NFJ DIVIDEND, INTEREST & PREMIUM STRATEGY FUND
Form N-2/A
January 26, 2005

As filed with the Securities and Exchange Commission on January 26, 2005

==

1933 Act File No. 333-108137
1940 Act File No. 811-21417

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form N-2

[X] REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

[X] Pre-Effective Amendment No. 3

[_] Post-Effective Amendment No.
and
[X] REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940

[X] Amendment No. 3

NFJ Dividend, Interest & Premium Strategy Fund
(Exact Name of Registrant as Specified in Declaration of Trust)

c/o PA Fund Management LLC
1345 Avenue of the Americas
New York, New York 10105
(Address of Principal Executive Offices)
(Number, Street, City, State, Zip Code)

(212) 739-3369
(Registrant's Telephone Number, including Area Code)

Newton B. Schott, Jr.
c/o PA Distributors LLC
2187 Atlantic Street
Stamford, Connecticut 06902
(Name and Address (Number, Street, City, State, Zip Code) of Agent for Service)

Copies of Communications to:

Joseph B. Kittredge, Jr., Esq.
Ropes & Gray LLP
One International Place
Boston, Massachusetts 02110

Approximate Date of Proposed Public Offering:

As soon as practicable after the effective date of this Registration Statement

----

If any of the securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. [_]

It is proposed that this filing will become effective (check appropriate box)

[X] when declared effective pursuant to section 8(c)

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit	Proposed Maxim Aggregate Offering Price
Common Shares, par value $0.00001	1,000 Shares	$ 25.00	$ 25,000

/1/ Estimated solely for the purpose of calculating the registration fee.

/2/ $2.03 of which was previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such dates as the Commission, acting pursuant to said Section 8(a), may determine.

==

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JANUARY 26, 2005

PROSPECTUS

[LOGO] Allianz
Global Investors

Shares

NFJ Dividend, Interest & Premium Strategy Fund

Common Shares

$25.00 per share

Investment Objectives. The Fund is a newly organized, diversified, closed-end management investment company. The Fund's primary investment objective is to seek current income and gains, with a secondary objective of long-term capital appreciation.

Portfolio Management Strategies. The Fund will pursue its investment objectives by investing in a diversified portfolio of dividend-paying common stocks (the "Equity Component") and income-producing convertible securities (the "Convertible Component"). The Fund will also employ a strategy of writing (selling) call options on equity indexes in an attempt to generate gains from option premiums (the "Index Option Strategy").

The Equity Component is initially expected to represent approximately 75%, and the Convertible Component approximately 25%, of the net proceeds of this offering. Thereafter, the percentage of the Fund's assets represented by each component is expected to vary based on relative investment performance, market fluctuations and other factors, but the Fund's entire portfolio will be rebalanced on an annual basis (so that the Equity Component will represent approximately 75% and the Convertible Component approximately 25% of the portfolio immediately after each rebalancing). The first rebalancing will take place in January, 2006.

The Fund cannot assure you that it will achieve its investment objectives.

(continued on following page)

Investing in the Fund's common shares involves certain risks. See "Risks" beginning on page 37 of this prospectus. Certain of these risks are summarized in "Prospectus Summary--Special Risk Considerations" beginning on page 12.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total(2)

Public Offering Price	$ 25.00	$
Sales Load	$ 1.125	$
Estimated Offering Expenses(1)(2)	$ .05	$
Proceeds to the Fund	$23.825	$

----

(1) The Fund will pay or reimburse organizational and offering expenses estimated at $ from the proceeds of the offering. PA Fund Management LLC (the "Manager") has agreed to pay the amount by which the Fund's offering costs (other than the sales load, but inclusive of the reimbursement of underwriter expenses of $.005 per share) exceed $.05 per share. While the Manager has agreed to initially pay all of the Fund's organizational expenses, the Fund has agreed to reimburse the Manager for such organizational expenses (or a portion thereof) so long as that reimbursement plus the Fund's offering costs (other than the sales load, but inclusive of the reimbursement of underwriter expenses of $.005 per share) does not exceed $.05 per share. Any such reimbursement will be made prior to the end of the Fund's initial fiscal year.

(2) The Underwriters may also purchase up to an additional common shares at the public offering price, less the sales load, within 45 days from the date of this prospectus to cover over-allotments, if any. If such option is exercised in full, the total public offering price, sales load, estimated offering expenses and proceeds to the Fund will be , , and , respectively.

The Underwriters expect to deliver the common shares to purchasers on or about , 2005.

Citigroup	Merrill Lynch & Co.	UBS Investment Bank
A.G. Edwards	Wachovia Securities	Deutsche Bank Securities
Advest, Inc.	Robert W. Baird & Co.	H&R Block Financial Advisors, Inc.
Banc of America Securities LLC	Crowell, Weedon & Co.	Ferris, Baker Watts Incorporated
J.J.B. Hilliard, W.L. Lyons, Inc.	Janney Montgomery Scott LLC	KeyBanc Capital Markets
Legg Mason Wood Walker Incorporated	Oppenheimer & Co.	Raymond James
RBC Capital Markets	Ryan Beck & Co.	Stifel, Nicolaus & Company Incorporated
SunTrust Robinson Humphrey	Wedbush Morgan Securities Inc.	Wells Fargo Securities

, 2005

(continued from previous page)

PA Fund Management LLC (the "Manager") serves as the investment manager of the Fund. The Fund utilizes three affiliated sub-advisers to manage different elements of the Fund's portfolio. NFJ Investment Group L.P. ("NFJ") manages the Equity Component by focusing on undervalued common stocks with relatively high dividend yields. Nicholas-Applegate Capital Management LLC ("NACM") manages the Convertible Component by using traditional credit analysis combined with a disciplined, fundamental bottom-up research process. PEA Capital LLC ("PEA") implements the Fund's Index Option Strategy using quantitative and statistical analysis designed to produce gains from index option premiums.

No Prior History. Because the Fund is newly organized, its common shares have no history of public trading. Shares of closed-end investment companies frequently trade at a discount from their net asset value, which creates a risk of loss for investors purchasing shares in the initial public offering. The Fund intends to apply for listing of the common shares on the New York Stock Exchange under the trading or "ticker" symbol "NFJ."

Portfolio Contents. Under normal circumstances, the Fund will invest at least 80% of its net assets (plus any borrowings for investment purposes) in securities and other instruments that provide dividends, interest or option premiums.

The Equity Component will ordinarily consist principally of dividend-paying common stocks, but may also include preferred stocks and dividend-paying real estate investment trusts. The assets of the Equity Component will be invested principally in securities of U.S. issuers, but may also include American Depository Receipts ("ADRs"). Up to 10% of the component's assets may be invested in foreign securities other than ADRs, including emerging market securities.

The Convertible Component will ordinarily consist of convertible securities, including synthetic convertible securities, and may include convertible securities that are of below investment grade quality. Securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as "high yield" securities or "junk bonds." They involve greater risk of loss, are subject to greater price volatility and are less liquid, especially during periods of economic uncertainty or change, than higher rated securities. Due to the risks involved in investing in high yield securities, an investment in the Fund should be considered speculative. Up to 20% of the Convertible Component may consist of U.S. dollar-denominated securities of foreign issuers based in developed countries.

The Fund will employ its Index Option Strategy by writing (selling) call options on equity indexes such that the underlying value of the indexes are approximately equal to and do not exceed the value of the Equity Component of the Fund--i.e., approximately 75% of the Fund's net assets, subject to future fluctuations in the assets attributable to the Equity Component and annual rebalancings. For these purposes, the Fund treats options on indexes as being written on securities held by the Fund having an aggregate value equal to the face or notional amount of the index subject to the options. Most of the options written by the Fund will be exchange-traded, although the Fund may utilize over-the-counter options. The Fund may also utilize other derivative strategies involving call and put options, futures and forward contracts, swap agreements, short sales and other derivative instruments in an attempt to hedge against market and other risks in the portfolio. The Fund may invest up to 15% of its total assets in illiquid securities.

Although it has no current intention to do so, the Fund may in the future determine to issue preferred shares, borrow money or issue debt securities to add leverage to its portfolio, provided that the leverage does not represent more than 38% of the Fund's total assets. See "Leverage and Borrowings." The Fund may enter into derivatives transactions that may in certain circumstances produce effects similar to leverage. See "The Fund's Investment Objectives and Strategies--Portfolio Contents and Other Information--Other Derivatives."

You should read this prospectus, which contains important information about the Fund, before deciding whether to invest, and retain it for future reference. A Statement of Additional Information, dated , 2005 containing additional information about the Fund, has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this prospectus, which means that it is part of the prospectus for legal purposes. You can review the table of contents of the Statement of Additional Information on page 66 of this prospectus. You may request a free copy of the Statement of Additional Information by calling (877) 819-2224 or by writing to the Fund, or obtain a copy (and other information regarding the Fund) from the Securities and Exchange Commission's Web site (http://www.sec.gov).

The Fund's common shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

You should rely only on the information contained or incorporated by reference in this prospectus. The Fund has not, and the Underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The Fund is not, and the Underwriters are not, making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus. The Fund's business, financial condition, results of operations and prospects may have changed since that date.

TABLE OF CONTENTS

PROSPECTUS SUMMARY

This is only a summary. This summary may not contain all of the information that you should consider before investing in the common shares. You should review the more detailed information contained in this prospectus and in the

Statement of Additional Information.

The Fund.................. NFJ Dividend, Interest & Premium Strategy Fund (the "Fund") is a newly organized, diversified, closed-end management investment company. See "The Fund."

The Offering............. The Fund is offering common shares of beneficial interest, with a par value of $.00001 per share, at $25.00 per share through a group of underwriters (the "Underwriters") led by Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, UBS Securities LLC, A.G. Edwards & Sons, Inc., Wachovia Capital Markets, LLC, Deutsche Bank Securities Inc., Advest, Inc., Robert W. Baird & Co. Incorporated, Banc of America Securities LLC, H&R Block Financial Advisors, Inc., Crowell, Weedon & Co., Ferris, Baker Watts, Incorporated, J.J.B. Hilliard, W.L. Lyons, Inc., Janney Montgomery Scott LLC, KeyBanc Capital Markets, a Division of McDonald Investments Inc., Legg Mason Wood Walker, Incorporated, Oppenheimer & Co. Inc., Raymond James & Associates, Inc., RBC Capital Markets Corporation, Ryan Beck & Co., Inc., Stifel, Nicolaus & Company, Incorporated, SunTrust Capital Markets, Inc., Wedbush Morgan Securities Inc., and Wells Fargo Securities, LLC. The common shares of beneficial interest are called "Common Shares" in the rest of this prospectus. You must purchase at least 100 Common Shares. The Fund has given the Underwriters an option to purchase up to additional Common Shares to cover orders in excess of Common Shares. See "Underwriting." PA Fund Management LLC (the "Manager") has agreed to pay the amount by which the Fund's offering costs (other than the sales load, but inclusive of the reimbursement of underwriter expenses of $.005 per share) exceed $.05 per share. While the Manager has agreed to initially pay all of the Fund's organizational expenses, the Fund has agreed to reimburse the Manager for such organizational expenses (or a portion thereof) so long as that reimbursement plus the Fund's offering costs (other than the sales load, but inclusive of the reimbursement of underwriter expenses of $.005 per share) does not exceed $.05 per share. Any such reimbursement will be made prior to the end of the Fund's initial fiscal year.

Investment Objectives and Strategies............... The Fund's primary investment objective is to seek current income and gains, with a secondary objective of long-term capital appreciation. The Fund cannot assure you that it will achieve its investment objectives.

The Fund will pursue its investment objectives by investing in a diversified portfolio of dividend-paying common stocks (the "Equity Component") and income-producing convertible securities (the "Convertible Component"). The Fund will also employ a

1

strategy of writing (selling) call options on equity indexes in an attempt to generate gains from option premiums (the "Index Option Strategy"). The types of investments that will ordinarily comprise the Equity Component and the Convertible Component, and the instruments used to implement the Index Option Strategy, are summarized under "--Portfolio Contents" below.

The Manager serves as the investment manager of the Fund. The Fund utilizes three affiliated sub-advisers (the "Sub-Advisers") to manage the Fund's portfolio. NFJ Investment Group L.P. ("NFJ") manages the Equity Component, Nicholas-Applegate Capital Management LLC ("NACM") manages the Convertible Component and PEA Capital LLC ("PEA") implements the Index Option Strategy. See "Sub-Advisers" below. The portfolio management strategies and techniques utilized by each Sub-Adviser are described below.

