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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-K**

(Mark One)

**ANNUAL REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Fiscal Year Ended December 31, 2002**

**TRANSITION REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission File Number 0-28104

**JAKKS PACIFIC, INC.**

(Name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

95-4527222  
(I.R.S. Employer  
Identification No.)

22619 Pacific Coast Highway  
Malibu, California  
(Address of principal executive offices)

90265  
(Zip Code)

Registrant's telephone number, including area code: (310) 456-7799

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

Title of each class

Name of each exchange  
on which registered

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None

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

Title of Class

**Common Stock, \$.001 par value**

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting and non-voting common equity (the only such common equity being Common Stock, \$.001 par value) held by non-affiliates of the registrant (computed by reference to the closing sale price of the Common Stock on March 27, 2003) is \$262,295,234.

The number of shares outstanding of the registrant's Common Stock, \$.001 par value (being the only class of its common stock) is 24,933,007 (as of March 27, 2003).

**Documents Incorporated by Reference**

None.

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**DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS**

This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. For example, statements included in this report regarding our financial position, business strategy and other plans and objectives for future operations, and assumptions and predictions about future product demand, supply, manufacturing, costs, marketing and pricing factors are all forward-looking statements. When we use words like "intend," "anticipate," "believe," "estimate," "plan" or "expect," we are making forward-looking statements. We believe that the assumptions and expectations reflected in such forward-looking statements are reasonable, based on information available to us on the date hereof, but we cannot assure you that these assumptions and expectations will prove to have been correct or that we will take any action that we may presently be planning. We have disclosed certain important factors that could cause our actual results to differ materially from our current expectations elsewhere in this report. You should understand that forward-looking statements made in this report are necessarily qualified by these factors. We are not undertaking to publicly update or revise any forward-looking statement if we obtain new information or upon the occurrence of future events or otherwise.

## Item 1. Business

In this report, “JAKKS,” the “Company,” “we,” “us” and “our” refer to JAKKS Pacific, Inc. and its subsidiaries.

### Company Overview

We are a leading multi-line, multi-brand toy company that designs, develops, produces and markets toys and related products. We focus our business on acquiring or licensing well-recognized trademarks and brand names with long product histories (“evergreen brands”). We seek to acquire these evergreen brands because we believe they are less subject to market fads or trends. Our products are typically simpler, lower-priced, toys and accessories and include:

- Action figures and accessories including licensed characters, principally based on *World Wrestling Entertainment*® and the *Dragon Ball*® franchise, and toy vehicles, including *Road Champs*® die-cast collectibles, infrared radio controlled vehicles and *Mighty Mo’s*® and *Remco*™ toy and activity vehicles;
- Craft, activity and stationery products, including *Flying Colors*® activity sets, compounds, candy, playsets and lunch boxes, and *Pentech*® writing instruments, stationery and activity products;
- Seasonal toys and leisure products, including kites, *Funnoodle*® pool toys, and *Storm*™ water guns;
- Electronics products, including karaoke machines, *Laser Challenge*™ and TV games;
- Junior sports, including Disney products, *Gaksplat*™ and *Storm*;
- *Child Guidance*® toy foam puzzle mats and blocks, activity sets, outdoor products, plush toys and slumber bags; and
- Fashion and mini dolls and related accessories, including *Disney*® Princesses sold exclusively in The Disney Store chain.

We continually review the marketplace to identify and evaluate evergreen brands that we believe have the potential for significant growth. We endeavor to generate growth within these brands by:

- creating innovative products under established brand names;
- focusing our marketing efforts to enhance consumer recognition and retailer interest;
- linking them with our evergreen portfolio of brands;
- adding new items to the branded product lines that we expect will enjoy greater popularity; and
- adding new features and improving the functionality of products in the line.

In addition to developing our proprietary brands and marks, we license brands such as *World Wrestling Entertainment*, *Nickelodeon*®, *Blue’s Clues*®, *SpongeBob SquarePants*®, *Winnie the Pooh*®, *Hello Kitty*® and the *Dragon Ball* franchise. Licensing enables us to use these high-profile marks at a lower cost than we would incur if we purchased these marks or developed comparable marks on our own. By licensing marks, we have access to a far greater range of marks than would be available for purchase. We also license technology produced by unaffiliated inventors and product developers to improve the design and functionality of our products.

We have capitalized on our relationship with the WWE by obtaining an exclusive worldwide license for our joint venture with THQ, which develops, produces, manufactures and markets video games based on *World Wrestling Entertainment* characters and themes. Since the joint venture's first title release in 1999, it has released 14 new titles. We have received \$34.2 million as our share of the joint venture's profit through December 31, 2002.

On March 11, 2002, we acquired an initial controlling interest in Toymax International, Inc. ("Toymax"), a developer and marketer of toys and related products, and completed the acquisition on October 25, 2002. This acquisition also added toy brand names such as *Laser Challenge* and *Creepy Crawlers*® to our brand portfolio. In addition, pool-related products branded under the name *Funnoodle* and kites branded under the name *Go Fly a Kite*® further diversified our portfolio with products popular in the spring and summer seasons.

In November, 2002, we acquired certain product lines, assets and assumed certain specific liabilities from Trendmasters, Inc. ("Trendmasters"). Trendmasters added the The Storm™ brand of water guns, gliders and junior sports toys, seasonal products for Halloween, Christmas and Easter, and vehicles, action figures, dolls and playsets under multiple brands.

Most of our current products are relatively simple and inexpensive toys. In 2002, approximately 70% of our revenue came from products priced at ten dollars or less at retail. We believe that these products have enduring appeal and are less subject to general economic conditions, toy product fads and trends, and changes in retail distribution channels. As of December 31, 2002, we had over 4,300 products in 19 product categories. In addition, the simplicity of these products enables us to choose among a wider range of manufacturers and affords us greater flexibility in product design, pricing and marketing. Our product development process typically takes from three to nine months from concept to production and shipment to our customers. We believe that many licensors and retailers recognize and reward our ability to bring product to market faster and more efficiently than many of our competitors.

We sell our products through our in-house sales staff and independent sales representatives to toy and mass-market retail chain stores, department stores, office supply stores, drug and grocery store chains, club stores, toy specialty stores and wholesalers. Our five largest customers are Target, Kmart, Toys 'R' Us, Wal-Mart, and Kay Bee Toys, which collectively accounted for approximately 55.7% of our net sales in 2002. We have over 10,000 other customers, none of which accounted for more than 2.0% of our net sales in 2002.

## **Our Growth Strategy**

The execution of our growth strategy has resulted in increased revenues and earnings. In 2002, we generated net sales and EBITDA of \$310.0 million and \$49.2 million, respectively. Key elements of our growth strategy include:

- **Expand Core Products.** We manage our existing and new brands through strong product development initiatives, including introducing new products, modifying existing products and extending existing product lines. Our product designers strive to develop new products or product lines to offer added technological, aesthetic and functional improvements to our product lines. In 2001, we expanded the use of real-scan technology in our action toys, which produces higher quality and better likenesses of the representative characters and vehicle parts. In addition, we introduced action figures with significantly greater ranges of motion, and expanded our electronic action figure recognition play sets.

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- **Enter New Product Categories.** We will continue to use our extensive experience in the toy and other industries to evaluate products and licenses in new product categories and to develop additional product lines. We have entered the toy candy category through our internal creation of *Tongue Tape*<sup>TM</sup> and expanded into slumber bags through the licensing of this category from our current licensors, such as Nickelodeon.

- **Pursue Strategic Acquisitions.** We intend to supplement our internal growth rate with selected strategic acquisitions. Since our inception in 1995, we have successfully completed and integrated ten acquisitions of companies and trademarks. These include our acquisitions of Justin Products, Road Champs, *Remco*, *Child Guidance*, Berk, Flying Colors, Pentech, Kidz Biz, Toymax and most recently, Trendmasters. We will continue focusing our acquisition strategy on businesses or brands that have compatible product lines and offer valuable trademarks or brands.

- **Acquire Additional Character and Product Licenses.** We have acquired the rights to use many familiar corporate, trade and brand names and logos from third parties that we use with our primary trademarks and brands. Currently, we have license agreements with the WWE, Nickelodeon, Disney, and Warner Bros., as well as with the licensors of the many popular licensed children's characters previously mentioned, among others. We intend to continue to pursue new licenses from these entertainment and media companies and other licensors. We also intend to continue to purchase additional inventions and product concepts through our existing network of product developers.

- **Expand International Sales.** We believe that foreign markets, especially Europe, Australia, Canada, Latin America and Asia, offer us significant growth opportunities. In 2002, our sales generated outside the United States grew 33.1% to approximately \$53.2 million, or 17.2% of total net sales. We intend to continue to expand our international sales by capitalizing on our experience and our relationships with foreign distributors and retailers. Our recent expansion efforts included entering into a distribution agreement with Funtastic Ltd., an Australia based toy distributor. In addition, in December 2001, we acquired Kidz Biz for its distribution channels in the United Kingdom and surrounding territories. We expect both initiatives to continue to contribute to our international growth in 2003.

- **Capitalize On Our Operating Efficiencies.** We believe that our current infrastructure and low-overhead operating model can accommodate significant growth without a proportionate increase in our operating and administrative expenses, thereby increasing our operating margins.

## Industry Overview

According to the TIA, the leading toy industry trade group, the United States is the world's largest toy market, followed by Japan and Western Europe. Total retail sales of toys, excluding video games, in the United States, were approximately \$20.3 billion in 2002. Sales by domestic toy manufacturers to foreign customers exceeded \$6.0 billion in 2002. We believe the two largest United States toy companies, Mattel and Hasbro, collectively hold a dominant share of the domestic non-video toy market. In addition, hundreds of smaller companies compete in the design and development of new toys, the procurement of character and product licenses, and the improvement and expansion of previously introduced products and product lines. In the United States video game segment, total retail sales of video game software were approximately \$10.3 billion in 2002.

Over the past few years, the toy industry has experienced substantial consolidation among both toy companies and toy retailers. We believe that the ongoing consolidation of toy companies provides us with increased growth opportunities due to retailers' desire to not be entirely dependent

on a few dominant toy companies. Retailer concentration also enables us to ship products, manage account relationships and track retail sales more effectively and efficiently.

## Products

We focus our business on acquiring or licensing well-recognized trademarks or brand names, and we seek to acquire evergreen brands which are less subject to market fads or trends. Some of our license agreements for products and concepts call for royalties ranging from 1% to 6% of net sales, and some may require minimum guarantees and advances. Our principal products include:

### *Action Figures and Accessories*

We have an extensive toy license with the WWE pursuant to which we have the exclusive worldwide right, until December 31, 2009, to develop and market a full line of toy products based on the popular *World Wrestling Entertainment* professional wrestlers. These wrestlers perform throughout the year at live events that attract large crowds, many of which are broadcast on free and cable television, including pay-per-view specials. We launched this product line in 1996 with various series of 6 inch articulated action figures that have movable body parts and feature real-life action sounds from our patented bone-crunching mechanism that allows the figures' "bones" to crack when they are bent. We continually expand and enhance this product line by using technology in the development and in the products themselves. The 6 inch figures currently make up a substantial portion of our overall *World Wrestling Entertainment* line, which has since grown to include many other new products including playsets using interactive technology. Our strategy has been to release new figures and accessories frequently to keep the line fresh and to retain the interest of the consumers.

In December 2002, we signed a three-year master toy license for Dragon Ball®, Dragon Ball Z® and Dragon Ball GT®. We will develop, manufacture and distribute action figures and action figure accessories based on these top-rated animated series.

### *Flying Colors/ Pentech Activity Sets, Compounds, Playsets, Writing Instruments and Lunch Boxes*

Through our acquisition of Flying Colors Toys we entered into the toy activity category with compounds and plastic molded activity cases containing a broad range of activities, such as make and paint your own characters, jewelry making, art studios, posters, puzzles and other projects. The activity cases, with molded and painted likenesses of popular characters, such as Nickelodeon's *Blue's Clues* and *SpongeBob SquarePants*, and *Hello Kitty*, have immediate visual appeal. Using a related production technology, our lunch boxes complement this line with similarly-styled molded and painted likenesses featuring these and other popular characters. Our product lines also include stationery, back-to-school pens, pencils, markers and notebooks. In 2002, we entered the toy candy category and introduced our *Tongue Tape* products in six flavors in a plastic container and have added a necklace to carry a *Tongue Tape* dispenser.

Our compounds represent another significant area of emphasis for Flying Colors. Launched under the *Blue's Clues* license, this line has expanded from play clay in a bucket to an entire *Blue's Clues* playset featuring book molds, extrusion and other devices. We are continuing to expand the compound area and have introduced a full line of innovative compounds under the *Nickelodeon* brand, including *Gooze*® and *Skweez*™, among others.

### **Electronics Products**

Through our acquisition of Toymax we entered into the electronic products category with our video karaoke machines, *Laser Challenge* product line and TV games. Our *Singing Starz* Video Karaoke Machines include songs from top artists. Our *Laser Challenge* product line includes laser games and NRG paintball. Our TV games include licenses from Activision, Atari, and Namco, and feature such games as Centipede and Pac-Man.

### **Seasonal Products**

Through our acquisitions of Toymax and Trendmasters we have entered into a wide range of seasonal toys and leisure products. Our *Go Fly A Kite* product line includes youth and adult kites and a wide array of decorative flags, windstocks, and windwheels. Our *Funnoodle* pool toys include the basic funnoodle, pool floats and a variety of other pool toys. Our *Storm* product line includes water guns, gliders and sport balls. In addition we added a holiday product line for Easter, Halloween and Christmas.

### **Junior Sports Products**

Our junior sports products include Disney licensed products, *Gaksplat* and *Storm*. Our Disney sports include such activities as basketball, bowling and golf. Our *Gaksplat* and *Storm* junior sports include a variety of mini sport balls and activity products.

### **Wheels Division Products**

- *Road Champs die-cast collectible and toy vehicles*

The *Road Champs* product line consists of highly detailed, die-cast replicas of new and classic cars, trucks, motorcycles, emergency vehicles and service vehicles, primarily in 1/43 scale (including police cars, fire trucks and ambulances), buses and aircraft (including propeller planes, jets and helicopters). Through licenses, we produce replicas of well-known vehicles including those from *Ford*®, *Chevrolet*® and *Porsche*®. We believe that these licenses, increase the perceived value of the products and enhance their marketability.

- *Extreme sports die-cast collectibles and toy vehicles and action figures*

Our extreme sports offering includes our *MXS*® line of motorcycles with riders featuring “click n grip” functionality which allows the user to release the rider from the motorcycle seat and perform the signature moves of the sport’s top riders. Other products include off-road vehicles, personal watercraft, surfboards and skateboards, all sold individually and with playsets and accessories.

- *Toy and activity vehicles*

Our *Remco* toy line includes toy and activity vehicles and other toys. In 2002, we also added infrared radio controlled vehicles and *Mighty Mo*’s toy vehicles. Our toy vehicle line is comprised of a large assortment of rugged die-cast and plastic vehicles that range in size from four and three-quarter inch to big-wheeled seventeen inch vehicles. The breadth of the line is extensive, with themes ranging from emergency, fire, farm and construction, to racing and jungle adventure.

## **Child Guidance**

- *Infant and pre-school toys*

Our line of pre-school electronic toys features products that enhance sensory stimulation and learning through play, while offering value to the trade as well as to the consumer. Our products are designed for children ages two and under. We have combined the fun of music, lights, motion and sound with the early introduction of numbers, letters, shape and color recognition, all at a value price.

- *Foam puzzle mats and playsets*

The foam toy products include puzzle mats featuring licensed characters, such as *Winnie the Pooh*, *Blue's Clues*, and *Teletubbies*®, among others, as well as letters of the alphabet and numbers. The inter-locking puzzle pieces can also be used to build houses and other play areas. Other products include foam puzzles of the United States, foam vehicles and outdoor foam products.

- *Slumber bags*

Our line of children's indoor slumber bags features *Dora the Explorer*, *SpongeBob SquarePants* and *Blue's Clues* in addition to proprietary designs.

## **Fashion and Mini Dolls and Related Accessories**

We produce various proprietary and licensed fashion and mini dolls and accessories for children between the ages of three and ten. The proprietary product lines include 11 1/2 inch fashion dolls customized with high-fashion designs that correspond with particular holidays, events or themes, and fashion dolls based on children's classic fairy tales and holidays. We also have an agreement to manufacture for The Disney Store chain a full line of dolls under a private label which features *Disney Princesses* and classic Disney characters.

Other products include 6 inch dolls called the *Fresh Look Friends*<sup>™</sup> and a line of 4 inch dolls accompanied by puppies that have magnetic components and other mechanisms that allow children to perform tricks and to create action with the toys. We also created playsets in the form of houses for these dolls, which are sold under the *Tiny Tots in Puppy Towne*<sup>™</sup> label.

Our in-house product developers originate the design and functionality of most of our fashion dolls. In many cases, they work with retailers and incorporate their input on doll characteristics, packaging and other design elements to create exclusive product lines for them.

## **World Wrestling Entertainment Video Games**

In June 1998, we formed a joint venture with THQ, a developer, publisher and distributor of interactive entertainment software for the leading hardware game platforms in the home video game market. The joint venture entered into a license agreement with the WWE under which it acquired the exclusive worldwide right to publish *World Wrestling Entertainment* video games on all hardware platforms. The term of the license agreement expires on December 31, 2009, and the joint venture has a right to renew the license for an additional five years under various conditions.

The games are designed, developed, manufactured and distributed by THQ. THQ arranges for the manufacture of the CD-ROMs and game cartridges used in the various video game platforms under non-exclusive licenses with Sony, Nintendo, Sega and Microsoft. No other licenses are required for the manufacture of the personal computer titles.

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Through June 30, 2006, we are entitled to receive a guaranteed percentage preferred return from the joint venture at varying rates of net sales of the video games depending on the cumulative unit sales and platform of each particular game, as well as on the royalties earned by the joint venture from the publishing of game guides by third parties. After June 30, 2006, the amount of our preferred return from the joint venture will be subject to renegotiation between THQ and us. The minimum preferred return from the joint venture to be distributed to us in each of the years in the period ending December 31, 2003 is \$2.6 million per year. THQ is entitled to receive the balance of the profits.

The joint venture currently publishes titles for the Sony *PlayStation*® and *PlayStation 2*®, *Nintendo 64*® and *GameCube*® and Microsoft *Xbox*® consoles, *Nintendo Game Boy Color*® and *Game Boy Advance*® hand-held platforms and personal computers. The joint venture launched its first products, a video game for the *Nintendo 64* platform and a video game for *Game Boy Color*, in November 1999. It will also publish titles for new hardware platforms, when and as they are introduced to the market and have established a sufficiently installed base to support new software. These titles are marketed to our existing customers as well as to game, electronics and other specialty stores, such as Electronics Boutique and Best Buy.

The following table presents our past results with the joint venture:

	New Game Titles		Profit from Joint Venture <sup>(1)</sup>
	Console Platforms	Hand-held Platforms	
			(\$ in millions)
1999	1	1	\$ 3.6
2000	4	1	15.9
2001	1	2	6.7
2002	3	1	8.0

- (1) Profit from the joint venture reflects our preferred return on joint venture revenue less certain costs incurred directly by us.

Wrestling video games have demonstrated consistent popularity, with five of our wrestling-themed video games each having sold in excess of 1 million units in 1999, 2000, 2001, and 2002, at retail prices ranging from approximately \$42 to \$60 per game. We believe that the success of *World Wrestling Entertainment* titles is dependent on the graphic look and feel of the software, the depth and variation of game play and the popularity of *World Wrestling Entertainment*. We believe that as a franchise property, *World Wrestling Entertainment* titles have brand recognition and sustainable consumer appeal, which may allow the joint venture to use titles over an extended period of time through the release of sequels and extensions and to re-release such products at different price points in the future. In 2001, our PlayStation title *SmackDown*<sup>TM</sup> was re-released as a “greatest hit.”

Based on the popularity of the WWE characters, we are expanding the use of these characters into the vehicle combat genre of video games with the first release expected in Spring 2003.

