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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 of incorporation)	(Commission File Number)	(I.R.S. Employer 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.

- 1 -

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.

- 2 -

### (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

- 3 -

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

- 4 -

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

AS AT	August 29, 2003	June 30, 2003 (Unaudited)
<b>ASSETS</b>		
<b>CURRENT</b>		
Accounts receivable, net of allowance of \$7,392 (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.

- 5 -

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

	April 1, 2003 to August 29, 2003	July 1, 2002 to June 30, 2003	
FOR THE PERIOD			(Unaudited)
RETAINED EARNINGS, beginning of period as previously reported	\$ 162,852	\$ 397,905	
PRIOR PERIOD ADJUSTMENT (Note 14)	(20,300)	(20,300)	
	-----	-----	
RETAINED EARNINGS, beginning of period 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.

- 6 -

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

	April 1, 2003 to August 29, 2003	July 1, 2002 to 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.

- 7 -

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

	April 1, 2003 to August 29, 2003	July 1, 2002 to 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)	4,530
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)
 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)	
		=====	=====
 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.

- 8 -

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.

- 9 -

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.

- 10 -

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 Amortization	August 29, 2003	Net June 30, 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.

- 11 -

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
	----- \$ 12,399 =====	----- \$ 15,878 =====

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.

- 12 -

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)
	----- \$ --- =====

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.

- 13 -

### 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.

- 14 -

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

- 15 -

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

AS AT		August 29, 2003	June 30, 2003 (Unaudited)
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash	\$	44	\$ ---
PROPERTY, PLANT AND EQUIPMENT (Note 3)		3,300	3,412
		-----	-----
<b>TOTAL ASSETS</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.

- 16 -

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

FOR THE PERIOD	April 1, 2003 to August 29, 2003	July 1, 2002 to 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.

- 17 -

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

FOR THE PERIOD	April 1, 2003 to August 29, 2003	July 1, 2002 to 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.

- 18 -

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.

- 19 -

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 Amortization	August 29, 2003	June 30, 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, 2003	June 30, 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.

- 20 -

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

5. SHARE CAPITAL

Authorized:  
10,000 common shares without par value

	August 29, 2003	June 30, 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.

- 21 -

### 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.

- 22 -

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 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 amortization of \$209,182			
		-----	-----
Total other assets		330	
		-----	-----
TOTAL ASSETS	\$	618,569	\$
		=====	=====

See accompanying notes to pro forma consolidated financial statements.

- 23 -

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	
CURRENT LIABILITES:					
Current installment of long-term debt	\$ 166,953	\$ 423	\$	104,569	\$
Current installment of long-term debt, 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,
LONG TERM DEBT, net of current installments:					
Mortgage payable					
Note payable					
Note payable - related party					
Other					
		-----		-----	
Total long term liabilities					
		-----		-----	
Total liabilities		473,160		4,999	5,293,
STOCKHOLDERS' EQUITY:					
Preferred stock, \$.01 par value; authorized 1,000,000 shares; issued and outstanding -0- shares		73		56	
Common stock, \$.01 par value; authorized 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 in treasury					
		-----		-----	
Total stockholders' equity	145,406	( 2,529)		2,412,821	
		-----		-----	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 618,566	\$ 2,470	\$	7,706,420	\$
		=====		=====	

See accompanying notes to pro forma consolidated financial statements.

- 24 -

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	---	3,531,	---
GROSS PROFIT	238,433	-----	434	2,905,
OPERATING EXPENSES:				
Commissions	22,697		90	744,
Selling, general and administrative	277,442	413	2,184,995	---
Total operating expenses	300,139	-----	503	2,929,
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	92,331	---
INCOME (LOSS) BEFORE INCOME TAXES	( 64,068)	-----	50	6
INCOME TAXES BENEFIT	( 13,175)	-----	---	2
NET INCOME (LOSS)	\$ ( 50,893)	=====	\$ 50	=====
PER SHARE DATA:				
Basic earnings (loss) per share				

See accompanying notes to pro forma consolidated financial statements.

- 25 -

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	---	7,385,	---
GROSS PROFIT	384,968	-----	1,954	6,605,
OPERATING EXPENSES:				
Commissions	47,381		181	1,747,
Selling, general and administrative	489,999	826	3,670,473	---
Total operating expenses	537,380	-----	1,007	5,418,

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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.

- 26 -

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.

- 27 -

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

- 28 -