

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

EOS INTERNATIONAL INC
Form 8-K/A
February 27, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K/A

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

DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED) December 27, 2001

EOS INTERNATIONAL, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

DELAWARE	0-15586	52-1373960
-----	-----	-----
(STATE OR OTHER JURISDICTION OF INCORPORATION)	(COMMISSION FILE NUMBER)	(IRS EMPLOYER IDENTIFICATION NO.)

888 SEVENTH AVENUE, 13TH FLOOR, NEW YORK, NEW YORK 10106

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (212) 887-6869

NOT APPLICABLE

(FORMER NAME OR FORMER ADDRESS, IF CHANGED SINCE LAST REPORT)

ITEM 7. Financial Statements and Exhibits

(a) Financial Statements of Businesses Acquired

Audited Financial Statements of Regal Greetings & Gifts, a Canadian Corporation, including Balance Sheets as of December 29, 2000 and 1999, Statements of Operations and Cash Flows for the Years Ended December 2000, 1999, and 1998 and the Independent Auditors Report are included as part of this Form 8-K/A as attachment 7(a)(1) and are incorporated herein by

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

reference.

Unaudited financial statements of Regal Greetings & Gifts for the nine month periods ended September 28, 2001 and September 29, 2001 are included as part of this Form 8-K/A as attachment 7(a)(2) and are incorporated herein for reference.

(b) Pro Forma Financial Information

Pro Forma consolidated financial statements of Eos International, Inc. are included as part of this Form 8-K/A as attachment 7(b) and are incorporated herein for reference.

Description of the Transaction;

Unaudited Pro Forma Condensed Consolidated Balance Sheet as of September 30, 2001; and

Unaudited Pro Forma Condensed Consolidated Statements of Operations for the Nine Months Ended September 30, 2001 and the Year Ended December 31, 2000.

(c) Exhibits

EXHIBIT NO. -----	TITLE -----
2.1	Restated Asset and Share Purchase Agreement dated as of December 4, 2001 among MDC Corporation Inc. and Regal Greetings & Gifts Corporation and McGuggan, LLC. (1)
2.2	Amending Agreement dated as of December 14, 2001 between MDC Corporation Inc. and Regal Greetings & Gifts Corporation and McGuggan LLC. (1)
10.1	Agreement for Management Consulting Services dated as of December 14, 2001 by and between Regal Greetings & Gifts Corporation and Dreamlife, Inc. (1)
10.2	Employment Agreement dated as of December 12, 2001 by and between Regal Greetings & Gifts Corporation and Janice Wadge. (1)
10.3	Employment Agreement dated as of December 12, 2001 by and between Regal Greetings & Gifts Corporation and Kevin Watkinson. (1)
10.4	Promissory Note dated as of December 14, 2001 made by Regal Greetings & Gifts Corporation and issued to MDC Corporation Inc. (1)
10.5	Secured \$3,500,000 Bridge Loan Promissory Note dated as of December 14, 2001 made by Dreamlife, Inc. and issued to DL Holdings I, L.L.C. (1)
10.6	Secured \$3,000,000 Bridge Loan Promissory Note dated as of December 14, 2001 made by Dreamlife, Inc. and issued to Weichert

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

Enterprises, LLC (1)

- 10.7 Dreamlife, Inc. Common Stock Purchase Warrant dated as of December 14, 2001 issued to Weichert Enterprises, LLC. (1)
- 10.8 Dreamlife, Inc. Common Stock Purchase Warrant dated as of December 14, 2001 issued to DL Holdings I, L.L.C. (1)
- 10.9 Letter of Commitment dated December 5, 2001 issued by The Bank of Nova Scotia to Regal Greetings & Gifts Corporation. (1)
- 10.10 Acknowledgement to The Bank of Nova Scotia Re: Survival of Letter of Commitment dated December 14, 2001 by and between Regal Greetings & Gifts Corporation, MDC Regal Inc. and Primes De Luxe Inc. (1)
- 10.11 Debenture dated as of December 14, 2001 issued to RoyNat Capital Inc. by Regal Greetings & Gifts Corporation. (1)
- 10.12 Warrants To Acquire Common Shares in Regal Greetings & Gifts Corporation dated as of December 14, 2001 issued to RoyNat Capital Inc. (1)
- 99.1 Press Release of the Registrant dated December 17, 2001. (1)

(1) INCORPORATED BY REFERENCE TO THE QUARTERLY REPORT ON 10-Q OF EOS INTERNATIONAL, INC. FORMERLY KNOWN AS dreamlife, inc. FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON DECEMBER 21, 2001

ATTACHMENT 7 (A) (1)

REGAL GREETINGS & GIFTS

INDEX TO FINANCIAL STATEMENTS	PAGE

Independent Auditors Report	2
Balance Sheets as of December 29, 2000 and 1999	3
Statements of Operations, Comprehensive Income/(Loss) and Divisional Equity for the Years Ended December 29th 2000 , 1999 and 1998	4
Statements of Cash Flows for Years Ended December 29th 2000, 1999, and 1998	5
Summary of Significant Accounting Policies	6
Notes to Financial Statements	10

=====

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF
EOS INTERNATIONAL, INC. AND MDC CORPORATION INC.
RE: REGAL GREETINGS & GIFTS

We have audited the combined balance sheets of the Regal Greetings & Gifts as at December 29, 2000 and 1999 and the combined statements operations, comprehensive income (loss) and equity and combined cash flows for each of the years in the three-year period ended December 29, 2000. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with United States of America generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these combined financial statements present fairly, in all material respects, the financial position of the Company as at December 29, 2000 and 1999 and the results of its operations and its cash flows for each of the years in the three-year period ended December 29, 2000 in accordance with Canadian generally accepted accounting principles.