## Sales, Marketing and Distribution

We sell all of our products through our own in-house sales staff and independent sales representatives to toy and mass-market retail chain stores, department stores, office supply stores, drug and grocery store chains, club stores, toy specialty stores and wholesalers. Our five largest customers are Target, Kmart, Toys 'R' Us, Wal-Mart, and Kay Bee Toys, which accounted for approximately 54.7% of our net sales in 2001 and 55.7% of our net sales in 2002. Except for purchase orders relating to products on order, we do not have written agreements with our customers. Instead, we generally sell products to our customers pursuant to letters of credit or, in some cases, on open account with payment terms typically varying from 30 to 90 days. From time to time, we allow our customers credits against future purchases from us in order to facilitate their retail markdown and sales of slow-moving inventory. We also sell our products through e-commerce sites, including Toysrus.com.

We contract the manufacture of most of our products to unaffiliated manufacturers located in China. We sell the finished products on a letter of credit basis or on open account to our customers, who take title to the goods in Hong Kong or China. These methods allow us to reduce certain operating costs and working capital requirements. A portion of our sales originate in the United States, so we hold certain inventory in our warehouse and fulfillment facilities. To date, a significant portion of all of our sales has been to domestic customers. We intend to continue expanding distribution of our products into foreign territories and, accordingly, we have:

- acquired Kidz Biz, a United Kingdom-based distributor of toys and related products,
- engaged representatives to oversee sales in certain territories,
- engaged distributors in certain territories, such as Funtastic in Australia, and
- established direct relationships with retailers in certain territories.

Outside of the United States, we currently sell our products primarily in Europe, Australia, Canada, Latin America and Asia. Sales of our products abroad accounted for approximately \$40.0 million, or 14.1% of our net sales, in 2001 and approximately \$53.2 million, or 17.2% of our net sales, in 2002. We believe that foreign markets present an attractive opportunity, and we plan to intensify our marketing efforts and further expand our distribution channels abroad.

We establish reserves for sales allowances, including promotional allowances and allowances for anticipated defective product returns, at the time of shipment. The reserves are determined as a percentage of net sales based upon either historical experience or on estimates or programs agreed upon by our customers.

We obtain, directly, or through our sales representatives, orders for our products from our customers and arrange for the manufacture of these products as discussed below. Cancellations generally are made in writing, and we take appropriate steps to notify our manufacturers of these cancellations.

We maintain a full-time sales and marketing staff, many of whom make on-site visits to customers for the purpose of showing product and soliciting orders for products. We also retain a number of independent sales representatives to sell and promote our products, both domestically and internationally. Together with retailers, we sometimes test the consumer acceptance of new products in selected markets before committing resources to large-scale production.

We advertise our products in trade and consumer magazines and other publications, market our products at international, national and regional toy, stationery and other specialty trade shows,

conventions and exhibitions and carry on cooperative advertising programs with toy and mass retailers and other customers which include the use of in-store displays. We also produce and broadcast television commercials for our *World Wrestling Entertainment* action figure line as well as for some of our *Flying Colors* and Electronics products. We may also advertise some of our other products on television, if we expect that the resulting increase in our net sales will justify the relatively high cost of television advertising.

## **Product Development**

Each of our product lines has an in-house manager responsible for product development. The in-house manager identifies and evaluates inventor products and concepts and other opportunities to enhance or expand existing product lines or to enter new product categories. In addition, we create proprietary products, the principal source of products for our fashion doll line, and products to more fully exploit our concept and character licenses. Although we do have the capability to create and develop products from inception to production, we generally use third-parties to provide a substantial portion of the sculpting, sample making, illustration and package design required for our products in order to accommodate our increasing product innovations and introductions. Typically, the development process takes from three to nine months from concept to production and shipment to our customers.

We employ a staff of designers for all of our product lines. We occasionally acquire our other product concepts from unaffiliated third parties. If we accept and develop a third party's concept for new toys, we generally pay a royalty on the toys developed from this concept that are sold, and may, on an individual basis, guarantee a minimum royalty. Royalties payable to inventors and developers generally range from 1% to 8% of the wholesale sales price for each unit of a product sold by us. We believe that utilizing experienced third-party inventors gives us access to a wide range of development talent. We currently work with numerous toy inventors and designers for the development of new products and the enhancement of existing products. We believe that toy inventors and designers have come to appreciate our practice of acting quickly and decisively to acquire and market licensed products. In addition, we believe that all of these factors, as well as our recent success in developing and marketing products, make us more attractive to toy inventors and developers than some of our competitors.

Safety testing of our products is done at the manufacturers' facilities by an engineer employed by us or by independent third-party contractors engaged by us. Safety testing is designed to meet regulations imposed by federal and state governmental authorities. We also monitor quality assurance procedures for our products for safety purposes. In addition, independent laboratories engaged by some of our larger customers test certain of our products.

## **Manufacturing and Supplies**

Most of our products are currently produced by overseas third-party manufacturers, which we choose on the basis of quality, reliability and price. Consistent with industry practice, the use of third-party manufacturers enables us to avoid incurring fixed manufacturing costs, while maximizing flexibility, capacity and production technology. All of the manufacturing services performed overseas for us are paid for on open account with the manufacturers. To date, we have not experienced any material delays in the delivery of our products; however, delivery schedules are subject to various factors beyond our control, and any delays in the future could adversely affect our sales. Currently, we have ongoing relationships with more than 20 different manufacturers. We believe that alternative sources of supply are available, although we cannot be assured that we can obtain adequate supplies of manufactured products.

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Although we do not conduct the day-to-day manufacturing of our products, we participate in the design of the product prototype and production tools, dies and molds for our products and we seek to ensure quality control by actively reviewing the production process and testing the products produced by our manufacturers. We employ quality control inspectors who rotate among our manufacturers' factories to monitor the production of substantially all of our products.

The principal raw materials used in the production and sale of our toy products are plastics, zinc alloy, plush, printed fabrics, paper products and electronic components, all of which are currently available at reasonable prices from a variety of sources. Although we do not manufacture our products, we own the tools, dies and molds used in the manufacturing process, and these are transferable among manufacturers if we choose to employ alternative manufacturers. Tools, dies and molds represent substantially all of our property and equipment and amounted to \$10.7 million in 2001 and \$9.6 million in 2002. Substantially all of these assets are located in China.

### **Trademarks and Copyrights**

Most of our products are produced and sold under trademarks owned by or licensed to us. We typically register our properties, and seek protection under the trademark, copyright and patent laws of the United States and other countries where our products are produced or sold. These intellectual property rights can be significant assets. Accordingly, while we believe we are sufficiently protected, the loss of some of these rights could have an adverse effect on our business, financial condition and results of operations.

### **Competition**

Competition in the toy industry is intense. Globally, certain of our competitors have greater financial resources, larger sales and marketing and product development departments, stronger name recognition, longer operating histories and benefit from greater economies of scale. These factors, among others, may enable our competitors to market their products at lower prices or on terms more advantageous to customers than those we could offer for our competitive products. Competition often extends to the procurement of entertainment and product licenses, as well as to the marketing and distribution of products and the obtaining of adequate shelf space. Competition may result in price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on our business, financial condition and results of operations. In each of our product lines we compete against one or both of the toy industry's two dominant companies, Mattel and Hasbro. In addition, we compete, in our *Flying Colors* and *Pentech* product categories, with Rose Art Industries, Hasbro (Play-doh) and Binney & Smith (Crayola), and, in our toy vehicle lines, with Racing Champions. We also compete with numerous smaller domestic and foreign toy manufacturers, importers and marketers in each of our product categories. Our joint venture's principal competitors in the video game market are Electronic Arts, Activision and Acclaim Entertainment.

### **Seasonality and Backlog**

In 2002, approximately 55.2% of our net sales were made in the third and fourth quarters. Generally, the first quarter is the period of lowest shipments and sales in our business and the toy industry generally and therefore the least profitable due to various fixed costs. Seasonality factors may cause our operating results to fluctuate significantly from quarter to quarter. However, our writing instrument and activity products generally are counter-seasonal to the traditional toy industry seasonality due to the higher volume generally shipped for back-to-school beginning in the second quarter. In addition, our seasonal products are primarily sold in the spring and summer

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seasons. Our results of operations may also fluctuate as a result of factors such as the timing of new products (and related expenses) introduced by us or our competitors, the advertising activities of our competitors, delivery schedules set by our customers and the emergence of new market entrants. We believe, however, that the low retail price of most of our products may be less subject to seasonal fluctuations than higher priced toy products.

We ship products in accordance with delivery schedules specified by our customers, which usually request delivery of their products within three to six months of the date of their orders. Because customer orders may be canceled at any time without penalty, our backlog may not accurately indicate sales for any future period.

### **Government and Industry Regulation**

Our products are subject to the provisions of the Consumer Product Safety Act (“CPSA”), the Federal Hazardous Substances Act (“FHSA”), the Flammable Fabrics Act (“FFA”) and the regulations promulgated thereunder. The CPSA and the FHSA enable the Consumer Products Safety Commission (“CPSC”) to exclude from the market consumer products that fail to comply with applicable product safety regulations or otherwise create a substantial risk of injury, and articles that contain excessive amounts of a banned hazardous substance. The FFA enables the CPSC to regulate and enforce flammability standards for fabrics used in consumer products. The CPSC may also require the repurchase by the manufacturer of articles. Similar laws exist in some states and cities and in various international markets. We maintain a quality control program designed to ensure compliance with all applicable laws.

### **Employees**

As of March 27, 2003, we employed 284 persons, all of whom are full-time employees, including four executive officers. We employed 190 in the United States, 18 in the United Kingdom, 55 in Hong Kong and 21 in China. We believe that we have good relationships with our employees. None of our employees is represented by a union.

### **Environmental Issues**

We are subject to legal and financial obligations under environmental, health and safety laws in the United States and in other jurisdictions where we operate. We are not currently aware of any material environmental liabilities associated with any of our operations.

### **Available Information**

We make available free of charge on or through our Internet website, [www.jakkspacific.com](http://www.jakkspacific.com), our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

### **Item 2. Properties**

Our principal executive offices occupy approximately 17,000 square feet of space in Malibu, California under a lease expiring on February 28, 2008. We have a lease, expiring August 31, 2007, for approximately 11,000 square feet of additional office space in Malibu, California, which contains our design offices. We have a lease for showroom and office space of approximately 14,500 square feet at the International Toy Center in New York City which expires April 30, 2010.

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We also have leased office and showroom space of approximately 10,000 square feet in Hong Kong from which we oversee our China-based third-party manufacturing operations, 318,000 square feet of warehouse space in City of Industry, California, and 10,000 square feet of office space in Surrey, England. We also occupy approximately 25,000 square feet of office and warehouse space in Clinton, Connecticut under a lease expiring September 30, 2007 from which the operations of our Go Fly a Kite division are carried out. We believe that our facilities in the United States, Hong Kong and England are adequate for our reasonably foreseeable future needs.

### **Item 3. *Legal Proceedings***

We are a party to, and certain of our property is the subject of, various pending claims and legal proceedings that routinely arise in the ordinary course of our business, but we do not believe that any of these claims or proceedings will have a material effect on our business, financial condition or results of operations.

### **Item 4. *Submission of Matters to a Vote of Security Holders***

No matter was submitted during the fourth quarter of 2002 to a vote of our security holders.

## PART II

### Item 5. *Market for Registrant's Common Equity and Related Stockholder Matters*

#### Market Information

Our common stock is traded on the Nasdaq National Market under the symbol "JAKK." The following table sets forth, for the periods indicated, the range of high and low sales prices for our common stock on the Nasdaq National Market.

	Price Range of Common Stock	
	High	Low
<b>2001:</b>		
First quarter	\$15.00	\$ 8.00
Second quarter	19.44	8.78
Third quarter	21.80	12.60
Fourth quarter	25.38	12.44
<b>2002:</b>		
First quarter	23.70	15.85
Second quarter	23.49	15.91
Third quarter	17.76	9.57
Fourth quarter	16.63	9.30

#### Security Holders

As of March 27, 2003, there were 159 holders of record of our common stock.

#### Dividends

We have never paid any cash dividends on any of our common stock. The agreements applicable to our Line of Credit (see the discussion in Item 7 below) prohibit the payment of dividends on our common stock (except for dividends payable in shares of our common stock or other equity security). In any event, we currently intend to retain our future earnings, if any, to finance the growth and development of our business, and, accordingly, we do not plan to pay any cash dividends on our common stock in the foreseeable future.

**Item 6. Selected Financial Data**

You should read the financial data set forth below in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes (included in Item 8).

	Year Ended December 31,				
	1998	1999	2000	2001	2002
	(in thousands, except per share data)				
<b>Consolidated Statement of Operations Data:</b>					
Net sales	\$85,253	\$183,685	\$252,288	\$284,309	\$310,016
Cost of sales	52,000	107,602	149,881	164,222	179,465
Gross profit	33,253	76,083	102,407	120,087	130,551
Selling, general and administrative expenses	24,007	51,154	80,435	89,575	91,848
Acquisition shut-down and product recall costs	—	—	1,469	1,214	6,718
Income from operations	9,246	24,929	20,503	29,298	31,985
Profit from Joint Venture	—	(3,605)	(15,906)	(6,675)	(8,004)
Interest, net	423	(1,588)	(3,833)	(2,057)	(1,141)
Other (income) expense, net	591	(182)	(92)	—	—
Income before provision for income taxes and minority interest	8,232	30,304	40,334	38,030	41,130
Provision for income taxes	1,857	8,334	11,697	9,797	9,049
Income before minority interest	6,375	21,970	28,637	28,233	32,081
Minority interest	—	—	—	—	810
Net income	\$ 6,375	\$ 21,970	\$ 28,637	\$ 28,233	\$ 31,271
Basic earnings per share	\$ 0.75	\$ 1.55	\$ 1.50	\$ 1.55	\$ 1.42
Weighted average shares outstanding	8,539	13,879	19,060	18,199	21,963
Diluted earnings per share	\$ 0.59	\$ 1.39	\$ 1.41	\$ 1.45	\$ 1.37
Weighted average shares and equivalents outstanding	11,403	15,840	20,281	19,410	22,747

	At December 31,				
	1998	1999	2000	2001	2002
	(in thousands)				
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$12,452	\$ 57,546	\$ 29,275	\$ 25,036	\$ 68,413
Working capital	13,736	113,170	86,897	116,492	129,183
Total assets	58,736	232,878	248,722	284,041	408,810
Long-term debt, net of current portion	5,940	9	1,000	77	60
Total stockholders’ equity	37,754	187,501	204,530	244,403	360,577

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors. You should read this section in conjunction with our consolidated financial statements and the related notes (included in Item 8).*

### **Critical Accounting Policies**

The accompanying consolidated financial statements and supplementary information were prepared in accordance with accounting principles generally accepted in the United States of America. Significant accounting policies are discussed in Footnote 2 to the Consolidated Financial Statements, Item 8. Inherent in the application of many of these accounting policies is the need for management to make estimates and judgments in the determination of certain revenues, expenses, assets and liabilities. As such, materially different financial results can occur as circumstances change and additional information becomes known. The policies with the greatest potential effect on our results of operation and financial position include:

The allowance for doubtful accounts is based on our assessment of the collectibility of specific customer accounts and the aging of the accounts receivable. If there were a deterioration of a major customer's creditworthiness, or actual defaults were higher than our historical experience, our estimates of the recoverability of amounts due to us could be overstated, which could have an adverse impact on our operating results.

Our revenue recognition policy is significant because our revenue is a key component of our results of operations. In addition, our revenue recognition determines the timing of certain expenses, such as commissions and royalties. We follow very specific and detailed guidelines in measuring revenues; however, certain judgments affect the application of our revenue policy. Revenue results are difficult to predict, and any shortfall in revenue or delay in recognizing revenue could cause our operating results to vary significantly from quarter to quarter.

We assess the impairment of long-lived assets and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and
- significant negative industry or economic trends.

When we determine that the carrying value of long-lived assets and goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. Net long-lived assets and goodwill amounted to \$222.0 million as of December 31, 2002.

## Recent Developments

On March 11, 2002, we purchased a controlling interest in Toymax. On October 25, 2002 we completed that acquisition, by acquiring the remaining outstanding common shares. The total purchase price of approximately \$62.2 million consisted of 1,166,360 shares of our common stock, 598,697 stock options and approximately \$41.0 million in cash and resulted in additional goodwill of \$64.9 million. Our results of operations have included Toymax from March 12, 2002, however for the period March 12, 2002 through October 25, 2002 the minority interest's share of Toymax's earnings were excluded.

On November 27, 2002, we purchased certain product lines, assets and assumed certain liabilities from Trendmasters. The total purchase price of approximately \$19.0 million consisted of all cash and resulted in goodwill of \$26.2 million. Our results of operations have included Trendmasters from the date of acquisition.

## Results of Operation

The following table sets forth, for the periods indicated, certain statement of operations data as a percentage of net sales.

	Years Ended December 31,				
	1998	1999	2000	2001	2002
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	61.0	58.6	59.4	57.8	57.9
Gross profit	39.0	41.4	40.6	42.2	42.1
Selling, general and administrative expenses	28.2	27.8	31.9	31.5	29.6
Acquisition shut-down and product recall costs	—	—	0.5	0.4	2.2
Income from operations	10.8	13.6	8.2	10.3	10.3
Profit from Joint Venture	—	(2.0)	(6.3)	(2.3)	(2.6)
Interest, net	0.4	(0.9)	(1.5)	(0.7)	(0.4)
Other (income) expense, net	0.7	—	—	—	—
Income before income taxes and minority interest	9.7	16.5	16.0	13.3	13.3
Provision for income taxes	2.2	4.5	4.6	3.4	2.9
Income before minority interest	7.5	12.0	11.4	9.9	10.4
Minority interest	—	—	—	—	0.3
Net income	7.5%	12.0%	11.4%	9.9%	10.1%

### Years Ended December 31, 2002 and 2001

**Net Sales.** Net sales increased \$25.7 million, or 9.0%, to \$310.0 million in 2002 from \$284.3 million in 2001. The growth in net sales was due primarily to the addition of the Toymax products and continuing growth in sales of our Flying Colors and Doll products which was offset in part by a decrease in sales of our Wheels division, consisting primarily of our Road Champs die-cast toy and collectible vehicles with its extreme sports products.

**Gross Profit.** Gross profit increased \$10.5 million, or 8.7%, to \$130.6 million in 2002, or 42.1% of net sales, from \$120.1 million, or 42.2% of net sales, in 2001. The overall increase in gross profit was attributable to the increase in net sales. Gross profit margin was compatible to last year as lower margins for Toymax products were offset by the decrease in royalty expense as a

percentage of net sales due to changes in the product mix resulting from the sale of more products with lower royalty rates or proprietary products with no royalties.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses were \$91.8 million in 2002 and \$89.6 million in 2001, constituting 29.6% and 31.5% of net sales, respectively. The overall increase of \$2.2 million in such costs was due to costs incurred in support of our Kidz Biz and Toymax acquisitions and increased media buys, offset in part by a decrease in Goodwill amortization expense based on the implementation of SFAS 142. The decrease as a percentage of net sales is primarily attributable to the relative fixed nature of certain expenses with a concurrent increase in net sales. We produced and aired television commercials in support of several of our products, including World Wrestling Entertainment action figures and Flying Colors products, in 2001 and 2002. From time to time, we may increase our advertising efforts, if we deem it appropriate for particular products.

*Acquisition Shut-down and Recall Costs.* Acquisition shut-down costs in 2002 relate to shut-down costs, including lease termination, fixed asset abandonment and other costs, of certain operations of Toymax and Kidz Biz. Such costs in 2001 relate to shut-down costs of certain operations of Pentech, acquired in 2000. Operations impacted by these shut-downs were sales, design, distribution and administration. The integration of Pentech was completed in 2001 and the integration of Toymax and Kidz Biz was completed in 2002. In 2002, we accrued \$2.2 million for the recall of one of our products.