Asset Allocation and Annual Rebalancing. The Equity Component is initially expected to represent approximately 75%, and the Convertible Component approximately 25%, of the net proceeds of the offering. The Manager will cause the Fund's entire portfolio to be rebalanced annually to this initial asset allocation between the Equity Component and the Convertible Component. The first rebalancing will take place in January, 2006. These annual rebalancings may result in additional transaction costs for the Fund and may increase the amount of capital gains (and, in particular, short-term gains) realized by the Fund on which shareholders may pay tax. Although the portfolio will be rebalanced annually, it is expected that the relative percentage of the Fund's assets represented by the Equity and Convertible Components will vary during interim periods in relation to the relative investment performance of each Component, as well as market fluctuations and other factors. Therefore, the Fund's assets attributable to each Component from time to time may be significantly higher or lower than the initial 75%/25% allocation described above, and the risk/return profile of the Fund (taken as a whole) will vary accordingly.

Investment Selection Strategies................

Equity Component. In selecting common stocks for the Equity Component, NFJ considers an initial selection universe consisting of the 1,000 largest publicly traded companies (in terms of market capitalization) in the U.S. to identify 150 to 200 companies that exhibit the best fundamental characteristics. NFJ classifies the universe by industry, and then identifies the most undervalued stocks in each industry based mainly on relative price-to-earnings (P/E) ratios, calculated both with respect to trailing operating earnings and forward earnings estimates. From this group of common stocks, NFJ buys a number of stocks with the highest dividend yields. NFJ then screens the most undervalued companies in each industry by dividend yield to identify the highest yielding common stocks in each industry. From this group, NFJ buys an approximately equal number of additional stocks with the lowest P/E ratios. In selecting individual stocks, NFJ also considers

2

quantitative factors such as price momentum (based on analysts' earnings per share estimates and revisions to those estimates), relative dividend yields, valuations relative to the overall market and trading liquidity. NFJ will ordinarily replace an investment when a similar investment opportunity within the same industry group has a considerably higher dividend yield or lower valuation than the current holding. The Equity Component may include common stocks outside of the selection universe described above, consistent with the Fund's investment objectives and policies.

To the extent that NFJ invests in preferred stocks or real estate investment trusts for the Equity Component, NFJ considers quantitative factors similar to those used for common stocks as described above, and also uses traditional credit analysis, taking into account factors such as changes in credit fundamentals, changes in attractiveness relative to other securities and changes in industry fundamentals.

NFJ will also manage the Equity Component with a view toward reducing the portion of Fund distributions that are taxed as ordinary income by focusing investments in common stocks that pay dividends that may qualify for taxation to individual Common Shareholders as "qualified dividend income," and thus be eligible for taxation at favorable rates applicable to long-term capital gains. See "Tax Matters." However, it is expected that a substantial portion of the Fund's net investment income (including income derived from the Convertible Component and a portion of the gains received from index option premiums) will be taxed to Common Shareholders at ordinary income tax rates. Therefore, the Fund should not be viewed as a vehicle designed to maximize after-tax returns. See "Tax Risk."

Convertible Component. In selecting convertible securities for the Convertible Component, NACM attempts to identify issuers that successfully adapt to change. NACM evaluates each convertible security's investment characteristics as an income-producing security, using the credit analysis techniques described below, as well as its potential for capital appreciation, using techniques that focus on the security's equity characteristics. NACM seeks to capture approximately 70-80% of any increase in the market price of the underlying equities (upside potential) and 50% or less of any decrease in the market price of the underlying equities (downside exposure). In analyzing specific companies for possible investment, NACM ordinarily looks for several of the following characteristics: above-average per share earnings growth; high return on invested capital; a healthy balance sheet; sound financial and accounting policies and overall financial strength; strong competitive advantages; effective research and product development and marketing; development of new technologies; efficient service; pricing flexibility; strong management; and general operating characteristics that will enable the companies to compete successfully in their respective markets.

NACM also uses traditional credit analysis combined with a disciplined, fundamental bottom-up research process that facilitates the early identification of issuers demonstrating an ability to improve their fundamental characteristics. NACM attempts to identify potential investments that it expects will exceed minimum credit statistics and exhibit the highest visibility of future expected operating performance. NACM relies heavily on its own analysis of the credit quality and risks associated with individual securities considered for the Convertible Component, rather than relying exclusively on rating agencies or third-party research. The team managing the Convertible Component utilizes this information in an attempt to minimize credit risk and identify issuers, industries or sectors that are undervalued or that offer high current income or attractive capital appreciation relative to NACM's assessment of their credit characteristics.

NACM's discipline in selling investments that have become less attractive is clearly defined and designed to drive the Convertible Component continually toward strength, taking into account factors such as a change in credit fundamentals, a decline in attractiveness relative to other securities and a decline in industry fundamentals.

Index Option Strategy. In implementing the Fund's Index Option Strategy, PEA will "sell" or "write" call options on equity indexes such that the underlying value of the indexes are approximately equal to (and do not exceed) the net asset value of the Fund's Equity Component--i.e., approximately 75% of the Fund's net assets, subject to future fluctuations in the assets attributable to the Equity Component and annual rebalancings as described above. For these purposes, the Fund treats options on indexes as being written on securities having an aggregate value equal to the face or notional amount of the index subject to the option. This index option writing strategy is designed to produce gains from index option premiums.

Index call options are contracts representing the right to purchase the cash value of an index at a specified price (the "strike price") at or until a specified future date (the "expiration date"). The Fund will sell index options that are "European style," meaning that the options may be exercised only on the expiration date. For conventional listed call options, the option's expiration date can be up to nine months from the date the call options are first listed for trading. Longer-term call options can have expiration dates up to three years from the date of listing. The Fund expects that it will normally write options whose terms to expiration range from two months to one year, although the Fund may write options of both longer and shorter terms. PEA will not write call options on individual equity securities, but may write options on exchange-traded funds and other similar instruments designed to correlate with the performance of an equity index or market segment.

As the writer (seller) of an equity index call option, the Fund would receive cash (the premium) from the purchaser of the option, and the purchaser would have the right to receive from the Fund any appreciation in the cash value of index over the strike price on the expiration date. If, at expiration, the purchaser exercises the index option sold by the Fund, the Fund would pay the purchaser the difference between the cash value of the index and the strike price. In effect, the Fund sells the potential appreciation in the value of the index above the strike price in exchange for the premium. PEA may cause the Fund to repurchase an index call option prior to its expiration date, extinguishing the Fund's obligation, in which case the cost of repurchasing the option (net of any premiums received) will determine the gain or loss realized by the Fund.

Equity index options differ from options on individual securities in that (i) the exercise of an index option requires cash payments and does not involve the actual purchase or sale of securities, (ii) the holder of an index option has the right to receive cash upon exercise of the option if the level of the index upon which the option is based is greater than the strike price of the option and (iii) index options reflect price fluctuations in a group of securities or segments of the securities market rather than price fluctuations in a single common stock.

In pursuing the Index Option Strategy, PEA may cause the Fund to sell call options on "broad-based" equity indexes, such as the Standard & Poor's 500 Index, as well as narrower market indexes, such as the Standard & Poor's 100 Index, or on indexes of securities of companies in a particular industry or sector, including (but not limited to) financial services, technology, pharmaceuticals and consumer products. An equity index assigns relative values to the securities included in the index (which change periodically), and the index fluctuates with changes in the market values of these securities. PEA will actively manage the Fund's index options positions using quantitative and statistical analysis that focuses on relative value and risk/return. In determining which equity index options to utilize, PEA will consider market factors, such as current market levels and volatility, and options specific factors, such as premium/cost, strike price and time to expiration. PEA will attempt to create a portfolio of equity index call options that is diversified across multiple strike prices and expiration dates.

PEA will attempt to maintain for the Fund written call options positions on equity indexes whose price movements, taken in the aggregate, are correlated with the price movements of the common stocks and other securities held in the Fund's Equity Component. In doing so, PEA will take into account periodic data provided by NFJ with respect to the Equity Component, including net assets, industry and sector weightings, historic volatility as well as periodic (typically 30 days after month-end) reports detailing portfolio holdings. However, other than through periodic holdings reports, PEA will not have access to the actual securities purchased, sold or held by or for the Equity Component due to

informational barriers in place between NFJ and PEA. Therefore, the Index Option Strategy involves significant risk that the changes in value of the indexes underlying the Fund's written call options positions will not correlate closely with changes in the market value of securities held by the Equity Component. To the extent that there is a lack of correlation, movements in the indexes underlying the options positions may result in losses to the Fund, which may more than offset any gains received by the Fund from options premiums. See "Risks - Index Options Risk."

PEA does not intend to write call options on equity indexes where the underlying value of the indexes exceed the net asset value of the Equity Component (i.e., write "naked" positions). The Fund will "cover" its written equity index call positions by segregating liquid assets in an amount equal to the contract value of the index and/or by entering into offsetting positions (e.g., by holding a call option on the same index as the call written where the strike price of the call held is equal to or less than the strike price of the call written).

The Fund will generally sell index call options which are "out-of-the-money" or "at-the-money" at the time of sale. Out-of-the-money call options are options with a strike price above the current cash value of the index and at-the-money call options are options with a strike price equal to the cash value of the index. In addition to providing possible gains through premiums, out-of-the-money index call options allow the Fund to potentially benefit from appreciation in the equity securities held by the Fund with respect to which the option was written (to the extent correlated with the index) up to the strike price. The Fund will generally write out-of-the-money call options where the strike price is not more than 10% higher than the cash value of the index at the time of sale, although PEA reserves the flexibility to utilize written call options that are more deeply out-of-the-money if it deems appropriate depending upon market conditions and other factors. The Fund also reserves the flexibility to sell index call options that are "in-the-money" - i.e., those with a strike price below the cash value of the index at the time of sale, and will generally limit these to options where the strike price is not more than 5% lower than the cash value of the index (although the Fund may utilize options that are more deeply in-the-money depending upon market conditions and other factors). When the prices of the equity index upon which a call option is written rise, call options that were out-of-the-money when written may become in-the-money (i.e., the cash value of the index rises above the strike price of the option), thereby increasing the likelihood that the options could be exercised and the Fund forced to pay the amount of appreciation over the strike price of the option upon expiration.

Most option contracts are originated and standardized by an independent entity called the Options Clearing Corporation (the "OCC"). The Fund will write (sell) call options that are generally issued, guaranteed and cleared by the OCC. Listed call options are currently traded on the American Stock Exchange, Chicago Board

6

Options Exchange, International Securities Exchange, New York Stock Exchange, Pacific Stock Exchange, Philadelphia Stock Exchange and various other U.S. options exchanges. The Fund may also write unlisted (or "over-the counter") call options.

Diversification. Subject to the availability of suitable investment opportunities and subject to the Fund's limitations, NFJ and NACM will attempt to diversify the investments in their respective Components broadly in an attempt to minimize the Component's sensitivity to market risk, credit risk and/or other risks associated with a particular issuer, industry or sector, or to the impact of a single economic, political or regulatory occurrence.

Portfolio Contents. Under normal circumstances, the Fund will invest at least 80% of its net assets (plus any borrowings for investment purposes) in securities and other instruments that provide dividends, interest or option premiums.

The Equity Component will ordinarily consist principally of dividend-paying common stocks, but may also include preferred stocks and dividend-paying real estate investment trusts. The assets of the Equity Component will be invested principally in securities of U.S. issuers, but may include American Depository Receipts ("ADRs"). Up to 10% of the component's assets may be invested in foreign securities other than ADRs, including emerging market securities.

The Convertible Component will ordinarily consist of convertible securities, including synthetic convertible securities, and may include convertible securities that are of below investment grade quality (i.e., rated, at the time of investment, below Baa by Moody's or below BBB by S&P, or unrated but judged by NACM to be of comparable quality). NACM may invest in distressed securities on behalf of the Convertible Component, but will not invest in securities which are in default (rated "D" by Moody's or S&P) at the time of purchase (but may hold securities which have gone into default after they have been purchased). Up to 20% of the Convertible Component may consist of U.S. dollar-denominated securities of foreign issuers based in developed countries. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted or exchanged (by the holder or by the issuer) into shares of the underlying common stock (or cash or securities of equivalent value) at a stated exchange ratio or predetermined price. A synthetic convertible security represents the combination of separate securities that possess the two principal characteristics of a traditional convertible security, i.e., an income-producing security and the right to acquire an equity security, such as the combination of a traditional corporate bond with a warrant to purchase equity securities of the issuer of the bond.