(signed) BDO Dunwoody LLP

Chartered Accountants

Markham, Ontario
January 31, 2002

2

=====
REGAL GREETINGS & GIFTS
COMBINED BALANCE SHEETS
(in thousands of U.S. dollars)

2000 1999

ASSETS

CURRENT

Cash and cash equivalents	\$ 3,003	\$ 2,419
Accounts receivable (Note 1)	617	802
Inventories (Note 2)	9,465	16,080
Prepaid expenses	2,219	2,161
	-----	-----

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

	15,304	21,462
FUTURE TAX ASSETS (Note 3)	1,057	1,255
CAPITAL ASSETS (Note 4)	5,162	5,920
GOODWILL (Note 5)	26,846	28,706
	-----	-----
	\$48,369	\$57,343
=====		
LIABILITIES AND EQUITY		
CURRENT		
Accounts payable	\$ 1,894	\$ 3,889
Accrued liabilities (Note 6)	2,890	3,942
Current portion of obligation under capital lease (Note 7)	11	12
	-----	-----
	4,795	7,843
OBLIGATION UNDER CAPITAL LEASE (Note 7)	26	41
	-----	-----
	4,821	7,884
	-----	-----
COMMITMENTS AND CONTINGENCIES (Notes 8, 10 and 11)		
EQUITY		
Equity, including cumulative translation adjustment of (\$4,048) and (\$2,258) respectively	43,548	49,459
	-----	-----
	\$48,369	\$57,343
=====		

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

3

	REGAL GREETINGS & GIFTS COMBINED STATEMENTS OF OPERATIONS, COMPREHENSIVE Income (Loss) AND EQUITY (in thousands of U.S. dollars)		
FOR THE YEAR ENDED	2000	1999	1998
	-----	-----	-----
SALES	\$ 55,714	\$ 53,394	\$ 46,436
COST OF SALES	27,795	28,448	26,634
	-----	-----	-----
GROSS PROFIT	27,919	24,946	19,802
	-----	-----	-----

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

OPERATING EXPENSES			
Sales and marketing	16,053	14,434	14,749
General and administrative	7,361	7,343	5,755
Depreciation	1,312	855	615
Amortization of goodwill	805	805	807

	25,531	23,437	21,926

INCOME (LOSS) FROM OPERATIONS	2,388	1,509	(2,124)

OTHER INCOME (EXPENSE)			
Interest income	40	95	33
Interest expense	(7)	(1)	-

	33	94	33

INCOME (LOSS) BEFORE INCOME TAXES	2,421	1,603	(2,091)

INCOME TAXES (RECOVERY)			
Current	914	794	(375)
Future	142	(79)	(558)

	1,056	715	(933)

NET INCOME (LOSS) FOR THE YEAR	1,365	888	(1,158)

OTHER COMPREHENSIVE INCOME (LOSS)			
Translation adjustment	(1,790)	2,801	(3,240)

COMPREHENSIVE INCOME (LOSS)	(425)	3,689	(4,398)

EQUITY, beginning of year	49,459	40,533	38,914

	49,034	44,222	34,516
CAPITAL CONTRIBUTIONS (DISTRIBUTIONS)	(5,486)	5,237	6,017

EQUITY, end of year	\$ 43,548	\$ 49,459	\$ 40,533
	=====		

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

COMBINED STATEMENTS OF CASH FLOWS
(in thousands of U.S. dollars)

FOR THE YEAR ENDED	2000	1999	1998

CASH PROVIDED BY (USED IN)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss) for the year	\$ 1,365	\$ 888	\$ (1,158)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation	1,312	855	615
Amortization of goodwill	805	805	807
Loss on disposal of capital assets	13	259	-
Future income taxes	142	(79)	(558)
Changes in non-cash working capital balances			
Accounts receivable	157	81	182
Inventories	6,079	(4,853)	435
Prepaid expenses	(139)	(120)	250
Accounts payable and accrued liabilities	(2,785)	1,079	(4,013)
	6,949	(1,085)	(3,440)

CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on disposal of capital assets	69	-	-
Purchase of capital assets	(850)	(2,534)	(1,860)
	(781)	(2,534)	(1,860)

CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions (distributions)	(5,486)	5,237	6,017
Repayment of capital lease obligation	(15)	(5)	(6)
Repayment of short-term borrowings	-	-	(2)
	(5,501)	5,232	6,009

EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	(83)	91	(28)

INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	584	1,704	681
CASH AND CASH EQUIVALENTS, beginning of year	2,419	715	34

CASH AND CASH EQUIVALENTS, end of year	\$ 3,003	\$ 2,419	\$ 715
=====			

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

=====

REGAL GREETINGS & GIFTS
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(in thousands of U.S. dollars)

DECEMBER 29, 2000, 1999 AND 1998

NATURE OF BUSINESS

Regal Greetings & Gifts (a division of MDC Corporation Inc. ("MDC") (an Ontario Corporation)) and Prime De Luxe Inc. (a subsidiary of MDC Corporation Inc.) collectively "Regal Greetings & Gifts" (the "Company") are in the business of direct sales through a network of approximately 422,000 independent sales representatives. The Company's principal offices are located in Mississauga, Ontario and its geographic market primarily encompasses Canada.

Historically the Company operated as a separate business of MDC.

The Company uses a sales force of independent sales representatives to distribute products directly to consumers. This technique uses catalogs developed by the Company to promote product sales.

BASIS OF PRESENTATION

The financial statements contain the combined net assets of Regal Greetings & Gifts and Prime De Luxe Inc. and the actual combined historical results of operations of the Company. Amounts previously classified as advances from MDC have been reclassified as part of equity. Such amounts are not obligations to be assumed by the purchaser. Management of the Company believes all corporate expenses have been included in operating expenses for the periods presented. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Management believes that there are no significant reconciling items to conform to accounting principles generally accepted in the United States of America.

FISCAL YEAR

The Company's fiscal year consists of a fifty-two or fifty-three week period ending on the Friday closest to December 31.