The components of the acquisition shut-down and recall costs are as follows:

	Accrued Balance December 31, 2001	Accrual	Actual	Accrued Balance December 31, 2002
Lease abandonment costs	\$ —	\$3,723,481	\$(1,413,681)	\$2,309,800
Fixed asset write-off	—	260,142	(260,142)	—
Other	—	558,995	(558,995)	—
Recall	—	2,175,087	(2,175,087)	—
Total acquisition shut-down and recall costs	\$ —	\$6,717,705	\$(4,407,905)	\$2,309,800

*Profit from Joint Venture.* Profit from joint venture increased by \$1.3 million in 2002 due to the joint venture having sales of only carryover titles in 2001 compared to releasing a new Microsoft Xbox title in addition to having sales of carryover titles in 2002. New releases typically generate higher unit sales resulting in higher overall sales as compared to carryover titles. Profit from the joint venture contributed significantly to our pre-tax profit, representing 17.6% of pre-tax income in 2001 and 19.5% in 2002. We expect to continue to receive a preferred return over the remaining term of the license agreement ending December 31, 2009, although we cannot predict with certainty what levels of return will be achieved and, in any case, we anticipate substantial fluctuations in the amount of the preferred return distributed to us from year to year.

*Interest, Net.* Interest income decreased in 2002 compared to 2001 in spite of higher average cash balances due to lower interest rates.

*Provision for Income Taxes.* Provision for income taxes included Federal, state and foreign income taxes in 2001 and 2002, at effective tax rates of 25.8% in 2001 and 22% in 2002, benefiting from a flat 16.5% Hong Kong Corporation Tax on our income arising in, or derived from, Hong Kong. The decrease in the current year effective rate net results primarily from certain permanently non-taxable items in addition to a continued shift in profits to more favorable tax jurisdictions. As of December 31, 2002, we had net deferred tax assets of approximately

\$3.9 million for which no allowance has been provided since, in the opinion of management, realization of the future benefit is probable. In making this determination, management considered all available evidence, both positive and negative, as well as the weight and importance given to such evidence.

***Years Ended December 31, 2001 and 2000***

*Net Sales.* Net sales increased \$32.0 million, or 12.7%, to \$284.3 million in 2001 from \$252.3 million in 2000. The growth in net sales was due primarily to the continuing growth in sales of our Flying Colors product and an increase in sales of our World Wrestling Entertainment wrestling products, as well as the addition of Pentech products, which began contributing to operations in August 2000, and the introduction of our products based on the Battlebots television show though offset by a decrease in sales of our Doll products and our Wheels products, consisting primarily of our Road Champs die-cast toy and collectible vehicles including BXS die-cast bicycle, MXS die-cast motorcycles and other extreme sports products.

*Gross Profit.* Gross profit increased \$17.7 million, or 17.3%, to \$120.1 million in 2001, or 42.2% of net sales, from \$102.4 million, or 40.6% of net sales, in 2000. The overall increase in gross profit was attributable to the increase in net sales and the increase in the gross profit margin. The increase in gross profit margin of 1.6% of net sales is primarily attributable to the decrease in royalty expense as a percentage of net sales due to changes in the product mix and lower product costs, which was partially offset by an increase in amortization expense relating to molds and tools used in the manufacture of our products.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses were \$89.6 million in 2001 and \$80.4 million in 2000, constituting 31.5% and 31.9% of net sales, respectively. The overall increase of \$9.2 million in such costs in 2001 was due in large part to a \$5.0 million dollar reserve on accounts receivable relating to the Chapter 11 bankruptcy filing of Kmart, which was filed in January of 2002, and the increase in net sales with its proportionate impact on variable selling costs such as freight and shipping related expenses, sales commissions, cooperative advertising and travel expenses, among others. The decrease as a percentage of net sales is primarily attributable to the fixed nature of certain of these expenses with a concurrent increase in net sales. We produced and aired television commercials in support of several of our products, including World Wrestling Entertainment action figures, Road Champs extreme sports products and Flying Colors products in 2000 and 2001. From time to time, we may increase our advertising efforts, if we deem it is appropriate for particular products.

*Acquisition Shut-down and Other Costs.* Acquisition shut-down and other costs in 2001 relate to shut-down costs, including lease termination, relocation and consulting fees and expenses, of certain operations of Pentech, acquired in 2000, and such costs in 2000 relate to shut-down costs, including lease termination, relocation, and consulting fees and expenses of certain operations of Flying Colors, acquired in 1999. Operations impacted by both shut-downs were sales, design, distribution, and administration. Total Pentech costs is comprised of \$0.3 million relating to lease terminations and abandonments, \$0.2 million in consulting fees and expenses incurred to facilitate the integration, \$0.4 million relating to relocation expense, and \$0.1 million relating to the abandonments of other assets. Twenty-one Pentech employees received severance totaling \$0.4 million, that was accrued in the fourth quarter of 2000 and was fully paid out by June 30, 2001. The integration of Pentech was substantially completed in the second quarter of 2001 and related costs are expected to be nominal in future quarters. In 2000, total Flying Colors costs is comprised of \$0.2 million relating to lease terminations and abandonments and \$0.3 million relating

to relocation expense. The integration of Flying Colors was completed in 2000. Additionally, 2000 includes \$0.6 million relating to the recall of one of our products.

*Profit from Joint Venture.* Profit from our joint venture with THQ decreased in 2001 due to a decrease in our preferred return resulting from fewer releases of *World Wrestling Entertainment* video games by our joint venture in 2001 than in 2000. In 2001, the joint venture released two Nintendo GameBoy titles, which have lower unit sales and sales prices than the other game platforms, and one Sony Play Station 2 title along with modest carryover sales of titles released in 2000 and earlier, as compared to 2000, in which the joint venture released a total of four new titles consisting of two Sony Play Station titles, one Nintendo 64 title and one Sega Dreamcast title in addition to strong carryover sales of the two 1999 releases. Profit from the joint venture contributed significantly to our pre-tax profit, representing 39.4% of pre-tax income in 2000 and 17.6% in 2001. Through June 30, 2006, we are entitled to receive a guaranteed preferred return at varying rates of net sales of the video games depending on the cumulative unit sales and platform of each particular game, and after June 30, 2006, the amount of the preferred return is subject to renegotiation between THQ and us. The minimum preferred return to be distributed to us by the joint venture during each of the years in the period ending December 31, 2003 is \$2.6 million per year. We expect our aggregate return over the remaining term of the license agreement ending December 31, 2009 to be significantly in excess of this amount, although we cannot predict with certainty that expected levels of return will be achieved and, in any case, we anticipate substantial fluctuations in the amount of the preferred return distributed to us from year to year.

*Interest, Net.* Interest income decreased in 2001 due to lower average cash balances during 2001 than in 2000 as a result of significant disbursements made in the third and fourth quarters of 2000 related to the acquisition of Pentech and the repurchase by the Company of its common stock. Interest expense was nominal in 2000 and 2001.

*Provision for Income Taxes.* Provision for income taxes included Federal, state and foreign income taxes in 2000 and 2001, at effective tax rates of 29% in 2000 and 25.8% in 2001, benefiting from a flat 16.5% Hong Kong Corporation Tax on our income arising in, or derived from, Hong Kong. As of December 31, 2001, we had deferred tax assets of approximately \$0.4 million for which no allowance has been provided since, in the opinion of management, realization of the future benefit is probable. In making this determination, management considered all available evidence, both positive and negative, as well as the weight and importance given to such evidence.

### **Quarterly Fluctuations and Seasonality**

We have experienced significant quarterly fluctuations in operating results and anticipate these fluctuations in the future. The operating results for any quarter are not necessarily indicative of results for any future period. Our first quarter is typically expected to be the least profitable as a result of lower net sales but substantially similar fixed operating expenses. This is consistent with the performance of many companies in the toy industry.

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The following table presents our unaudited quarterly results for the years indicated. The seasonality of our business is reflected in this quarterly presentation.

	2000				2001				2002			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except per share data)											
Net sales	\$50,782	\$50,578	\$91,838	\$59,090	\$59,962	\$70,141	\$92,768	\$61,438	\$59,895	\$78,992	\$102,640	\$68,489
As a % of full year	20.1%	20.1%	36.4%	23.4%	21.1%	24.7%	32.6%	21.6%	19.3%	25.5%	33.1%	22.1%
Gross profit	\$20,104	\$21,748	\$37,672	\$22,883	\$24,468	\$32,609	\$39,056	\$23,953	\$26,470	\$35,192	\$ 41,812	\$27,077
As a % of full year	19.7%	21.2%	36.8%	22.3%	20.4%	27.2%	32.5%	19.9%	20.3%	27.0%	32.0%	20.7%
As a % of net sales	39.6%	43.0%	41.0%	38.7%	40.8%	46.5%	42.1%	39.0%	44.2%	44.6%	40.7%	39.5%
Income (loss) from operations	\$ 3,552	\$ 6,095	\$11,201	\$ (345)	\$ 7,267	\$ 8,879	\$14,562	\$ (1,410)	\$ 1,420	\$ 9,912	\$ 18,895	\$ 1,758
As a % of full year	17.3%	29.8%	54.6%	(1.7)%	24.8%	30.3%	49.7%	(4.8)%	4.4%	31.0%	59.1%	5.5%
As a % of net sales	7.0%	12.1%	12.2%	(0.6)%	12.7%	12.1%	15.7%	(2.3)%	2.4%	12.5%	18.4%	2.6%
Income before income taxes and minority interest	\$ 9,715	\$ 8,877	\$13,615	\$ 8,127	\$ 8,480	\$ 9,478	\$15,250	\$ 4,822	\$ 2,985	\$10,849	\$ 19,944	\$ 7,352
As a % of net sales	19.1%	17.6%	14.8%	13.8%	14.1%	13.5%	16.4%	7.8%	5.0%	13.7%	19.4%	10.7%
Net income	\$ 6,603	\$ 6,237	\$ 9,769	\$ 6,028	\$ 6,021	\$ 6,873	\$10,949	\$ 4,390	\$ 2,156	\$ 7,832	\$ 13,954	\$ 7,329
As a % of net sales	13.0%	12.3%	10.6%	10.2%	10.0%	9.8%	11.8%	7.1%	3.6%	9.9%	13.6%	10.7%
Diluted earnings per share	\$ 0.32	\$ 0.31	\$ 0.48	\$ 0.32	\$ 0.32	\$ 0.36	\$ 0.56	\$ 0.22	\$ 0.11	\$ 0.36	\$ 0.58	\$ 0.30
Weighted average shares and equivalents outstanding	20,374	20,371	20,330	18,621	18,920	19,259	19,586	19,763	20,236	21,953	24,059	24,800

During the second quarter of 2000, we recorded a charge which impacted operating income by approximately \$1.4 million relating to the recall of one of our products.

During the fourth quarter of 2001, we recorded a charge of \$5.0 million to bad debt impacting operating income relating to the bankruptcy filing of one of our customers, Kmart.

During the first quarter of 2002, we recorded a charge which impacted operating income by approximately \$6.6 million relating to the restructuring of Toymax and Kidz Biz.

During the second quarter of 2002, we recorded a charge which impacted operating income by approximately \$1.5 million relating to the recall of one of our products.

During the fourth quarter of 2002, we reversed \$2.1 million of the restructuring charge recorded in the first quarter of 2002 and recorded an additional charge of approximately \$0.7 million relating to the recall of one of our products, the net of which favorably impacted operating income by approximately \$1.4 million. In addition, our effective tax rate for the year 2002 was reduced from 26% to 22%.

**Recent Accounting Standards**

In June 2001, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 143, “Accounting for Asset Retirement Obligations” (“SFAS 143”). The objective of SFAS 143 is to establish an accounting standard for the recognition and measurement of an asset retirement obligation on certain long-lived assets. The retirement obligation must be one that results from the acquisition, construction or normal operation of a long-lived asset. SFAS 143 requires the legal obligation associated with the retirement of a tangible long-lived asset to be recognized at fair value as a liability when incurred, and the cost to be capitalized by increasing the carrying amount of the related long-lived asset. SFAS 143 will be effective for the Company’s fiscal year beginning January 1, 2003. The adoption of this statement will have no material impact on the consolidated financial statements.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (“SFAS 144”). SFAS 144 supersedes Statements of Financial Accounting Standards No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of” (“SFAS 121”) and retains the

basic requirements of SFAS 121 regarding when and how to measure an impairment loss. SFAS 144 provides additional implementation guidance on accounting for an impairment loss. SFAS 144 is effective for all fiscal years beginning after December 15, 2001. The Company adopted SFAS 144 beginning in fiscal 2002, the adoption of which did not have a material effect on the Company's financial position or results of operations.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145, "Rescission of Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Correction" ("SFAS 145"). SFAS 145 eliminates extraordinary accounting treatment for reporting gains or losses on debt extinguishments, and amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of this SFAS are effective for fiscal years beginning after May 15, 2002; however, early application of SFAS 145 is encouraged. Debt extinguishments reported as extraordinary items prior to scheduled or early adoption of this SFAS would be reclassified to other income in most cases following adoption.

The Company is currently evaluating the impact of the adoption of SFAS 145 would have on its consolidated results of operations subject to the evaluation in accordance with APB 30, "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions".

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"), which changes the accounting for costs such as lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity initiated after December 31, 2002. The standard requires companies to recognize the fair value of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan.

The Company anticipates that the adoption of SFAS 146 will not have a material effect on the Company's financial position or results of operations.

## **Liquidity and Capital Resources**

As of December 31, 2002, we had working capital of \$129.2 million, as compared to \$116.5 million as of December 31, 2001. This increase was primarily attributable to the receipt of net proceeds from the sale of our common stock and from operating activities offset in part by disbursements relating to the acquisitions of Toymax and Trendmasters.

Operating activities provided net cash of \$66.2 million including the sale of marketable securities of \$37.1 million in the year ended December 31, 2002 as compared to \$13.4 million, net of the purchase of marketable securities of \$23.5 million, in 2001. Net cash was provided primarily by net income and non-cash charges, such as depreciation and amortization, the forgiveness of an officer note receivable and minority interest, as well as decreases in prepaid expenses and other current operating assets, the sale of marketable securities and increases in the reserve for sales returns and allowances, income taxes payable and deferred income taxes, which were offset in part by a non-cash benefit consisting of earned compensation from stock option grants, increases in the preferred return from THQ joint venture, accounts receivable, inventory, advanced royalty payments and decreases in accounts payable and accrued expenses. As of December 31, 2002, we had cash and cash equivalents of \$68.4 million and no marketable securities.

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Operating activities provided net cash of \$13.4 million, net of the purchase of marketable securities of \$23.5 million, in the year ended December 31, 2001 as compared to \$30.0 million, including the sale of marketable securities of \$25.7 million, in 2000. Net cash was provided primarily by net income and non-cash charges, such as depreciation and amortization and recognition of compensation expense from stock option grants, as well as the increases in accrued expenses and deferred income taxes and decrease in the preferred return due from the joint venture, which were offset in part by increases in accounts receivable and inventory and decreases in the reserve for sales returns and allowances and income taxes payable. As of December 31, 2001, we had cash and cash equivalents of \$25.0 million and marketable securities of \$37.1 million.

Our investing activities used cash of \$87.8 million in the year ended December 31, 2002, as compared to \$19.4 million in 2001, consisting primarily of the purchase of office furniture and equipment and molds and tooling used in the manufacture of our products, the goodwill acquired in the acquisitions of Toymax and Trendmasters, the \$4.5 million in goodwill relating to the final earn-out for Flying Colors, and the increase in other assets, partially offset by the repayment of notes receivable from officers. In 2001, our investing activities consisted primarily of the purchase of molds and tooling used in the manufacture of our products, the goodwill acquired in the acquisitions of Kidz Biz Ltd. and Kidz Biz Far East, plus the \$4.5 million in goodwill relating to the 2001 earn-out for Flying Colors, partially offset by the repayment of notes receivable from officers. As part of our strategy to develop and market new products, we have entered into various character and product licenses with royalties ranging from 1% to 12% payable on net sales of such products. As of December 31, 2002, these agreements required future aggregate minimum guarantees of \$19.4 million, exclusive of \$2.9 million in advances already paid.

Our investing activities used net cash of \$19.4 million in the year ended December 31, 2001, as compared to \$47.9 million in 2000, consisting primarily of the purchase of molds and tooling used in the manufacture of our products in 2001 and 2000, and goodwill acquired in the acquisitions of Kidz Biz Ltd. and Kidz Biz Far East in 2001 and Pentech in 2000. As part of our strategy to develop and market new products, we have entered into various character and product licenses with royalties ranging from 1% to 12% payable on net sales of such products. As of December 31, 2001, these agreements required future aggregate minimum guarantees of \$11.5 million, exclusive of \$2.0 million in advances already paid.

Our financing activities provided net cash of \$64.9 million in the year ended December 31, 2002, as compared to \$1.8 million in 2001. In 2002, cash was primarily provided from the sale of our common stock and from the exercise of stock options and warrants, partially offset by the repayment of long-term debt. In 2001, cash was primarily provided from the exercise of stock options and warrants, partially offset by the repayment of debt assumed in the acquisition of Pentech.

Our financing activities provided net cash of \$1.8 million in the year ended December 31, 2001, compared to having used cash of \$10.4 million in 2000. In 2000, we used cash primarily to repurchase 1,493,600 shares of our common stock for a total of \$12.9 million, while cash was provided by the exercise of stock options and warrants and the assumption of debt related to the acquisition of Pentech. Net cash provided in 2001 consisted primarily of proceeds from the exercise of stock options and warrants, offset by the repayment of debt assumed in the acquisition of Pentech.

During 2002, we acquired all the outstanding common shares of Toymax for cash of approximately \$41.0 million and 1,166,360 shares of our common stock and paid off approximately

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\$12.3 million of indebtedness. In November 2002, we acquired certain assets of Trendmasters for approximately \$19.0 million and paid off approximately \$3.7 million of indebtedness in cash.

The following is a summary of our significant contractual cash obligations for the periods indicated that existed as of December 31, 2002 and is based on information appearing in the notes to the consolidated financial statements:

	2003	2004	2005	2006	2007	Thereafter	Total
Long-term debt	\$ 17,805	\$ 19,036	\$ 20,350	\$ 20,297	\$ —	\$ —	\$ 77,488
Operating leases	4,707,091	4,601,158	3,967,662	3,905,415	3,490,756	1,292,900	21,964,982
Minimum guaranteed license/royalty payments	4,202,692	1,829,063	4,538,335	1,040,000	1,040,000	6,731,000	19,381,090
Employment contracts	4,887,867	4,114,997	3,201,000	2,855,000	2,930,000	4,410,000	22,398,864
Total contractual cash obligations	\$13,815,455	\$10,564,254	\$11,727,347	\$7,820,712	\$7,460,756	\$12,433,900	\$63,822,424

In May and June 2002, we received an aggregate of \$59.1 million in net proceeds from the sale of 3,525,000 shares of our common stock in an under-written public offering. These proceeds, which we invested temporarily in marketable securities and cash equivalents, were applied to our product acquisition, development, working capital and general corporate needs.

In December 2001, we acquired all of the outstanding capital stock of Kidz Biz Limited, a United Kingdom company, and an affiliated Hong Kong company, Kidz Biz Far East Limited, for an aggregate purchase price of approximately \$12.4 million. Total consideration was paid on the closing of the transaction in cash in the amount of \$6.4 million and the issuance of 308,992 shares of our common stock at a value of \$6.0 million. In addition, we agreed to pay an earn-out for each of 2002, 2003, 2004 and 2005, based on the year over year increase in Kidz Biz sales, payable by delivery of up to 25,749 shares of our common stock. In 2002, nothing was earned.

In October 1999, we acquired Flying Colors Toys for approximately \$34.7 million in cash for the stock and paid off approximately \$17.6 million of indebtedness. In addition, we also paid an earn-out of up to \$4.5 million in each of the three twelve-month periods following the closing because the gross profit of *Flying Colors* products achieved certain targeted levels during these periods.

In October 2001, we secured a syndicated line of credit totaling \$50.0 million with a consortium of banks led by Bank of America, N.A. ("Line of Credit"). The Line of Credit will be available for future acquisitions and working capital and is secured by a lien on substantially all of our assets and contains customary financial and non-financial covenants which require us to maintain a minimum net worth and limit our ability to incur additional indebtedness, pay cash dividends or make distributions, sell assets and enter into certain mergers or acquisitions. We are required to not have any outstanding borrowings in excess of \$30.0 million for a period of at least 30 consecutive days during the first fiscal quarter of each year of the agreement. Amounts outstanding under this facility bear interest at 0.25% plus the greater of the Prime Rate or the Federal Funds Rate plus 0.5%, subject to adjustment based on certain financial ratios. As of December 31, 2002, we had no outstanding borrowings.

