SECURITIES AND EXCHANGE COMMISSION

FORM 10QSB/A

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d) [amend]

Filing Date: **2001-02-02** | Period of Report: **2000-09-30**
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FILER

PLAY CO TOYS & ENTERTAINMENT CORP

CIK:**927643**| IRS No.: **953024222** | State of Incorp.:**DE** | Fiscal Year End: **0331**
Type: **10QSB/A** | Act: **34** | File No.: **000-25030** | Film No.: **1523942**
SIC: **5945** Hobby, toy & game shops

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550 RANCHEROS DR
SAN MARCOS CA 92069

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U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A-2
(Mark One)

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

For the quarterly period ended September 30, 2000

OR

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

For the transition period from __________ to __________

Commission File Number O-25030

PLAY CO. TOYS & ENTERTAINMENT CORP.
(Exact Name of Small Business Issuer as Specified in its Charter)

Delaware	95-3024222
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

550 Rancheros Drive, San Marcos, California 92069
(Address of Principal Executive Offices)

(760) 471-4505
(Issuer's Telephone Number, Including Area Code)

N/A

(Former Name, Former Address, and Former Fiscal Year, if Changed Since Last Report)

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares of each of the issuer's classes of common equity outstanding as of the latest practicable date: Common Stock, $.01 par value: 85,690,234 shares outstanding as of January 26, 2001.

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

PLAY CO. TOYS & ENTERTAINMENT CORP.

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PLAY CO. TOYS & ENTERTAINMENT CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS

<TABLE>
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ASSETS

	September 30, 2000 (Unaudited)	March 31, 2000
Current		
<S>	<C>	<C>
Cash	$ 30,450	$ 6,179,007
Accounts receivable	99,270	676,456
Merchandise inventories	18,523,931	14,111,236
Marketable securities	4,250,000	-
Other current assets	408,868	20,000
Total current assets	23,312,519	20,986,699
Property and Equipment, Net of accumulated depreciation and amortization of $5,987,224 and $4,058,603 respectively	8,742,215	7,398,621
Website development costs	3,081,149	1,753,193
Deposits and other assets	2,109,681	2,145,268
	$37,245,564	$ 32,283,781

LIABILITIES & STOCKHOLDERS' EQUITY

Current		
Accounts payable	$ 11,205,368	$6,110,161
Accrued expenses and other liabilities	1,241,151	892,428
Current portion of notes payable and capital leases	187,696	386,179
Borrowings under financing agreement	3,144,873	47,542
Total current liabilities	15,779,088	7,436,310
Notes payable and capital leases, net of current portion	994,797	988,767
Deferred rent liability	135,008	135,607
Total liabilities	16,908,893	8,560,684
Minority interest in subsidiary	7,513,308	9,943,407
Stockholders' equity:		
Convertible series E preferred stock, $1 par, 25,000,000 shares authorized: 1,536,550 and 8,377,640 shares outstanding	1,216,098	7,349,154
Convertible series F preferred stock, $0.01 par, 5,500,000 shares authorized; 750,000 shares outstanding, respectively	750,000	750,000
Common stock, $.01 par value, 160,000,000 shares authorized; 83,718,097 and 11,227,568 shares outstanding, respectively	837,181	112,275
Additional paid-in-capital	43,805,181	33,053,724
Accumulated deficit	(33,785,097)	(27,485,463)
Total stockholders' equity	12,823,363	13,779,690
	$ 37,245,564	$32,283,781

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</TABLE>

See accompanying notes to condensed financial statements

PLAY CO. TOYS & ENTERTAINMENT CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE NET LOSS
(Unaudited)

<TABLE>
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	Three Months Ended September 30, Restated (Note 5)		Six Months Ended September 30, Restated (Note 5)	
	2000	1999	2000	1999
<S>	<C>	<C>	<C>	<C>
Net sales	$ 9,027,051	$ 6,867,119	$ 16,045,144	$ 13,375,684
Cost of Sales	5,713,565	3,600,901	9,668,233	7,364,115
Gross profit	3,313,486	3,266,218	6,376,911	6,011,569
Operating expenses:				
Operating expenses	6,972,704	3,788,706	12,514,011	7,542,234
Depreciation and amortization	611,423	228,514	1,163,547	452,982
Total operating expenses	7,584,127	4,017,220	13,677,558	7,995,216
Operating loss	(4,270,641)	(751,002)	(7,300,647)	(1,983,647)
Interest expense:				
Interest and finance charges	146,300	300,016	245,413	584,680
Amortization of debt issuance costs	--	47,424	52,000	78,154
Non-cash interest expense	--	--	500,000	--
Effective non-cash interest expense from beneficial conversion feature	--	650,000		
Total interest expense .	146,300	347,440	797,413	1,312,834
Net loss before minority .... interest, income taxes and extraordinary item	(4,416,941)	(1,098,442)	(8,098,060)	(3,296,481)
Provision for income taxes	54,246	--	54,246	--
Net loss before minority interest and .... extraordinary item	(4,471,187)	(1,098,442)	(8,152,306)	(3,296,481)
Minority interest in loss of consolidated subsidiary	1,331,341	143,497	2,430,098	143,497
Net loss before extraordinary gain	(3,139,846)	(954,945)	(5,722,208)	(3,152,984)
Extraordinary gain on modification of debt terms	--	--	--	650,000
Net loss	(3,139,846)	(954,945)	(5,722,208)	(2,502,984)
Other comprehensive income (loss)	(44,007)	--	(77,489)	--
Comprehensive net loss	$ (3,183,853)	$ (954,945)	$ (5,799,697)	$ (2,502,984)