INVENTORIES

Finished goods, work in process and raw materials are stated at the lower of cost or market. Cost is generally determined on a first in, first out basis.

USE OF ESTIMATES

The preparation of financial statements in

accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future. Such differences could be material and affect the results of operations reported in future periods.

6

=====

REGAL GREETINGS & GIFTS
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(in thousands of U.S. dollars)

DECEMBER 29, 2000, 1999 AND 1998

CAPITAL ASSETS

Capital assets are stated at cost less accumulated depreciation.

Depreciation is provided over the estimated useful life of the asset on a straight-line or accelerated rate basis over the following periods:

Computer equipment - 3 - 10 years
Furniture and fixtures - 10 years
Leasehold improvements - Term of the lease
Machinery and equipment - 10 years

GOODWILL

Goodwill is stated at cost less accumulated amortization. The Company amortizes goodwill on a straight-line basis over 40 years. The carrying value of goodwill is assessed annually by reviewing the estimated future undiscounted cash flows of the underlying business of the Company. Any permanent impairment in the carrying value of goodwill is expensed in the period in which the assessment is made.

REVENUE RECOGNITION

Revenue is recognized when the product is delivered, which is when legal title and risk of loss are transferred to the Company's independent sales representatives.

The Company's sales representatives can return products within 30 days from the date of sale. The Company records provisions for estimated returns based on historical experience.

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

The Company maintains an incentive bonus plan in which all independent sales representatives participate. Under the plan, representatives receive purchase price discounts and earn awards based on individual sales performance. Purchase price discounts and awards are determined and accrued for on an annual basis, and are reflected as a reduction of revenues in the period they are earned. Purchase price discounts and awards under the incentive bonus plan were \$23,262, \$21,492 and \$16,106 for 2000, 1999 and 1998 respectively.

The Company provides coupons to sales representatives that can be used towards the purchase of Company products. When coupons are provided in conjunction with the sale of products, the Company allocates the sales proceeds between the fair values of the products and the value of the coupon based on estimated redemption rates. When coupons are provided as incentives to sales representatives or in conjunction with the sale of products, the Company accrues the value of the coupon based on estimated redemption rates as a sales and marketing expense. The value of these coupons is not significant to these financial statements.

7

=====

REGAL GREETINGS & GIFTS
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(in thousands of U.S. dollars)

DECEMBER 29, 2000, 1999 AND 1998

SEASONALITY

The Company operates within a highly seasonal industry whereby approximately 42% of its sales are earned during the months of October through December.

SHIPPING AND HANDLING COSTS

The Company records shipping and handling fees billed to customers as revenue included in net sales. Costs associated with shipping and handling activities are comprised of outbound freight, associated direct labour costs and cartons/supplies, and are recorded in cost of goods sold.

ADVERTISING COSTS

Direct response advertising costs, consisting principally of catalog preparation, printing and postage costs are capitalized and amortized over the period of benefit, generally three to six months. Advertising costs of \$4,058 in 2000, \$3,782

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

in 1999 and \$3,600 in 1998 are included in the accompanying statements of operations. Prepaid catalog costs included in prepaid expenses at December 31, 2000 and 1999 totaled \$1,487 and \$1,395, respectively.

INCOME TAXES

Regal Greetings & Gifts (a division of MDC Corporation Inc. ("MDC") (an Ontario Corporation)) results of operations have been included in the MDC income tax returns. Regal Greetings & Gifts (a division of MDC Corporation Inc. ("MDC") (an Ontario Corporation)) is not a tax-paying entity, the operating results include an estimated tax provision based on enacted tax rates in effect and estimated taxable income. The resulting income tax liability/recovery has been included as an increase/decrease of equity.

PENSIONS

The cost of pension benefits earned by employees covered under the defined benefit component of the pension plan is determined using the projected benefits method prorated in service. This cost reflects management's best estimates of the pension plan's expected investment yields, salary escalation, mortality of members and the ages at which members will retire.

FOREIGN CURRENCY

The Company uses the Canadian dollar as its functional currency. Translation adjustments which result from the process of translating foreign currency financial statements to U.S. dollars, are included as a component of equity. Transaction gains and losses, which have not been material to date, are included in the accompanying statement of operations.

=====

REGAL GREETINGS & GIFTS
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(in thousands of U.S. dollars)

DECEMBER 29, 2000, 1999 AND 1998

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of amounts with short term maturities and obligation under capital lease. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

financial instruments approximate their carry values, unless otherwise noted.

CASH AND CASH EQUIVALENTS

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

All the Company's cash is held by three multi-national banks.

The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on cash and cash equivalents.

STATEMENT OF CASH FLOWS

The cash paid for interest is not significantly different than the interest expense presented on the combined statements of operations. No income taxes were paid in 2000, 1999 or 1998.

9

=====

REGAL GREETINGS & GIFTS
NOTES TO COMBINED FINANCIAL STATEMENTS
(in thousands of U.S. dollars)

DECEMBER 29, 2000, 1999 AND 1998

1. ACCOUNTS RECEIVABLE

	2000	1999
	-----	-----
Trade	\$ 714	\$ 841
Non-trade	55	28
Volume rebates	57	123
Allowance for doubtful accounts	(209)	(190)
	-----	-----
	\$ 617	\$ 802
	=====	=====

The carrying value of accounts receivable approximates fair value because of the short maturity of these instruments and because they are subject to normal credit terms.

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

2. INVENTORIES

	2000	1999

Raw materials	\$ 222	\$ 333
Work in process	75	321
Finished goods	10,107	16,365
Allowance for obsolescence	(939)	(939)

	\$ 9,465	\$16,080
	=====	

3. FUTURE TAX ASSETS

The significant components of net future tax assets are:

	2000	1999

Net operating loss carryforwards of Prime De Luxe Inc.	\$ 934	\$1,108
Amortization	123	147

	\$1,057	\$1,255
	=====	

The Company's net operating loss carryforwards included as a future tax asset above are approximately \$211, \$1,178 and \$753 for years 1999, 1998 and 1997 respectively. These operating loss carryforwards expire between 2004 and 2007 if not utilized.

10

=====

REGAL GREETINGS & GIFTS
NOTES TO COMBINED FINANCIAL STATEMENTS
(in thousands of U.S. dollars)

DECEMBER 29, 2000, 1999 AND 1998

4. CAPITAL ASSETS

	2000	1999

	ACCUMULATED	ACCUMULATED

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

	COST	DEPRECIATION	COST	DEPRECIATION
Computer equipment	\$ 7,501	\$ 4,708	\$ 7,242	\$ 4,088
Furniture and fixtures	3,625	3,022	3,704	2,940
Leasehold improvements	2,243	994	2,204	868
Machinery and equipment	3,330	2,813	3,458	2,792
	16,699	11,537	16,608	10,688
Net carrying value		\$ 5,162		\$ 5,920

5. GOODWILL

	2000	1999
Cost	\$ 31,784	\$ 33,006
Accumulated amortization	4,938	4,300
	\$ 26,846	\$ 28,706

6. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	2000	1999
Accrued pension obligation	\$ 303	\$ 442
Business and commodity taxes	818	1,111
Payroll, bonus and benefit-related accruals	976	832
Postage	207	273
Returns and refunds	200	208
Other	386	1,076
	\$ 2,890	\$ 3,942

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

REGAL GREETINGS & GIFTS
 NOTES TO COMBINED FINANCIAL STATEMENTS
 (in thousands of U.S. dollars)

DECEMBER 29, 2000, 1999 AND 1998

7. OBLIGATION UNDER CAPITAL LEASE

	2000	1999
Repayable \$2.845 quarterly plus interest, maturing July 2005.	\$ 32	\$ 43
Repayable \$0.488 monthly plus interest, maturing June 2002.	5	10
Less: Current portion	37 11	53 12
	\$ 26	\$ 41

The security for the capital lease obligation is the underlying capital assets purchased under the lease.

The future minimum lease payments for the next 5 years and thereafter are as follows:

Year	Amount
2001	\$ 11
2002	7
2003	7
2004	7
2005	5
	\$ 37

8. PENSION COSTS AND OBLIGATIONS AND EMPLOYEE FUTURE BENEFIT OBLIGATIONS

The estimated market value of assets in the defined benefit component of the pension plans was \$2,892 at December 29, 2000 (1999 - \$2,535). These

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

assets are available to meet the estimated present value of accrued pension obligations of \$3,196 at December 29, 2000 (1999 - \$3,144).

12

=====

REGAL GREETINGS & GIFTS
NOTES TO COMBINED FINANCIAL STATEMENTS
(in thousands of U.S. dollars)

DECEMBER 29, 2000, 1999 AND 1998

9. RELATED PARTY TRANSACTIONS

During the year the Company had the following transactions with MDC and companies controlled by its head office:

	2000	1999	1998
	-----	-----	-----
Purchases from company controlled by MDC	\$ 298	\$ 335	\$ 343

At the end of the year amounts included in accounts payable are as follows:

	2000	1999
	-----	-----
Accounts payable	\$ 2	\$ 57

The balances are payable on demand and have arisen from the purchases referred to above.

10. COMMITMENTS

The Company has leased premises (exclusive of additional amounts for taxes, insurance and other occupancy charges) and office equipment for which the minimum annual lease payments are approximately as follows:

	Amount

2001	\$ 1,738
2002	1,355
2003	1,066

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

2004	858
2005	754
Thereafter	3,314

	\$ 9,085
	=====

11. CONTINGENT LIABILITIES

As at December 29, 2000 there are claims against the Company in varying amounts. It is not possible to determine the amounts that may ultimately be assessed against the Company with respect to these claims; however, management believes that any such amounts would not have a material impact on the results of operations or financial position of the Company.

12. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform to the current year's presentation.

ATTACHMENT 7(A) (2)

REGAL GREETINGS & GIFTS

INDEX TO FINANCIAL STATEMENTS	PAGE

Balance Sheets as of September 28th, 2001 and September 29th, 2000 (Unaudited)	2
Statements of Operations, Comprehensive Income/(Loss) and Divisional Equity for the Nine Months Ended September 28th, 2001 and September 29th, 2000 (Unaudited)	3
Statements of Cash Flows for the Nine Months Ended September 28th 2001 and September 29th, 2000 (Unaudited)	4
Summary of Significant Accounting Policies	5
Notes to Financial Statements	6

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

COMBINED BALANCE SHEETS
(UNAUDITED)
(in thousands of U.S. dollars)

	SEPTEMBER 28 2001	September 29 2000

ASSETS		
CURRENT		
Cash and cash equivalents	\$ 1,102	\$ 2,504
Accounts receivable	198	287
Inventories (Note 1)	12,614	14,943
Prepaid expenses	3,128	2,930
	-----	-----
	17,042	20,664
FUTURE INCOME TAXES	1,146	1,363
CAPITAL ASSETS	4,055	5,391
GOODWILL	8,467	26,910
	-----	-----
	\$ 30,710	\$ 54,328
=====		
LIABILITIES AND EQUITY		
CURRENT		
Accounts payable	\$ 2,425	\$ 1,455
Accrued liabilities (Note 2)	2,687	3,225
Current portion of obligation under capital lease	41	11
	-----	-----
	5,153	4,691
OBLIGATION UNDER CAPITAL LEASE	26	29
	-----	-----
	5,179	4,720
EQUITY		
Equity, including cumulative translation adjustment of (\$5,831) and (\$4,378) respectively	25,531	49,608
	-----	-----
	\$ 30,710	\$ 54,328
=====		

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

=====		
REGAL GREETINGS & GIFTS		
COMBINED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND EQUITY		
(UNAUDITED)		
(in thousands of U.S. dollars)		
FOR THE NINE MONTH PERIOD ENDED	SEPTEMBER 28 2001	September 29 2000

SALES	\$ 31,139	\$ 32,761
COST OF SALES	14,817	16,951
GROSS PROFIT	16,322	15,810
OPERATING EXPENSES		
Sales and marketing	11,110	11,129
General and administrative	5,770	5,649
Depreciation	1,027	957
Amortization - goodwill, including impairment writedown of \$16,834 for the nine-months ended September 28, 2001 (Note 3)	17,476	609
	-----	-----
	35,383	18,344
	-----	-----
LOSS BEFORE OTHER CHARGES	(19,061)	(2,534)
	-----	-----
OTHER CHARGES		
Interest income	30	-
Interest expense	(7)	-
	-----	-----
	23	-
	-----	-----
LOSS BEFORE INCOME TAXES	(19,038)	(2,534)
	-----	-----
INCOME TAXES RECOVERY		
Current	(768)	(941)
Future	(146)	(164)
	-----	-----
	(914)	(1,105)
	-----	-----
NET LOSS FOR THE PERIOD	(18,124)	(1,429)
OTHER COMPREHENSIVE INCOME (LOSS)		
Translation adjustment	(1,783)	(2,120)
	-----	-----
COMPREHENSIVE LOSS	(19,907)	(3,549)

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

EQUITY, beginning of the period	43,548	49,459
	-----	-----
	23,641	45,910
CAPITAL CONTRIBUTIONS	1,890	3,698
	-----	-----
EQUITY, end of period	\$ 25,531	\$ 49,608
	=====	=====

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

3

=====

REGAL GREETINGS & GIFTS
 COMBINED STATEMENTS OF CASH FLOWS
 (UNAUDITED)
 (in thousands of U.S. dollars)

FOR THE NINE MONTH PERIOD ENDED	SEPTEMBER 28, 2001	September 29, 2000
	-----	-----
CASH PROVIDED BY (USED IN)		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (18,124)	\$ (1,429)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation	1,027	957
Amortization of goodwill	17,476	609
Loss on disposal of capital assets	119	14
Future income taxes	(146)	(164)
Changes in non-cash working capital balances		
Accounts receivable	398	493
Inventories	(3,728)	476
Prepaid expenses	(1,050)	(880)
Accounts payable and accrued liabilities	586	(2,891)
	-----	-----
	(3,442)	(2,815)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on disposal of capital assets	5	71
Purchase of capital assets	(218)	(752)
	-----	-----
	(213)	(681)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contributions	1,890	3,698
Repayment of capital lease obligation	(34)	(13)

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

	1,856	3,685
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	(102)	(104)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	(1,901)	85
CASH AND CASH EQUIVALENTS, beginning of period	3,003	2,419
CASH AND CASH EQUIVALENTS, end of period	\$ 1,102	\$ 2,504

NON CASH ITEMS

During the nine month period ended September 28, 2001, capital assets were acquired at an aggregate cost of \$284 (during nine month period ended September 29, 2000 - \$752). Of this total, \$66 (during nine month period ended September 29, 2000 - \$NIL) was acquired by means of capital leases, with the remaining \$218 (during nine month period ended September 29, 2000 - \$752) paid in cash.

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

4

REGAL GREETINGS & GIFTS
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(UNAUDITED)

SEPTEMBER 28, 2001 AND SEPTEMBER 29, 2000

NATURE OF BUSINESS

Regal Greetings & Gifts (a division of MDC Corporation Inc. ("MDC")) and Prime De Luxe Inc. (a subsidiary of MDC Corporation Inc.) collectively "Regal Greetings & Gifts" (the "Company") are in the business of direct sales through a network of approximately 422,000 independent sales representatives. The Company's principal offices are located in Mississauga, Ontario and its geographic market primarily encompasses Canada.

Historically the Company operated as a separate business of MDC.

BASIS OF PRESENTATION

The financial statements contain the combined net assets of Regal Greetings & Gifts and Prime de Luxe Inc. and the actual combined historical results of operations of

the Company. Amounts previously classified as advances from MDC have been reclassified as part of equity. Such amounts are not obligations to be assumed by the purchaser. Although the Company is not a tax-paying entity, the operating results include an estimated tax provision based on enacted tax rates in effect and estimated taxable income. Current recoveries have been reflected as a decrease to equity for all periods presented. Management of the Company believes all corporate expenses have been included in operating expenses for the periods presented.

The accompanying financial statements of the Company have been prepared pursuant to the rules of the Securities and Exchange Commission for the quarterly reports on Form 10-Q and do not include all of the information and footnotes required by Canadian generally accepted accounting principles. Management believes that there are no significant reconciling items to conform to accounting principals generally accepted in the United States of America. These financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended December 31, 2000 included in the accompanying Form 8-K/A.

In the opinion of management, all adjustments considered necessary for a fair presentation have been included consisting only of normal recurring accruals. Operating results for the nine-month period ended September 30, 2001 are not necessarily indicative of the results that may be expected for any future periods.

STATEMENT OF CASH FLOWS

The cash paid for interest is not significantly different than the interest expense presented on the combined statements of operations. No income taxes were paid for the nine months ended September 28, 2001 or for the nine months ended September 29, 2000.

=====

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

SEPTEMBER 28, 2001 AND SEPTEMBER 29, 2000

1. INVENTORIES

	2001	2000
Raw materials	\$ 299	\$ 321
Work in process	261	410
Finished goods	13,500	15,592
Allowance for obsolescence	(1,446)	(1,380)
	\$ 12,614	\$ 14,943

2. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	2001	2000
Accrued pension obligation	\$ 292	\$ 338
Commodity taxes	328	587
Deferred revenue	106	185
Payroll, bonus and benefit related accruals	810	471
Postage	272	207
Returns and refunds	127	199
Other	752	1,238
	\$ 2,687	\$ 3,225

3. GOODWILL IMPAIRMENT

The carrying value of goodwill is periodically evaluated by the Company based on estimated future undiscounted cash flows of the related business. At September 29, 2001, the Company's evaluation of its estimated future undiscounted cash flows were less than the carrying amount of goodwill. As such, the Company has recorded an impairment loss of \$16,834 for the excess carrying value.

4. SUBSEQUENT EVENTS

On December 14, 2001, 85% of the net assets of the Company were sold to Eos

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

International, Inc. in accordance with the terms of the Purchase/Sale Agreement.

6

ATTACHMENT 7(B)

EOS INTERNATIONAL, INC. AND REGAL GREETINGS & GIFTS

INDEX TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	PAGE

Description of the Transaction	2
Unaudited Pro Forma Condensed Consolidated Balance Sheet as of September 30, 2001	4
Unaudited Pro Forma Condensed Consolidated Statements of Operations for the Nine Months Ended September 30, 2001 and the Year Ended December 31, 2000	8

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS OF EOS INTERNATIONAL, INC. AND REGAL GREETINGS & GIFTS

On December 14, 2001, Eos International Inc., ("Eos" formerly dreamlife, Inc.) purchased the Regal Greetings & Gifts division (the "Regal Business") of MDC Corporation, Inc., an Ontario corporation ("MDC") and Prime De Luxe, Inc. (a subsidiary of MDC Corporation). The Regal business consists of all the assets of an ongoing business, including cash, accounts receivable, property and equipment, inventory and prepaid expenses. This acquisition was accounted for as a purchase.

The Regal Business was purchased by Regal Greetings & Gifts Corporation, a Canadian Corporation (the "Regal Corporation") which was formed by RGG Acquisition Inc., ("RGG"), a wholly owned subsidiary of Eos, to effect the purchase. The purchase price for an 85% interest in the assets of the Regal Business was approximately \$22.6 million, including \$.7 million in cash acquisition costs, plus the assumption of existing liabilities. The \$22.6 million, together with cash debt issue costs of \$.7 million relating to the transaction, was satisfied with the issuance of a \$3.8 million note (\$2.9 million net of discount) by Regal Corporation to MDC, put rights with an estimated fair value of \$1.1 million granted to MDC related to its 15% ownership interest, a \$6.5 million short-term bridge loan to Eos, a primary loan of \$8.3 million from Scotia Bank to the Regal Corporation and a mezzanine loan in the amount of \$4.5 million from RoyNat Capital Inc. ("RoyNat") to the Regal

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

Corporation. In connection with the mezzanine loan, the Regal Corporation issued warrants to RoyNat to purchase 11,000 shares of the common stock of the Regal Corporation for \$0.01 per share. Upon exercise of such warrants, RGG's and MDC's percentage of ownership of the Regal Corporation will be reduced proportionally. The purchase price and nature of the consideration paid in the acquisition were determined through negotiations.

The bridge loan is payable in April 2002 in the amount of \$3.0 million from Weichert Enterprises, LLC and in the amount of \$3.5 million from DL Holdings I, L.L.C. A significant Eos stockholder is also a stockholder of DL Holdings I, L.L.C. In connection with the short-term loans, Eos issued warrants to acquire 2,600,000 shares of its stock for \$2.95 per share subject to certain terms and conditions.

Both Eos and MDC are publicly held corporations. There are no material existing relationships between Eos and its directors, officers, subsidiaries or associates, on the one hand, and MDC and its directors, officers, subsidiaries or associates on the other hand.

The unaudited pro forma condensed financial statements of Regal Greetings & Gifts are based upon the historical financial statements of Regal and Eos, after giving effect to their merger. These unaudited pro forma condensed financial statements are not necessarily indicative of the financial position and results of operations that would have been attained had the transactions actually taken place at the date indicated and do not purport to be indicative of the effects that may be expected to occur in the future.

2

The accompanying unaudited pro forma condensed financial statements illustrate the acquisition's effect on the Eos's financial position and results of operations. The unaudited pro forma condensed combined balance sheet as of September 30, 2001 is based on the historical balance sheets of Regal and Eos and assumes the merger took place on that date. The unaudited pro forma condensed statements of operations for the nine months ended September 30, 2001 and the year ended December 31, 2000 are based on the historical statements of operations of Regal combined with the historical statements of Eos, as adjusted, and assume the merger took place on January 1, 2000. The Eos results of operations included in column one of the pro forma consolidated statements of operations for the nine months ended September 30, 2001 and for the year ended December 31, 2000 reflect the reverse merger, between Eos and Discovery Toys, previously reported in an earlier 8-K and 8-KA on July 18, 2001, as if it occurred on January 1, 2000.

3

EOS INTERNATIONAL, INC.
PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

	Eos Intl. Inc. Sept. 30, 2001	Regal Greetings Inc. Sept. 28, 2001	P Adj (Se
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,707,000	\$ 1,102,000	
Accounts receivable, net	782,000	198,000	
Inventory	5,180,000	12,614,000	
Prepaid expenses and other current assets	776,000	3,128,000	
Total current assets	8,445,000	17,042,000	
Property and equipment, net	944,000	4,055,000	
Deferred income taxes		1,146,000	
Goodwill		8,467,000	(6
Customer list			3
Other non-current assets	110,000		
Total assets	\$ 9,499,000	\$ 30,710,000	

4

EOS INTERNATIONAL, INC.
PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Eos Intl. Inc. Sept. 30, 2001	Regal Greetings Inc. Sept. 28, 2001	Pr Adju (See
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable and accrued liabilities	\$ 5,376,000	\$ 5,112,000	\$
Current lease obligations		41,000	
Line of credit	3,006,000		
Current maturities of notes payable			1,
Bridge notes			6,
Discount on bridge notes			(1
Fair value of put on bridge warrants			
Total current liabilities	8,382,000	5,153,000	

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

Notes payable	3,209,000			15,
Accrued liability	3,000,000			
Discount on notes payable				(1)
				(1)
Long term lease obligations		26,000		
Negative goodwill	3,806,000			
Redeemable warrants				1,
Commitments				
Minority interest				3,
Minority interest - puts				1,
Stockholders' equity (deficit):				
Common Stock:	561,000			
Treasury stock, 22,408,396 Eos shares at cost				
Paid-in capital	(8,172,000)			
Equity		25,531,000		(25,
Retained earnings (deficit)	(1,287,000)			

Tot Total stockholders' equity (deficit)	(8,898,000)	25,531,000		

Total liabilities and stockholders' equity (deficit)	\$ 9,499,000	\$ 30,710,000		\$

5

EOS INTERNATIONAL, INC.
PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED) (CONTINUED)

Notes to Condensed Consolidated Balance Sheet (1)

To record the acquisition of Regal Greetings and Gifts.

Purchase price is comprised of the following:

Cash to seller(a)
Seller financing, net of discount of \$925,000
Put rights granted to selling stockholder

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

Acquisition costs

Net Assets acquired consisted of the following:

Preliminary fair value of tangible assets acquired*
 Goodwill
 Customer list
 Less: preliminary fair value of liabilities assumed*
 Less minority interest

Sources of cash are comprised of the following (A)

	Net Carrying Value	Discou
Senior debt	\$ 7,584,000	\$ 707
Mezzanine debt	2,686,000	1,778
Bridge financing	5,384,000	1,116

Less: Cash debt issue costs
 Acquisition costs

The senior debt bears interest at the bank's prime rate plus 3% (estimated to be 7.75%) and matures in December 2006. Principal payments of \$317,000 per quarter are to be made through December 2003; principal payments of \$478,000 per quarter are to be made through September 2006, and a final payment of the remaining principal and interest are due in December 2006. In addition, the scheduled payments, accelerated payments may be required if certain operating cash flow requirements are met.

The mezzanine debt bears interest at 12% and matures in January 2007. Interest is payable monthly. Principal payments of \$96,000 per quarter are due from January 2004 through October 2006. The remaining unpaid balance is due upon maturity in January 2007. 11,000 detachable warrants to purchase shares of Regal stock at \$0.01 per share were granted to the lender in connection with this debt. These warrants also entitle the holder to put rights that allow holder of either the warrants or the share to be received upon exercise to sell these warrants or shares back to Regal in exchange for cash. The preliminary, relative fair value of both the put and call features of these warrants was determined using the Black Scholes model and is reflected as a discount on the related debt with a corresponding credit reflected as a liability as the put is to be settled in cash and the call is to be settled in the shares of the subsidiary.

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

The note due to the seller bears interest at 7% and matures in December 2006. Two principal payments of equal to the lesser of \$1.3 million or a percentage of operating cash flow are to be made by February 2005 and February 2006. The remaining unpaid balance of principal and interest are due upon maturity in December 2006. Because the stated interest rate on the note is less than the market rate of interest that Regal could obtain on a note with similar terms (which the Company believes to be 13%), a discount has been recorded on the note to approximate the difference between the fair value and face value of the note.

Certain put rights were granted to MDC to sell back its minority interest to the Company in exchange for cash. The preliminary fair value of these put rights has been determined using the Black Scholes model and is reflected as an additional component the minority interest.

The bridge financing bears interest at 13% and matures in April 2002, at which time all principal and interest is due. The bridge lenders were also granted 2.6 million warrants to purchase shares of Eos stock at \$2.95 per share. The warrants also contain put rights that allow the warrant holders to sell their warrants back to Eos in exchange for cash. The preliminary, relative fair value of both the call and put features for these warrants has been determined using the Black Scholes model and is reflected as a discount on the note. The value attributable to put has been classified as a liability as it is settled in cash. The value attributable to the call has been classified as equity as it is settled in the shares of Eos, which is the parent company.

- (2) To record relative fair value of redeemable warrants issued in connection with bridge financing and mezzanine debt as a discount on notes.

* Based on September 30, 2001 historical values.

** Based on December 14, 2001 exchange rate, the consummation date of the merger.

6

EOS INTERNATIONAL, INC.
 PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
 (CONTINUED)

	EOS - NINE MONTHS ENDED SEPT. 30, 2001(1)	REGAL - NINE MONTHS ENDED SEPT. 28, 2001	PRO FOR ADJUSTMEN (SEE NOTE
SALES	\$ 22,800,000	31,139,000	
COST OF SALES	13,756,000	14,817,000	
Gross profit	9,044,000	16,322,000	
OPERATING EXPENSES:			
Sales and marketing	4,599,000	11,110,000	469,0
General and Admin.	7,786,000	6,797,000	237,0
Goodwill Impairment(9)		16,834,000	

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

Goodwill Amortization	(393,000)	642,000	
Operating loss	(2,948,000)	(19,061,000)	(706,000)
OTHER INCOME (EXPENSE):			
Interest income	165,000	30,000	
Interest expense	(630,000)	(7,000)	(1,446,000)
Other income, net	2,057,000		
	1,592,000	23,000	(1,446,000)
LOSS BEFORE INCOME TAXES	(1,356,000)	(19,038,000)	
Income Tax Benefit	(7,000)	(914,000)	(861,000)
NET LOSS BEFORE MINORITY INTEREST	(1,349,000)	(18,124,000)	(1,291,000)
MINORITY INTEREST			(2,912,000)
NET LOSS AFTER MINORITY INTEREST	(1,349,000)	(18,124,000)	1,621,000
BASIC AND DILUTED LOSS PER SHARE: (0.02) (7)			
BASIC AND DILUTED SHARES USED IN COMPUTATIONS (8) 56,132,000			

7

EOS INTERNATIONAL, INC.
 PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
 (CONTINUED)

	EOS YEAR ENDED DEC. 31, 2000 (1)	REGAL YEAR ENDED DEC. 29, 2000	AD (S)
SALES	\$ 40,131,000	\$ 55,714,000	
COST OF SALES	24,190,000	27,795,000	
Gross profit	15,941,000	27,919,000	
OPERATING EXPENSES:			
Sales and marketing	6,940,000	16,053,000	
General and Admin.	10,806,000	8,673,000	
Goodwill Amortization	(525,000)	805,000	
Operating profit / (loss)	(1,280,000)	2,388,000	

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

OTHER INCOME (EXPENSE):			
Interest income	436,000	40,000	(3)
Interest expense	(480,000)	(7,000)	(3)
Other income, net	457,000		
	413,000	33,000	(3)

INCOME (LOSS) BEFORE INCOME TAXES	(867,000)	2,421,000	
Income Tax Provision (Benefit)	6,000	1,056,000	(1)
NET LOSS BEFORE MINORITY INTEREST	(873,000)	1,365,000	(2)
=====			
MINORITY INTEREST			

NET LOSS AFTER MINORITY INTEREST	(873,000)	1,365,000	(2)
=====			
BASIC AND DILUTED LOSS PER SHARE:	(0.02)	(7)	
BASIC AND DILUTED SHARES USED IN COMPUTATIONS (8)	56,132,000		
=====			

8

EOS INTERNATIONAL, INC.
 PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
 (CONTINUED)

Notes to Condensed Consolidated Statements of Operations

- (1) In July 2001, Eos, a public shell, consummated a reverse merger with Discovery Toys, Inc. previously reported in 8-K and 8-KA filings. The unaudited pro forma condensed statements of operations for the nine months ended September 30, 2001 and the year ended December 31, 2000 are based on the historical statements of operations of Discovery Toys, a wholly-owned subsidiary of Eos, adjusted to include certain historic Eos expenses of \$1.2 million per year expected to continue subsequent to the merger. These expenses relate to existing Eos facilities and equipment to be used by the combined entity and Eos personnel that will continue to be employed by the combined entity. As Eos, prior to its merger with Discovery Toys in July 2001, was a public shell with no viable operations of its own, it has no continuing operations on a pro forma basis. Therefore, the pro forma financial statements do not include Eos' historical results of operations except for the expenses noted above, as if the reverse merger with Discovery Toys occurred on January 1, 2000. Accordingly, \$600,000 of Eos' expenses, in addition to the historic expenses included in its September 30, 2001 10-Q filing, are included in the operating results for the nine months ended September 30, 2001.

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

- (2) To adjust for amortization of Customer List valued at \$3,132,000 over estimated 5-year life.
- (3) To adjust for the Management Consulting Agreement between Eos and Regal for services that will be provided by McGuggan, LLC and William Walsh. Pursuant to the agreement, management consulting services are to be provided to Regal over a ten year period for a fee of \$317,000 per year.
- (4) To record interest expense related to the acquisition consisting of the stated interest rate on the face amount of the notes, amortization of discounts on the notes related to the fair value of detachable warrants, which contain put rights, and imputed interest attributable to the seller financing, which was obtained at an interest rate below market. The interest expense calculation assumes that \$6.5 million of bridge financing is retired upon maturity, which is 120 days subsequent to issuance, along with detachable warrants granted in connection with these notes. Should these notes not be retired interest would continue to accrue beyond the 120 day period at a rate increase from 13% to 15% and the redemption price of the put rights included in the associated warrants would increase per the terms of the financing agreements. Failure to retire the bridge notes and warrants would result in an additional \$695,000 of pro forma interest expense for the year ended December 31, 2000 and an additional \$731,000 of pro forma interest expense for the nine months ended September 30, 2001 attributable to further accrued interest on the principal along with additional interest expense resulting from increases in the redemption price of the put rights of up to \$1.95 million. Further, if the entire balance of the bridge notes is not repaid by December 2002, the Company is required to issue an additional 16,667 warrants per month until such repayment is made.
- (5) Adjustment for tax effect of pro forma adjustments assuming a 40% effective tax rate.
- (6) Adjusted for the effect of pro forma adjustments to Regal.
- (7) Net loss per share for the nine months ended September 30, 2001 and the year ended December 31, 2000 includes \$600,000 and \$1,200,000, respectively, of historic Eos expense expected to continue subsequent to the merger with Discovery Toys. Eos' historical net (loss) income per share for the nine months ended September 30, 2001 and the year ended December 31, 2000 was \$(0.02) per share and \$0.01 per share, respectively. Weighted average shares used in these respective corporations was 25,300,000 for the nine months ended September 30, 2001 and 33,500,000 for the year ended December 31, 2000.

9

EOS INTERNATIONAL, INC.
PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(CONTINUED)

- (8) Includes shares issued to effect the merger between Eos and Discovery Toys as if it occurred on January 1, 2000. These include 33,772,000 shares to Discovery Toys to effect the reverse merger in July, 2001 and 22,360,000 shares of Eos that were outstanding prior to the reverse merger.
- (9) Goodwill impairment recorded during the nine months ended September 30, 2001 on Regal's historical financial statements is not expected to be a recurring

Edgar Filing: EOS INTERNATIONAL INC - Form 8-K/A

item. No goodwill resulting from the acquisition of Regal by Eos has been recorded in accordance with SFAS 142.

10

SIGNATURE

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

EOS INTERNATIONAL, INC.

Dated: February 26, 2002

By: /s/ Jack Hood

Jack Hood
Chief Financial Officer and
Treasurer