In February 2003, our Board of Directors approved a buyback of up to \$20 million of our common stock. As of March 27, 2003, we repurchased 330,000 shares of our common stock for a total of approximately \$3.4 million.

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We believe that our cash flows from operations, cash and cash equivalents on hand and the availability under the Line of Credit will be sufficient to meet our working capital and capital expenditure requirements and provide us with adequate liquidity to meet our anticipated operating needs for at least the next 12 months. Although operating activities are expected to provide cash, to the extent we grow significantly in the future, our operating and investing activities may use cash and, consequently, this growth may require us to obtain additional sources of financing. There can be no assurance that any necessary additional financing will be available to us on commercially reasonable terms, if at all.

### **Exchange Rates**

Sales from our United States and Hong Kong operations are denominated in U.S. dollars and our manufacturing costs are denominated in either U.S. or Hong Kong dollars. Domestic sales from our United Kingdom operations and operating expenses of all of our operations are denominated in local currency, thereby creating exposure to changes in exchange rates. Changes in the Hong Kong dollar or British Pound/U.S. dollar exchange rate may positively or negatively affect our gross margins, operating income and retained earnings. The exchange rate of the Hong Kong dollar to the U.S. dollar has been fixed by the Hong Kong government since 1983 at HK\$7.80 to US\$1.00 and, accordingly, has not represented a currency exchange risk to the U.S. dollar. We cannot assure you that the exchange rate between the United States and Hong Kong currencies will continue to be fixed or that exchange rate fluctuations between the United States and Hong Kong and United Kingdom currencies will not have a material adverse effect on our business, financial condition or results of operations.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial and commodity market prices and rates. We are exposed to market risk in the areas of changes in United States and international borrowing rates and changes in foreign currency exchange rates. In addition, we are exposed to market risk in certain geographic areas that have experienced or remain vulnerable to an economic downturn, such as China. We purchase substantially all of our inventory from companies in China, and, therefore, we are subject to the risk that such suppliers will be unable to provide inventory at competitive prices. While we believe that, if such an event were to occur we would be able to find alternative sources of inventory at competitive prices, we cannot assure you that we would be able to do so. These exposures are directly related to our normal operating and funding activities. Historically and as of December 31, 2002, we have not used derivative instruments or engaged in hedging activities to minimize our market risk.

### **Interest Rate Risk**

As of December 31, 2002, we do not have any outstanding balances on our Line of Credit, and we have only nominal interest-bearing obligations. Accordingly, we are not generally subject to any direct risk of loss arising from changes in interest rates.

### **Foreign Currency Risk**

We have wholly-owned subsidiaries in Hong Kong and the United Kingdom. Sales from our United States and Hong Kong operations are denominated in U.S. dollars. However, domestic sales from the United Kingdom, purchases of inventory and operating expenses are typically denominated in local currency, thereby creating exposure to changes in exchange rates. Changes in the Hong

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Kong dollar or British Pound/U.S. dollar exchange rate may positively or negatively affect our gross margins, operating income and retained earnings. The exchange rate of the Hong Kong dollar to the U.S. dollar has been fixed by the Hong Kong government since 1983 at HK\$7.80 to US\$1.00 and, accordingly, has not represented a currency exchange risk to the U.S. dollar. We do not believe that near-term changes in exchange rates, if any, will result in a material effect on our future earnings, fair values or cash flows, and therefore, we have chosen not to enter into foreign currency hedging transactions. With respect to the British Pound, we will monitor its volatility frequently throughout the coming year. While we have not engaged in foreign currency hedging, we may in the future use hedging programs to reduce financial market risks if it is determined that such hedging activities are appropriate to reduce risk. We cannot assure you that this approach will be successful, especially in the event of a significant and sudden change in the value of these currencies.

**Item 8. Consolidated Financial Statements and Supplementary Data**

**INDEPENDENT AUDITORS' REPORT**

The Stockholders

JAKKS Pacific, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of JAKKS Pacific, Inc. and Subsidiaries as of December 31, 2001 and 2002, and the related consolidated statements of operations, stockholders' equity and cash flows and the financial statement schedule for each of the three years in the period ended December 31, 2002. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and schedule referred to above present fairly, in all material respects, the financial position of JAKKS Pacific, Inc. and Subsidiaries as of December 31, 2001 and 2002, and the results of their operations and cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to these consolidated financial statements, the Company changed its method of accounting for the amortization of goodwill and other intangible assets in accordance with guidance provided by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," in 2002.

/s/ PKF

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PKF  
Certified Public Accountants  
A Professional Corporation

Los Angeles, California

February 10, 2003, except for  
Note 20, for which the  
date is March 27, 2003

**JAKKS PACIFIC, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2001	2002
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 25,036,203	\$ 68,412,826
Marketable securities	37,119,071	—
Accounts receivable, net of allowance for uncollectible accounts of \$7,273,497 and \$6,781,324 for 2001 and 2002, respectively	52,888,452	56,195,578
Inventory, net of reserves of \$2,590,099 and \$4,782,021 for 2001 and 2002, respectively	32,023,960	38,009,747
Prepaid expenses and other	4,735,059	3,547,179
Income Taxes Receivable	—	2,205,882
Advanced royalty payments	1,991,788	2,863,099
Notes Receivable — Officers	—	1,113,000
Deferred income taxes	—	4,445,658
<b>Total current assets</b>	<b>153,794,533</b>	<b>176,792,969</b>
<b>Property and equipment</b>		
Office furniture and equipment	5,305,212	5,932,385
Molds and tooling	26,355,861	31,068,888
Leasehold improvements	1,854,501	2,463,875
<b>Total</b>	<b>33,515,574</b>	<b>39,465,148</b>
Less accumulated depreciation and amortization	17,762,905	24,639,593
<b>Property and equipment, net</b>	<b>15,752,669</b>	<b>14,825,555</b>
Notes Receivable - Officers	2,224,000	—
Intangibles and other, net	2,945,075	8,169,168
Investment in joint venture	7,893,312	8,118,645
Goodwill, net	89,863,415	189,335,933
Trademarks, net	11,567,679	11,567,679
<b>Total assets</b>	<b>\$284,040,683</b>	<b>\$408,809,949</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 12,692,826	\$ 8,994,469
Accrued expenses	18,068,725	19,394,014
Reserve for sales returns and allowances	4,952,879	13,579,368
Current portion of long-term debt	17,582	17,805
Income taxes payable	1,570,973	5,624,532
<b>Total current liabilities</b>	<b>37,302,985</b>	<b>47,610,188</b>
Long-term debt, net of current portion	77,488	59,683
Deferred income taxes	2,256,817	562,948
<b>Total liabilities</b>	<b>39,637,290</b>	<b>48,232,819</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity</b>		
Preferred shares, \$.001 par value; 5,000,000 shares authorized; nil outstanding	—	—
Common stock, \$.001 par value; 100,000,000 shares authorized; 20,320,354 and 24,472,884 shares issued, respectively	20,320	24,473
Additional paid-in capital	168,114,819	240,101,458
Treasury Stock, at cost, 1,493,600 and nil shares, respectively	(12,911,483)	—
Retained earnings	89,179,737	120,451,199
<b>Total stockholders' equity</b>	<b>244,403,393</b>	<b>360,577,130</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$284,040,683</b>	<b>\$408,809,949</b>

See notes to consolidated financial statements.



**JAKKS PACIFIC, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

Years Ended December 31,

	2000	2001	2002
Net sales	\$252,287,943	\$284,309,021	\$310,016,208
Cost of sales	149,880,804	164,222,261	179,465,227
Gross profit	102,407,139	120,086,760	130,550,981
Selling, general and administrative expenses	80,434,872	89,574,503	91,848,674
Acquisition shut-down and product recall costs	1,468,798	1,214,101	6,717,705
Income from operations	20,503,469	29,298,156	31,984,602
Profit from Joint Venture	(15,905,860)	(6,675,428)	(8,003,925)
Interest, net	(3,833,359)	(2,056,526)	(1,141,191)
Other income, net	(91,670)	—	—
Income before provision for income taxes and minority interest	40,334,358	38,030,110	41,129,718
Provision for income taxes	11,696,963	9,797,209	9,048,538
Income before minority interest	28,637,395	28,232,901	32,081,180
Minority interest	—	—	809,718
Net income	\$ 28,637,395	\$ 28,232,901	\$ 31,271,462
Basic earnings per share	\$ 1.50	\$ 1.55	\$ 1.42
Diluted earnings per share	\$ 1.41	\$ 1.45	\$ 1.37

*See notes to consolidated financial statements.*

**JAKKS PACIFIC, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
DECEMBER 31, 2000, 2001 AND 2002**

	Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total Stockholders' Equity
	Number of Shares	Amount				
Balance, December 31, 1999	19,272,692	\$19,273	\$155,172,781	\$ —	\$ 32,309,441	\$187,501,495
Exercise of options and warrants	212,890	212	1,171,031	—	—	1,171,243
Earned compensation for fully vested stock options	—	—	131,531	—	—	131,531
Repurchase of common stock	(1,493,600)	—	—	(12,911,483)	—	(12,911,483)
Net income	—	—	—	—	28,637,395	28,637,395
Balance, December 31, 2000	17,991,982	19,485	156,475,343	(12,911,483)	60,946,836	204,530,181
Exercise of options and warrants	525,780	526	3,069,219	—	—	3,069,745
Earned compensation for fully vested stock options	—	—	2,570,566	—	—	2,570,566
Issuances of common shares for Kidz Biz	308,992	309	5,999,691	—	—	6,000,000
Net income	—	—	—	—	28,232,901	28,232,901
Balance, December 31, 2001	18,826,754	20,320	168,114,819	(12,911,483)	89,179,737	244,403,393
Exercise of options and warrants	954,770	955	5,882,976	—	—	5,883,931
Earned compensation for fully vested stock options	—	—	(1,308,365)	—	—	(1,308,365)
Retirement of treasury stock	—	(1,494)	(12,909,989)	12,911,483	—	—
Fair value of outstanding stock options in acquisition	—	—	3,150,961	—	—	3,150,961
Issuance of common stock for cash	3,525,000	3,525	59,090,980	—	—	59,094,505
Issuance of common stock for Toymax	1,166,360	1,167	18,080,076	—	—	18,081,243
Net income	—	—	—	—	31,271,462	31,271,462
Balance, December 31, 2002	24,472,884	\$24,473	\$240,101,458	\$ —	\$120,451,199	\$360,577,130

See notes to consolidated financial statements.

**JAKKS PACIFIC, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended December 31,

	2000	2001	2002
<b>Cash flows from operating activities</b>			
Net income	\$ 28,637,395	\$ 28,232,901	\$ 31,271,462
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	9,272,917	12,219,545	9,193,328
Earned compensation from stock option grants	131,531	2,570,566	(1,308,365)
Investment in joint venture	(6,100,020)	2,977,201	(225,333)
Loss on disposal of property and equipment	—	15,668	—
Forgiveness of officer note receivable	—	—	285,000
Minority interest	—	—	809,718
Changes in operating assets and liabilities			
Sale (purchase) of marketable securities	25,716,032	(23,501,159)	37,119,071
Accounts receivable	(9,028,796)	(5,834,753)	(3,307,126)
Inventory	(10,671,318)	(1,489,134)	(10,996,095)
Advanced royalty payments	(1,357,789)	503,239	(871,311)
Prepaid expenses and other	(4,037,788)	920,421	1,377,841
Accounts payable	4,656,864	(1,926,693)	(3,698,357)
Accrued expenses	(3,317,215)	5,529,435	(9,534,539)
Income taxes payable	4,411,429	(6,052,382)	7,056,041
Reserve for sales returns and allowances	(8,764,770)	(1,600,352)	8,626,489
Deferred income taxes	442,983	800,000	431,667
Total adjustments	1,354,060	(14,868,398)	34,958,029
Net cash provided by operating activities	29,991,455	13,364,503	66,229,491
<b>Cash flows from investing activities</b>			
Property and equipment	(13,787,805)	(4,971,185)	(6,593,600)
Other assets	(1,134,864)	(1,230,664)	(1,658,539)
Investment in joint venture	—	(1,112,154)	—
Cash paid for net assets	(30,535,848)	(12,280,536)	(80,409,951)
Notes Receivable — Officers	(2,450,000)	226,000	861,000
Net cash used by investing activities	(47,908,517)	(19,368,539)	(87,801,090)
<b>Cash flows from financing activities</b>			
Proceeds from sale of common stock	—	—	59,094,505
Repurchase of common stock	(12,911,483)	—	—
Proceeds from debt	1,500,000	95,070	—
Proceeds from stock options and warrants exercised	1,171,243	3,069,745	5,883,931
Repayments of debt	(113,680)	(1,400,000)	(30,214)
Net cash provided (used) by financing activities	(10,353,920)	1,764,815	64,948,222
Net increase (decrease) in cash and cash equivalents	(28,270,982)	(4,239,221)	43,376,623
Cash and cash equivalents, beginning of year	57,546,406	29,275,424	25,036,203
Cash and cash equivalents, end of year	\$ 29,275,424	\$ 25,036,203	\$ 68,412,826
Cash paid during the period for:			
Interest	\$ 189,630	\$ 118,144	\$ 80,312
Income taxes	\$ 8,600,895	\$ 14,007,578	\$ 3,235,095

See note 17 for additional supplemental information to consolidated statements of cash flows.

See notes to consolidated financial statements.

**JAKKS PACIFIC, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2002****Note 1—Principal industry**

JAKKS Pacific, Inc. (the “Company”) is engaged in the development, production and marketing of toys and related products, some of which are based on highly-recognized entertainment properties and character licenses. The Company commenced its primary business operations in July 1995 through the purchase of substantially all of the assets of a Hong Kong toy company. The Company markets its product lines domestically and internationally.

The Company was incorporated under the laws of the State of Delaware in January 1995.

**Note 2—Summary of significant accounting policies*****Principles of consolidation***

The consolidated financial statements include accounts of the Company and its wholly-owned subsidiaries. In consolidation, all significant inter-company balances and transactions are eliminated.

***Cash and cash equivalents***

The Company considers all highly liquid assets, having an original maturity of less than three months, to be cash equivalents. The Company maintains its cash in bank deposits which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

***Use of estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual future results could differ from those estimates.

***Revenue recognition***

Revenue is recognized upon the shipment of goods to customers. Provisions for estimated returns, defective products, markdowns and other allowances are made at the time of sale.

***Inventory***

Inventory, which includes the ex-factory cost of goods and in-bound freight, is valued at the lower of cost (first-in, first-out) or market and consists of the following:

	December 31,	
	2001	2002
Deposits	\$ 82,793	\$ 20,185
Raw materials	236,206	586,244
Finished goods	31,704,961	37,403,318
	<u>\$32,023,960</u>	<u>\$38,009,747</u>

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***Marketable securities***

Marketable securities have been categorized as trading and as a result are stated at fair value, with unrealized holding gains and losses included in earnings. At December 31, 2001 and 2002, such gains and losses were not material.

***Fair value of financial instruments***

The Company's cash and cash equivalents, accounts receivable and notes payable represent financial instruments. The carrying value of these financial instruments is a reasonable approximation of fair value.

***Property and equipment***

Property and equipment are stated at cost and are being depreciated using the straight-line method over their estimated useful lives as follows:

Office equipment	5 years
Furniture and fixtures	5 - 7 years
Molds and tooling	2 - 4 years
Leasehold improvements	Shorter of length of lease or 10 years

***Shipping and handling costs***

The consolidated financial statements reflect, for all periods presented, the adoption of the classification or disclosure requirements pursuant to Emerging Issues Task Force ("EITF") 00-10, "Accounting for Shipping and Handling Fees and Costs," which was effective in the fourth quarter of fiscal 2000. Consistent with EITF 00-10, the Company has historically classified income from freight charges to customers in "Net sales." The Company classifies shipping and handling costs in "Selling, general and administrative expenses." Such costs amounted to approximately \$8,127,000 in 2000, \$11,940,000 in 2001 and \$8,135,000 in 2002.

***Advertising***

Production costs of commercials and programming are charged to operations in the year during which the production is first aired. The costs of other advertising, promotion and marketing programs are charged to operations in the year incurred. Advertising expense for the years ended December 31, 2000, 2001 and 2002, was approximately \$14,416,000, \$11,026,000 and \$12,697,000, respectively.

***Income taxes***

The Company does not file a consolidated return with its foreign subsidiaries. The Company files Federal and state returns and its foreign subsidiaries each file Hong Kong returns. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized as deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some

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portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

***Translation of foreign currencies***

Monetary assets and liabilities denominated in Hong Kong dollars or British Pounds Sterling are translated into United States dollars at the rate of exchange ruling at the balance sheet date. Transactions during the period are translated at the rates ruling at the dates of the transactions.

Profits and losses resulting from the above translation policy are recognized in the consolidated statements of operations.

***Accounting for the impairment of long-lived assets***

Long-lived assets, which include property and equipment, goodwill and intangible assets other than goodwill, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows from the use of these assets. When any such impairment exists, the related assets will be written down to fair value.

***Goodwill and other intangible assets***

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 is effective for business combinations initiated after June 30, 2001. SFAS 141 requires that all business combinations completed after its adoption be accounted for under the purchase method of accounting and establishes specific criteria for the recognition of intangible assets separately from goodwill. SFAS 142 was effective for the Company on January 1, 2002 and primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. With the adoption of SFAS 142, goodwill and other intangible assets are no longer amortized and are tested for impairment at least annually at the reporting unit level. As of December 31, 2002, there was no impairment to the underlying value of goodwill or intangible assets other than goodwill.

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The effect of adoption of SFAS 142 on the reported net income for the current and comparative prior period is as follows:

	For the Year Ended December 31,		
	2000	2001	2002
Reported net income	\$28,637,395	\$28,232,901	\$31,271,462
Add back: Amortization of goodwill and other intangibles, net of tax effect	1,591,578	2,578,676	—
Net income, as adjusted	\$30,228,973	\$30,811,577	\$31,271,462
<b>Earnings per share — basic:</b>			
Reported net income	\$ 1.50	\$ 1.55	\$ 1.42
Add back: Amortization of goodwill and other intangibles, net of tax effect	0.08	0.14	—
	\$ 1.58	\$ 1.69	\$ 1.42
<b>Earnings per share — diluted:</b>			
Reported net income	\$ 1.41	\$ 1.45	\$ 1.37
Add back: Amortization of goodwill and other intangibles, net of tax effect	0.08	0.13	—
Net income, as adjusted	\$ 1.49	\$ 1.58	\$ 1.37

Goodwill represents the excess purchase price paid over the fair market value of the assets of acquired toy companies. In fiscal 2002, the Company began to write off goodwill and certain intangible assets on an impairment basis where losses in value are recorded when and as material impairment has occurred in the underlying assets. Accumulated amortization of goodwill at December 31, 2001 and 2002 totaled \$6,577,121.

The carrying value of goodwill is based on management's current assessment of recoverability. Management evaluates recoverability using both objective and subjective factors. Objective factors include management's best estimates of projected future earnings and cash flows and analysis of recent sales and earnings trends. Subjective factors include competitive analysis and the Company's strategic focus.

Intangible assets other than goodwill consist of product technology rights and trademarks. Intangible assets are amortized on a straight-line basis, over five to thirty years, the estimated economic lives of the related assets. Accumulated amortization as of December 31, 2001 and 2002 was \$1,961,113 and \$2,910,386, respectively.

### **Stock Option Plans**

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 "Accounting for Stock-Based Compensation — Transition and Disclosure an Amendment of FASB Statement No. 123" (SFAS 148). SFAS 148 Statement amends Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that Statement to require prominent disclosure about the effects on reported net income of an entity's

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accounting policy decisions with respect to stock-based employee compensation. Finally, SFAS 148 amends APB Opinion No. 28, Interim Financial Reporting, to require disclosure about those effects in interim financial information.

At December 31, 2002, the Company has stock-based employee compensation plans, which are described more fully in Note 14. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. However, certain options had been repriced resulting in compensation adjustments, which have been reflected in net income. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123, to stock-based employee compensation.

In 2000, 2001 and 2002 the fair value of each employee option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used: risk-free rate of interest of 6%, 6% and 4%, respectively; dividend yield of 0%; with volatility of 94%, 91% and 87% respectively; and expected lives of five years.

	Year Ended December 31,		
	2000	2001	2002
Net Income, as reported	\$28,637,395	\$28,232,901	\$31,271,462
Add (Deduct): Stock-based employee compensation expense (income) included in reported net income	131,531	2,570,566	(1,308,365)
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards net of related tax effects	(1,806,108)	(1,498,495)	(2,034,284)
Pro forma net income	<u>\$26,962,818</u>	<u>\$29,304,972</u>	<u>\$27,928,813</u>
Earnings per share:			
Basic — as reported	\$ 1.50	\$ 1.55	\$ 1.42
Basic — pro forma	<u>\$ 1.41</u>	<u>\$ 1.61</u>	<u>\$ 1.27</u>
Diluted — as reported	\$ 1.41	\$ 1.45	\$ 1.37
Diluted — pro forma	<u>\$ 1.33</u>	<u>\$ 1.51</u>	<u>\$ 1.23</u>



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retirement obligation must be one that results from the acquisition, construction or normal operation of a long-lived asset. SFAS 143 requires the legal obligation associated with the retirement of a tangible long-lived asset to be recognized at fair value as a liability when incurred, and the cost to be capitalized by increasing the carrying amount of the related long-lived asset. SFAS 143 will be effective for the Company's fiscal year beginning January 1, 2003. The adoption of this statement will have no material impact on the consolidated financial statements.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("Statement 121") and retains the basic requirements of SFAS 121 regarding when and how to measure an impairment loss. SFAS 144 provides additional implementation guidance on accounting for an impairment loss. SFAS 144 is effective for all fiscal years beginning after December 15, 2001. The Company adopted SFAS 144 beginning in fiscal 2002, the adoption of which did not have a material effect on the Company's financial position or results of operations.

In April 2002, the FASB issued Statement No. 145, "Rescission of Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Correction" (SFAS 145). SFAS 145 eliminates extraordinary accounting treatment for reporting gains or losses on debt extinguishments, and amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of this SFAS are effective for fiscal years beginning after May 15, 2002; however, early application of SFAS 145 is encouraged. Debt extinguishments reported as extraordinary items prior to scheduled or early adoption of this SFAS would be reclassified to other income in most cases following adoption.

The Company is currently evaluating the impact the adoption of SFAS 145 would have on its consolidated results of operations subject to the evaluation in accordance with APB 30, "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions".

In June 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146), which changes the accounting for costs such as lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity initiated after December 31, 2002. The standard requires companies to recognize the fair value of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan.

The Company anticipates that the adoption of SFAS 146 will not have a material effect on the Company's financial position or results of operations.

***Reclassifications***

Certain reclassifications have been made to prior years balances in order to conform to the current year presentation.

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**Note 3—Business Segments and Geographic Data**

JAKKS Pacific is a worldwide producer and marketer of children's toys and related products, principally engaged in the design, development, production and marketing of traditional toys, including boys action figures, vehicles and playsets, craft and activity products, writing instruments, compounds, girls toys, and infant and preschool toys. The Company's reportable segments are North America Toys, International and Other.

The North America Toys segment, which includes the United States and Canada, and the International toy segment, which includes sales to non-North American markets, include the design, development, production and marketing of children's toys and related products. The Company also has an additional segment classified as Other, which sells various products to the specialty markets in the United States.

Segment performance is measured at the operating income level. All sales are made to external customers, and general corporate expenses have been attributed to the North America Toy segment, which is a dominant segment. Segment assets are comprised of accounts receivable and inventories, net of applicable reserves and allowances.

The accounting policies of the segments are described in Note 2.

Results are not necessarily those that would be achieved were each segment an unaffiliated business enterprise. Information by segment and a reconciliation to reported amounts for the three years ended December 31, 2000, 2001 and 2002 are as follows:

	Year Ended December 31,		
	2000	2001	2002
<b>Net Sales</b>			
North America Toys	\$235,136,139	\$250,627,160	\$263,313,848
International	15,567,118	32,870,718	46,250,930
Other	1,584,686	811,143	451,430
	<u>\$252,287,943</u>	<u>\$284,309,021</u>	<u>\$310,016,208</u>

	Year Ended December 31,		
	2000	2001	2002
<b>Operating Income</b>			
North America Toys	\$19,109,540	\$25,827,227	\$27,166,108
International	1,265,141	3,387,340	4,771,919
Other	128,788	83,589	46,575
	<u>\$20,503,469</u>	<u>\$29,298,156</u>	<u>\$31,984,602</u>

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	December 31,	
	2001	2002
<b>Assets</b>		
North America Toys	\$250,523,882	\$347,488,457
International	33,119,144	60,912,682
Other	397,657	408,810
	<u>\$284,040,683</u>	<u>\$408,809,949</u>

The following tables present information about the Company by geographic area as of and for the three years ended December 31, 2002:

	December 31,		
	2000	2001	2002
<b>Long-lived Assets</b>			
United States	\$ 92,737,874	\$ 93,154,559	\$161,596,858
Hong Kong	13,705,700	24,556,935	612,710
Europe	—	497,381	59,745,654
	<u>\$106,443,574</u>	<u>\$118,208,875</u>	<u>\$221,955,222</u>

	Year Ended December 31,		
	2000	2001	2002
<b>Net Sales by Geographic Area</b>			
United States	\$229,792,943	\$244,317,186	\$256,798,941
Europe	8,323,132	29,029,659	39,414,011
Canada	6,133,948	7,121,117	6,966,338
Hong Kong	5,397,135	—	323,527
Other	2,640,785	3,841,239	6,513,391
	<u>\$252,287,943</u>	<u>\$284,309,021</u>	<u>\$310,016,208</u>

#### Note 4 — Acquisitions and Joint Venture

The Company owns a fifty percent interest in a joint venture with a company that develops, publishes and distributes interactive entertainment software for the leading hardware game platforms in the home video game market. The joint venture has entered into a license agreement under which it acquired the exclusive worldwide right to publish video games on all hardware platforms. The Company's investment is accounted for using the cost method due to the financial and operating structure of the venture and our lack of control over the joint venture. The Company's basis consists primarily of organizational costs and recoupable advances. The joint venture agreement provides for the Company to receive guaranteed preferred returns through June 30, 2006, subject to annual minimum payments of \$2,600,000 through December 31, 2003, at varying rates of the joint venture's net sales depending on the cumulative unit sales and platform of each particular game. For periods after June 30, 2006, the amount of the preferred return will be subject to renegotiation between the parties. The preferred return is accrued in the quarter in which the licensed games are sold and the preferred return is earned. The Company's joint venture partner retains the financial risk of the joint venture and is responsible for the day-to-day operations,

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including development, sales and distribution, for which they are entitled to any remaining profits. During 2000, 2001 and 2002, the Company earned \$15,905,860, \$6,675,428 and \$8,003,925, respectively, in profit from the joint venture.

In October 1999, the Company acquired all of the stock of Flying Colors Toys, Inc. ("Flying Colors") for \$52,879,182 in cash paid at closing. Contingent consideration paid included an earn-out of \$4,500,000 in each of the three 12-month periods following the closing, because gross profit of Flying Colors branded products achieved certain prescribed levels in each of such periods. Of the \$4,500,000 earned in 2000, the amount of \$464,938 was deemed to be compensation and has been expensed in 2000. The remaining balance of \$4,035,062 and the 2001 and 2002 earn-outs have been recorded as goodwill.

In December 2001, the Company acquired all the outstanding stock of Kidz Biz Ltd., a United Kingdom company, and Kidz Biz Far East Limited, a Hong Kong corporation, collectively ("Kidz Biz"), for an aggregate purchase price of approximately \$12.4 million, which was paid by the issuance of 308,992 shares of the Company's common stock at a value of \$6.0 million and cash of \$6.4 million. Both the United Kingdom and Hong Kong based companies are distributors of toys and related products in the United Kingdom, Ireland and the Channel Islands.

The Company acquired the following entities to further enhance its existing product lines and to continue diversification into other seasonal business.

On March 11, 2002, the Company purchased a controlling interest in Toymax International, Inc. ("Toymax"). On October 25, 2002, we completed that acquisition by acquiring the remaining outstanding common shares in a merger transaction. The total purchase price of approximately \$62.2 million consisted of 1,166,360 shares of the Company's common stock, 598,697 options and approximately \$41.0 million in cash. Results of operations have included Toymax from March 12, 2002; however, for the period from March 12, 2002 through October 25, 2002, the minority interest's share of Toymax's earnings were excluded.

On November 27, 2002, the Company purchased certain product lines, assets and assumed certain specific liabilities from Trendmasters, Inc. ("Trendmasters"). The total purchase price of approximately \$19.0 million consisted of all cash. Results of operations have included Trendmasters from the date of acquisition.

The total purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed as set forth in the following table:

	Kidz Biz	Toymax	Trendmasters	Total
Condensed balance sheet:				
Current assets	\$ 8,254,974	\$ 26,856,685	\$ 20,158	\$ 35,131,817
Property and equipment, net	503,294	1,672,614	1,488,318	3,664,226
Other assets	—	11,751,594	—	11,751,594
Current liabilities	(15,042,928)	(42,999,773)	(8,713,143)	(66,755,844)
Goodwill	18,684,660	64,923,989	26,230,167	109,838,816
Total	\$ 12,400,000	\$ 62,205,109	\$19,025,500	\$ 93,630,609

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Goodwill related to Kidz Biz and Trendmasters is not expected to be deductible for tax purposes, however, approximately \$12.7 million of the Toymax goodwill is expected to be deductible for tax purposes.

The following unaudited pro forma information represents the Company's consolidated results of operations as if the acquisitions of Kidz Biz, Toymax and Trendmasters had occurred on January 1, 2001 and after giving effect to certain adjustments including the elimination of certain general and administrative expenses and other income and expense items not attributable to on-going operations, interest expense, and related tax effects. Such pro forma information does not purport to be indicative of operating results that would have been reported had the acquisitions of Kids Biz, Toymax and Trendmasters occurred on January 1, 2001 or future operating results.

	Year Ended December 31,	
	2001	2002
Net Sales	\$483,941,432	\$375,008,126
Net income	\$ 23,529,672	\$ 25,457,352
Basic earnings per share	\$ 1.16	\$ 1.11
Weighted average shares outstanding	20,273,181	22,998,347
Diluted earnings per share	\$ 1.10	\$ 1.07
Weighted average shares and equivalents outstanding	21,483,998	23,782,047

**Note 5—Concentration of credit risk**

Financial instruments that subject the Company to concentration of credit risk are cash and cash equivalents and accounts receivable. Cash equivalents consist principally of short-term money market funds. These instruments are short-term in nature and bear minimal risk. To date, the Company has not experienced losses on these instruments.

The Company performs on-going credit evaluations of its customers' financial condition, but does not require collateral to support domestic customer accounts receivables. Most goods shipped FOB Hong Kong or China are sold on irrevocable letter of credit basis.

**Note 6—Accrued expenses**

Accrued expenses consist of the following:

	2001	2002
Bonuses	\$ 2,381,698	\$ 2,124,000
Royalties and sales commissions	4,787,099	3,972,753
Hong Kong subsidiaries accruals	6,193,354	2,900,611
Other	4,706,574	10,396,650
	<u>\$18,068,725</u>	<u>\$19,394,014</u>

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**  
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**Note 7—Related party transactions**

A director of the Company is a partner in the law firm that acts as counsel to the Company. The Company incurred legal fees and expenses to the law firm in the amount of approximately \$975,000 in 2000, \$1,129,000 in 2001 and \$2,653,000 in 2002.

As of December 31, 2002, there were two notes receivable from officers totaling \$1,113,000 issued at interest rates of 6.5% each, with interest payable on each April 28 and October 28 of each year, and principal payable at a maturity date of April 28, 2003. Additionally, there was a third note receivable from an officer for \$250,000 issued at an interest rate of 7.0%, with interest and principal payable at a maturity date of May 12, 2002, except that all indebtedness under the loan was forgiven on May 12, 2002 pursuant to this officer's employment agreement because employment continued through such date.

**Note 8—Long-term debt**

Long-term debt consists of the following:

	2001	2002
Loan payable, due in sixty monthly payments with the final payment due		
December 4, 2006, with interest at 6.7% per annum	\$95,070	\$77,488
Less current portion of long-term debt	17,582	17,805
	<u>          </u>	<u>          </u>
Long-term debt, net of current portion	\$77,488	\$59,683
	<u>          </u>	<u>          </u>

The following is a schedule of payments for the loan payable:

2003	\$17,805
2004	19,036
2005	20,350
2006	20,297
	<u>          </u>
	\$77,488
	<u>          </u>

**Note 9—Income taxes**

The Company does not file a consolidated return with its foreign subsidiaries. The Company files Federal and state returns and its foreign subsidiaries file Hong Kong and United Kingdom returns. Income taxes reflected in the accompanying consolidated statements of operations are comprised of the following:

	2000	2001	2002
Federal	\$ 4,979,188	\$2,595,989	\$2,241,028
State and local	1,112,798	1,064,843	270,465
Foreign	5,161,994	5,336,377	6,105,378
	<u>          </u>	<u>          </u>	<u>          </u>
Deferred	11,253,980	8,997,209	8,616,871
	442,983	800,000	431,667
	<u>          </u>	<u>          </u>	<u>          </u>
	\$11,696,963	\$9,797,209	\$9,048,538
	<u>          </u>	<u>          </u>	<u>          </u>

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The components of deferred tax assets/(liabilities) are as follows:

	2001	2002
Net deferred tax assets/(liabilities):		
Current:		
Reserve for sales allowances and possible losses	\$ 495,787	\$ 2,012,524
Accrued expenses	(495,787)	1,848,700
Other	—	584,434
	<u>—</u>	<u>4,445,658</u>
Long Term:		
Undistributed Earnings	(5,084,165)	(11,024,165)
Property and equipment	(2,441,471)	(1,564,268)
Other	801,945	1,570,124
Federal net operating loss carryforwards	4,466,874	9,666,608
State net operating loss carryforwards	—	788,753
	<u>(2,256,817)</u>	<u>(562,948)</u>
Total net deferred tax assets/(liabilities)	<u>\$ (2,256,817)</u>	<u>\$ 3,882,710</u>

Income tax expense varies from the U.S. Federal statutory rate. The following reconciliation shows the significant differences in the tax at statutory and effective rates:

	2000	2001	2002
Federal income tax expense	35%	35%	35%
State income tax expense, net of federal tax effect	1.8	1.8	0.4
Effect of differences in U.S. and Foreign statutory rates	(14.8)	(16.7)	(15.3)
Other	7.0	5.9	1.9
	<u>29%</u>	<u>26%</u>	<u>22%</u>

Deferred taxes result from temporary differences between tax bases of assets and liabilities and their reported amounts in the consolidated financial statements. The temporary differences result from costs required to be capitalized for tax purposes by the U.S. Internal Revenue Code ("IRC"), and certain items accrued for financial reporting purposes in the year incurred but not deductible for tax purposes until paid.

As of December 31, 2002, the Company has federal and state net operating loss carryforwards of \$27.6 million and \$43 million, respectively, expiring through 2023. These carryforwards resulted from the acquisitions of Pentech and Toymax; the utilization of these losses to offset future income is limited under IRC§382. The Company's management concluded that a deferred tax asset valuation allowance was not necessary.

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The components of income before provision for income taxes and minority interest are as follows:

	2000	2001	2002
Domestic	\$ 8,480,038	\$ 4,677,721	\$ 3,537,593
Foreign	31,854,320	33,352,389	37,592,125
	<u>\$40,334,358</u>	<u>\$38,030,110</u>	<u>\$41,129,718</u>

**Note 10—Credit Facility**

On October 12, 2001, the Company entered into a Loan Agreement with a consortium of banks led by Bank of America, N.A. This agreement expires on October 12, 2004 and permits the Company to borrow (and maintain obligations under outstanding letters of credit) up to an aggregate of \$50,000,000. Available borrowings under the facility are determined by applying specified advance rates to eligible domestic accounts receivable and inventory.

The Company is required to not have any outstanding borrowings in excess of \$30,000,000 for a period of at least 30 consecutive days during the first fiscal quarter of each year of the agreement.

This Credit facility is secured by a lien on substantially all of the Company's assets and contains customary financial and non-financial covenants which limit the ability to incur additional indebtedness, pay dividends or make other distributions, sell assets and enter into certain mergers or acquisitions. Amounts outstanding under this credit facility bears interest at 0.25% plus the greater of the Prime Rate or Federal Funds Rate plus 0.5%, and is subject to change based on certain financial ratios. As of December 31, 2002, the Company has no outstanding borrowings.

**Note 11—Leases**

The Company leases office, warehouse and showroom facilities and certain equipment under operating leases. Rent expense for the years ended December 31, 2000, 2001 and 2002 totaled \$769,070, \$2,495,390 and \$3,957,712, respectively. The following is a schedule of minimum annual lease payments.

2003	\$ 4,707,091
2004	4,601,158
2005	3,967,662
2006	3,905,415
2007	3,490,756
Thereafter	1,292,900
	<u>\$21,964,982</u>

**Note 12—Common stock and preferred stock**

The Company has 105,000,000 authorized shares of stock consisting of 100,000,000 shares of \$.001 par value common stock and 5,000,000 shares of \$.001 par value preferred stock. At the Company's annual meeting on September 27, 2002, its Stockholders approved increases in our authorized shares from 25,000,000 shares of common stock and 1,000,000 shares of preferred stock.

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2002**

During 2002, the Company issued 954,770 shares of common stock on the exercise of options and warrants for a total of \$5,883,931, 1,166,360 shares of common stock at a value of \$18,081,243 in connection with the Toymax acquisition and 3,525,000 shares of common stock in connection with an underwritten public offering for net proceeds of approximately \$59.1 million.

Warrant activity is summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding, December 31, 1999	293,132	\$5.92
Exercised	(36,777)	5.79
	-----	-----
Outstanding, December 31, 2000	256,355	5.94
Exercised	(82,118)	4.48
Canceled	(7,362)	5.63
	-----	-----
Outstanding, December 31, 2001	166,875	6.67
Exercised	(166,875)	6.67
	-----	-----
Outstanding, December 31, 2002	—	\$ —
	=====	=====

During 2001, the Company issued 525,780 shares of common stock on exercise of options and warrants for a total of \$3,069,745 and 308,992 shares of common stock at a value of \$6,000,000 in connection with the Kidz Biz acquisition.

During 2000, the Company issued 212,890 shares of common stock on exercise of options and warrants for a total of \$1,171,243. The Company repurchased 1,493,600 shares of common stock for a total of \$12,911,483 and retired such stock in 2002.

### Note 13—Commitments

The Company has entered into various license agreements whereby the Company may use certain characters and properties in conjunction with its products. Such license agreements call for royalties to be paid at 1% to 14% of net sales with minimum guarantees and advance payments. Additionally, under two separate licenses, the Company has committed to spend 12.5% of related net sales up to \$1,000,000 and 5% of related net sales on advertising per year on such licenses.

Future annual minimum royalty guarantees as of December 31, 2002 are as follows:

2003	\$ 4,202,692
2004	1,829,063
2005	4,538,335
2006	1,040,000
2007	1,040,000
Thereafter	6,731,000
	-----
	\$19,381,090
	=====

The Company has entered into various employment agreements with certain executives expiring through June 2009. At December 31, 2002, the aggregate minimum guaranteed amounts under those agreements amount to \$22.4 million.

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2002**

**Note 14—Stock option plans**

Under its Third Amended and Restated 1995 Stock Option Plan (“the Plan”), the Company has reserved 3,725,000 shares of its common stock for issuance upon exercise of options granted under the Plan. And, under the 2002 Stock Award and Incentive Plan (the “2002 Plan”), the Company has reserved 2,300,000 shares of its common stock. Under the plans, employees (including officers), non-employee directors and independent consultants may be granted options to purchase shares of common stock.

As of December 31, 2002, 1,688,262 shares were available for future grant. Additional shares may become available to the extent that options presently outstanding under the Plan terminate or expire unexercised. Stock option activity pursuant to the Plans is summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding, December 31, 1999	2,138,318	\$ 11.70
Granted	2,036,497	10.49
Exercised	(91,177)	6.88
Canceled	(1,880,898)	15.82
Outstanding, December 31, 2000	2,202,740	7.15
Granted	724,125	15.73
Exercised	(427,536)	6.21
Canceled	(185,773)	7.98
Outstanding, December 31, 2001	2,313,556	9.97
Granted	1,124,197	11.06
Exercised	(787,836)	6.71
Canceled	(42,030)	15.00
Outstanding, December 31, 2002	2,607,887	\$ 11.35

During 2002, the Company issued 598,697 options in connection with the Toymax acquisition.

Stock option activity outside of the Plans is summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding, December 31, 1999	101,062	\$ 3.69
Exercised	(84,936)	3.96
Outstanding, December 31, 2000	16,126	2.24
Exercised	(16,126)	2.24
Outstanding, December 31, 2001 and 2002	—	\$ —

The weighted average fair value of options granted to employees in 2000, 2001 and 2002 was \$7.23, \$16.24 and \$10.65 per share, respectively.

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2002**

The following table summarizes information about stock options outstanding and exercisable at December 31, 2002:

Option Price Range	Outstanding			Exercisable	
	Number of Shares	Weighted Average Life	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
\$2.24 – \$20.57	2,607,887	4.28 years	\$11.35	974,007	\$9.34

**Note 15—Employee Pension Plan**

The Company sponsors for its U.S. employees, a defined contribution plan under Section 401(k) of the Internal Revenue Code. The plan provides that employees may defer up to 15% of annual compensation, and that the Company will make a matching contribution equal to 50% of each employee's deferral, up to 5% of compensation. Company matching contributions, which vest equally over a five year period, totaled \$212,212, \$216,038 and \$268,086 for 2000, 2001 and 2002, respectively.

**Note 16—Major customers**

Net sales to major customers, which are part of our North American Toys segment, were approximately as follows:

2000		2001		2002	
Amount	Percentage	Amount	Percentage	Amount	Percentage
\$ 43,505,000	17.2%	\$ 44,646,000	15.7%	\$ 46,396,000	15.0%
36,321,000	14.4	36,024,000	12.7	41,506,000	13.4
30,481,000	12.1	34,319,000	12.1	34,773,000	11.2
27,338,000	10.8	20,972,000	7.4	34,018,000	11.0
21,875,000	8.7	19,425,000	6.8	16,077,000	5.1
<u>\$159,520,000</u>	<u>63.2%</u>	<u>\$155,386,000</u>	<u>54.7%</u>	<u>\$172,770,000</u>	<u>55.7%</u>

**Note 17—Supplemental information to consolidated statements of cash flows**

In 2002, 1,166,360 shares of common stock valued at \$18.1 million and 598,697 options valued at \$3.2 million were issued in connection with the acquisition of Toymax (note 4).

In 2001, 308,992 shares of common stock valued at \$6,000,000 were issued in connection with the acquisition of Kidz Biz (note 4).

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2002**

**Note 18—Selected Quarterly Financial Data (Unaudited)**

Selected unaudited quarterly financial data for the years 2001 and 2002 are summarized below:

	2001				2002			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except per share data)							
Net sales	\$59,962	\$70,141	\$92,768	\$61,438	\$59,895	\$78,992	\$102,640	\$68,489
Gross profit	\$24,468	\$32,609	\$39,056	\$23,953	\$26,470	\$35,192	\$ 41,812	\$27,077
Income (loss) from operations	\$ 7,267	\$ 8,879	\$14,562	\$ (1,410)	\$ 1,420	\$ 9,912	\$ 18,895	\$ 1,758
Income before income taxes and minority interest	\$ 8,480	\$ 9,478	\$15,250	\$ 4,822	\$ 2,985	\$10,849	\$ 19,944	\$ 7,352
Net income	\$ 6,021	\$ 6,873	\$10,949	\$ 4,390	\$ 2,156	\$ 7,832	\$ 13,954	\$ 7,329
Basic earnings per share	\$ 0.33	\$ 0.38	\$ 0.60	\$ 0.24	\$ 0.11	\$ 0.37	\$ 0.59	\$ 0.30
Weighted average shares outstanding	18,008	18,048	18,273	18,463	19,017	20,985	23,586	24,178
Diluted earnings per share	\$ 0.32	\$ 0.36	\$ 0.56	\$ 0.22	\$ 0.11	\$ 0.36	\$ 0.58	\$ 0.30
Weighted average shares and equivalents outstanding	18,920	19,259	19,586	19,763	20,236	21,953	24,059	24,800

During the second quarter of 2000, the Company recorded a charge which impacted operating income by approximately \$1.4 million relating to the recall of one of our products.

During the fourth quarter of 2001, the Company recorded a charge of \$5.0 million to bad debt impacting operating income relating to the bankruptcy filing of one of its customers, Kmart.

During the first quarter of 2002, the Company recorded a charge which impacted operating income by approximately \$6.6 million relating to the restructuring of Toymax and Kidz Biz.

During the second quarter of 2002, the Company recorded a charge which impacted operating income by approximately \$1.4 million relating to the recall of one of its products.

During the fourth quarter of 2002, the Company reversed \$2.1 million of the restructuring charge recorded in the first quarter of 2002 and recorded an additional charge of approximately \$0.7 million relating to the recall of one of its products, the net of which favorably impacted operating income by approximately \$1.5 million. In addition, the Company's effective tax rate for the year 2002 was reduced from 26% to 22%.

**Note 19—Litigation**

The Company is a party to, and certain of its property is the subject of, various pending claims and legal proceedings that routinely arise in the ordinary course of its business, but the Company does not believe that any of these claims or proceedings will have a material effect on its business, financial condition or results of operations.

**Note 20—Subsequent Events**

In February 2003, the Company's Board of Directors approved a buyback of up to \$20 million of the Company's Common Stock. As of March 27, 2003, the Company repurchased 330,000 shares of its Common Stock for a total of approximately \$3.4 million.

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS  
YEARS ENDED DECEMBER 31, 2000, 2001 and 2002

Allowances are deducted from the assets to which they apply, except for sales returns and allowances.

	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Year ended December 31, 2000:					
Allowance for:					
Uncollectible accounts	\$ 1,887,374	\$ 2,270,611	\$2,773,744(a)	\$ 3,920,027	\$ 3,011,702
Reserve for potential product obsolescence	2,942,606	1,318,730	4,095,771(b)	1,035,470	7,321,637
Reserve for sales returns and allowances	15,318,001	17,296,039	1,360,000(c)	27,420,809	6,553,231
	<u>\$20,147,981</u>	<u>\$20,885,380</u>	<u>\$8,229,515</u>	<u>\$32,376,306</u>	<u>\$16,886,570</u>
Year ended December 31, 2001:					
Allowance for:					
Uncollectible accounts	\$ 3,011,702	\$ 6,320,940	\$ —	\$ 2,059,145	\$ 7,273,497
Reserve for potential product obsolescence	7,321,637	1,039,005	—	5,770,543	2,590,099
Reserve for sales returns and allowances	6,553,231	25,190,259	—	26,790,611	4,952,879
	<u>\$16,886,570</u>	<u>\$32,550,204</u>	<u>\$ —</u>	<u>\$34,620,299</u>	<u>\$14,816,475</u>
Year ended December 31, 2002:					
Allowance for:					
Uncollectible accounts	\$ 7,273,497	\$ 2,372,524	\$ —	\$ 2,864,697	\$ 6,781,324
Reserve for potential product obsolescence	2,590,099	4,084,591	—	1,892,669	4,782,021
Reserve for sales returns and allowances	4,952,879	31,916,660	7,500,000(d)	30,790,171	13,579,368
	<u>\$14,816,475</u>	<u>\$38,373,775</u>	<u>\$7,500,000</u>	<u>\$35,547,537</u>	<u>\$25,142,713</u>

(a) Obligations assumed in conjunction with the acquisitions of Flying Colors and Pentech.

(b) Fair market value adjustment for inventory acquired in connection with the acquisition of Pentech.

(c) Obligation assumed in conjunction with the acquisition of Pentech.

(d) Obligations assumed in conjunction with the asset acquisitions of Trendmasters and Dragon Ball Franchise.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**PART III**

**Item 10. Directors and Executive Officers of the Registrant**

**Directors and Executive Officers**

Our directors and executive officers are as follows:

Name	Age	Positions with the Company
Jack Friedman	63	Chairman and Chief Executive Officer
Stephen G. Berman	38	Chief Operating Officer, President, Secretary and Director
Joel M. Bennett	41	Executive Vice President and Chief Financial Officer
Michael Bianco, Jr.	45	Executive Vice President and Chief Merchandising Officer
David C. Blatte	38	Director
Robert E. Glick	56	Director
Michael G. Miller	54	Director
Murray L. Skala	56	Director

*Jack Friedman* has been our Chairman and Chief Executive Officer since co-founding JAKKS with Mr. Berman in January 1995. Until December 31, 1998, he was also our President. From January 1989 until January 1995, Mr. Friedman was Chief Executive Officer, President and a director of THQ. From 1970 to 1989, Mr. Friedman was President and Chief Operating Officer of LJN Toys, Ltd., a toy and software company. After LJN was acquired by MCA/ Universal, Inc. in 1986, Mr. Friedman continued as President until his departure in late 1988.

*Stephen G. Berman* has been our Chief Operating Officer and Secretary and one of our directors since co-founding JAKKS with Mr. Friedman in January 1995. Since January 1, 1999, he has also served as our President. From our inception until December 31, 1998, Mr. Berman was also our Executive Vice President. From October 1991 to August 1995, Mr. Berman was a Vice President and Managing Director of THQ International, Inc., a subsidiary of THQ. From 1988 to 1991, he was President and an owner of Balanced Approach, Inc., a distributor of personal fitness products and services.

*Joel M. Bennett* joined us in September 1995 as Chief Financial Officer and was given the additional title of Executive Vice President in May 2000. From August 1993 to September 1995, he served in several financial management capacities at Time Warner Entertainment Company, L.P., including as Controller of Warner Brothers Consumer Products Worldwide Merchandising and Interactive Entertainment. From June 1991 to August 1993, Mr. Bennett was Vice President and Chief Financial Officer of TTI Technologies, Inc., a direct-mail computer hardware and software distribution company. From 1986 to June 1991, Mr. Bennett held various financial management positions at The Walt Disney Company, including Senior Manager of Finance for its international television syndication and production division. Mr. Bennett holds a Master of Business Administration degree and is a Certified Public Accountant.

*Michael Bianco, Jr.* has been an Executive Vice President since July 2001 and was given the additional title of Chief Merchandising Officer in February 2001. Until July 2001, he had served as a Senior Vice President of our Flying Colors division since joining us in October 1999, when we

acquired Flying Colors Toys, where he had been President and a principal shareholder since July 1996. From 1994 to 1996, Mr. Bianco served as Executive Vice President of Rose Art Industries, Inc., a manufacturer of craft and activity products, and from 1976 to 1993, he served in various capacities, including Vice President of Merchandising, at toy retailer Kay Bee Toys.

*David C. Blatte* has been one of our directors since January 2001. From January 1993 to May 2000, Mr. Blatte was a Senior Vice President in the specialty retail group of the investment banking division of Donaldson, Lufkin and Jenrette Securities Corporation. Since May 2000, Mr. Blatte has been a partner in Catterton Partners, a private equity fund. Mr. Blatte is a director of Case Logic, Inc., a privately-held consumer products company.

*Robert E. Glick* has been one of our directors since October 1996. For more than 20 years, Mr. Glick has been an officer, director and principal stockholder in a number of privately-held companies which manufacture and market women's apparel.

*Michael G. Miller* has been one of our directors since February 1996. From 1979 until May 1998, Mr. Miller was President and a director of a group of privately-held companies, including a list brokerage and list management consulting firm, a database management consulting firm, and a direct mail graphic and creative design firm. Mr. Miller's interests in such companies were sold in May 1998. Since 1991, he has been President of an advertising company.

*Murray L. Skala* has been one of our directors since October 1995. Since 1976, Mr. Skala has been a partner of the law firm Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine LLP, our general counsel. Mr. Skala is a director of Traffix, Inc., a publicly-held company in the business of telecommunications services and entertainment.

Our directors hold office until the next annual meeting of stockholders and until their successors are elected and qualified.

### **Committees of the Board of Directors**

We have an Audit Committee, a Compensation Committee and a Stock Option Committee. The Board does not have a Nominating Committee and performs the functions of a Nominating Committee itself.

*Audit Committee.* The primary functions of the Audit Committee are to select or to recommend to our Board the selection of outside auditors; to monitor our relationships with our outside auditors and their interaction with our management in order to ensure their independence and objectivity; to review, and to assess the scope and quality of, our outside auditor's services, including the audit of our annual financial statements; to review our financial management and accounting procedures; and to review our financial statements with our management and outside auditors. Messrs. Blatte, Glick and Miller are the current members of the Audit Committee.

*Compensation Committee.* The functions of the Compensation Committee are to make recommendations to the Board regarding compensation of management employees and to administer plans and programs relating to employee benefits, incentives, compensation and awards under our Third Amended and Restated 1995 Stock Option Plan and our 2002 Stock Award and Incentive Plan (the "2002 Plan"). Messrs. Glick and Miller are the current members of the Compensation Committee.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

To the best of our knowledge, during the fiscal year ended December 31, 2002, Jack Friedman untimely filed one report on Form 5 reporting one late transaction, which Form 5 was filed in lieu of a delinquent Form 4. Mr. Friedman was an executive officer and director of our company during

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the fiscal year ended December 31, 2002. To the best of our knowledge, all other Forms 3, 4 or 5 required to be filed pursuant to Section 16(a) of the Exchange Act during or with respect to the fiscal year ended December 31, 2002 were filed on a timely basis.

**Item 11. Executive Compensation**

The following table sets forth the compensation we paid for our fiscal years ended December 31, 2000, 2001 and 2002 to our Chief Executive Officer and to each of our other executive officers whose compensation exceeded \$100,000 on an annual basis (collectively, the "Named Officers").

**Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation			Long-Term Awards	
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Restricted Stock Awards (\$)	Options (#)
Jack Friedman	2002	846,000	1,429,696	—	—	—
Chairman and Chief	2001	821,000	1,706,390	—	—	175,000
Executive Officer	2000	771,000	1,613,401	—	—	207,254(1)
Stephen G. Berman	2002	821,000	1,429,696	—	—	—
Chief Operating Officer,	2001	796,000	1,706,390	—	—	175,000
President and Secretary	2000	746,000	1,613,401	—	—	346,024(2)
Joel M. Bennett	2002	272,500	495,000(4)	—	—	—
Executive Vice President and	2001	247,500	160,000	—	—	20,000
Chief Financial Officer	2000	225,000	140,000	—	—	211,700(3)
Michael Bianco, Jr.	2002	575,000	600,000	—	—	—
Executive Vice President and Chief	2001	550,000	450,000	—	—	150,000
Merchandising Officer	2000	450,000	300,000	—	—	75,263

- (1) Includes options to purchase 182,254 shares issued in replacement of options to purchase 257,500 shares pursuant to a reset in the price of those options.
- (2) Includes options to purchase 321,024 shares issued in replacement of options to purchase 419,500 shares pursuant to a reset in the price of those options.
- (3) Includes options to purchase 110,874 shares issued in replacement of options to purchase 143,326 shares pursuant to a reset in the price of those options.
- (4) Includes the forgiveness of the note receivable and accrued interest in the aggregate amount of \$285,000.

**• Employment Agreements**

In March 2003, we amended and restated our employment agreement with Jack Friedman, pursuant to which Mr. Friedman serves as our Chairman and Chief Executive Officer. Mr. Friedman's annual base salary in 2003 is \$965,000. Mr. Friedman's amended employment agreement is for a term of eight years, expiring December 31, 2010. His annual base salary is subject to annual increases in an amount, not less than \$25,000, determined by our Board of Directors. For our fiscal year ending December 31, 2003, Mr. Friedman is entitled to receive the same annual bonus as he was entitled to under his previous employment agreement, namely an amount equal to 4% of our pre-tax income, but not more than \$2,000,000, if our pre-tax income is at least \$2,000,000. For each fiscal year between 2004 through 2010, Mr. Friedman's bonus will

depend on JAKKS achieving certain earnings per share growth targets. The earnings per share growth targets for our 2004 fiscal year have been set, but the earnings per share growth targets for subsequent fiscal years shall be determined annually by our compensation committee. Depending on the levels of earnings per share growth that we achieve in each fiscal year, Mr. Friedman shall receive an annual bonus from 0% to up to 200% of his base salary. This bonus will be paid in accordance with the terms and conditions of our 2002 Stock Award and Incentive Plan. In addition, in consideration for modifying and replacing the pre-tax income formula for determining his annual bonus, and for entering into the amended agreement, Mr. Friedman was awarded an aggregate of 1,080,000 shares of restricted stock. The first tranche of restricted stock, totaling 240,000 shares, was granted at the time the agreement became effective. In each subsequent year of the contract term, Mr. Friedman shall receive 120,000 shares of restricted stock. The grant of these shares is in accordance with our 2002 Stock Award and Incentive Plan, and the vesting of each tranche of restricted stock is subject to the Company achieving pre-tax income in excess of \$2,000,000 in the fiscal year that the grant is made. Each tranche of restricted stock (120,000 shares per annum) to be granted through January 1, 2008 is subject to a two-year vesting period which may be accelerated to one year if we achieve certain earnings per share growth targets. Each tranche of restricted stock (120,000 shares per annum) to be granted through January 1, 2010, is subject to a one-year vesting period. Finally, the agreement provides Mr. Friedman with the opportunity, commencing at age 67, to retire and receive a single-life annuity retirement payment equal to \$975,000 a year for a period of 10 years, or in the event of his death during such retirement period, his estate will receive a death benefit equal to the difference between \$2,925,000 and any prior retirement benefits previously paid to him.

In March 2003, we amended and restated our employment agreement with Stephen G. Berman, pursuant to which Mr. Berman serves as our President and Chief Operating Officer. Mr. Berman's annual base salary in 2003 is \$965,000. Mr. Berman's amended employment agreement is for a term of eight years, expiring December 31, 2010. His annual base salary is subject to annual increases in an amount, not less than \$25,000, determined by our Board of Directors. For our fiscal year ending December 31, 2003, Mr. Berman is entitled to receive the same annual bonus as he was entitled to under his previous employment agreement, namely an amount equal to 4% of our pre-tax income, but not more than \$2,000,000, if our pre-tax income is at least \$2,000,000. For each fiscal year between 2004 through 2010, Mr. Berman's bonus will depend on JAKKS achieving certain earnings per share growth targets. The earnings per share growth targets for our 2004 fiscal year have been set, but the earnings per share growth targets for subsequent fiscal years shall be determined annually by our compensation committee. Depending on the levels of earnings per share growth that we achieve in each fiscal year, Mr. Berman shall receive an annual bonus of from 0% to up to 200% of his base salary. This bonus will be paid in accordance with the terms and conditions of our 2002 Stock Award and Incentive Plan. In addition, in consideration for modifying and replacing the pre-tax income formula for determining his annual bonus, and for entering into the amended agreement, Mr. Berman was awarded an aggregate of 1,080,000 shares of restricted stock. The first tranche of restricted stock, totaling 240,000 shares, was granted at the time the agreement became effective. In each subsequent year of the contract term, Mr. Berman shall receive 120,000 shares of restricted stock. The grant of these shares is in accordance with our 2002 Stock Award and Incentive Plan, and the vesting of each tranche of restricted stock is subject to the Company achieving pre-tax income in excess of \$2,000,000 in the fiscal year that the grant is made. Each tranche of restricted stock (120,000 shares per annum) to be granted through January 1, 2008 is subject to a two-year vesting period which may be accelerated to one year if we achieve certain earnings per share growth targets. Each tranche of restricted stock (120,000 shares per annum) to be granted through January 1, 2010, is subject to a one-year vesting period.

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In March 2003, we amended and restated our employment agreement with Joel M. Bennett, pursuant to which Mr. Bennett serves as our Executive Vice President and Chief Financial Officer. Mr. Bennett's amended employment agreement is for a term of four years, expiring December 31, 2006. Mr. Bennett's annual base salary is \$300,000 and is subject to annual increases in an amount, not less than \$20,000, determined by our Board of Directors. In addition, as consideration for relinquishing the prior formula for determining his annual bonus, and for entering into the amended agreement, Mr. Bennett was awarded at the time his agreement became effective 120,000 shares of restricted stock which will vest in equal annual installments over two years. This grant of restricted stock is in accordance with our 2002 Stock Award and Incentive Plan, and the vesting of the restricted stock grant to Mr. Bennett is subject to the Company achieving pre-tax income in excess of \$2,000,000 for our fiscal year ending December 31, 2003. The vesting of the restricted stock grant may be accelerated to one year if we achieve certain earnings per share growth targets.

In March 2003, we amended and restated our employment agreement with Michael Bianco, pursuant to which Mr. Bianco serves as our Executive Vice President and Chief Merchandising Officer. Mr. Bianco's annual base salary in 2003 is \$700,000. Mr. Bianco's amended employment agreement is for a term of five years, expiring December 31, 2007. His annual base salary is subject to annual increases in an amount, not less than \$25,000, determined by our Board of Directors. For each fiscal year between 2003 through 2007, Mr. Bianco's bonus will depend on JAKKS achieving certain earnings per share growth targets. The earnings per share growth targets for our 2003 fiscal year have been set, but the earnings per share growth targets for subsequent fiscal years shall be determined annually by our compensation committee. Depending on the levels of earnings per share growth that we achieve in each fiscal year, Mr. Bianco shall receive an annual bonus from 0% to up to 200% of his base salary. This bonus will be paid in accordance with the terms and conditions of our 2002 Stock Award and Incentive Plan. In addition, in consideration for modifying and replacing the pre-tax income formula for determining his annual bonus, and entering into the amended agreement, Mr. Bianco was awarded an aggregate of 480,000 shares of restricted stock. The first tranche of restricted stock, totaling 96,000 shares, was granted at the time the agreement became effective. In each subsequent year of the contract term, Mr. Bianco shall receive 96,000 shares of restricted stock. The grant of these shares is in accordance with our 2002 Stock Award and Incentive Plan, and the vesting of each tranche of restricted stock is subject to the Company achieving pre-tax income in excess of \$2,000,000 in the fiscal year that the grant is made. Each tranche of restricted stock, (96,000 shares per annum) to be granted through January 1, 2007 is subject to a two-year vesting period which may be accelerated to one year if we achieve certain earnings per share growth targets.

If we terminate Mr. Friedman's, Mr. Berman's, Mr. Bianco's or Mr. Bennett's employment other than "for cause" or if he resigns because of our material breach of the employment agreement or because we cause a material change in his employment, we are required to make a lump-sum severance payment in an amount equal to his base salary and bonus during the balance of the term of the employment agreement, based on his then applicable annual base salary and bonus. In the event of the termination of his employment under certain circumstances after a "Change of Control" (as defined in the employment agreement), we are required to make to him a one-time payment of an amount equal to 2.99 times his "base amount" determined in accordance with the applicable provisions of the Internal Revenue Code.

### • *Third Amended and Restated 1995 Stock Option Plan*

Our Third Amended and Restated 1995 Stock Option Plan (the "Option Plan") was originally adopted and approved by the stockholders and directors in July 1998 and amended in August 1999.

Options to purchase, in the aggregate, up to 3,725,000 shares of our common stock may be granted under the Option Plan. The Option Plan allows us to grant options that are intended to qualify as incentive stock options (“Incentive Stock Options”) within the meaning of Section 422 of the Internal Revenue Code or as options that are not intended to meet the requirements of such section (“Nonstatutory Stock Options”). Under the Option Plan, Incentive Stock Options may only be granted to our employees (including officers), while Nonstatutory Stock Options may be granted to employees (including officers), non-employee directors, consultants or advisors.

The Option Plan is administered by the Compensation Committee, whose members are non-employee directors chosen by our Board. Subject to the restrictions prescribed in the Option Plan, this committee has discretionary authority to select the persons to whom, the number of shares for which, the times and the exercise price at which options will be granted.

Options granted to an employee expire immediately upon the termination of employment voluntarily by such employee or for cause. Employee options may be exercised up to one year after the termination of employment due to death or disability, or up to three months after termination for any other reason.

Upon the occurrence of a merger, consolidation or other reorganization, or a sale of all or substantially all of the assets, of JAKKS, or a transaction giving any person the right to elect a majority of our Board, as a result of which a distribution of cash, securities or other property is to be made to our stockholders, the options held by any consultant or any person who shall have been an employee for at least one year will vest and become immediately exercisable by such holder, even if such options would not otherwise then be exercisable under any applicable vesting schedule or other condition to the exercise thereof.

Incentive Stock Options must have an exercise price greater than or equal to the fair market value of the shares underlying the option on the date of grant (or, if granted to a holder of 10% or more of our common stock, an exercise price of at least 110% of the underlying shares’ fair market value on the date of grant). The maximum exercise period of Incentive Stock Options is 10 years from the date of grant (or five years in the case of a holder of 10% or more of our common stock). The aggregate fair market value (determined at the date the option is granted) of shares with respect to which Incentive Stock Options are exercisable for the first time by the holder of the option during any calendar year may not exceed \$100,000. If that amount exceeds \$100,000, our Board or the Compensation Option Committee may designate those shares that will be treated as Nonstatutory Compensation Options.

The Option Plan provides for the inclusion in any grant of options to one of our employees of a provision requiring the optionee, for a period of one year after the optionee’s employment is terminated, not to disclose certain of our confidential information and, under certain circumstances, not to compete with us or be employed by an individual or entity that competes with us.

- *2002 Stock Award and Incentive Plan*

Our 2002 Stock Award and Incentive Plan (the “2002 Plan”) was adopted by our directors and approved by our stockholders at our Annual Meeting in September 2002. The 2002 Plan provides our Compensation Committee with the flexibility to grant various Awards, including options (NQOs and ISOs), SARs, Restricted Stock, Deferred Stock and other share based types of Awards. In addition, the 2002 Plan provides the Compensation Committee with the ability to grant performance-based Awards (either share based or cash) that are deductible pursuant to IRS Code Section 162(m).

*Shares Available and Award Limitations.* Under the 2002 Plan, the number of shares of Common Stock reserved and available for awards will be 2,300,000 plus the number of shares that remain available for issuance under the Option Plan after settlement of all awards under that plan. As discussed below, this number is subject to adjustment in the event of stock splits, stock dividends, and other extraordinary events. A total of 1,688,262 shares remain available under the 2002 Plan. Of this amount, the total number of shares with respect to which ISOs may be granted shall not exceed 2,300,000, and no more than 2,000,000 shares shall be used for Awards other than options or SARs. Any shares of Stock delivered under the 2002 Plan shall consist of authorized and unissued shares or treasury shares.

Shares subject to forfeited or expired Awards or to Awards settled in cash or otherwise terminated without issuance of shares to the participant, and shares withheld by or surrendered to the Company to satisfy withholding tax obligations or in payment of the exercise price of an Award, will be deemed to be available for new Awards under the 2002 Plan. These same share-counting rules will apply to awards under the Option Plan, for purposes of determining which shares will become available under the 2002 Plan. Under the 2002 Plan, shares subject to an Award granted in substitution for an award of a company or business acquired by the Company or a subsidiary will not count against the number of shares reserved and available. Shares delivered under the 2002 Plan may be either newly issued or treasury shares

In addition, the 2002 Plan includes a limitation on the amount of Awards that may be granted to any one participant in a given year to qualify Awards as “performance-based” compensation not subject to the limitation on deductibility under Section 162(m). Under this annual per-person limitation, no participant may in any year be granted share-denominated Awards under the 2002 Plan relating to more than his or her “Annual Limit” for each type of Award. The Annual Limit equals 1,000,000 shares plus the amount of the Participant’s unused Annual Limit relating to the same type of Award as of the close of the previous year, subject to adjustment for splits and other extraordinary corporate events. For purposes of this limitation, options, SARs, restricted stock, deferred stock, and other stock-based awards are each considered separate types of awards for purposes of the Annual Limit. In the case of Awards not relating to shares in a way in which the share limitation can apply, no Participant may be granted Awards authorizing the earning during any year of an amount that exceeds the Participant’s Annual Limit, which for this purpose equals \$5,000,000 plus the amount of the Participant’s unused cash Annual Limit as of the close of the previous year. The Annual Limit for non-share-based Awards is separate from the Annual Limit for each type of share-based Award.

Adjustments to the number and kind of shares subject to the share limitations and specified in the Annual Limits are authorized in the event of a large, special or non-recurring dividend or distribution, recapitalization, stock split, stock dividend, reorganization, business combination, or other similar corporate transaction or event affecting the Common Stock. The Committee is also authorized to adjust performance conditions and other terms of Awards in response to these kinds of events or to changes in applicable laws, regulations, or accounting principles, except that adjustments to Awards intended to qualify, as “performance-based” generally must conform to requirements under Section 162(m).

*Eligibility.* Executive officers and other employees of the Company and its subsidiaries, and non-employee directors, consultants and others who provide substantial services to the Company and its subsidiaries, are eligible to be granted Awards under the 2002 Plan. In addition, any person who has been offered employment by the Company or a subsidiary may be granted Awards, but

such prospective employee may not receive any payment or exercise any right relating to the Award until he or she has commenced employment.

*Administration.* The 2002 Plan is administered by the Compensation Committee, except that the Board may appoint any other committee to administer the Plan or may itself act to administer the Plan. The Board must perform the functions of the Committee for purposes of granting Awards to non-employee directors. (References to the “Committee” below mean the committee or the full Board exercising authority with respect to a given Award.) The Committee is authorized to select participants, determine the type and number of Awards to be granted and the number of shares to which Awards will relate or the amount of a performance award, specify times at which Awards will be exercisable or settled, including performance conditions that may be required as a condition thereof, set other terms and conditions of such Awards, prescribe forms of Award agreements, interpret and specify rules and regulations relating to the Plan, and make all other determinations which may be necessary or advisable for the administration of the Plan. Nothing in the 2002 Plan precludes the Committee from authorizing payment of other compensation, including bonuses based upon performance, to any participant, including executive officers. The 2002 Plan provides that Committee members shall not be personally liable, and shall be fully indemnified, in connection with any action, determination, or interpretation taken or made in good faith under the Plan.

*Stock Options and SARs.* The Committee is authorized to grant stock options, including both incentive stock options (“ISOs”), which can result in potentially favorable tax treatment to the participant, and non-qualified stock options, and SARs entitling the participant to receive the excess of the fair market value of a share on the date of exercise or other specified date over the grant price of the SAR. The exercise price of an option and the grant price of an SAR is determined by the Committee, but generally may not be less than the fair market value of the shares on the date of grant (except as described below). The maximum term of each option or SAR, the times at which each option or SAR will be exercisable, and provisions requiring forfeiture of unexercised options at or following termination of employment or upon the occurrence of other events, generally are fixed by the Committee, subject to a restriction that no ISO, or SAR in tandem therewith, may have a term exceeding ten years. Options may be exercised by payment of the exercise price in cash, shares or other property (possibly including notes or obligations to make payment on a deferred basis, or through broker-assisted cashless exercise procedures) or by surrender of other outstanding awards having a fair market value equal to the exercise price. Methods of exercise and settlement and other terms of SARs will be determined by the Committee. SARs granted under the 2002 Plan may include “limited SARs” exercisable for a stated period of time following a “change in control” of the Company, as discussed below.

*Restricted and Deferred Stock.* The Committee is authorized to make Awards of restricted stock and deferred stock. Prior to the end of the restricted period, shares received as restricted stock may not be sold or disposed of by participants, and may be forfeited in the event of termination of employment. The restricted period generally is established by the Committee. An Award of restricted stock entitles the participant to all of the rights of a shareholder of the Company, including the right to vote the shares and the right to receive any dividends thereon, unless otherwise determined by the Committee. Deferred stock gives participants the right to receive shares at the end of a specified deferral period, subject to forfeiture of the Award in the event of termination of employment under certain circumstances prior to the end of a specified restricted period (which need not be the same as the deferral period). Prior to settlement, deferred stock Awards carry no voting or dividend rights or other rights associated with stock ownership, but dividend equivalents may be paid on such deferred stock.

*Other Stock-Based Awards, Bonus Shares, and Awards in lieu of Cash Obligations.* The 2002 Plan authorizes the Committee to grant Awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to shares. The Committee will determine the terms and conditions of such Awards, including the consideration to be paid to exercise Awards in the nature of purchase rights, the periods during which Awards will be outstanding, and any forfeiture conditions and restrictions on Awards. In addition, the Committee is authorized to grant shares as a bonus free of restrictions, or to grant shares or other Awards in lieu of the Company's obligations under other plans or compensatory arrangements, subject to such terms as the Committee may specify. The number of shares granted to an executive officer or non-employee director in place of salary, fees or other cash compensation must be reasonable, as determined by the Committee.

*Performance-Based Awards.* The Committee may require satisfaction of pre-established performance goals, consisting of one or more business criteria and a targeted performance level with respect to such criteria, as a condition of Awards being granted or becoming exercisable or settleable under the 2002 Plan, or as a condition to accelerating the timing of such events. If so determined by the Committee, to avoid the limitations on deductibility under Section 162(m) of the Code, the business criteria used by the Committee in establishing performance goals applicable to performance Awards to named executives will be selected from among the following: (1) growth in revenues or assets; (2) earnings from operations, earnings before or after taxes, earnings before or after interest, depreciation, amortization, or extraordinary or special items; (3) net income or net income per common share (basic or diluted); (4) return on assets, return on investment, return on capital, or return on equity; (5) cash flow, free cash flow, cash flow return on investment, or net cash provided by operations; (6) interest expense after taxes; (7) economic profit; (8) operating margin or gross margin; (9) stock price or total stockholder return; and (10) strategic business criteria, consisting of one or more objectives based on meeting environmental or safety standards, market penetration, geographic business expansion goals, cost targets, customer satisfaction, employee satisfaction, management of employment practices and employee benefits, supervision of litigation and information technology, and goals relating to acquisitions or divestitures of subsidiaries, affiliates or joint ventures. The Committee may specify that any such criteria will be measured before or after extraordinary or non-recurring items, before or after service fees, or before or after payments of Awards under the 2002 Plan. The Committee may set the levels of performance required in connection with performance Awards as fixed amounts, goals relative to performance in prior periods, as goals compared to the performance of one or more comparable companies or an index covering multiple companies, or in any other way the Committee may determine.

*Annual Incentive Awards.* The Committee is authorized to grant annual incentive awards, settleable in cash or in shares upon achievement of preestablished performance objectives achieved during a specified period of up to one year. The performance objectives will be one or more of the performance objectives available for other performance awards under the 2002 Plan, as described in the preceding paragraph. As discussed above, annual incentive awards granted to named executives may be intended as "performance-based compensation" not subject to the limitation on deductibility under Section 162(m). The Committee generally must establish the performance objectives, the corresponding amounts payable (subject to per-person limits), other terms of settlement, and all other terms of such awards not later than 90 days after the beginning of the fiscal year.

*Other Terms of Awards.* Awards may be settled in cash, shares, other Awards or other property, in the discretion of the Committee. The Committee may require or permit participants to

defer the settlement of all or part of an Award in accordance with such terms and conditions as the Committee may establish, including payment or crediting of interest or dividend equivalents on any deferred amounts. The Committee is authorized to place cash, shares or other property in trusts or make other arrangements to provide for payment of the Company's obligations under the 2002 Plan. The Committee may condition Awards on the payment of taxes such as by withholding a portion of the shares or other property to be distributed (or receiving previously acquired shares or other property surrendered by the participant) to satisfy tax obligations. Awards granted under the 2002 Plan generally may not be pledged or otherwise encumbered and are not transferable except by will or by the laws of descent and distribution, or to a designated beneficiary upon the participant's death, except that the Committee may permit transfers in individual cases, including for estate planning purposes.

Awards under the 2002 Plan are generally granted without a requirement that the participant pay consideration in the form of cash or property for the grant (as distinguished from the exercise), except to the extent required by law. The Committee may, however, grant Awards in substitution for, exchange for or as a buyout of other Awards under the 2002 Plan, awards under other Company plans, or other rights to payment from the Company, and may exchange or buyout outstanding Awards for cash or other property. The Committee also may grant Awards in addition to and in tandem with other Awards, awards, or rights as well. In granting a new Award, the Committee may determine that the in-the-money value of any surrendered Award or award may be applied to reduce the exercise price of any option, grant price of any SAR, or purchase price of any other Award.

*Vesting, Forfeitures, and Acceleration Thereof.* The Committee may, in its discretion determine the vesting schedule of options and other Awards, the circumstances that will result in forfeiture of the Awards, the post-termination exercise periods of options and similar Awards, and the events that will result in acceleration of the ability to exercise and the lapse of restrictions, or the expiration of any deferral period, on any Award. [In addition, the 2002 Plan provides that, in the event of a Change in Control of the Company, outstanding Awards will immediately vest and be fully exercisable, any restrictions, deferral of settlement and forfeiture conditions of such Awards will lapse, and goals relating to performance-based awards will be deemed met or exceeded to the extent specified in the performance-award documents. A Change in Control means generally (i) any person or group becomes a beneficial owner of 35% or more of the voting power of the Company's voting securities, (ii) a change in the Board's membership such that the current members, or those elected or nominated by vote of two-thirds of the current members and successors elected or nominated by them, cease to represent a majority of the Board in any period of less than two years, (iii) certain mergers or consolidations substantially reducing the percentage of voting power held by shareholders prior to such transactions, and (iv) shareholder approval of a sale or liquidation of all or substantially all of the assets of the Company.

*Amendment and Termination of the 2002 Plan.* The Board may amend, alter, suspend, discontinue, or terminate the 2002 Plan or the Committee's authority to grant awards thereunder without shareholder approval unless shareholder approval is required by law, regulation, or stock exchange rule. The Board may, in its discretion, submit other amendments to shareholders for approval. Under these provisions, shareholder approval will not necessarily be required for amendments, which might increase the cost of the 2002 Plan or broaden eligibility. Unless earlier terminated, the 2002 Plan will terminate at such time that no shares reserved under the Plan remain available and the Company has no further rights or obligations with respect to any outstanding Award.

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As of March 27, 2003, options to purchase 1,823,030 shares of our common stock under the Option Plan and the 2002 Plan have been exercised, and options to purchase 1,688,262 shares of our common stock under the 2002 Plan remain available for future grant. All the shares issuable upon exercise of outstanding options granted under the Option Plan and the 2002 Plan are currently registered under the Securities Act.

The following table sets forth certain information regarding options exercised and exercisable during 2002, and the value of options held as of December 31, 2002 by the Named Officers:

**Aggregated Option/SAR Exercises in Last Fiscal Year  
and Fiscal Year End Option/SAR Values**

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs at Fiscal Year End		Value of Unexercised In-the-Money Options/SARs at Fiscal Year End(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Jack Friedman	187,500	1,987,500	292,924	251,830	1,988,916	576,733
Stephen G. Berman	150,000	1,714,019	122,885	328,153	540,673	1,003,760
Joel M. Bennett	5,184	58,450	15,778	89,425	71,493	405,218
Michael Bianco, Jr.	—	—	36,722	185,557	79,572	324,829

(1) The product of (x) the difference between \$13.47 (the closing sale price of the common stock on December 31, 2002) and the aggregate exercise price of such options, multiplied by (y) the number of unexercised options.

• *Compensation of Directors*

Directors currently receive an annual cash stipend in the amount of \$10,000 for serving on the Board, and are reimbursed for reasonable expenses incurred in attending meetings. In addition, our Option Plan provides for each newly elected non-employee director to receive at the commencement of his term an option to purchase 37,500 shares of our common stock at their then current fair market value, and for grants to our non-employee directors on January 1 and July 1 of each year of an option to purchase 7,500 shares of our common stock at their then current fair market value. Options granted to a non-employee director expire upon the termination of the director's services for cause, but may be exercised at any time during a one-year period after such person ceases to serve as a director for any other reason.

• *Compensation Committee Interlocks and Insider Participation*

None of our executive officers has served as a director or member of a compensation committee (or other board committee performing equivalent functions) of any other entity, one of whose executive officers served as a director or a member of our Compensation Committee.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The following table sets forth certain information as of March 27, 2003 with respect to the beneficial ownership of our common stock by (1) each person known by us to own beneficially more than 5% of the outstanding shares of our common stock, (2) each of our directors, (3) each Named Officer, and (4) all our directors and executive officers as a group.

Name and Address of Beneficial Owner(1)(2)	Amount and Nature of Beneficial Ownership(s)(3)	Percent of Outstanding Shares
FMR Corp.	2,674,500(4)	11.0%
Kern Capital Management LLC	1,483,800(5)	6.1%
Royce & Associates, LLC	2,248,200(6)	9.3
Jack Friedman	570,882(7)	2.3
Stephen G. Berman	338,387(8)	1.7
Joel M. Bennett	161,698(9)	*
Michael Bianco, Jr.	171,306(10)	*
David C. Blatte	45,000(11)	*
Robert E. Glick	61,519(12)	*
Michael G. Miller	52,144(13)	*
Murray L. Skala	63,457(14)	*
All directors and executive officers as a group (8 persons)	741,359(15)	5.9%

\* Less than 1% of our outstanding shares.

- (1) Unless otherwise indicated, such person's address is c/o JAKKS Pacific, Inc., 22619 Pacific Coast Highway, Malibu, California 90265.
- (2) The number of shares of common stock beneficially owned by each person or entity is determined under the rules promulgated by the Securities and Exchange Commission. Under such rules, beneficial ownership includes any shares as to which the person or entity has sole or shared voting power or investment power. The percentage of our outstanding shares is calculated by including among the shares owned by such person any shares which such person or entity has the right to acquire within 60 days after March 27, 2003. The inclusion herein of any shares deemed beneficially owned does not constitute an admission of beneficial ownership of such shares.
- (3) Exercises sole voting power and sole investment power with respect to such shares.
- (4) The address of FMR Corp. is 82 Devonshire Street, Boston, Massachusetts 02109. All the information with respect to this beneficial owner was extracted solely from its Schedule 13G filed on February 13, 2003.
- (5) Mr. Robert E. Kern, Jr. and Mr. David G. Kern ("Messrs. Kern"), principals and controlling members of Kern Capital Management LLC ("KCM"), have also reported beneficial ownership of these shares. The address of KCM and Messrs. Kern is 114 West 47th Street, Suite 1926, New York, New York 10036. All the information presented in this Item with respect to these beneficial owners was extracted solely from its Schedule 13G jointly filed on February 14, 2003.

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- (6) The address of Royce & Associates, LLC is 1414 Avenue of the Americas, New York, New York 10019. All the information presented in this Item with respect to this beneficial owner was extracted solely from their Schedule 13G filed on February 3, 2003.
- (7) Includes 292,924 shares which Mr. Friedman may purchase upon the exercise of certain stock options and 3,186 shares held in trusts for the benefit of children of Mr. Friedman.
- (8) Represents shares which Mr. Berman may purchase upon the exercise of certain stock options.
- (9) Includes 14,448 shares which Mr. Bennett may purchase upon the exercise of certain stock options.
- (10) Includes 35,256 shares which Mr. Bianco may purchase upon the exercise of certain stock options.
- (11) Represents shares which Mr. Blatte may purchase upon the exercise of certain stock options.
- (12) Represents shares which Mr. Glick may purchase upon the exercise of certain stock options.
- (13) Represents shares which Mr. Miller may purchase upon the exercise of certain stock options.
- (14) Includes 60,271 shares which Mr. Skala may purchase upon the exercise of certain stock options and 3,186 shares held by Mr. Skala as trustee under a trust for the benefit of Mr. Friedman's minor child.
- (15) Includes 3,186 shares held in a trust for the benefit of Mr. Friedman's minor child and an aggregate of 635,451 shares which the directors and executive officers may purchase upon the exercise of certain stock options.

### **Item 13. *Certain Relationships and Related Transactions***

One of our directors, Murray L. Skala, is a partner in the law firm of Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine LLP, which has performed, and is expected to continue to perform, legal services for us. In 2002, we incurred approximately \$2,326,000 for legal fees and \$327,000 for reimbursable expenses payable to that firm.

In April 2000, we loaned \$1,500,000 to each of Jack Friedman and Stephen G. Berman. The entire principal amount of each loan was originally due on April 28, 2003 and, until repaid, interest thereon is payable semi-annually at the rate of 6.5% per annum. Mr. Berman's indebtedness to us under his loan is secured by a deed of trust on certain real property. As of March 27, 2003, the outstanding principal balances of Mr. Friedman's and Mr. Berman's loans including interest accrued thereon were paid in full. In May 2000, we loaned \$250,000 to Joel M. Bennett. The entire principal amount of his loan, together with interest accrued thereon at the rate of 7.0% per annum, was originally due on May 12, 2002, except that, since he continued to be employed by us through such date, we forgave all \$285,000 of his indebtedness to us under his loan including accrued interest of \$35,000. All three loans were made to assist our executive officers in meeting certain personal financial obligations.

Michael Bianco, Jr., an Executive Vice President and our Chief Merchandising Officer, was one of the selling shareholders from whom we acquired Flying Colors Toys in October 1999. In connection with that acquisition, we agreed to pay an earn-out, in an amount not less than \$2.5 million nor more than \$4.5 million, in each of the three twelve-month periods following the closing if the gross profit of *Flying Colors* products achieve certain targeted levels during these periods. In each of 2001 and 2002, we paid \$1,850,000 to Mr. Bianco on account of the earn-out for each of the twelve-month periods ended September 30, 2001 and 2002.

**Item 14. Control and Procedures**

- (a) Evaluation of disclosure controls and procedures.

Our chief executive officer and our chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15-d-14(c) as of a date within 90 days of the filing date of this Annual Report on Form 10-K (the “Evaluation Date”) have concluded that as of the Evaluation Date, our disclosure controls and procedures were adequate and effective to ensure that material information relating to us and our consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which this Annual Report on Form 10-K report was being prepared.

- (b) Changes in internal controls.

There were no significant changes in our internal controls or in other factors that could significantly affect our disclosure controls and procedures subsequent to the Evaluation Date, nor any significant deficiencies or material weaknesses in such disclosure controls and procedures requiring corrective actions. As a result, no corrective actions were taken.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K**

- (a) The following documents are filed as part of this Annual Report on Form 10-K:

(1) Financial Statements (included in Item 8):

- Independent Auditors’ Report
- Consolidated Balance Sheets as of December 31, 2001 and 2002
- Consolidated Statements of Operations for the years ended December 31, 2000, 2001 and 2002
- Consolidated Statements of Stockholders’ Equity for the years ended December 31, 2000, 2001 and 2002
- Consolidated Statements of Cash Flows for the years ended December 31, 2000, 2001 and 2002
- Notes to Consolidated Financial Statements

(2) Financial Statement Schedules (included in Item 8)

- Schedule II — Valuation and Qualifying Accounts

(3) Exhibits

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of the Company (1)
3.2	By-Laws of the Company (2)
3.2.1	Amendment to By-Laws of the Company (3)
10.1	Third Amended and Restated 1995 Stock Option Plan (4)
10.1A	1999 Amendment to Third Amended and Restated 1995 Stock Option Plan (5)

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<b>Exhibit Number</b>	<b>Description</b>
10.1B	2000 Amendment to Third Amended and Restated 1995 Stock Option Plan (6)
10.1C	2001 Amendment to Third Amended and Restated 1995 Stock Option Plan (7)
10.2	2002 Stock Award and Incentive Plan (8)
10.3	Amended and Restated Employment Agreement between the Company and Jack Friedman, dated as of March 26, 2003 (*)
10.4	Amended and Restated Employment Agreement between the Company and Stephen G. Berman dated as of March 26, 2003 (*)
10.5	Amended and Restated Employment Agreement between the Company and Michael Bianco dated as of March 26, 2003 (*)
10.6	Amended and Restated Employment Agreement between the Company and Joel M. Bennet, dated March 26, 2003 (*)
10.7	License Agreement with Titan Sports, Inc. dated October 24, 1995 (2)
10.7.1	Amendment to License Agreement with Titan Sports, Inc. dated April 22, 1996 (9)
10.7.2	Amendment to License Agreement with Titan Sports, Inc. dated January 21, 1997 (9)
10.7.3	Amendment to License Agreement with Titan Sports, Inc. dated December 3, 1997 (10)
10.7.4	Amendment to License Agreement with Titan Sports, Inc. dated January 29, 1998 (10)
10.7.5	Amendment to License Agreement with Titan Sports, Inc. dated June 24, 1998 (11)
10.7.6	Amendment to License Agreement with Titan Sports, Inc. dated February 11, 1999 (11)
10.8	International License Agreement with Titan Sports, Inc. dated February 10, 1997 (9)
10.8.1	Amendment to International License Agreement with Titan Sports, Inc. dated December 3, 1997 (10)
10.8.2	Amendment to International License Agreement with Titan Sports, Inc. dated January 29, 1998 (10)
10.9	Office Lease dated November 18, 1999 between the Company and Winco Maliview Partners (12)
10.10	Term Note dated April 13, 2000 in the principal amount of \$1,500,000 made by Jack Friedman payable to the order of the Company (13)
10.11	Installment Note dated April 26, 2000 in the principal amount of \$1,500,000 made by Stephen Berman and Ana Berman payable to the order of the Company (14)
10.12	Deed of Trust dated April 26, 2000 made by Stephen Berman and Ana Berman in favor of First American Title Insurance Company, as Trustee (15)
10.13	Lease dated as of November 21, 2000 between Grand Avenue Venture, LLC and JP Ferrero Parkway, Inc. (16)
10.14	Loan Agreement dated as of October 12, 2001 among JAKKS, certain other Borrowers, the Lenders named therein and Bank of America, N.A., as Administrative Agent (17)
10.15	First Amendment to Loan Agreement and Consent and Waiver dated as of March 8, 2002 (18)
10.16	Security Agreement (Borrowers) dated as of October 12, 2001 among JAKKS, certain other Grantors, Bank of America, as Administrative Agent, and the Lenders referred to therein (19)
10.17	Trademark Security Agreement dated as of October 12, 2001 among JAKKS, certain other Grantors, Bank of America, as Administrative Agent, and the Lenders referred to therein (20)
10.18	Patent Security Agreement dated as of October 12, 2001 among JAKKS, certain other Grantors, Bank of America, as Administrative Agent, and the Lenders referred to therein (21)
10.19	Pledge Agreement dated as of October 12, 2001 among JAKKS, certain other Grantors, Bank of America, as Administrative Agent, and the Lenders referred to therein (22)
10.20	Lock Box Agreement dated as of October 12, 2001 among JAKKS, certain other Customers, Bank of America, as Administrative Agent, and the Lenders referred to therein (23)

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<u>Exhibit Number</u>	<u>Description</u>
10.21	Guaranty dated as of October 12, 2001 among the Domestic Subsidiaries named therein, Bank of America, as Administrative Agent, and the Lenders referred to therein (24)
10.22	Security Agreement dated as of October 12, 2001 among the Grantors named therein, Bank of America, N.A., as Administrative Agent, and the Lenders referred to therein (25)
10.23	Stock Purchase Agreement dated as of February 10, 2002 among JAKKS, Toymax and the Shareholders named therein (26)
10.24	Agreement of Merger dated as of February 10, 2002 among JAKKS, JP/TII Acquisition Corp. and Toymax (27)
10.25	Letter Agreement dated March 11, 2002 among Toymax, JAKKS and the selling stockholders named therein (28)
10.26	Termination and Replacement of Manufacturing Agreement dated March 11, 2002 among Toymax, Toymax (H.K.) Limited, Jauntway Investments Limited, et al. (29)
10.27	Termination of Agency Agreements and Stock Options dated March 11, 2002 among Tai Nam Industrial Company Limited, David Ki Kwan Chu, Frances Shuk Kuen Leung, Toymax, et al. (30)
10.28	Registration Rights Agreement dated as of March 11, 2002 among JAKKS, Best Phase Limited, Hargo (Barbados) Limited, Harvey Goldberg and Steven A. Lebensfeld (31)
10.29	Termination of Employment Agreement dated March 11, 2002 among Steven Lebensfeld, Toymax and JAKKS (32)
10.30	Employment Agreement dated as of March 11, 2002 between JAKKS and Steven Lebensfeld (33)
10.31	Termination of Employment Agreement dated March 11, 2002 among Harvey Goldberg, 1515037 Ontario Ltd., Toymax and JAKKS (34)
10.32	Consulting Agreement dated as of March 11, 2002 among JAKKS, 1515037 Ontario Ltd. and Harvey Goldberg (35)
10.33	Form of Restricted Stock Agreement (*)
21	Subsidiaries of the Company(*)
23	Consent of PKF, Certified Public Accountants, A Professional Corporation, Los Angeles, California(*)
99.1	Certification of Chief Executive Officer(*)
99.2	Certification of Chief Financial Officer(*)

- (1) Incorporated by reference to Appendix 2 of the Company's Schedule 14A Proxy Statement filed August 23, 2002.
- (2) Filed previously as an exhibit to the Company's Registration Statement on Form SB-2 (Reg. No. 333-2048-LA), effective May 1, 1996, and incorporated herein by reference.
- (3) Filed previously as an exhibit to the Company's Registration Statement on Form SB-2 (Reg. No. 333-22583), effective May 1, 1997, and incorporated herein by reference.
- (4) Filed previously as Appendix A to the Company's definitive Proxy Statement for its 1998 Annual Meeting of Stockholders, filed June 23, 1998, and incorporated herein by reference.
- (5) Filed previously as an exhibit to the Company's Registration Statement on Form S-8 (Reg. No. 333-90055), filed November 1, 1999, and incorporated herein by reference.
- (6) Filed previously as exhibit 4.1 to the Company's Registration Statement on Form S-8 (Reg. No. 333-40392), filed June 29, 2000, and incorporated herein by reference.
- (7) Incorporated by reference to Appendix B to the Company's Schedule 14A Proxy Statement, filed June 11, 2001.

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- (8) Filed previously as exhibit 4.1 to the Company's Registration Statement on Form S-8 (Reg. No. 333-101665), filed December 5, 2002, and incorporated herein by reference.
- (9) Filed previously as an exhibit to the Company's Annual Report on Form 10-KSB for its fiscal year ended December 31, 1996, and incorporated herein by reference.
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- (14) Incorporated by reference to exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
- (15) Incorporated by reference to exhibit 10.3 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
- (16) Incorporated by reference to exhibit 10.58 of the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2000, filed April 2, 2001.
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- (35) Incorporated by reference to exhibit 10 of the Company's Statement on Schedule 13D relating to Toymax International, Inc, filed March 20, 2002.

(\*) Filed herewith.

(b) *Reports on Form 8-K*

None



## CERTIFICATIONS

I, Jack Friedman, certify that:

1. I have reviewed this annual report on Form 10-K of JAKKS Pacific, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003

By: /s/ JACK FRIEDMAN

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Jack Friedman  
*Chairman and Chief Executive Officer*

## CERTIFICATIONS

I, Joel M. Bennett, certify that:

1. I have reviewed this annual report on Form 10-K of JAKKS Pacific, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003

By: /s/ JOEL M. BENNETT

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Joel M. Bennett  
*Chief Financial Officer*

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
3.1	Amended and Restated Certificate of Incorporation of the Company (1)
3.2	By-Laws of the Company (2)
3.2.1	Amendment to By-Laws of the Company (3)
10.1	Third Amended and Restated 1995 Stock Option Plan (4)
10.1A	1999 Amendment to Third Amended and Restated 1995 Stock Option Plan (5)
10.1B	2000 Amendment to Third Amended and Restated 1995 Stock Option Plan (6)
10.1C	2001 Amendment to Third Amended and Restated 1995 Stock Option Plan (7)
10.2	2002 Stock Award and Incentive Plan (8)
10.3	Amended and Restated Employment Agreement between the Company and Jack Friedman, dated as of March 26, 2003 (*)
10.4	Amended and Restated Employment Agreement between the Company and Stephen G. Berman dated as of March 26, 2003 (*)
10.5	Amended and Restated Employment Agreement between the Company and Michael Bianco dated as of March 26, 2003 (*)
10.6	Amended and Restated Employment Agreement between the Company and Joel M. Bennet, dated March 26, 2003 (*)
10.7	License Agreement with Titan Sports, Inc. dated October 24, 1995 (2)
10.7.1	Amendment to License Agreement with Titan Sports, Inc. dated April 22, 1996 (9)
10.7.2	Amendment to License Agreement with Titan Sports, Inc. dated January 21, 1997 (9)
10.7.3	Amendment to License Agreement with Titan Sports, Inc. dated December 3, 1997 (10)
10.7.4	Amendment to License Agreement with Titan Sports, Inc. dated January 29, 1998 (10)
10.7.5	Amendment to License Agreement with Titan Sports, Inc. dated June 24, 1998 (11)
10.7.6	Amendment to License Agreement with Titan Sports, Inc. dated February 11, 1999 (11)
10.8	International License Agreement with Titan Sports, Inc. dated February 10, 1997 (9)
10.8.1	Amendment to International License Agreement with Titan Sports, Inc. dated December 3, 1997 (10)
10.8.2	Amendment to International License Agreement with Titan Sports, Inc. dated January 29, 1998 (10)
10.9	Office Lease dated November 18, 1999 between the Company and Winco Maliview Partners (12)
10.10	Term Note dated April 13, 2000 in the principal amount of \$1,500,000 made by Jack Friedman payable to the order of the Company (13)
10.11	Installment Note dated April 26, 2000 in the principal amount of \$1,500,000 made by Stephen Berman and Ana Berman payable to the order of the Company (14)
10.12	Deed of Trust dated April 26, 2000 made by Stephen Berman and Ana Berman in favor of First American Title Insurance Company, as Trustee (15)
10.13	Lease dated as of November 21, 2000 between Grand Avenue Venture, LLC and JP Ferrero Parkway, Inc. (16)
10.14	Loan Agreement dated as of October 12, 2001 among JAKKS, certain other Borrowers, the Lenders named therein and Bank of America, N.A., as Administrative Agent (17)
10.15	First Amendment to Loan Agreement and Consent and Waiver dated as of March 8, 2002 (18)
10.16	Security Agreement (Borrowers) dated as of October 12, 2001 among JAKKS, certain other Grantors, Bank of America, as Administrative Agent, and the Lenders referred to therein (19)

## Table of Contents

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10.17	Trademark Security Agreement dated as of October 12, 2001 among JAKKS, certain other Grantors, Bank of America, as Administrative Agent, and the Lenders referred to therein (20)
10.18	Patent Security Agreement dated as of October 12, 2001 among JAKKS, certain other Grantors, Bank of America, as Administrative Agent, and the Lenders referred to therein (21)
10.19	Pledge Agreement dated as of October 12, 2001 among JAKKS, certain other Grantors, Bank of America, as Administrative Agent, and the Lenders referred to therein (22)
10.20	Lock Box Agreement dated as of October 12, 2001 among JAKKS, certain other Customers, Bank of America, as Administrative Agent, and the Lenders referred to therein (23)
10.21	Guaranty dated as of October 12, 2001 among the Domestic Subsidiaries named therein, Bank of America, as Administrative Agent, and the Lenders referred to therein (24)
10.22	Security Agreement dated as of October 12, 2001 among the Grantors named therein, Bank of America, N.A., as Administrative Agent, and the Lenders referred to therein (25)
10.23	Stock Purchase Agreement dated as of February 10, 2002 among JAKKS, Toymax and the Shareholders named therein (26)
10.24	Agreement of Merger dated as of February 10, 2002 among JAKKS, JP/TII Acquisition Corp. and Toymax (27)
10.25	Letter Agreement dated March 11, 2002 among Toymax, JAKKS and the selling stockholders named therein (28)
10.26	Termination and Replacement of Manufacturing Agreement dated March 11, 2002 among Toymax, Toymax (H.K.) Limited, Jauntway Investments Limited, et al. (29)
10.27	Termination of Agency Agreements and Stock Options dated March 11, 2002 among Tai Nam Industrial Company Limited, David Ki Kwan Chu, Frances Shuk Kuen Leung, Toymax, et al. (30)
10.28	Registration Rights Agreement dated as of March 11, 2002 among JAKKS, Best Phase Limited, Hargo (Barbados) Limited, Harvey Goldberg and Steven A. Lebensfeld (31)
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- (1) Incorporated by reference to Appendix 2 of the Company's Schedule 14A Proxy Statement filed August 23, 2002.
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- (\*) Filed herewith.

## AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "Agreement"), dated March 26, 2003 and as of January 1, 2003, by and between Jack Friedman ("Executive") and JAKKS Pacific, