2) of the Securities Act of 1933, as amended. The transaction was exempt based on the following facts: there was no general solicitation, there was a limited number of investors, each of whom was an "accredited investor" (within the meaning of Regulation D under the Securities Act of 1933, as amended) and/or was sophisticated about business and financial matters, and each such investor had the opportunity to ask questions of our management and to review our filings with the Securities and Exchange Commission.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

As described above, pursuant to a promissory note in the principal amount of \$1,300,000, the Company was obligated to pay Amresco \$400,000 on May 15, 2001, which the Company has not paid as of June 22, 2001. On May 16, 2001, counsel for Amresco Financial delivered a default notice to the Company alleging, among other defaults, failure to make the \$400,000 payment on May 15, 2001. The default notice states that if the alleged defaults are not cured by May 23, 2001, Amresco intends to, among other things, foreclose on its interest in all collateral pledged as security for the loan, including all assets of DaMert Toys and Games, Inc. Further, the Company has not yet issued to Amresco the 1,500,000 shares of common stock that it was obligated to issue June 15, 2001 under the Agreement with Amresco. The Company is currently in discussions with Amresco regarding the notice of default and the stock issuance. The Company's default could have a material adverse effect on the Company's financial condition and its ability to continue as a going concern.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the Company's security holders during the three months ended March 31, 2001, through the solicitation of proxies or otherwise.

ITEM 5. OTHER INFORMATION

RELATED PARTY TRANSACTIONS

In January 2001, the Company's Board of Directors authorized the

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Company to borrow up to \$1,300,000 from an affiliate of Vincent Goett, Palmilla Ventures Limited Partnership ("Palmilla Ventures") (which borrowings may consist of Mr. Goett's personal guarantee of Company obligations), of which, as of April 12, 2001, approximately \$312,000 has already been advanced to or for the benefit of the Company. Of the aggregate \$312,000 advanced, approximately \$31,000 has been advanced to or for the benefit of Janex, approximately \$61,000 has been advanced on behalf of Janex to Futech as a down-payment on the \$150,000 due at closing of the asset purchase, and the remaining \$220,000 was used as a portion of the consideration given in connection with the acquisition of the DaMert Company. The advances made by Palmilla Ventures are payable on demand and bear interest at the rate of 10% per annum. Such advances are secured by all the assets of the Company and DaMert Toys and Games, Inc., the Company's wholly-owned subsidiary. If the Company defaults on its obligations under the note, the secured party (or any assignee) would be able to force a sale of the assets constituting the collateral to satisfy the debt. As additional consideration for making the \$1,300,000 loan to the Company, the Company has agreed to issue Palmilla Ventures that number of shares of common stock equal to approximately 19% of the issued and outstanding common stock, on a fully-diluted basis, after giving effect to certain specified transactions. Based on the amount advanced to date (approximately \$312,000 of the total \$1.3 million), the Company is obligated to issue Palmilla Ventures that number of shares of common stock equal to approximately 4.6% of the issued and outstanding common stock on a fully-diluted basis, after giving effect to certain specified transactions. In addition, in connection with the acquisition of DaMert in February 2001, Vincent Goett personally guaranteed approximately \$1,300,000 of the obligation of the DaMert Company to Amresco Financial I, L.P. (a creditor of DaMert). In consideration of making this guarantee, the Company has agreed to issue Mr. Goett (or his designee) that number of shares of common stock

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equal to approximately 19% of the issued and outstanding common stock, on a fully-diluted basis, after giving effect to certain specified transactions. The issuance of the foregoing shares is subject to an increase to 125,000,000 in the number of authorized and unissued shares of our common stock.

On May 29, 2001, the Company, acquired certain assets of Futech Interactive Products, Inc., an Arizona corporation ("Futech"), by virtue of an asset purchase. Futech had previously filed for protection from creditors under Chapter 11 of the United States Bankruptcy Code. The United States Bankruptcy Court handling the Futech bankruptcy proceeding approved the Company's purchase of certain Futech assets. The acquired assets of Futech consist of, among other things, accounts receivable, physical inventory, furniture and fixtures, and customer lists.

The consideration paid by the Company for the acquired assets consisted of: (i) an aggregate of up to approximately 22 million shares of Janex common stock; (ii) the assumption of an aggregate of approximately \$3 million of indebtedness; and (iii) the payment of approximately \$150,000 in cash. The shares of common stock are issuable within approximately 150 days.

\$2,000,000 of the \$3,000,000 of indebtedness assumed by the Company is to be personally guaranteed by Vincent Goett, the Company's

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Chairman/CEO. The \$150,000 paid to/on behalf of Futech by the Company in connection with the closing of the acquisition was loaned to the Company by Palmilla Ventures Limited Partnership, a limited partnership controlled by Vincent Goett, the Company Chairman/CEO.

Prior to the acquisition, Vincent W. Goett, then Chairman of the Board and a significant shareholder of the Company, was interim Chief Executive Officer and a significant shareholder of Futech.

In May 2001, the Company's Board of Directors authorized the Company to borrow up to an additional \$2,000,000 (in addition to the \$1,300,000 previously authorized) (See Note 9, Related Party Borrowings) from an affiliate of Vincent Goett, Palmilla Ventures Limited Partnership ("Palmilla Ventures") (which borrowings may take the form of Mr. Goett's personal guarantee of loans to the Company by third parties and discharge of accrued salary owing by the Company to Mr. Goett). Any such advances made by Palmilla Ventures are to bear interest at the rate of 10% per annum. To the extent Mr. Goett "loans" such additional amounts to the Company, then, as additional consideration for making such loans to the Company, the Company has agreed to issue Palmilla Ventures that number of shares of common stock equal to up to approximately 19% of the issued and outstanding common stock, on a fully-diluted basis, after giving effect to certain specified transactions (assuming the full \$2,000,000 is advanced; if less than the full \$2,000,000 is advanced, Mr. Goett will be entitled to a pro rata number of shares). In addition, in connection with the acquisition of DaMert, Vincent Goett personally guaranteed approximately \$1,300,000 of the obligation of the DaMert Company to Amresco Financial I, L.P. (a creditor of DaMert). In consideration of making this guarantee, the Company has agreed to issue Mr. Goett (or his designee) that number of additional shares of common stock equal to approximately 19% of the issued and outstanding common stock, on a fully-diluted basis, after giving effect to certain specified transactions. The issuance of the foregoing shares is subject to an increase to 125,000,000 in the number of authorized and unissued shares of our common stock. As further consideration to Mr. Goett for loans to the Company and personal guarantee of Company obligations, the Board of Directors in May, 2001 authorized the Company to assume \$331,000 of personal indebtedness of Mr. Goett, which indebtedness is payable in September 2002.

In May 2001, the Board of Directors authorized the Company to purchase from Vincent Goett for \$400,000 children's products inventory owned by Mr. Goett, having a cost basis to Mr. Goett of \$275,000. The \$400,000 is due in May of 2002 and is non-interest bearing.

In May 2001, the Board of Directors authorized the Company to acquire a patent from Vincent Goett in exchange for 8,000,000 shares of the Company's common stock. The patent concerns the use of liquid crystal display technology in connection with Futech's conductive ink technology.

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In June 2001, two stockholders surrendered an aggregate 2,000,000 shares of Company common stock to the Company. One of the stockholders surrendered 500,000 shares of common stock and the other stockholder, Frederick A. DaMert and Gail Patton DaMert, as trustees of DaMert Trust, surrendered 1,500,000 shares. In consideration of the surrender of the 2,000,000 shares, in addition to agreeing to replace the

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2,000,000 shares upon an increase to 125,000,000 in the number of authorized common shares of the Company, the Company agreed to issue an aggregate 1,250,000 shares to the surrendering stockholders as compensation for surrendering their shares. Of the 1,250,000 compensation shares, 1,000,000 of such shares are issuable to Gail Patton DaMert and Frederick A. DaMert, as trustees of DaMert Trust. Gail Patton DaMert and Frederick A. DaMert are officers of DaMert Toys and Games, Inc., the Company's wholly-owned subsidiary. The foregoing stock issuances are all subject to an increase to 125,000,000 in the number of the Company's authorized common shares.

Because the Company did not have sufficient authorized but unissued shares of common stock to execute its business and financial plans, in March 2000, Palmilla Ventures, an affiliate of Vincent Goett (the Company's Chairman), agreed to surrender to the Company an aggregate of 10 million shares of its common stock so that such shares could be restored to the status of authorized but unissued shares of common stock. Of the aggregate 10 million shares surrendered, 1,159,952 (6.0% of the outstanding common stock prior to surrender) were being held for the benefit of Dan Lesnick, the then Chief Operating Officer (now, President) and a Director, 2,182,417 (11.4% of the outstanding common stock prior to surrender) were being held for the benefit of Mr. And Mrs. Howard Moore, and 1,657,631 (8.6% of the outstanding common stock prior to surrender) were being held for the benefit of Mr. Les Friedland, a former President.

Under this Agreement, as soon as possible following an increase to 65,000,000 in the number of authorized but unissued shares, the Company will return the 10 million shares surrendered and will issue the surrendering shareholders, PRO RATA, based on the number of shares surrendered, an aggregate of 2 million additional shares of common stock as compensation for surrendering their shares.

In addition, if the price of the Company's common stock is lower when the 10 million replacement shares are issued than it was on the date the shares were surrendered, the surrendering shareholders will be issued additional shares, PRO RATA, based on the number of shares surrendered, such that the total replacement shares issued is equal in value on the replacement date to the value of the shares surrendered on the date of surrender. For example, if the value of 10 million shares on the date of surrender was \$15 Million and the market price of the Company's common stock on the replacement date was \$1.00, the surrendering shareholders would be issued 15 million shares of common stock on the replacement date to replace the \$15 Million in value surrendered at the surrender date. For purposes of this arrangement, the "price" of the common stock is based on a five day trailing average closing price, as quoted on the OTC Bulletin Board.

On March 9, 2000, the date of surrender of the 10 million shares, the five-day trailing average closing price of the common stock was \$1.79, as quoted on the OTC Bulletin Board. Based on the quoted price of the common stock, the value of the 10 million shares surrendered was \$17.9 million. On June 8, 2001, the five-day trailing average closing price of the common stock was \$.074, as quoted on the OTC Bulletin Board. If the Company were to replace, as of June 8, 2001, the 10 million shares surrendered, the Company would be obligated to issue approximately 241.9 million shares of its common stock in replacement of the 10 million shares originally surrendered.

In November, 2000, Palmilla Ventures surrendered to the Company an additional 4,697,129 shares of its common stock. These shares are to be re-issued upon an increase to 125,000,000 in the number of

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authorized shares of common stock.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(A) EXHIBITS. The following exhibits have been or are being filed herewith, and are numbered in accordance with Item 601 of Regulation S-B:

EXHIBIT NUMBER	DESCRIPTION
2.7	Agreement for Purchase and Sale of Assets between Futech Interactive Products, Inc. ("Futech") and the Company, dated as of October 23, 2000. (Superceded by Exhibit 2.8 hereto) (1)
2.8	Agreement for Purchase and Sale of Assets between among others the Company and Futech, dated as of May 15, 2001 (Superceded by Exhibit 2.7 hereto) (2)
2.9	Merger Agreement between, among others, the Company and DaMert Company dated March 2000, as amended by the First Amendment thereto dated May 10, 2000. (Superceded by Exhibit 2.11 hereto) (3)
2.10	Merger Agreement between, among others, the Company and DaMert Company, dated November 9, 2000. (Superceded by Exhibit 2.11 hereto) (1)
2.11	Merger Agreement between, among others, the Company and DaMert Company, dated February 14, 2001. (Supercedes Exhibits 2.9 and 2.10 hereto) (4)
3.1	Articles of Incorporation. (5)
3.2	Amendment No. 1 to Articles of Incorporation. (6)
3.3	Statement of Resolution Establishing Series for Shares. (6)
3.4	Amendment No. 2 to Articles of Incorporation. (6)
3.5	Bylaws of the Company. (7)
3.6	Articles of Amendment to Articles of Incorporation, dated August 11, 1994 and filed on August 16, 1994. (8)
4.1	Specimen Common Stock Certificate. (6)
16	Letter of BDO Seidman, LLP. (9)
16.1	Letter of Ernst & Young, LLP. (10)
99.1	Amended and Restated 2000 Combination Stock Option Plan. (11)

(1)	Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2000.

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- (2) Incorporated by reference to an Exhibit to the Company's Current Report on Form 8-K filed on June 13, 2001.
- (3) Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2000.
- (4) Incorporated by reference to an Exhibit to the Company's Current Report on Form 8-K filed March 1, 2001.
- (5) Incorporated by reference to Exhibit 3(a) to the Company's Registration Statement on Form 8-A, filed with the Commission on August 15, 1989 and declared effective on September 1, 1989.
- (6) Incorporated by reference to an exhibit to the Company's Registration Statement on Form S-1 filed August 8, 1990.

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- (7) Incorporated by reference to Exhibit 3(b) to the Company's Registration Statement on Form 8-A, filed with the Commission on August 15, 1989 and declared effective on September 1, 1989.
- 8) Incorporated by reference to an exhibit to the Company's Registration Statement filed with the Commission December 20, 1994.
- (9) Incorporated by reference to Exhibit 16 to the Company's Form 8-K filed with the Commission of March 10, 1999.
- (10) Incorporated by reference to Exhibit 16 to the Company's Form 8-K filed with the Commission on April 28, 2000.
- (11) Incorporated by reference to Exhibit 99.1 to the Company's Form S-8 Registration Statement filed June 13, 2001 filed with the Commission on November 21, 2000.

(B) REPORTS ON FORM 8-K

The Company filed on March 1, 2001 a Current Report on Form 8-K dated February 15, 2001 to report the acquisition of DaMert Company.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: June 21, 2001

JANEX INTERNATIONAL, INC.

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By: /s/ Vincent Goett

 Vincent Goett,
 Chief Executive Officer

In accordance with the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signatures -----	Title -----	Date -----
/s/ Vincent Goett ----- Vincent Goett	Chairman, President, Chief Executive Officer (principal executive Officer and director)	June 21, 2001
/s/ Daniel Lesnick ----- Daniel Lesnick	Director (director)	June 21, 2001

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