The Fund will employ its Index Option Strategy by writing (selling) call options on equity indexes such that the underlying value of the indexes are approximately equal to and do not exceed the value of the Equity Component of the Fund - i.e., approximately 75% of

7

the Fund's net assets, subject to future fluctuations in the assets attributable to the Equity Component and annual rebalancings. For these purposes, the Fund treats options on indexes as being written on securities held by the Fund having an aggregate value equal to the face or notional amount of the index subject to the options. Most of the options written by the Fund will be exchange-traded, although the Fund may utilize over-the-counter options.

In addition to the use of written options under the Index Option Strategy, the Fund may utilize other derivative strategies involving call and put options, futures and forward contracts, swap

agreements, short sales and other derivative instruments in an attempt to hedge against market and other risks in the portfolio.

	The Fund may invest in securities of issuers with small market capitalizations. The Fund may invest up to 15% of its total assets in illiquid securities.
	As a diversified fund, the Fund generally may not, with respect to 75% of its total assets, purchase the securities of any issuer, except securities issued or guaranteed by the U.S. Government or any of its agencies or instrumentalities or securities of other investment companies, if, as a result, (i) more than 5% of the Fund's total assets would be invested in the securities of that issuer, or (ii) the Fund would hold more than 10% of the outstanding voting securities of that issuer. The Fund will not concentrate its investments in a particular "industry" by investing more than 25% of its total assets in that industry. See "How the Fund Manages Risk--Investment Limitations." The Fund's industry concentration policy does not preclude it from focusing investments in issuers in a group of related industrial sectors (such as different types of utilities).
Leverage and Borrowings...	Although it has no current intention to do so, the Fund reserves the flexibility to issue preferred shares or debt securities or engage in borrowings to add leverage to its portfolio. The Fund may also enter into derivative transactions that may in some circumstances give rise to a form of financial leverage. Any leverage used by the Fund would be limited to 38% of the Fund's total assets (including the proceeds of the leverage). See "Leverage and Borrowings." To the extent that the Fund uses leverage, it would seek to obtain a higher return for shareholders than if the Fund did not use leverage. Leveraging is a speculative technique and there are special risks involved. See "Risks--Leverage Risk."
Investment Manager........	The Manager serves as the investment manager of the Fund. Subject to the supervision of the Board of Trustees, the Manager is responsible for managing, either directly or through others selected by it, the investment activities of the Fund and the Fund's business affairs and other administrative matters. The Manager will receive an annual fee, payable monthly, in an amount equal to 0.90% of the Fund's average daily total managed assets. "Total managed assets" means the total assets of the Fund (including assets attributable to any borrowings that may be outstanding) minus accrued liabilities (other than liabilities representing borrowings). The Manager is

located at 1345 Avenue of the Americas, New York, New York

10105. Organized in 2000 as a subsidiary successor of a business originally organized in 1987, the Manager provides investment management and advisory services to several closed-end and open-end investment company clients. As of December 31, 2004, the Manager had approximately $37.5 billion in assets under management. Allianz Global Investors of America L.P. is the direct parent company of PA Retail Holdings LLC, of which the Manager is a wholly-owned subsidiary. As of December 31, 2004, Allianz

Global Investors of America L.P. and its subsidiaries, including NFJ, NACM and PEA, had approximately $564.8 billion in assets under management.

The Manager has retained its affiliates, NFJ, NACM and PEA (each a "Sub-Adviser" and collectively, the "Sub-Advisers"), as sub-advisers to manage the Fund's portfolio investments. See "--Sub-Advisers" below.

Sub-Advisers............. NFJ will serve as the Fund's Sub-Adviser responsible for managing the Fund's Equity Component. Subject to the supervision of the Manager and pursuant to the terms of its portfolio management agreement, NFJ has full investment discretion and makes all determinations with respect to the investment of the Equity Component's assets. NFJ is located at 2121 San Jacinto, Suite 1840, Dallas, Texas 75201. NFJ is the successor investment adviser to NFJ Investment Group, Inc., which commenced operations in 1989. NFJ provides investment management services to a number of institutional accounts, including investment companies, employee benefit plans, college endowment funds and foundations. As of December 31, 2004, NFJ had approximately $9.3 billion in assets under management.

NACM will serve as the Fund's Sub-Adviser responsible for managing the Convertible Component. Subject to the supervision of the

Manager and pursuant to the terms of its portfolio management agreement, NACM has full investment discretion and makes all determinations with respect to the investment of the Convertible Component's assets. NACM is located at 600 West Broadway, 30th Floor, San Diego, California 92101. Founded in 1984, NACM currently manages discretionary assets for numerous clients, including investment companies, employee benefit plans, corporations, public retirement systems and unions, university endowments, foundations, and other institutional investors and individuals. As of December 31, 2004, NACM had approximately $14.5 billion in assets under management.

PEA will serve as the Fund's Sub-Adviser responsible for implementing the Index Option Strategy. Subject to the supervision of the Manager and pursuant to the terms of its portfolio management agreement, PEA has full investment discretion and makes all determinations with respect to the implementation of the Index Option Strategy. PEA is located at 1345 Avenue of the Americas, 50th Floor, New York, New York 10105. PEA provides equity-related advisory services to mutual funds and institutional accounts. As of December 31, 2004, PEA had approximately $14.5 billion in assets under management.

The Manager (and not the Fund) will pay a portion of the fees it receives from the Fund to the Sub-Advisers in return for their services.

Distributions............. Commencing with the Fund's first dividend, the Fund intends to make quarterly cash distributions to Common Shareholders at a rate that reflects the past and projected performance of the Fund. The Fund

expects to receive substantially all of its current income and gains from the following sources: (i) capital gains (short-term and long-term) from net index option premiums and the sale of portfolio securities; (ii) dividends received by the Fund that are paid on the common stocks and other equity securities held in the Equity Component; and (iii) interest income received by the Fund from the convertible securities held in the Convertible Component. Distributions are likely to be variable, and the Fund's distribution rate will depend on a number of factors, including the net earnings on the Fund's portfolio investments and the rate at which such net earnings change as a result of changes in the timing of and rates at which the Fund receives income from the sources described above. The net investment income of the Fund consists of all income (other than net short-term and long-term capital gains) less all expenses of the Fund.

The Fund's quarterly distributions will be made from the Fund's net investment income and net gains from index option premiums and the sale of portfolio securities. The tax treatment and characterization of the Fund's distributions may vary significantly from time to time because of the varied nature of the Fund's investments. Pursuant to the requirements of the Investment Company Act of 1940, as amended (the "1940 Act") and other applicable laws, a notice will accompany each quarterly distribution with respect to the estimated source (as between net income and gains) of the distribution made. (The Fund will indicate the proportion of its capital gains distributions that constitute long-term and short-term gains annually.) The ultimate tax characterization of the Fund's distributions made in a calendar or fiscal year cannot finally be determined until after the end of that fiscal year. As a result, there is a possibility that the Fund may make total distributions during a calendar or fiscal year in an amount that exceeds the Fund's net investment income and net realized capital gains for the relevant fiscal year. For example, the Fund may distribute amounts early in the calendar or fiscal year that derive from short-term capital gains, but incur net short-term capital losses later in the year, thereby offsetting short-term capital gains out of which distributions have already been made by the Fund. In such a situation, the amount by which the Fund's total distributions exceed net investment income and net realized capital gains would generally be treated as a tax-free return of capital up to the amount of your tax basis in your shares, with any amounts exceeding such basis treated as gain from the sale of shares.

As portfolio and market conditions change, the rate of dividends on the Common Shares and the Fund's dividend policy could change. Over time, the Fund will distribute all of its net investment income and net short-term capital gains. In addition, at least annually, the

Fund intends to distribute net realized long-term capital gains not previously distributed, if any. The 1940 Act currently limits the number of times the Fund may distribute long-term capital gains in any tax year, which may increase the variability of the Fund's distributions and result in certain dividends being comprised more heavily of long-term capital gains eligible for favorable income tax rates. During periods in which the Index Option Strategy does not generate sufficient option premiums or results in net losses, a substantial portion of the Fund's dividends may be comprised of capital gains from the sale of equity securities held in the Equity Component, which would involve transaction costs borne by the Fund and may also result in realization of taxable short-term capital gains taxed at ordinary income tax rates (particularly during the initial year of the Fund's operations when all of the Fund's portfolio securities will have been held for less than one year). See "Tax Matters."

Your initial distribution is expected to be declared approximately 75 days, and paid approximately 120 days, from the completion of this offering, depending on market conditions. Unless you elect to receive distributions in cash, all of your distributions will be automatically reinvested in additional Common Shares under the Fund's Dividend Reinvestment Plan. See "Distributions" and "Dividend Reinvestment Plan." Although it does not now intend to do so, the Board of Trustees may change the Fund's distribution policy and the amount or timing of the distributions, based on a number of factors, including the amount of the Fund's undistributed net investment income and net short- and long-term capital gains and historical and projected net investment income and net short- and long-term capital gains.

Listing.................. The Fund expects to apply for listing of the Common Shares on the New York Stock Exchange, under the trading or "ticker" symbol "NFJ." See "Description of Shares."

Custodian and Transfer Agent....................	Brown Brothers Harriman & Co. will serve as custodian of the Fund's assets. PFPC Inc. will serve as the Fund's transfer and dividend disbursement agent. See "Custodian and Transfer Agent."
Market Price of Shares....	Shares of closed-end investment companies frequently trade at prices lower than net asset value. Shares of closed-end investment companies have during some periods traded at prices higher than net asset value and during other periods traded at prices lower than net asset value. The Fund cannot assure you that Common Shares will trade at a price higher than net asset value in the future. Net asset value will be reduced immediately following the offering by the sales load and the amount of organization and offering expenses paid or reimbursed by the Fund. See "Use of Proceeds." In addition to net asset value, market price may be affected by factors relating to the Fund such as dividend levels and stability (which will in turn be affected by levels of dividend and interest payments by the Fund's portfolio holdings, the timing and success of the Fund's Index Option Strategy, regulation affecting the timing and character of Fund distributions, Fund expenses and other factors), portfolio credit quality, liquidity, call protection,

11

market supply and demand, and similar factors relating to the

Fund's portfolio holdings. See "Risks," "Description of Shares" and "Repurchase of Common Shares; Conversion to Open-End Fund" in this prospectus, and the Statement of Additional Information under "Repurchase of Common Shares; Conversion to

Open-End Fund." The Common Shares are designed primarily for long-term investors, and you should not view the Fund as a vehicle for trading purposes.

Special Risk Considerations	The following describes various principal risks of investing in the Fund. A more detailed description of these and other risks of investing in the Fund are described under "Risks" in this prospectus and under "Investment Objectives and Policies" in the

Fund's Statement of Additional Information.

No Prior History. The Fund is a newly organized, diversified, closed-end management investment company with no history of operations.

Market Discount Risk. As with any stock, the price of the Fund's Common Shares will fluctuate with market conditions and other factors. If shares are sold, the price received may be more or less than the original investment. Net asset value will be reduced immediately following the initial offering by a sales load and organizational and offering expenses paid or reimbursed by the Fund. The Common Shares are designed for long-term investors and should not be treated as trading vehicles. Shares of closed-end management investment companies frequently trade at a discount from their net asset value. The Fund's shares may trade at a price that is less than their initial offering price. This risk may be greater for investors who sell their shares relatively shortly after completion of the initial public offering.

Equity Securities and Related Market Risk. The Fund will ordinarily have substantial exposure to common stocks and other equity securities in pursuing its investment objectives and policies. The market price of common stocks and other equity securities in which the Fund invests may go up or down, sometimes rapidly or unpredictably. Equity securities may decline in value due to factors affecting equity securities markets generally, particular industries represented in those markets or the issuer itself, including the historical and prospective earnings of the issuer and the value of its assets. The values of equity securities may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Equity securities generally have greater price volatility than bonds and other debt securities.

Issuer Risk. The value of securities may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods and services.

Dividend and Income Risk. The income shareholders receive from the Fund is based primarily on the dividends and interest it earns from its investments as well as the gains the Fund receives from writing options and selling portfolio securities, each of which can vary widely over the short and long term. The dividend income from the Fund's investments in equity securities will be influenced by both general economic activity and issuer-specific factors. In the event of a recession or adverse events affecting a specific industry or issuer, the issuers of the equity securities held by the Fund may reduce the dividends paid on such securities. If prevailing market interest rates decline, distribution rates on convertible securities and other debt instruments held by the Fund, and shareholders' income from the Fund, would likely decline as well. Please see "Distributions" above for a description of other risks associated with the level, timing and character of the Fund's distributions.