</TABLE>

See accompanying notes to condensed financial statements

PLAY CO. TOYS & ENTERTAINMENT CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE NET LOSS
(Unaudited)
(continued)

<TABLE>
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Calculation of basic and diluted loss per share:				
Net loss	$ (3,139,846)	$ (954,945)	$ (5,722,208)	$ (2,502,984)
Effects of non-cash dividends on convertible preferred stock	--	(799,402)	(500,000)	(1,384,517)
Net loss applicable to common shares	$ (3,139,846)	$ (1,754,347)	$ (6,222,208)	$ (3,887,501)
Basic and diluted loss per common share and share equivalents	$ (.05)	$ (0.32)	$ (.13)	$ (0.70)
Weighted average number of common shares and share equivalents outstanding	63,089,166	5,548,852	46,544,721	5,537,457

</TABLE>

See accompanying notes to condensed financial statements

PLAY CO. TOYS & ENTERTAINMENT CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

<TABLE>
<CAPTION>

	Six-months Ended September 30, 2000	Restated (Note 5) 1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (5,722,208)	$ (2,502,984)
Adjustments used to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,163,547	452,982
Minority interest in net loss of subsidiary	(2,430,098)	(143,497)
Deferred rent	(599)	4,112
Extraordinary gain	--	(650,000)
Effective interest for beneficial conversion feature	500,000	650,000
Other	93,368	
Increase (decrease) from changes in:		
Accounts receivable	577,186	(74,166)
Merchandise inventories	(4,412,695)	(3,621,341)
Other current assets	(388,868)	(650,462)
Deposits and other assets	35,587	(299,250)
Accounts payable	5,095,207	4,094,181
Accrued expenses and other liabilities	348,723	(334,299)
Net cash used in operating activities	(5,140,850)	(3,074,724)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,229,323)	(1,919,427)
Web Site Development	(1,605,774)	(702,288)
Net cash used in investing activities	(3,835,097)	(2,621,715)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of preferred and common stock		3,540,504
Borrowings under financing agreement	12,000,000	21,157,590
Repayments under financing agreement	(8,902,669)	(18,246,482)
Repayments under notes payable and capital leases	(192,453)	(503,962)
Net cash provided by financing activities	2,904,878	5,947,650
Effect of exchange rate on cash	(77,488)	--
Net increase (decrease) in cash	(6,148,557)	251,211
Cash at beginning of period	6,179,007	125,967
Cash at end of period	$ 30,450	$ 377,178

</TABLE>

See accompanying notes to condensed financial statements

PLAY CO. TOYS & ENTERTAINMENT CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2000
(Unaudited)

Note 1. General

The interim accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, management suggests that the reader refer to the audited financial statements for the year ended March 31, 2000 included in its Annual Report on Form 10-KSB. Operating results for the six-month period ended September 30, 2000 are not necessarily indicative of the results of operations that may be expected for the year ending March 31, 2001.

Note 2. Segment Information

The Company's reportable segments are its retail store operations and its Internet operations. The retail store operations are entirely based in the United States, and its Internet operations occur both in the United States and in Germany. The Internet operations consist of both business-to-consumer and business-to-business (or wholesale) sales.

Information on segments which is based on information utilized by the Company's chief operating decision maker, and a reconciliation to income (loss) before income taxes, are as follows at September 30, 2000, and for the six months then ended. For the six-months ended September 30, 1999, the Internet segment was not considered to be an operating segment by management since the websites were under development or revision.
<TABLE>
<CAPTION>

Assets	
<S>	<C>
Retail	$32,593,975
Internet	4,651,589

	$37,245,564
For the Six-Months Ended September 30, 2000	
Capital Expenditures	
Fixed Assets	$ 2,229,323
Website Development costs	1,605,774

	$ 3,835,097
Sales	
Retail	$15,764,210
Internet	280,934

	$ 16,045,144
	===========

</TABLE>

Note 2. Segment Information (continued)

PLAY CO. TOYS & ENTERTAINMENT CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2000
(Unaudited)
<TABLE>
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Gross Profit(loss)	
<S>	<C>
Retail	$ 6,400,544
Internet	(23,633)

	$ 6,376,911
Operating Income (loss)	
Retail	$ (5,654,365)
Internet	(1,646,282)
	$ (7,300,647)

</TABLE>

Note 3. American Telecom PLC Stock Exchange with DIG Financial Corp.

The Company entered into a Stock Purchase Agreement dated September 1, 2000 (the "Agreement"), with DIG Financial Corp., a British Virgin Island corporation ("DIG"). The Agreement provides for the sale of an aggregate of 26,315,789 shares of the Company's authorized, but unissued, shares of Common Stock ("Play Co. Stock") to DIG in exchange for 1,086,957 Ordinary 1 pence par value shares ("Ordinary Shares") of American Telecom, PLC ("American Telecom'), owned by DIG. American Telecom is a corporation formed under the laws of the United Kingdom. American Telecom Ordinary Shares are traded on OFEX, an off-exchange share matching and trading facility enabling London Stock Exchange member firms to deal in securities of unlisted and unquoted companies. American Telecom is an affiliated entity. European American Capital Foundation ("EACF") owns 80% of the outstanding shares of American Telecom. EACF also owns approximately 30% of the outstanding common shares of Play Co.

On the date of the Agreement, the Play Co. Stock and the 1,086,957 Ordinary Shares of American Telecomm ("American Telecom Stock") each had an aggregate fair value of approximately U.S. $5 million, calculated based on an approximate 30-day trading average of each security prior to such date, as reported by the Over the Counter Bulletin Board and OFEX, respectively. The determination of the share price being based on the 30-day average was stipulated in the Agreement. The sale of the Play Co. Stock was made in reliance upon the exemption from registration provisions of the Securities Act of 1933, as amended, afforded by Section 4(2) thereof, and as such, are "restricted securities." The American Telecom Stock is freely tradable on OFEX.

Based on the contractual value of $5 million for the stock exchange, this was determined to be the nominal value of the Play Co. shares issued. However, due the Play Co. shares being unregistered, and the fact that the shares are lightly traded and not readily marketable for such a large trading block, the Company recognized a 15% valuation discount to determine the fair value of the shares issued. Therefore, the Company valued the stock exchange transaction at $4,250,000.

Note 3. American Telecom PLC Stock Exchange with DIG Financial Corp. (continued)

The shares of American Telecom have been classified as available for sale marketable securities. Management intends to sell these shares in the future to raise cash. The shares of American Telecom are also thinly traded, and the market price has not changed as of September 30, 2000. There is no unrealized gain or loss for these marketable securities as of September 30, 2000.

As of the date of the Agreement, the Company had 56,217,377 issued and outstanding shares of Common Stock, $.01 par value. After giving effect to the issuance of the Play Co. Stock, DIG owns approximately 32% of the aggregate of 82,533,166 issued and outstanding shares of the Company's Common Stock as of the date of the Agreement.

Note 4. Issuance of Series E Preferred Stock

In May 2000, the Company entered into a termination and release agreement with ZD Group LLC ("ZD") for a financing arrangement previously provided by ZD. See the Company's March 31, 2000 10-KSB for a complete description of this financing agreement. The agreement made the Company no long liable to ZD for a percentage of the profits of three retail stores, in exchange for $500,000 in cash. The Company recorded this charge as a non-cash interest expense since it related to the finance agreement. Subsequently, ZD agreed to receive 854,700 shares of Series E Stock in lieu of $500,000 cash. The Series E Stock was thereby valued at $0.59 per share, which represented a 60 percent discount of the market value as of the date of the transaction. To obtain a fair value for the Series E Stock, the Company engaged an independent appraiser to determine the value of the Series E stock near the transaction date. ZD assigned its rights to European American Capital Foundation under the above-mentioned financing agreement and, accordingly, the Company issued 854,700 shares of Series E stock to EACF.

As part of this issuance, the Company recognized the beneficial conversion feature in the convertible securities. The benefit amount was limited to the amount of "proceeds" or consideration obtained, which was $500,000. As the market value of the Company's common stock exceeded the consideration, the Company recognized a non-cash dividend of $500,000 related to this beneficial conversion feature in the quarter ended June 30, 2000.

Note 5. Basic and Diluted Loss Per Share

The basic and diluted loss per common share for the three and six month periods ending September 30, 2000 and 1999, are the same as the effects of common stock equivalents are anti-dilutive given the net loss per common share in each period. Potentially dilutive common shares as of September 30, 2000 aggregate 22,749,300 that could result from the exercise of options, warrants, and the conversion of debentures and/or the Series E and Series F Preferred Stock. Exercise or conversion of certain of these instruments is restricted based on defined holding periods or vesting schedules.

Note 6. Restatement of Amounts Previously Reported

The September 30, 1999 financial statements contain certain restatements of amounts previously reported. The restatements were the result of inquiries made by the SEC regarding the accounting treatment for transactions revolving around the Company's debt and equity securities, including grants of options/stock, convertible debentures, and convertible preferred stock. As a result, the Company has restated several amounts, which are described below. The tables below identify significant changes to balances in the financial statements.

The revision for the grant of options relates to the Company recognizing a prepaid expense for the fair value of options at the time it entered into two agreements to issue options, the related services for which were never performed. Therefore, the Company reversed the accounting for these transactions. See Items 1 and 6 below for the impact on the balance sheet and Item 1 below for the impact on the statement of operations and comprehensive net income (loss). This reduction of other current assets is less than the amount of the adjustment to additional paid-in capital in Item 4 because of the reversal of the amortization of the prepaid expense recorded during the year ended March 31, 1999.

The revision for the Series E Preferred Stock was to record the issuance of shares to officers for which the Company did not previously recognize compensation expense during the year ending March 31, 1999.

The revision in Item 3,4, and 5 below is to reflect accounting necessary for a beneficial conversion feature included in $650,000 of debentures convertible into shares of Series E Preferred Stock at a discount from the trading price of the Series E Preferred Stock.

Note 6. Restatement of Amounts Previously Reported (continued)

The following is a summary of the impact of the restatements on the September 30, 1999 consolidated financial statements which include the cumulative effects of the restatements made to the March 31, 1999 financial statements.

Balance Sheet
<TABLE>
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<S>		<C>	
1.	Reduction of other current assets for options not ultimately issued, net of previously recorded amortization	$	(65,510)
2.	Increase in Series E Preferred Stock for issuance of shares		79,000
3.	Increase in additional paid-in capital for beneficial conversion feature of convertible debentures		650,000
4.	Reduction in additional paid-in capital for extraordinary gain from modification of debt terms, which was considered a debt extinguishment from significant modification in terms under EITF 96-19		(650,000)
5.	Increase in additional paid-in capital for beneficial conversion feature of revised convertible debentures treated as new		

	debt instruments	650,000
6.	Reduction in additional paid-in capital for cancellation of options	(79,000)
7.	Additional net loss in accumulated deficit. The increase in accumulated deficit is attributable to a cumulative increase of $718,634 for the year ended March 31, 1999, less $3,124 in operating expenses attributed to the reversal of amortization expense of prepaid stock options that were not issued.	715,510
8.	Net reduction in stockholders' equity	(65,510)

Statement of Operations and Comprehensive Net Income (Loss)

For the three months ended September 30, 1999:

1.	Decrease in operating expenses from reversal of amortization of stock options not issued	(1,562)

</TABLE>

<TABLE>
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Note 6. Restatement of Amounts Previously Reported (continued)

For the six months ended September 30, 1999:

<S>		<C>
1.	Decrease in operating expenses from reversal of amortization of stock options not issued	$ (3,124)
2.	Additional effective non-cash interest expense attributable to the beneficial conversion feature of revised convertible debentures treated as new debt instruments	650,000
3.	Extraordinary gain from modification of debt terms, since such modifications were significant to be considered as a debt extinguishment under EITF 96-19	$ (650,000)
	Decrease in net loss for the six-months ended September 30, 1999	$ (3,124)

</TABLE>

The effects on the Company's previously submitted September 30, 1999 financial statements are summarized as follows.

<TABLE>
<CAPTION>

	Previously Reported	Increase (Decrease)	Restated
Consolidated balance sheet:			
<S>	<C>	<C>	<C>
Other current assets	$ 2,425,601	$ (65,510)	$ 2,360,091
Total assets	$ 29,485,279	$ (65,510)	$ 29,419,769
Series E convertible preferred stock	$ 6,638,047	$ 79,000	$ 6,717,047
Additional paid-in capital	17,960,428	571,000	18,531,428
Accumulated deficit	19,898,304	715,510	20,613,814
Total liabilities and stockholders' equity	$ 29,485,279	$ (65,510)	$ 29,419,769

</TABLE>

Note 6. Restatement of Amounts Previously Reported (continued)

Consolidated statement of operations and comprehensive loss:

For the six months ended September 30,1999:

<TABLE>
<CAPTION>

<S>	<C>	<C>	<C>
Operating expenses	$ 7,545,358	$ (3,124)	$ 7,542,234
Effective interest for beneficial conversion feature	-	650,000	650,000
Extraordinary gain on extinguishment of debt	-	650,000	650,000

Comprehensive net income (loss)	$ (2,506,108)	$ 3,124	$ (2,502,984)
Net income (loss) applicable to common shares	$ (3,890,625)	$ 3,124	$ (3,887,501)
Basic and diluted income (loss) per common share and share equivalents	$ (.70)	$ -	$ (.70)
For the three months ended September 30,1999:			
Operating expenses	$ 3,790,268	$ (1,562)	$ 3,788,706
Comprehensive net income (loss)	$ (956,507)	$ 1,562	$ (954,945)
Net income (loss) applicable to common shares	$ (1,755,909)	$ 1,562	$ (1,754,347)

</TABLE>

Note 7. Subsequent Events

On November 20, 2000, Toys entered into a $12,000,000, three-year revolving credit facility (the "Paragon Facility") with Paragon Capital LLC; an asset based lending institution affiliated with Foothill Capital, a subsidiary of Wells Fargo Bank. While the Paragon Facility carries several possible advance rates against Toys' inventory, the pricing on the primary lending facility is at the prime rate plus 1 1/2%. The Company guaranteed the Paragon Facility. The agreement calls for a 90-day period for Paragon to determine the covenant requirements to be maintained under the agreement. The Paragon Facility also called for the issuance of a warrant by Toys for 400,000 shares at a strike price of $1.50 per share, which is higher than the current trading price for Toys' common stock. The warrant will be valued at fair value and recorded as debt issuance cost.

The Paragon Facility replaces the Company's previous credit facility with FINOVA Capital Corporation.

In order to support its inventory needs for the upcoming holiday season, in October 2000, the Company borrowed an aggregate of $750,000 ("Bridge Loan") from ZD Group LLC ("Bridge Lender") - a related New York limited liability company, the beneficiary of which is a member of the family of the Company's chairman. The Company paid $48,000 in consulting fees to CDMI Capital Corp. ("CDMI," a British Virgin Islands corporation of which Moses Mika, then a director of the Company, was a shareholder) for assisting the Company in arranging the Bridge Loan.

The Bridge Loan and accrued interest of $20,000 was repaid on November 24, 2000 following the initial funding of the Paragon Facility. In September 2000, in anticipation of receiving the Bridge Loan from DIG Financial Corp. ("DIG"), rather than ZD Group LLC, the Company granted to DIG a security interest in certain of its assets. Since the Bridge Lender ultimately was ZD Group LLC and not DIG, upon receipt of the loan from the Bridge Lender, the Security Agreement was assigned by DIG to the Bridge Lender. The security interest was terminated upon repayment of the Bridge Loan.

In October 2000, the Company debuted its new concept in electronic commerce with the launch of www.tx40.net and www.toys.tx40.de. Tx40 is the Company's new concept of using an evolving storyline to bring viewers to its websites. Toys.tx40.de is the company's related e-commerce website in Germany. In November 2000, the Company launched www.toys.tx40.com as its related e-commerce website in the United States. In addition to prior amounts expended, through the six months ended September 30 2000, the Company invested $1,605,774 in this project. That investment of $2,181,539 is shown net of accumulated amortization on the September 30, 2000 balance sheet, included under the description "web-site development costs."

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

This Report on Form 10-QB and the following "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements other than statements of historical fact are "forward-looking statements" for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance, and any statements of assumptions underlying any of the foregoing in some cases, forward-looking statements can be identified by the use of terminology such as "may", "will", "expects", "plans", "anticipates", "estimates", "potential", or "continue" or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in the forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements are subject to inherent risks and uncertainties. All forward-looking statements and reasons why results may differ included in this report are made as of the date hereof, and we assume no obligation to update any such forward-looking statement or reason why actual results might differ.

The Company has two subsidiaries, Toys International.COM, Inc. ("Toys") and Play Co. Toys Canyon Country, Inc. ("Canyon"). Toys currently operates all thirty-six of the Company's stores, of which Canyon holds the lease for one of Toys' retail locations.

For the three months ended September 30, 2000 compared to the three months ended September 30, 1999

The Company generated net sales of $9,027,051 in the three months ended September 30, 2000. This represented an increase of $2,159,932, or 31%, from net sales of $6,867,119 in the three months ended September 30, 1999. All of this sales growth can be attributed to the Company's new stores as the Company's Internet operations in the United States and Germany ("Internet Operations") contributed approximately $52,000 less in sales than in the September 1999 period and since the Company's same store sales declined by approximately 2% for the period.

The Company ended September 2000 with 34 retail locations in nine states, compared to 31 retail locations in seven states at the end of fiscal year 2000. During the quarter, the Company opened one new store in Las Vegas, Nevada.

The Company posted a gross profit of $3,313,486 in the three months ended September 30, 2000, reflecting an increase of $47,268, or 1.4%, from the gross profit of $3,266,218 in the three months ended September 30, 1999. This increase was due to the above noted growth in sales. The Company's gross margin of 36.7% in the September 2000 period was 10.9% below the gross margin of 47.6% achieved in the September 1999 period. The primary reasons for the gross margin decline were a negative 11.9% gross margin from the Internet Operations in the September 2000 period compared to a 58.3% contribution in the September 1999 period and to a decline in the margin of products sold in the stores during the quarter. The Internet Operations generated the 58.3% gross margin in the September 1999 period largely through several highly margined sales on a business to business basis. There were no such highly margined sales in the September 2000 period.

Operating expenses (excluding depreciation and amortization expenses) for the three months ended September 30, 2000 were $6,972,704. This represented a $3,183,998 or 84.0%, increase over the Company's operating expenses of $3,788,706 in the three months ended September 30, 1999. The primary reasons for the operating expense increase were operating expenses relating to the Internet segment of approximately $773,000, an increase in payroll and related expenses of $1,982,000. The payroll expense increase was due to the addition of a new President of Toys, a new Director of MIS, as well as several middle managers and employees at the Company's new stores.

During the three months ended September 30, 2000, the Company recorded non-cash depreciation and amortization expense of $611,423, a $382,909 increase from depreciation and amortization expense of $228,514 in the period ended September 30, 1999. The primary reason for the depreciation and amortization expense increase was the depreciation related to the fixed assets purchased for the seven new stores that opened during fiscal year 2000 and three new stores opened in the first half of the current fiscal year. Additionally, the Company capitalized development costs for its websites, and began amortizing these costs in December 1999.

Total operating expenses (operating expenses combined with depreciation and amortization) in the September 2000 period were $7,584,127, representing a $3,566,907, or 88.8%, increase from total operating expenses of $4,017,220 in the September 1999 period.

As a result of the $47,268 increase in gross profit less the $3,566,907 increase in total operating expenses, the Company's operating loss increased by $3,519,639 from $751,002 during the three months ended September 30, 1999 to $4,270,641 during the three months ended September 30, 2000.

Interest expense totaled $146,300 for the three months ended September 30, 2000. This represented a $201,140 decrease from interest expense of $347,440 for the three months ended September 30, 1999. The primary reason for the decreased level of interest expense was a lower level of borrowings in the three months ended September 30, 2000 than in the September 1999 period.

As a result of the above-mentioned factors, the Company recorded a loss before minority interest in consolidated subsidiary of $4,416,941 for the three months ended September 30, 2000. This represented a $3,318,499 increase over the net loss before minority interest of $1,098,442 recorded in the three months ended September 30, 1999.

During the three months ended September 30, 2000, the Company recorded a minority interest in the loss of the consolidated Toys subsidiary of $1,331,341. This minority interest arose out of various sales of stock in the Company's Toys subsidiary. The minority interest of $1,331,341 was a $1,187,844 increase over the minority interest of $143,497 in the three months ended September 30, 1999. This minority interest represented a reduction in the Company's net loss in both periods.

As a result of the above factors, the Company recorded a net loss of $3,139,846 in the three months ended September 30, 2000. This represented a $2,184,901 increase over the net loss of $954,945 posted in the three months ended September 30, 1999.

In the three months ended September 30, 2000, the Company recorded other items of comprehensive loss of $44,007 that related to foreign currency translation adjustments arising from Toys Internet operations in Germany. There were no foreign currency translation adjustments in the September 1999 period.

For the three months ended September 30, 2000, the net loss of $3,183,853 was not impacted by non-cash dividends in order to determine the net loss applicable to common shares, as there were no issuances of convertible preferred stock. This compares with $799,402 of non-cash dividends recorded in the three-month period ended September 30, 1999. The non-cash dividends represented amortization of the discount recorded upon issuance of Series E and Series F preferred stock with a beneficial conversion feature.

The basic and diluted loss per share for the three months ended September 30, 2000 was $(0.05) compared to basic and diluted loss per share of $(0.32) for the three months ended September 30, 1999. The weighted average number of common shares outstanding increased from 5,548,852 in the September 1999 period to 63,089,166 in the September 2000 period due to the continuing conversion of Series E Stock into common shares and the September 1, 2000 issuance of 26,315,789 common shares as discussed in Note 3 to the condensed consolidated financial statements.

For the six months ended September 30, 2000 compared to the six months ended September 30, 1999

The Company generated net sales of $16,045,144 in the six months ended September 30, 2000. This represented an increase of $2,669,460, or 19.9%, from net sales of $13,375,684 in the three months ended September 30, 1999. All of this sales growth can be attributed to the Company's new stores as the Internet Operations contributed approximately $11,000 less than in the September 1999 period and since same store sales declined by approximately 11% for the period.

The Company ended September 2000 with 34 retail locations in nine states, compared to 31 retail locations in seven states at the end of fiscal year 2000. During the six-month period, the Company opened three new stores in Nashville, TN, Orlando, FL and in Las Vegas, NV.

The Company posted a gross profit of $6,376,911 in the six months ended September 30, 2000, reflecting an increase of $365,342, or 6.1%, from the gross profit of $6,011,569 in the six months ended September 30, 1999. This increase was due to the above noted growth in sales. The Company's gross margin of 39.7% in the September 2000 period was 5.2% below the gross margin of 44.9% achieved in the September 1999 period. The primary reasons for the gross margin decline were a negative 8.4% gross margin contribution from the Internet Operations in the September 2000 period compared to a 59% contribution in the September 1999 period and to a decline in the margin of products sold in the stores during the period. The Internet Operations generated the 59% gross margin in the September 1999 period largely through several highly margined sales on a business to business basis. There were no such highly margined sales in the September 2000 period.

Operating expenses (excluding depreciation and amortization expenses) for the six months ended September 30, 2000 were $12,514,011. This represented a

$4,971,777, or 65.9%, increase over the Company's operating expenses of $7,542,234 in the six months ended September 30, 1999. The primary reasons for the operating expense increase were operating expenses relating to the Internet segment of approximately $1,580,000, an increase in payroll and related expenses of $859,000 and an increase in rent expense of $1,098,000. The payroll expense increase was due to the addition of a new President for Toys, a new Director of MIS, as well as several middle managers and employees at the Company's new stores. The growth of rent expense was the result of adding additional stores.

During the six months ended September 30, 2000, the Company recorded non-cash depreciation and amortization expense of $1,163,547, a $710,565 increase from depreciation and amortization expense of $452,982 in the period ended September 30, 1999. The primary reason for the depreciation and amortization expense increase was the depreciation related to the fixed assets purchased for the seven new stores that opened during fiscal year 2000 and three new stores opened in the first half of the current fiscal year.

Total operating expenses (operating expenses combined with depreciation and amortization) in the September 2000 period were $13,677,558, representing a $5,682,342, or 71.1%, increase from total operating expenses of $7,995,216 in the September 1999 period.

As a result of the $365,342 increase in gross profit less the $4,971,777 increase in total operating expenses, the Company's operating loss increased by $5,317,000 from $1,983,647 during the six months ended September 30, 1999 to $7,300,647 during the six months ended September 30, 2000.

Interest expense totaled $797,413 for the six months ended September 30, 2000. This represented a $515,421 decrease from interest expense of $1,312,834 for the six months ended September 30, 1999. The primary reason for the decreased level of interest expense was a lower level of borrowings in the six months ended September 30, 2000 than in the September 1999 period. The September 2000 interest expense included a $500,000 non-cash charge related to the winding up of a financing agreement with ZD Group LLC ("ZD"), a related party. For the September 1999 period, the Company recognized non-cash interest expense of $650,000 attributable to the beneficial conversion feature of its then outstanding convertible debentures.

As a result of the above-mentioned factors, the Company recorded a loss before minority interest in consolidated subsidiary of $8,152,306 for the six months ended September 30, 2000. This represented a $4,855,825 increase over the net loss before minority interest of $3,296,481 recorded in the six months ended September 30, 1999.

During the six months ended September 30, 2000, the Company recorded a minority interest in the loss of the consolidated Toys subsidiary of $2,430,098. This minority interest arose out of various sales of stock in the Company's Toys subsidiary. The minority interest of $2,430,098 was a $2,286,601 increase over the minority interest of $143,497 in the six months ended September 30, 1999.

This minority interest represented a reduction in the Company's net loss in both periods. As a result of the above factors, the Company recorded a net loss before extraordinary gain of $5,722,208 in the six months ended September 30, 2000. This represented a $2,569,224 increase over the net loss of $3,152,984 posted in the six months ended September 30, 1999.

In the six months ended September 30, 1999, the Company recorded an extraordinary gain of $650,000. This gain arose out of the modification of the terms of certain convertible debentures in the September 1999 period. The modification was of such significance that the amended debenture agreements were deemed to be substantially different by management. The original debentures were therefore accounted for as an extinguishment of debt.

In the six months ended September 30, 2000, the Company recorded other comprehensive loss of $77,489 that related to foreign currency translation adjustments arising from Toys Internet operations in Germany. There were no foreign currency translation adjustments in the September 1999 period.

For the six months ended September 30, 2000, the net loss of $5,722,208 was increased by non-cash dividends of $500,000 in order to determine the net loss applicable to common share of $6,222,208. This compares with $1,384,517 of non-cash dividends recorded in the six-month period ended September 30, 1999. The non-cash dividends represent amortization of the discount recorded upon issuance of Series E and Series F preferred stock with a beneficial conversion feature.

The basic and diluted loss per share for the six months ended September 30, 2000 was $(0.13) compared to basic and diluted loss per share of $(0.70) for the six months ended September 30, 1999. The weighted average number of common shares outstanding increased from 5,537,457 in the September 1999 period to 46,544,721 in the September 2000 period due to the continuing conversion of Series E Stock into common shares and the September 1, 2000 issuance of 26,315,789 common shares as discussed in Note 3 to the condensed consolidated financial statements.

Liquidity and Capital Resources

At September 30, 2000, the Company had a working capital position of $7,533,431 compared to a working capital position of $13,550,389 at March 31, 2000. The primary factor in the $6,016,958 decrease in working capital was the Company's use of cash for operating activities of approximately $5.1 million.

The Company has generated operating losses for the past several years and has historically financed those losses and its working capital requirements through loans and sales of the Company's equity securities, primarily through the sale of the Company's Series E convertible preferred stock. There can be no assurance that the Company will be able to generate sufficient revenues or have sufficient controls over expenses and other charges to achieve profitability.

During the six-month period ended September 30, 2000, the Company used $5,140,850 of cash in its operations compared to $3,074,724 used in operations in the six-month period ended September 30, 1999. The Company's net loss was $5,722,208 and $2,502,984, respectively, in those periods.

The Company used $3,835,097 of cash in its investing activities during the six-month period ended September 30, 2000 compared to $2,621,715 in the six-month period ended September 30, 1999. Investing activity consisted of the purchase of equipment and fixtures for new stores, totaling to $2,229,323, and investing software development for the Company's website totaling to $1,605,774.

The Company generated $2,904,878 of cash from its financing activities in the six-month period ended September 30, 2000 compared to the generation of $5,947,650 from financing activities in the six-month period ended June 30, 1999. The primary contributors to the Company's financing activities in the 2000 period were $3,097,331 in net borrowings on the Company's line of credit. Those proceeds were used to finance the Company's working capital requirements and capital expenditures during the six-month period ended September 30, 2000. The primary factor in the prior period was $2,911,108 in net borrowings on the Company's line of credit.

As a result of the above factors, the Company had a net decrease in cash of $6,148,557 in the six-month period ended September 30, 2000 compared to a net increase in cash of $251,211 in the six-month period ended September 30, 1999.

Electronic commerce represents another area that will result in significant capital expenditures for the company in fiscal 2001. In October 2000, the Company debuted its new concept in electronic commerce with the launch of www.tx40.net and www.toys.tx40.de. TX40 is the Company's new concept of using an evolving storyline to bring viewers to its websites. Toys.tx40.de is the Company's related e-commerce website in Germany. In November 2000, the Company launched www.toys.tx40.com as its related e-commerce website in the United States. Through the six months ended September 2000, the Company had invested $2,181,539 in this project.

On November 20, 2000, Toys entered into a $12,000,000, three-year revolving credit facility (the "Paragon Facility") with Paragon Capital LLC; an asset based lending institution affiliated with Foothill Capital, a subsidiary of Wells Fargo Bank. While the Paragon Facility carries several possible advance rates against Toys' inventory, the pricing on the primary lending facility is at the prime rate plus 1 1/2%. The Company guarantied the Paragon Facility. The Paragon Facility also called for the issuance of a warrant by Toys for 400,000 shares at a strike price of $1.50 per share, which is higher than the current trading price for Toys' common stock. The warrant will be valued at fair value and recovered as debt issuance cost.

The Paragon Facility replaces the Company's previous credit facility with FINOVA Capital Corporation.

Trends Affecting Liquidity, Capital Resources and Operations

The Company's future financial performance will depend upon continued demand for toys and the Company's ability to choose locations for new stores, the Company's ability to purchase product at favorable prices and on favorable terms, and the effects of increased competition and changes in consumer preferences.

The toy and hobby retail industry faces a number of potentially adverse business conditions including price and gross margin pressures and market consolidation. The Company competes with a variety of mass merchandisers, superstores, and other toy retailers, including Toys R Us and Kay Bee Toy Stores. Competitors that emphasize specialty and educational toys include Disney

Stores, Warner Bros. Stores, Learning Smith, Lake Shore, Zainy Brainy, and Noodle Kidoodle. The Company also competes both through its electronic commerce operations and through its stores against Internet oriented toy retailers such as eToys, Inc. There can be no assurance that the Company's business strategy will enable it to compete effectively in the toy industry.

Seasonality

The Company's operations are highly seasonal with approximately 30-40% of its net sales falling within the Company's third quarter, which coincides with the Christmas selling season. The Company intends to open new stores throughout the year, but generally before the Christmas selling season, which will make the Company's third quarter sales an even greater percentage of the total year's sales.

Impact of Inflation

The impact of inflation on the Company's results of operations has not been significant. The Company attempts to pass on increased costs by increasing product prices over time.

PART II

Item 1. Legal Proceedings

On or about November 16, 2000 a complaint was filed against the Company by certain purported holders of the Company's Series F Preferred Stock and Options to purchase shares of Series F Preferred Stock ("Securityholders") in the Supreme Court of the State of New York, County of New York. The Securityholders allege, among other things, breaches of contract relating to certain registration rights that they allege are contained in the stock purchase agreement governing the purchase of such securities. The complaint seeks, among other things, an award of damages in the aggregate of $159,500, $11,000 per month, commencing October 25, 2000, for each month that a registration statement is not declared effective, interest, unspecified damages and reimbursement of the costs and expenses of such legal action. The Company is in the process of evaluating the claims.

Item 2. Changes in Securities and st of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matter to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on From 8-K

a) Exhibit 27.1 - Financial Data Schedule
b) The Company filed one report on From 8-K during the quarter ended September 30, 2000. Such report was filed on September 18, 2000.

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, this 31st day of January 2001.

PLAY CO. TOYS & ENTERTAINMENT CORP.

By: /s/ Richard L. Brady
Richard L. Brady
President and Chief Executive Officer

By: /s/ James B. Frakes
James B. Frakes
Chief Financial Officer

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EXHIBIT 27.1

PLAY CO. TOYS & ENTERTAINMENT CORP.
FINANCIAL DATA SCHEDULE

This schedule contains summary information extracted from the condensed consolidated balance sheet, statements of operations and cash flows and notes thereto incorporated in Part 1, Item 1, of this Form 10-Q and is qualified in its entirety by reference to such financial statements.
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