Convertible Securities Risk. Convertible securities generally offer lower interest or dividend yields than non-convertible debt securities of similar quality. The market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. However, a convertible security's market value tends to reflect the market price of the common stock of the issuing company when that stock price approaches or is greater than the convertible security's "conversion price." The conversion price is defined as the predetermined price at which the convertible security could be exchanged for the associated stock. As the market price of the underlying common stock declines, the price of the convertible security tends to be influenced more by the yield of the convertible security. Thus, it may not decline in price to the same extent as the underlying common stock. In the event of a liquidation of the issuing company, holders of convertible securities would be paid before the company's common stockholders but after holders of any senior debt obligations of the company. Consequently, the issuer's convertible securities generally entail less risk than its common stock but more risk than its debt obligations.

Synthetic Convertible Securities Risk. The value of a synthetic convertible security will respond differently to market fluctuations than a traditional convertible security because a synthetic convertible is composed of two or more separate securities or instruments, each with its own market value. Because the convertible element of the security is typically achieved by investing in warrants or options to buy common stock at a certain exercise price, or options on a stock index, synthetic convertible securities are subject to the risks associated with derivatives. See "Risks - Other Derivatives Risks." In addition, if the value of the underlying common stock or the level of the index involved in the convertible element falls below the strike price of the warrant or option, the warrant or option may lose all value.

13

Index Options Risk. There are various risks associated with the Fund's Index Option Strategy. The purchaser of an index option written by the Fund has the right to any appreciation in the cash value of the index over the strike price on the expiration date. Therefore, as the writer of an index call option, the Fund forgoes, during the option's life, the opportunity to profit from increases in the market value of the equity securities held by the Fund with respect to which the option was written (to the extent that their performance is correlated with that of the index) above the sum of the premium and the strike price of the call. However, the Fund has retained the risk of loss (net of premiums received) should the price of the Fund's portfolio securities decline.

In addition, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objectives. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events. PEA will attempt to maintain for the Fund written call options positions on equity indexes whose price movements, taken in the aggregate, are correlated with the price movements of the common stocks and other securities held in the Fund's Equity Component. In doing so, PEA will take into account periodic data provided by NFJ with respect to the Equity Component, including net assets, industry and sector weightings, historic volatility as well as periodic (typically 30 days after month-end) reports detailing portfolio holdings. However, other than through periodic holdings reports, PEA will not have access to the actual securities purchased, sold or held by or for the Equity Component due to informational barriers in place between NFJ and PEA. Therefore, the Index Option Strategy involves significant risk that the changes in value of the indexes underlying the Fund's written call options positions will not correlate closely with changes in the market value of securities held by the Equity Component. To the extent that there is a lack of correlation, movements in the indexes underlying the options positions may result in losses to the Fund, which may more than offset any gains received by the Fund from options premiums. In these and other circumstances, the Fund may be required to sell portfolio securities to satisfy its obligations as the writer of an index call option when it would not otherwise choose to do so, or may choose to sell portfolio securities to realize gains to supplement Fund distributions. Such sales would involve transaction costs borne by the Fund and may also result in realization of taxable capital gains, including short-term capital gains taxed at ordinary income tax rates, and may adversely impact the Fund's after-tax returns.

There can be no assurance that a liquid market will exist when the Fund seeks to close out an option position. Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain options; (ii)

restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options; (iv) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or the OCC may not at all times be adequate to handle current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of options (or a particular class or series of options). If trading were discontinued, the secondary market on that exchange (or in that class or series of options) would cease to exist. However, outstanding options on that exchange that had been issued by the OCC as a result of trades on that exchange would continue to be exercisable in accordance with their terms. The Fund's ability to terminate over-the-counter options is more limited than with exchange-traded options and may involve the risk that broker-dealers participating in such transactions will not fulfill their obligations.

The hours of trading for options may not conform to the hours during which securities held by the Fund are traded. To the extent that the options markets close before the markets for underlying securities, significant price and rate movements can take place in the underlying markets that cannot be reflected in the options markets. Call options are marked to market daily and their value will be affected by changes in the value of and dividend rates of securities represented in an index, an increase in interest rates, changes in the actual or perceived volatility of the stock market and underlying securities represented in an index, and the remaining term to the option's expiration. The value of options also may be adversely affected if the market for options is reduced or becomes illiquid.

The Fund's options transactions will be subject to limitations established by each of the exchanges, boards of trade or other trading facilities on which the options are traded. These limitations govern the maximum number of options in each class which may be written by a single investor or group of investors acting in concert, regardless of whether the options are written on the same or different exchanges, boards of trade or other trading facilities or are written in one or more accounts or through one or more brokers. Thus, the number of options which the Fund may write may be affected by options written by other investment advisory clients of PEA, NFJ, NACM or their affiliates. An exchange, board of trade or other trading facility may order the liquidation of positions found to be in excess of these limits, and it may impose other sanctions.

Other Derivatives Risk. In addition to writing index call options, PEA may write call options on behalf of the Fund with respect to exchange traded funds (ETFs) and similar products, which involves many of the risks associated with index option writing as discussed above. However, PEA will not write call options on individual securities. NACM may buy and sell put and call options on individual securities and indexes in creating synthetic convertible securities for the Convertible Component. The Fund may otherwise

use a variety of derivative instruments for hedging or risk management purposes, including purchased call options, purchased or written put options, futures contracts, options on futures contracts, forward contracts and swap agreements. The Fund also may use derivatives to gain exposure to equity and other securities in which the Fund may invest (e.g., pending investment of the proceeds of this offering).

Derivatives are subject to a number of risks described elsewhere in this prospectus, such as liquidity risk, issuer risk, interest rate risk, credit risk, counterparty risk, and management risk. They also involve the risk of mispricing or improper valuation, the risk of ambiguous documentation and the risk that changes in the value of a derivative may not correlate perfectly with an underlying asset, interest rate or index. Suitable derivative transactions may not be available in all circumstances and there can be no assurance that the Fund will engage in these transactions to reduce exposure to other risks when that would be beneficial.

The Fund may enter into derivatives transactions that may in certain circumstances produce effects similar to leverage and expose the Fund to related risks. See "Leverage Risk" below.

Tax Risk. Call option premiums received by the Fund on many equity index call options will be subject to mark-to-market treatment, and gains will be recognized based on the fair market value of the options at the end of the Fund's taxable year (or, if disposed of, upon disposition). Under this system, 60% of the gains or losses from such equity index call options will be treated as long-term capital gains or losses and 40% will be treated as short-term capital gains or losses. Such short-term gains will be subject to ordinary income tax rates to the extent not offset by short-term capital losses. Other call option premiums received by the Fund will be recognized upon exercise, lapse or other disposition of the option and generally will be treated by the Fund as short-term capital gain or loss. Some of the call options and other devices employed by the Fund reduce risk to the Fund by substantially diminishing its risk of loss in offsetting positions in substantially similar or related property, thereby giving rise to "straddles" under the federal income tax rules. The straddle rules require the Fund to defer certain losses on positions within a straddle, and terminate or suspend the holding period for certain securities in which the Fund does not yet have a long-term holding period or has not yet satisfied the holding period required for qualified dividend income. Thus, the Fund cannot assure you as to any level of regular quarterly net investment income (income other than net long-term capital gain) that will be treated as ordinary income, cannot assure you as to any level of short-term or long-term capital gains distributions and cannot assure you assure you as to any ratio of regular quarterly distributions to capital gain distributions. In addition, certain of the Fund's call writing activities and investment

in certain debt obligations may affect the character, timing and recognition of income and could cause the Fund to liquidate other investments in order to satisfy its distributions requirements. See "Tax Matters."

While the Equity Component will be managed with a view toward reducing the portion of Fund distributions that are taxed as ordinary income, there can be no assurance as to the percentage (if any) of the Fund's distributions that will qualify for taxation to individual Common Shareholders as "qualified dividend income," and thus be eligible for taxation at favorable rates applicable to long-term capital gains. The portion of the Fund's net investment income (including net income from the Convertible Component and portions of the gains received from the Index Option Strategy) that will be taxed to Common Shareholders at ordinary income tax rates is unknown at this time and cannot be predicted with any certainty. Therefore, the Fund should not be viewed as a vehicle designed to maximize after-tax returns. In addition, the tax treatment of Fund distributions of income generated by the Equity Component may be adversely affected as a result of the "sunset" provisions that will eliminate the favorable tax treatment of any tax-favored dividend income unless Congress acts to eliminate the "sunset" provisions, and may be adversely affected by future changes in tax laws and regulations. See "Tax Matters."

The tax treatment and characterization of the Fund's distributions may vary significantly from time to time because of the varied nature of the Fund's investments. The ultimate tax characterization of the Fund's distributions made in a taxable year cannot finally be determined until after the end of that taxable year. As a result, there is a possibility that the Fund may make total distributions during a taxable year in an amount that exceeds the Fund's net investment income and net realized capital gains for that year, in which case the excess would generally be treated as a tax-free return of capital up to the amount of the shareholder's tax basis in the applicable Common Shares, with any amounts exceeding such basis treated as gain from the sale of Shares. See "Tax Matters."

Preferred Stock Risk. In addition to equity securities risk (see "--Equity Securities and Related Market Risk" above) and credit risk (see "--Credit Risk/High Yield Risk" below), investment in preferred stocks involves certain other risks. Certain preferred stocks contain provisions that allow an issuer under certain conditions to skip or defer distributions. If the Fund owns a preferred stock that is deferring its distribution, the Fund may be required to report income for tax purposes despite the fact that it is not receiving current income on this position. Preferred stocks often are subject to legal provisions that allow for redemption in the event of certain tax or legal changes or at the issuer's call. In the event of redemption, the Fund may not be able to reinvest the proceeds at comparable rates of return. Preferred stocks are subordinated to bonds and other debt securities in an issuer's capital structure in terms of priority for corporate income and

17

liquidation payments, and therefore will be subject to greater credit risk than those debt securities. Preferred stocks may trade less frequently and in a more limited volume and may be subject to more abrupt or erratic price movements than many other securities, such as common stocks, corporate debt securities and U.S. Government securities.

Foreign (Non-U.S.) Investment Risk. The Fund's investments in ADRs and other securities of foreign issuers, securities denominated in foreign currencies and/or securities traded principally in securities markets outside the United States involve special risks. For example, the value of these investments may decline in response to unfavorable political and legal developments, unreliable or untimely information, or economic and financial instability. The value of securities denominated in foreign currencies may fluctuate based on changes in the value of those currencies relative to the U.S. dollar, and a decline in applicable foreign exchange rates could reduce the value of such securities held by the Fund. Although the Sub-Advisers have the flexibility to hedge against this foreign currency risk, they may determine not to do so or to do so only in unusual circumstances or market conditions. Foreign settlement procedures may involve additional risks. Foreign investment risk may be particularly high to the extent that the Fund invests in securities of issuers based in or securities denominated in the currencies of developing or "emerging market" countries.

Value Securities Risk. The Equity Component will tend to focus its investments in companies that may not be expected to experience significant earnings growth, but whose securities NFJ believes are selling at a price lower than their true value. These so-called "value" securities may be issued by companies that have experienced adverse business developments or may be subject to special risks that have caused their securities to be out of favor. If NFJ's assessment of a company's prospects is wrong, or if the market does not recognize the value of the company, the price of its securities may decline or may not approach the value anticipated.

Smaller Company Risk. The general risks associated with the types of securities in which the Fund invests are particularly pronounced for securities issued by companies with smaller market capitalizations. These companies may have limited product lines, markets or financial resources or they may depend on a few key employees. As a result, they may be subject to greater levels of credit, market and issuer risk. Securities of smaller companies may trade less frequently and in lesser volume than more widely held securities and their values may fluctuate more sharply than other securities. Companies with medium-sized market capitalizations may have risks similar to those of smaller companies.

Interest Rate Risk. Generally, when market interest rates rise, the prices of convertible securities, preferred stocks paying fixed dividend rates, REITs and debt obligations fall, and vice versa.

18

Interest rate risk is the risk that securities in the Fund's portfolio will decline in value because of increases in market interest rates. During periods of declining interest rates, an issuer of convertible securities or other debt securities may exercise an option to redeem securities prior to maturity, forcing the Fund to invest in lower-yielding securities. During periods of rising interest rates, the average life of certain types of securities may be extended due to slower than expected payments. This may lock in a below market yield, increase the security's duration and reduce the security's value. Rising interest rates may also have an adverse impact on the equity markets. Because market interest rates are currently near their lowest levels in many years, there is a greater risk that the Fund's portfolio will decline in value as market interest rates rise.

Management Risk. The Fund is subject to management risk because it is an actively managed portfolio. NFJ, NACM, PEA and the individual portfolio managers will apply investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these will produce the desired results. Management risk is particularly significant for the Fund because the Fund involves three separately managed components. In particular, the Index Option Strategy includes sophisticated investment strategies to be implemented by PEA and there can be no guarantee that these strategies will be successful. As described above under "Index Option Risk," PEA's ability to implement the Index Option Strategy successfully may be hindered due to informational barriers between NFJ and PEA with respect to specific portfolio holdings and trading data relating to the Equity Component.

Component Weighting Risk. As noted under "Investment Objectives and Strategies--Annual

Rebalancing" above, the Manager will cause the Fund's entire portfolio to be rebalanced annually to the initial approximate 75%/25% asset allocation between the Equity Component and the Convertible Component. These annual rebalancings may result in additional transaction costs for the Fund and may increase the amount of capital gains (and, in particular, short-term gains) realized by the Fund, on which shareholders may pay tax. Although the portfolio will be rebalanced annually, it is expected that the relative percentage of the Fund's assets represented by the Equity and Convertible Components will vary during interim periods in relation to the relative investment performance of each Component, as well as market fluctuations and other factors. Therefore, the Fund's assets attributable to each Component may from time to time be significantly higher or lower than the initial 75%/25% allocation described above, and the risk/return profile of the Fund (taken as a whole) will vary accordingly. For instance, an investment in the Fund would be more susceptible to interest rate, high yield and other risks associated with convertible securities if the Convertible Component were to appreciate in value more or depreciate less (in relative terms) than the Equity Component.

19

Credit Risk/High Yield Risk. Credit risk is the risk that one or more investments in convertible securities, preferred stocks or other debt instruments in the Fund's portfolio will decline in price, or fail to pay dividends, interest, liquidation value or principal when due, because the issuer of the obligation or the issuer of a reference security experiences an actual or perceived decline in its financial status. The Convertible Component may invest in securities rated below investment grade (i.e., rated, at the time of investment, below Baa by Moody's or below BBB by S&P, or unrated but determined by NACM to be of comparable quality). NACM may invest in distressed securities on behalf of the Convertible Component, but will not invest in securities which are in default (rated "D" by Moody's or S&P) at the time of purchase (but may hold securities which have gone into default after they have been purchased). Securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as "high yield" securities or "junk bonds." Securities in the lowest investment grade category may also be considered to possess some speculative characteristics by certain rating agencies. The prices of these lower grade securities are generally more volatile and sensitive to actual or perceived negative developments, such as a decline in the issuer's revenues or a general economic downturn, than are the prices of higher grade securities.

Leverage Risk. Although it has no current intention to do so, the Fund reserves the flexibility to issue preferred shares or debt securities or to engage in borrowings to add leverage to its portfolio. The Fund may also enter into derivative transactions that may in some circumstances give rise to a form of financial leverage. However, the Fund ordinarily will cover its positions in these derivative transactions so that there is no resulting leverage. Any leverage used by the Fund would be limited to 38% of the Fund's total assets (including the proceeds of the leverage).

The Fund manages some of its derivative positions by segregating an amount of cash or liquid securities equal to the face value of those positions. The Fund may also offset derivatives positions against one another or against other assets to manage effective market exposure resulting from derivatives in its portfolio. To the extent that the Fund does not segregate liquid assets or otherwise cover its obligations under such transactions (e.g., through offsetting positions), such transactions will be treated as senior securities representing indebtedness ("borrowings") for purposes of the requirement under the 1940 Act that the Fund may not enter into any such transactions if the Fund's borrowings would thereby exceed 33 1/3% of its total assets. SIZE: 10pt">

16,078

793,985

18,278

Operating loss

(435,339
)

2,906

(590,985
)

1,475

Non-operating income (expense):

Interest expense - other

(11,453
)

(118
)

(24,622
)

(185
)

Interest expense – accretion of debt discount

(52,966
)

–

(61,794
)

–

Accretion of beneficial conversion feature

(19,400
)

–

(76,518
)

–

Total non-operating income (expense)

(83,819
)

(118
)

(162,934
)

(185
)

Income (loss) before income taxes

(519,158
)

2,788

(753,919
)

1,290

Income tax provision (benefit)

–

–

–

–

Net income (loss)

$
(519,158
)

$

2,788

$
(753,919
)

$
1,290

Net income (loss) per common share:

Basic:

$
(0.016
)

$
0.009

$

(0.025
)

$
0.004

Weighted average common shares outstanding basic

31,887,040

308,540

30,647,403

308,536

The average shares listed below were not included in the computation

of diluted losses per share because to do so would have been

antidilutive for the periods presented:

Convertible promissory notes

710,015

–

710,015

–

The accompanying notes are an integral part of these financial statements

ePunk, Inc.
Consolidated Statement of Stockholder's Deficit
For Nine Months Ended June 30, 2012 and the Period From February 25, 2011 (Inception) through September 30, 2011

	Common stock			Deferred Stock	Additional paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Payable	Compensation	Capital	Deficit	Deficit
Balance, February 25, 2011	-	$-	$-	$ -	$-	$ -	$ -
Shares issued for website properties	24,750,000	2,475			10,025		12,500
Legal acquirer shares issued in merger	308,585	31			(359,947)		(359,916)
Shares issued upon the conversion of debt	4,950,000	495			49,005		49,500
Net loss						(74,843)	(74,843)
Balance, September 30, 2011	30,008,585	$3,001	$-	$ -	$(300,917)	$ (74,843)	$ (372,759)
Shares issued upon the conversion of debt	1,611,332	161			322,105		322,266
Shares issued in exchange for services	450,000	10	268,500	(113,000)	59,990		215,500
Shares issued as inducement to lend	100,000	10			70,923		70,933
Beneficial conversion feature					76,518		76,518
Amortization of deferred stock compensation				22,600			22,600
Net loss						(753,919)	(753,919)
Balance, June 30, 2012	32,169,917	$3,182	$268,500	$ (90,400)	$228,619	$ (828,762)	$ (418,861)

The accompanying notes are an integral part of these financial statements

3

ePunk, Inc.
Consolidated Statements of Cash Flows
For the Nine Months Ended June 30, 2012 and the Period From February 25, 2011 (Inception) through June 30, 2011

	Nine Months Ended June 30, 2012	February 25, 2011 through June 30, 2011
Cash flows from operating activities:		
Net loss	$(753,919)	$1,290
Reconciliation to net cash provided by (used in)		
continuing operations:		
Depreciation and amortization	6,375	595
Accretion of debt discount	61,794	-
Accretion of beneficial conversion feature	76,518	-
Shares issued in exchange for services	238,100	-
Changes in certain assets and liabilities:		
Accounts receivable	1,136	(4,409)
Inventory	(16,338)	-
Other current assets	(34,236)	-
Deposits	(6,392)	-
Accounts payable	156,999	7,055
Accrued interest	24,215	185
Net cash (used) provided by operating activities	(245,748)	4,716
Cash flows from investing activities:		
Capital expenditures, net	(40,521)	(2,500)
Net cash used by investing activities	(40,521)	(2,500)
Net cash provided by financing activities:		
Proceeds from convertible promissory notes	49,559	17,500
Proceeds from promissory notes	245,000	-
Net cash provided by financing activities	294,559	17,500
Net increase in cash	8,290	19,716
Cash - beginning of period	18,206	-
Cash - end of period	$26,496	$19,716
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
CASH PAID DURING THE YEAR FOR:		
Taxes paid	$-	$-
Interest paid	$-	$-
NON-CASH FINANCING ACTIVITIES:		
Value of Common Stock issued for accrued interest	$10,941	$-
Value of Common Stock issued for debt principle	$311,325	$-
Value of Common Stock issued for services	$238,100	$-
Value of common stock issued as inducement to lend	$70,933	$-
Beneficial conversion feature	$76,518	$-
Value of stock payable issued for deferred stock compensation	$113,000	$-

The accompanying notes are an integral part of these financial statements

ePunk, Inc.
Notes to Consolidated Financial Statements (Unaudited)
For the Three Months Ended June 30, 2012 and 2011, the Nine Months ended June 30, 2012
and the Period From February 25, 2011 (Inception) to June 30, 2011

Basis of Presentation

The unaudited financial statements of ePunk, Inc. as of June 30, 2012 and for the three months ended June 30, 2012, the nine months ended June 30, 2012 and the period from February 25, 2011 (Inception) through June 30, 2011 have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended September 30, 2011 as filed with the Securities and Exchange Commission as part of our Form 10-K. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of the interim financial information have been included. The results of operations for any interim period are not necessarily indicative of the results of operations for the entire year.

Note A-Organization and Going Concern

Organization
ePunk, Inc. (the "Company")(formerly Truesport Alliances & Entertainment, Ltd.) (formerly Sewell Ventures, Inc.) was incorporated under the laws of the State of Delaware on April 27, 2007.

On December 16, 2009, the Company acquired Seven Base Consulting, LLC, a privately owned Nevada limited liability company organized under the laws of the State of Nevada on October 17, 2008.

On January 15, 2010, the Company name was changed with the State of Delaware from Sewell Ventures, Inc. to Truesport Alliances, Ltd., and on January 29, 2010, the Company changed its state of incorporation to the State of Nevada.

On April 22, 2011, the Company and Seven Base Consulting, LLC entered into an Agreement and Plan of Reorganization whereby the Company divested all Seven Base Consulting, LLC business related assets, liabilities and rights to the operation of the Seven Base Consulting, LLC business to Seven Base Consulting, LLC in exchange for the return of 90,000 shares of Truesport Alliances & Entertainment, Ltd. Common stock held by Seven Base Consulting, LLC members. As a result of this transaction all the Company's assets were transferred and the Company kept certain notes payable totaling approximately $359,000.

On June 15, 2011, Excelsior Management, LLC, ("Seller") as agent for the beneficial owners of a total of 202,852 shares of common stock of ePunk, Inc. (fka Truesport Alliances & Entertainment, Ltd.), entered into a stock purchase agreement with Richard Jesse Gonzales, Justin Matthew Dornan, and Frank J. Drechsler (the "Purchasers") for the sale and purchase of the Common Shares. As a result of the execution of the Stock Purchase Agreement, Excelsior sold, 65.75% of the issued and outstanding shares of common stock of the Company to the Purchasers in exchange for $23,451.97.

On June 20, 2011 a majority of the shareholders of the Company approved the appointment of Richard Jesse Gonzales, Justin Matthew Dornan, and Frank J. Drechsler to the Board of Directors. In addition, at such time, Richard Jesse Gonzales was appointed the Company's President and Chief Executive Officer, Justin Matthew Dornan as

Treasurer, and Frank J. Drechsler as Secretary. None of the appointed directors or officers entered into an employment agreement with the Company.

On June 20, 2011, the board of directors and a majority of the shareholders of the Company approved the name change of the Company from TrueSport Alliance & Entertainment, Ltd. to ePunk, Inc. On June 20, 2011, the Company amended Article 1 of its Articles of Incorporation to change the Company's name to ePunk, Inc.

On June 20, 2011, the shareholders and the board of directors of ePunk authorized a 1 for 100 reverse stock split. FINRA approved the reverse split on June 28, 2011 and declared the reverse split effective as of July 5, 2011.

ePunk, Inc.
Notes to Consolidated Financial Statements (Unaudited)
For the Three Months Ended June 30, 2012 and 2011, the Nine Months ended June 30, 2012
and the Period From February 25, 2011 (Inception) to June 30, 2011

Note A-Organization and Going Concern (Continued)

On June 30, 2011, The board and majority of the shareholders of the Company approved the issuance of 24,750,000 shares of common stock in exchange for 100% of the issued and outstanding capital stock of Punk Industries, Inc. causing Punk Industries, Inc. to become a wholly owned subsidiary of the Company. Punk Industries, Inc. was formed in February 2011 to develop off-road vehicle distribution. The Merger was accounted for as a “reverse merger,” as the stockholders of Punk Industries, Inc. owned a majority of the outstanding shares of ePunk, Inc. common stock immediately following the Merger. Punk Industries, Inc. was deemed to be the acquirer in the reverse merger. Consequently, the assets and liabilities and the historical operations of Punk Industries, Inc. prior to the Merger are reflected in the financial statements at the historical cost basis of Punk Industries, Inc. The Company's consolidated financial statements include the assets and liabilities of both ePunk, Inc. and Punk Industries, Inc., the historical operations of Punk Industries, Inc. and the Company's continuing operations from the Effective Date of the Merger. The Company accounted for the merger under recapitalization accounting whereby the equity of the acquiring enterprise (Punk Industries, Inc.) is presented as the equity of the combined enterprise and the capital stock account of the acquiring enterprise is adjusted to reflect the par value of the outstanding stock of the legal acquirer (ePunk, Inc.) after giving effect to the number of shares issued in the business combination. Shares retained by the legal acquirer (ePunk, Inc.) are reflected as an issuance as of the reverse merger date (June 30, 2011) for the historical amount of the net assets of the acquired entity.

The consolidated financial statements include the accounts of ePunk, Inc. and its wholly-owned subsidiary, Punk Industries, Inc. which are 100% consolidated in the financial statements.

Going Concern
In its report with respect to the Company’s financial statements for the year ended September 30, 2011, the Company’s independent auditors expressed substantial doubt about the Company’s ability to continue as a going concern. Because the Company has not yet generated sufficient revenues from its operations, its ability to continue as a going concern is dependent upon its ability to obtain additional financing. Currently, the Company is seeking additional financing but has no commitments to obtain any such financing, and there can be no assurance that financing will be available in amounts or on terms acceptable to the Company, if at all.

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, which contemplate continuation of the Company as a going concern. In the course of funding development and sales and marketing activities, the Company has sustained operating losses since inception and has an accumulated deficit of $828,762 and $74,843 at June 30, 2012 and September 30, 2011, respectively. In addition, the Company has negative working capital of $484,200 and $397,561 at June 30, 2012 and September 30, 2011, respectively. The Company will continue to use capital to market its products and may not be profitable for the foreseeable future. These factors raise doubt about the ability of the Company to continue as a going concern. In this regard, management is proposing to raise any necessary additional funds not provided by operations through loans or through sales of common stock. There is no assurance that the Company will be successful in raising this additional capital. If adequate funds are not available on reasonable terms or at all, it would result in a material adverse effect on the Company’s business, operating results, financial condition and prospects.

In view of these conditions, the ability of the Company to continue as a going concern is in substantial doubt and dependent upon achieving a profitable level of operations and on the ability of the Company to obtain necessary financing to fund ongoing operations. These consolidated financial statements do not give effect to any adjustments which will be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements.

NOTE B - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at June 30, 2012 consisted of $5,377 of professional services, $15,645 of customer deposits and $160,312 of trade payables compared to $24,335 of trade payables as of September 30, 2011.

ePunk, Inc.
Notes to Consolidated Financial Statements (Unaudited)
For the Three Months Ended June 30, 2012 and 2011, the Nine Months ended June 30, 2012
and the Period From February 25, 2011 (Inception) to June 30, 2011

NOTE C – PROMISSORY NOTES

Convertible Promissory Notes
As of June 30, 2012 the Company had the following convertible promissory notes payable:

	Principle Balance	Interest Rate	Date of: Funding	Maturity	Accrued Interest	Total Due
Excelsior Management LLC	7,836	5.00 %	02/26/10	12/31/11	$ 229	$ 8,065
note purchased by Amalfi Coast Capital on June 24, 2011 and $49,436 assigned to the RFF Family Trust on April 3, 2012 and converted to shares of common stock	59,000	5.00 %	05/27/10	08/27/10	1,722	60,722
on April 3, 2012.	28,000	5.00 %	06/02/10	09/01/10	817	28,817
Conversion into 240,836 shares of common stock on 3/27/12	(45,400)				(2,767)	(48,167)
Conversion into 247,182 shares of common stock on 4/3/12	(49,436)					(49,436)
Total	$ -				$ -	$ -
Palatine Capital Investment Group LLC note purchased	$ 50,592	5.00 %	01/30/10	12/31/10	$ 1,912	$ 52,504
by Ravello Capital Corp on	30,000	5.00 %	02/14/10	12/31/11	1,130	31,130
June 24, 2011 and assigned	25,000	5.00 %	02/26/10	12/31/11	942	25,942
to the RFF Family Trust on April 3, 2012 and converted to shares of common stock	14,500	5.00 %	09/09/10	12/31/11	546	15,046
on April 3, 2012.	25,000	5.00 %	09/17/10	12/31/11	942	25,942
Conversion into 752,818 shares of common stock on 4/3/12	(145,092)				(5,472)	(150,564)
Total	$ -				$ -	$ -
	$ 5,000	8.00 %	01/28/11	07/28/11	$ 568	$ 5,568
	2,500	8.00 %	06/21/11	01/21/12	205	2,705
	10,000	8.00 %	06/24/11	01/24/12	815	10,815
	10,000	8.00 %	07/14/11	02/14/12	772	10,772
	10,000	8.00 %	07/28/11	02/28/12	741	10,741
	15,262	8.00 %	08/10/11	03/10/11	1,087	16,349
Amalfi Coast Capital	10,000	8.00 %	08/19/11	02/19/12	695	10,695
	21,500	8.00 %	09/21/11	03/21/12	1,338	22,838

		2,900	8.00	%	10/12/11	04/12/12		159		3,059
		7,500	8.00	%	10/19/11	04/19/12		388		7,888
		11,950	8.00	%	11/09/11	05/09/12		532		12,482
		11,817	8.00	%	01/03/12	07/03/12		464		12,281
		15,392	8.00	%	02/27/12	08/27/12		418		15,810
Total	$	133,821					$	8,182	$	142,003
Grand Total	$	133,821					$	8,182	$	142,003
Number of shares issuable upon exercise of the above debt at $0.20										710,015

7

ePunk, Inc.
Notes to Consolidated Financial Statements (Unaudited)
For the Three Months Ended June 30, 2012 and 2011, the Nine Months ended June 30, 2012
and the Period From February 25, 2011 (Inception) to June 30, 2011

NOTE C – PROMISSORY NOTES (Continued)

Convertible Promissory Notes (Continued)
During the nine months ended June 30, 2012 the following activity occurred related to our convertible promissory notes:

Seacoast Advisors, Inc., Amalfi Coast Capital, Inc., and the RFF Family Partnership, LP (Assignee of Ravello notes), holders of all outstanding convertible notes amended their notes to increase the conversion price of their debt from $0.01 and $0.10 per share to $0.20 per share in order to reduce the potential number of shares issuable upon conversion and increase the attractiveness of the Company to potential outside investors.

Amalfi Coast Capital, the owner of the Notes originally issued to Excelsior Management, LLC converted the entire balance outstanding of $74,099, including $71,397 of principle and $2,702 of interest into 370,496 shares of common stock at a conversion price of $0.20.

Seacoast Advisors, Inc, the owner of the Notes originally issued to Rico Italia Investments, Inc. converted $48,167, including $45,400 of principle and $2,767 of interest into 240,836 shares of common stock at a conversion price of $0.20.

Amalfi Coast Capital, Inc. assigned $49,436 of notes to the RFF Family Partnership, LP under the same terms and conditions of the original notes.

Ravello Capital Advisors Corp. assigned $150,564 of notes to the RFF Family Partnership, LP under the same terms and conditions of the original notes.

The RFF Family Partnership, LP converted the entire balance of the Amalfi and Ravello assigned notes above or $200,000 (i.e., $49,436 + $150,564) into 1,000,000 shares of common stock.

Amalfi Coast Capital loaned the Company $49,559. The Notes due to Amalfi totaling $133,821 of principle as of June 30, 2012 bear interest at 8% per annum, mature six months from the date of issuance and contain a conversion feature that may only be exercised upon default at $0.20 per share which was increased from $0.10 per share on April 3, 2012. Accordingly, per ASC 470-20-25-20, a contingent feature will not be recorded until the triggering event occurs, or in the event of the note(s) falling into default. During the three months ended June 30, 2012, the notes above dated October 12, 2011 through November 9, 2011 and representing $22,350 of principle matured. During the nine months ended June 30, 2012, the notes above dated June 21, 2011 through November 9, 2011 and representing $101,612 of principle matured. The Company determined that the contingent conversion feature in the Notes resulted in a beneficial conversion feature ("BCF") due to the conversion price of $0.20 being less than the closing stock prices, which ranged from $0.29 to $2.00 on the Note(s) commitment date(s), and the conversion feature being in-the-money. Thus, the BCF was determined based on each Notes principle amount, and recorded as a discount to reduce the carry value of the Note(s) and increase additional-paid-in-capital. The Company calculated the BCF for all the qualifying Notes as of the commitment date(s) using the intrinsic value method. The BCF discount was expensed when the notes became convertible which was on the date of maturity. As a result the company recorded a beneficial conversion feature of $19,400 and $76,518 for the three and nine months ended June 30, 2012.

During the year ended September 30, 2011, the Company converted $49,500 into 4,950,000 shares of common stock, including $28,515 of accrued principle and $20,985 of interest.

During the three months ended June 30, 2012 and 2011, interest expense related to the above Notes totaled $2,669 and $4,236, respectively. During the nine months ended June 30, 2012 and 2011, interest expense related to the above Notes totaled $14,825 and $12,379, respectively.

ePunk, Inc.
Notes to Consolidated Financial Statements (Unaudited)
For the Three Months Ended June 30, 2012 and 2011, the Nine Months ended June 30, 2012
and the Period From February 25, 2011 (Inception) to June 30, 2011

NOTE C – PROMISSORY NOTES (Continued)

Non-Convertible Promissory Notes
On March 19, 2012, the Company entered into a Securities Purchase Agreement, Guaranty and Note with Gemini Master Fund, Ltd under which the Company issued a promissory note with a face amount of $280,000 and received net proceeds of $245,000. The net proceeds include a $30,000 original issue discount ("OID") and $5,000 in documentary fees associated with the note and with held by the lender. The note matures six months from the date of issue, bears interest of twelve percent (12%) per annum on the face amount and is payable in full upon maturity. In the event of default, the note is subject to a penalty of 130% of the then outstanding principle and increase in the interest rate to twenty four percent (24%) per annum. In connection with the Note the Company issued 100,000 shares of restricted common stock. Pursuant to ASC 470-20-25, the Company recorded a debt discount of $105,933 including $70,933 attributable to the 100,000 shares of common stock and $35,000 to the OID and documentary fees. The debt discount is being accreted over the term of the note, or 6 months on a straight line basis. During the three and nine months ended June 30, 2012, the Company recognized $52,966 and $61,794, respectively of accretion of the debt discount. The remaining debt discount of $44,139 will be amortized in our fourth quarter. The Company recognized $8,377 and $9,390 of interest expense related to this note during the three and nine months ended June 30, 2012.

NOTE D – STOCKHOLDERS EQUITY

Preferred Stock
The Company has authorized 25,000,000 shares of $0.0001 par value preferred stock available for issuance. No shares of preferred stock have been issued as of June 30, 2012.

Common Stock
The Company has authorized 100,000,000 shares of $0.0001 par value common stock available for issuance. 31,819,917 shares have been issued as of June 30, 2012.

On February 3, 2012, Jesse Gonzales, Justin Dornan and Frank Drechsler, collectively holding 24,952,852 shares of restricted common stock or 83.2% of the 30,008,585 shares outstanding as of December 31, 2011, entered into separate Lock-Up and Leak-Out Agreements pursuant to which each individual agreed to a lock-up period of 24 months through February 3, 2014. Pursuant to the leak-out provisions, for any month, no dispositions individually and no dispositions in the aggregate, will be allowed in excess of the shareholder's "leak-out allowance" where such term is defined to mean, for any month, no amount on a disposition-by-disposition basis and in the aggregate (for that respective month) which is greater than 1% of the covered securities ("Monthly Maximum Sales Percentage"); however, the Monthly Maximum Sales Percentage shall be increased to 4% if averaged over any consecutive twenty trading-day period (subsequent to the 360th day after the Effective Date any of the following occurs: (i) the median of the daily low and daily high trade price of the Company's common stock shares average is above $0.80; or (ii) the ten lowest trading volume days (by number of shares traded) averages above 300,000 shares traded per day.

On May 10, 2012, the Company's Board of Directors and Majority Shareholders adopted ("Effective Date") the 2012 Stock Incentive Plan. (the "Plan")(See Exhibit 10.1 to the Company's December 31, 2011 Form 10-Q filed with the SEC on May 31, 2012). The purpose of the plan is to facilitate the ability of ePunk, Inc. and its subsidiaries to attract, motivate and retain eligible employees, directors and other personnel through the use of equity-based and other incentive compensation opportunities. The Company may issue each of the following under the Plan: incentive options, nonqualified options, Director shares, stock appreciation rights, restricted stock and deferred stock rights, other types of awards and performance-based awards as approved by the Board. No Award shall be granted pursuant to the Plan ten years after the Effective Date. Stock options to purchase shares of our common stock expire no later than ten years after the date of grant. The total number of shares available under the Plan is four million (4,000,000). In any fiscal year, the total number of shares that may be covered by awards made to an employee may not exceed 1,000,000 plus the aggregate amount of such individual's unused annual share limit as of the close of the preceding fiscal year, and the maximum amount of cash that may be payable to an employee pursuant to performance-based cash awards made under Section 10 of the Plan is $1,000,000 plus the aggregate amount of such individual's unused annual dollar limit as of the close of the preceding fiscal year.

ePunk, Inc.
Notes to Consolidated Financial Statements (Unaudited)
For the Three Months Ended June 30, 2012 and 2011, the Nine Months ended June 30, 2012
and the Period From February 25, 2011 (Inception) to June 30, 2011

NOTE D – STOCKHOLDERS EQUITY (Continued)

Common Stock (Continued)
We measure and record stock-based compensation awards to employees pursuant to guidance in ASC 718 Compensation-Stock Compensation. We measure and record stock-based compensation awards to non-employees pursuant to guidance in ASC 505-50 Equity-Based Payments to Non-Employees. For more information on stock-based compensation, see Critical Accounting Estimates in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations below.

Stock Issued for Cash
No stock was issued for cash during the period from February 25, 2011 (inception) through June 30, 2012.

Stock Issued in Connection With Debt Issuance
Pursuant to the Securities Purchase Agreement, Guaranty and Note with Gemini Master Fund, Ltd. as described above in NOTE B, the Company issued 100,000 shares of restricted common stock and recorded a debt discount of $70,933.

Stock Issued upon Conversion of Debt
During the nine months ended June 30, 2012, and as described above in NOTE B, our convertible promissory note holders converted $322,266, including $311,325 of principle and 10,941 of interest into 1,611,332 shares of common stock at a conversion price of $0.20.

During the period from February 25, 2011 (Inception) through September 30, 2011, the Company converted $49,500 into 4,950,000 shares of common stock, including $28,515 of principle and $20,985 of accrued interest.

Stock Issued for Services
On February 29, 2012, the Company entered into an Advisory Engagement Agreement (the "Agreement"). Pursuant to the Agreement, Consultant is to provide SEC reporting, corporate housekeeping, corporate governance, financial and business planning and money raising services. In exchange the Company agreed to pay Consultant $5,000 per month and issue up to 1,000,000 shares of restricted common stock upon the completion of certain milestones. Consultant received 300,000 shares of restricted common stock pursuant to the Agreement and valued at the low bid price on the date of the Agreement or $0.60 per share. The Company recorded stock compensation during the three and nine months ended June 30, 2012 of $180,000 and $0, respectively.

On February 15, 2012, the Company entered into a Consulting Agreement (the "Agreement"). Pursuant to the Agreement, Consultant is to provide marketing related services. In exchange the Company agreed to pay Consultant $15,000 and issue up to 250,000 shares of restricted common stock upon the completion of certain milestones. Consultant received 50,000 shares of restricted common stock pursuant to the Agreement and valued at the low bid price on the date of the Agreement or $0.71 per share. The Company recorded stock compensation during the three and nine months ended June 30, 2012 of $35,500 and $0, respectively.

On May 15, 2012, the Company's Board approved the issuance of 100,000 shares of restricted common stock to a Consultant. The Company and Consultant entered into a Restricted Stock Award Agreement covering such shares. Pursuant to the RSA, Consultant is to provide substantial services through March 1, 2013 at which time the shares will be deemed vested. In the event the Company or Consultant terminate their relationship prior to March 1, 2013, the shares shall be forfeited to the Company without offset. Pursuant to ASC 505-50-30, the Company recorded deferred stock compensation in the equity portion of the balance sheet and is amortizing the fair value of the stock over the vesting period, or ten months at $11,300 per month. During the three and nine months ended June 30, 2012, the Company recognized $22,600 and $0 of expense related to this issuance.

NOTE E - COMMITMENTS

On March 22, 2012, the Company entered into a lease for real property located at 1060 Calle Negocio, Suite B, San Clemente, CA 92673. The space includes 6,540 square feet of office and industrial space to be used for warehousing and fulfillment activities. The term of the lease is one year from May 1, 2012 through April 30, 2013 at a monthly cost of $5,332. Upon execution of the lease the company paid the first month's rent and deposit of the same amount or $10,464.

NOTE F – SUBSEQUENT EVENTS

On August 8, 2012, the Board of Directors of ePunk, Inc. agreed to, and authorized the cancellation of 9,870,000 shares of the Company’s common stock owned by Jesse Gonzalez, CEO, Justin Dornan, President and CFO and a former director.

On August 10, 2012 the Company sold 250,000 shares of common stock in a private placement in exchange for $125,000.

On August 16, 2012 the Company issued a press release announcing the approval of a two-for-one forward split of the Company’s common stock to be effective on August 31, 2012.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, included or incorporated by reference in this Form 10-Q which address activities, events or developments which the Company expects or anticipates will or may occur in the future, including such things as future capital expenditures (including the amount and nature thereof); finding suitable merger or acquisition candidates; expansion and growth of the Company's business and operations; and other such matters are forward-looking statements. These statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate under the circumstances. However, whether actual results or developments will conform with the Company's expectations and predictions is subject to a number of risks and uncertainties, including general economic, market and business conditions; the business opportunities (or lack thereof) that may be presented to and pursued by the Company; changes in laws or regulation; and other factors, most of which are beyond the control of the Company.

These forward-looking statements can be identified by the use of predictive, future-tense or forward-looking terminology, such as "believes," "anticipates," "expects," "estimates," "plans," "may," "will," or similar terms. These statements appear in a number of places in this Filing and include statements regarding the intent, belief or current expectations of the Company, and its directors or its officers with respect to, among other things: (i) trends affecting the Company's financial condition or results of operations for its limited history; (ii) the Company's business and growth strategies; and, (iii) the Company's financing plans. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors. Such factors that could adversely affect actual results and performance include, but are not limited to, the Company's limited operating history, potential fluctuations in quarterly operating results and expenses, government regulation, technological change and competition.

Consequently, all of the forward-looking statements made in this Form 10-Q are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequence to or effects on the Company or its business or operations. The Company assumes no obligations to update any such forward-looking statements.

Business

ePunk, Inc. (together with its subsidiaries and predecessors, unless the context requires otherwise, "ePunk," the "Company," "we," "us," or "our") is a distributor of power sports products and accessories, including scooters, motorcycles (on road and off road), all-terrain vehicles ("ATVs") utility terrain vehicles ("UTVs"), karts and buggies through its website properties CountyImports.com, CountyImportParts.com, BidPunks.com, ViperSportUSA.com, CountyCruisers.com, PCHRides.com and through our storefront, Pacific Coast House of Rides located in Dana Point, California. Marketing of our products is targeted toward value conscious consumers that find the price point of off-brand products attractive, but that still demand quality. We believe there is a consistently strong demand for the products we market and sell.

We are establishing the CountyImports.com brand in the online marketplace by offering high-quality merchandise, a unique, user-friendly shopping experience and the opportunity for buyers to achieve significant cost savings versus traditional retail channels. A key to our success has been our ability to efficiently and cost effectively source second-tier brand products and rapidly respond to changing consumer demands. Inventory is often sold that is held by our suppliers using a just in time ordering and/or drop ship model.

Plan of Operation

Our long-term business strategy or goal is to become the leading distributor of power sports products, accessories and services in the market place. In implementing this strategy, we intend to execute the following matters for the next 12 months:

Continue Building the County Imports.com Customer Base

Our primary focus during 2012 is to increase consumer traffic to our CountyImports.com website, building customer loyalty and repeat business by offering superior products and the most attractive prices.

Launch a Power Sports Penny Auction, BidPunk.com Complimentary to Our County Imports.com Consumer and Product Base

We intend to launch BidPunk.com, the first penny auction dedicated exclusively to the power sports industry. We believe that there are several advantages to adding BidPunk.com to our operations, including, but not limited to:

- Creating an additional revenue stream to our business,
- Enabling us to mitigate inventory risk through opening up a new sales channel,
- Increasing customer loyalty through providing a platform to purchase quality power sports products, accessories and services at prices not available in other retail channels,
- Creates further operating leverage enabling us to convert CountyImports.com customers to BidPunk users and vice versa, and
- High margin business enhances quality of revenue for the overall business.

Add Additional Products and Services to our Offering

We will continue to identify and add quality and popular products, accessories and services amongst the power sports consumer market place. Quality and reputation in the industry are the primary criterion for our selection process, and we intend to negotiate increasingly favorable price points with suppliers as our sales volume increase, to attract customers that are cost conscious. In addition, we intend to commence marketing and sales of a variety of ancillary products under existing brands that we currently market.

Expansion of Sales and Marketing Activities

We will continue to expand upon our marketing activities which are primarily focused toward supporting County Imports.com and building consumer awareness. We will engage in ongoing advertising and promotional activities to develop and enhance the visibility of our County Imports.com image.

Critical Accounting Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires us to make judgments, assumptions and estimates that affect the amounts reported. Note A of Notes to Financial Statements describes the significant accounting policies used in the preparation of the financial statements. Certain of these significant accounting policies are considered to be critical accounting policies, as defined below.

A critical accounting policy is defined as one that is both material to the presentation of the Company's financial statements and requires management to make difficult, subjective or complex judgments that could have a material effect on the Company's financial condition and results of operations. Specifically, critical accounting estimates have the following attributes:

- We are required to make assumptions about matters that are highly uncertain at the time of the estimate; and
- Different estimates we could reasonably have used, or changes in the estimate that are reasonably likely to occur, would have a material effect on the Company's financial condition or results of operations.

13

Estimates and assumptions about future events and their effects cannot be determined with certainty. We base estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as the Company's operating environment changes. These changes have historically been minor and have been included in the consolidated financial statements as soon as they became known. Based on a critical assessment of the Company's accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes that our financial statements are fairly stated in accordance with accounting principles generally accepted in the United States, and present a meaningful presentation of the Company's financial condition and results of operations.

In preparing the Company's financial statements to conform to accounting principles generally accepted in the United States, we make estimates and assumptions that affect the amounts reported in the Company's financial statements and accompanying notes. These estimates include useful lives for fixed assets for depreciation calculations and assumptions for valuing options and warrants. Actual results could differ from these estimates.

Revenue Recognition

The Company applies paragraph 605-10-S99-1 of the FASB Accounting Standards Codification for revenue recognition. The Company recognizes revenue when it is realized or realizable and earned less estimated future doubtful accounts. The Company considers revenue realized or realizable and earned when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the product has been shipped or the services have been rendered to the customer, (iii) the sales price is fixed or determinable, and (iv) collectability is reasonably assured.

Stock-Based Compensation

We measure and record stock-based compensation awards to employees pursuant to guidance in ASC 718 Compensation-Stock Compensation. We measure and record stock-based compensation awards to non-employees pursuant to guidance in ASC 505-50 Equity-Based Payments to Non-Employees. We measure fair value by application of the Black-Scholes option pricing model and recognize expense over the requisite service period or upon completion of milestones for performance-based awards depending on the relevant guidance in ASC 708 or ASC 505. The Black-Scholes option pricing model requires management to make certain assumptions as follows:

1) The expected life. No incentive stock options have been granted to date. In the event the Company issues employee options, we will base our determination of expected life on the guidance in ASC 718-10-55-29 to 34. The Company utilizes the contract term of each non qualified option and warrant except in the event that the option is not transferrable in which case we apply the aforementioned guidance in determining the expected term.
2) Risk-free interest rate. We use the treasury bill rate that most closely aligns with the expected life of the derivative.

3) Dividend yield. Until a dividend is offered this input will always be zero.

4) Volatility. Due to the short amount of time the Company's stock has traded, the Company uses the SPDR S&P (XRT) exchange traded fund ("ETF") that tracks the S&P Retail Index (RLX) from inception of the ETF to the date of grant.
5) Forfeiture rate. To date this rate has been zero.

6) Stock price. As quoted on the OTC Pink Tier.

The use of a different estimate for any one of these components could have a material impact on the amount of calculated compensation expense.

Long-lived Assets

Long-lived assets, comprised of equipment, and identifiable intangible assets, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that may cause an impairment review include significant changes in technology that make current computer-related assets obsolete or less useful and significant changes in the way we use these assets in operations. When evaluating long-lived assets for potential impairment, we first compare the carrying value of the asset to the asset's estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows are less than the carrying value of the asset, we calculate an impairment loss. The impairment loss calculation compares the carrying value of the asset to the asset's estimated fair value, which may be based on estimated future cash flows (discounted and with interest charges). We recognize an impairment loss if the amount of the asset's carrying value exceeds the asset's estimated fair value. If we recognize an impairment loss, the adjusted carrying amount of the asset becomes its new cost basis. The new cost basis will be depreciated (amortized) over the remaining useful life of that asset. Using the impairment evaluation methodology described herein, there have been no long-lived asset impairment charges for each of the last two years.

The Company's impairment loss calculations contain uncertainties because they require management to make assumptions and to apply judgment to estimate future cash flows and asset fair values, including forecasting useful lives of the assets and selecting the discount rate that reflects the risk inherent in future cash flows.

We have not made any material changes in the Company's impairment loss assessment methodology during the past two fiscal years. We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate long-lived asset impairment losses. However, if actual results are not consistent with estimates and assumptions used in estimating future cash flows and asset fair values, we may be exposed to losses that could be material.

Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current period and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled.

When accounting for Uncertainty in Income Taxes, first, the tax position is evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed "more-likely-than-not" to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The Company underwent a change of control for income tax purposes on October 8, 2003 according to Section 381 of the Internal Revenue Code. The Company's utilization of U.S. Federal net operating losses will be limited in accordance to Section 381 rules. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Accounting Changes and Recent Accounting Standards

We review new accounting standards as issued. Although some of these accounting standards issued or effective after the end of our previous fiscal year may be applicable to us, we have not identified any standards that we believe merit further discussion. We believe that none of the new standards will have a significant impact on our consolidated financial statements.

RESULTS OF OPERATIONS

Results of Operations

The following table sets forth certain unaudited consolidated statements of income data for the five most recent quarters and nine month period ending June 30, 2012:

	Three Months Ended						Nine Months Ended June 30, 2012	Trailing 12 Months
	June 30, 2011	September 30, 2011	December 31, 2011	March 31, 2012	June 30, 2012	Change From Prior Quarter		
Net sales	$180,467	$148,298	$226,706	$531,268	$672,438	$141,170	$1,430,412	$1,578,710
Cost of sales	161,483	128,769	192,164	470,474	564,774	94,300	1,227,412	1,356,181
Gross profit	18,984	19,529	34,542	60,794	107,664	46,870	203,000	222,529
Gross margin	10.5 %	13.2 %	15.2 %	11.4 %	16.0 %		14.2 %	14.1 %
Operating expenses:								
General and administrative	14,377	84,148	100,417	96,671	230,898	134,227	427,986	512,134
Sales and marketing	1,106	5,838	17,838	32,876	70,810	37,934	121,524	127,362
Depreciation and amortization	595	653	940	2,240	3,195	955	6,375	7,028
Stock compensation	-	-	-	-	238,100	238,100	238,100	238,100
Total operating expenses	16,078	90,639	119,195	131,787	543,003	411,216	793,985	884,624
Operating loss	2,906	(71,110)	(84,653)	(70,993)	(435,339)	(364,346)	(590,985)	(662,095)
Non-operating income (expense):								
Interest expense - other	(118)	(5,022)	(5,930)	(7,239)	(11,453)	(4,214)	(24,622)	(29,644)
Interest expense - accretion of debt discount	-	-	-	(8,828)	(52,966)	(44,138)	(61,794)	(61,794)
Accretion of beneficial conversion feature	-	-	-	(57,118)	(19,400)	37,718	(76,518)	(76,518)
Total non-operating	(118)	(5,022)	(5,930)	(73,185)	(83,819)	(10,634)	(162,934)	(167,956)

expense								
Income (loss) before income taxes	2,788	(76,132)	(90,583)	(144,178)	(519,158)	(374,980)	(753,919)	(830,051)
Income tax provision (benefit)	-	-	-	-	-	-	-	-
Net income (loss)	$2,788	$(76,132)	$(90,583)	$(144,178)	$(519,158)	$(374,980)	$(753,919)	$(830,051)

On June 30, 2011, the Company entered into a "reverse merger" with Punk Industries, Inc. As such, the assets and liabilities and the historical operations of Punk Industries, Inc. prior to the Merger are reflected in the financial statements and have been recorded at the historical cost basis of Punk Industries, Inc. Our consolidated financial statements after completion of the Merger include the assets and liabilities of both ePunk, Inc. and Punk Industries, Inc., historical operations of Punk Industries, Inc. and our ePunk, Inc. operations from the Effective Date of the Merger. Thus, the discussion that follows relates to the operations of punk Industries, Inc. Punk Industries, Inc. was incorporated in February 25, 2011, as a result, the prior period comparative financial results are not meaningful with respect to a year-over-year comparison and have been excluded from the following discussion. However, in the table above and discussion below, we have included the operating result of the five most recent quarters.

Revenue and Gross Margin

During the three months ended June 30, 2012, revenues and gross profit totaled $672,438 and $107,664, respectively, representing an increase in revenue of $141,170 or 27% and an increase in gross profit of $46,870 or 77% compared to the three months ended March 31, 2012; an increase in revenue of $445,732 or 197% and an increase in gross profit of $73,122 or 212% compared to the three months ended December 31, 2011; and an increase in revenue of $524,140 or 353% and an increase in gross profit of $88,135 or 451% compared to the three months ended September 30, 2011. During the nine months ended June 30, 2012 revenues and gross profit totaled $1,430,412 and $203,000, respectively. Our gross margin has fluctuated from 13.2% to 15.2% to 11.4% to 16.0% in each of the past four quarters ending September 30, 2011, December 31, 2011, March 31, 2012 and June 30, 2012 respectively. Our revenue consists of sales of scooters, ATV's, UTV's, motorcycles and parts and accessories through our website properties CountyImports.com, CountyImportParts.com, BidPunks.com, ViperSportUSA.com, CountyCruisers.com, PCHRides.com and through our storefront, Pacific Coast House of Rides located in Dana Point, California. We expect our gross margin to increase as our sales increase. However, due to our short operating history and fluctuation in our sales mix we cannot provide assurances that the gross margin will increase or be consistent from period-to-period.

Operating Expenses

Operating expenses consist primarily of facility costs, sales and marketing costs, personnel costs, professional fees, other general operating costs and stock compensation. Actual operating expenses and operating costs excluding stock compensation and as a percentage of revenue were $90,639 or 61.1%; $119,195 or 52.6%; $131,787 or 24.8% and $304,903 or 45.3% in each of the past four quarters ending September 30, 2011, December 31, 2011, March 31, 2012 and June 30, 2012 respectively. Excluding stock compensation, operating costs increased $173,116 from the three months ended March 31, 2012 to the three months ended June 30, 2012 as a result of an increase in personnel costs of $54,958, increase in professional fees of $64,369, increase in sales and marketing costs of $37,934 and $15,855 increase in other operating costs.

Non-operating Expense

Non-operating expense during the three and nine months ended June 30, 2012 was $83,819 and $162,934, respectively and consists of interest related to our outstanding notes, accretion related to the debt discount of the Gemini note and amortization of the beneficial conversion feature related to the Amalfi loans as a result of the Company's default on certain convertible promissory notes whereby upon default the notes become convertible into shares of common stock at the option of the holder.

Net Income (Loss)

As a result of the foregoing, for the three months ended June 30, 2012 and 2011, the Company recognized a net loss of $519,158 and net income $2,788, respectively. During the nine months ended June 30, 2012, the Company recognized a net loss of $753,919. Excluding stock based compensation, the Company's net loss for the three and nine months ended June 30, 2012 was $281,058 and $515,819, respectively.

Liquidity and Capital Resources

The accompanying financial statements have been prepared assuming we will continue as a going concern. At June 30, 2012, The Company had current assets of $84,387, including cash on hand of $26,496, inventory of $23,655 and current liabilities totaling $568,587. Based on the past six months of operations, the Company currently receives approximately $28,000 per month in gross profit. Additionally, we have raised $378,821 from promissory notes from February 25, 2011 (inception) through June 30, 2012. As a result we have been able to fund our operations to date. Over the next twelve months, we intend to build our business which includes increasing our on-line and penny auction sales in addition to establishing over 100 additional dealerships. There can be no assurance that the Company will generate sufficient capital from operations to fund planned operations.

Management is planning to raise necessary additional funds for working and growth capital through loans and additional sales of its common stock. However, there is no assurance that the Company will be successful in raising additional capital or that such additional funds will be available on acceptable terms, if at all. Should the Company be unable to raise this amount of capital its operating plans will be limited to the amount of capital that it can access.

Net cash used by operating activities was $245,748 for the nine months ended June 30, 2012.

Net cash used by investing activities was $40,521 for the nine months ended June 30, 2012.

Net cash provided by financing activities was $294,559 for the nine months ended June 30, 2012.

17

Off-Balance Sheet Arrangements

We have no off-balance sheet transactions.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4.Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain certain disclosure controls and procedures as defined under the Securities Exchange Act of 1934. They are designed to help ensure that material information is: (1) gathered and communicated to our management, including our principal executive and financial officers, in a manner that allows for timely decisions regarding required disclosures; and (2) recorded, processed, summarized, reported and filed with the SEC as required under the Securities Exchange Act of 1934 and within the time periods specified by the SEC. As of December 31, 2011, the Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures as defined in Rule 13a — 15(e) under the Securities Exchange Act of 1934, as amended. Based on the evaluation of these controls and procedures required by paragraph (b) of Sec. 240.13a-15 or 240.15d-15 the disclosure controls and procedures have been found to be ineffective to provide reasonable assurance that information we are required to disclose in our reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure due to the material weakness in our internal control over financial reporting as described below.

A material weakness in the Company's internal control over financial reporting exists in that there is 1) limited segregation of duties amongst the Company's employees with respect to the Company's preparation and review of the Company's financial statements; 2) lack of an independent audit committee; and 3) insufficient number of independent directors. These material weaknesses may affect management's ability to effectively review and analyze elements of the financial statement closing process and prepare financial statements in accordance with U.S. GAAP.

Our management determined that these deficiencies constituted material weaknesses. Due to a lack of financial resources, we are not able to, and do not intend to, immediately take any action to remediate these material weaknesses. We will not be able to do so until we acquire sufficient financing to do so. We will implement further controls as circumstances, cash flow, and working capital permit. Notwithstanding the assessment that our ICFR was not effective and that there were material weaknesses as identified in this report, we believe that our consolidated financial statements contained in our annual report on form 10-Q for the three and nine months ended June 30, 2012, fairly present our financial position, results of operations and cash flows for the years covered thereby in all material respects.

Internal Control over Financial Reporting

The Company's Chief Executive Officer and Principal Financial Officer are responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes of accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives.

Changes in Internal Controls

There were no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

Limitations on the Effectiveness of Controls and Other Matters

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls may be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Risk Factor Related to Controls and Procedures

The Company lacks an independent audit committee, has an insufficient number of independent directors and has limited segregation of duties amongst its employees with respect to the Company's preparation and review of the Company's financial statements due to the limited number of employees. The above represents a material weakness in internal controls, and if the Company fails to maintain an effective system of internal controls, it may not be able to accurately report its financial results or prevent fraud. As a result, current and potential stockholders could lose confidence in the Company's financial reporting which could harm the trading price of the Company's stock.

Management has found it necessary to limit the Company's staffing in order to conserve cash until the Company's level of business activity increases. As a result, there is limited segregation of duties amongst the employees. The Company and its independent public accounting firm have identified this as a material weakness in the Company's internal controls. The Company intends to remedy this material weakness by hiring additional employees and reallocating duties, including responsibilities for financial reporting, among the employees as soon as there are sufficient resources available. However, until such time, this material weakness will continue to exist.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

Not applicable.

Item 1a. Risk Factors.

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosure.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit	Description of Exhibit
31.1*	Chairman of the Board and Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Director, President and Chief Financial Officer Certification of Periodic Financial Report Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Chairman of the Board and Chief Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Director, President and Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed Herewith

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	ePunk, Inc. (Registrant)	
Dated: August 24, 2012	By:	/s/ Richard Gonzales Richard Gonzales, Chief Executive Officer
	By:	/s/ Justin Dornan Justin Dornan, Chief Financial Officer

21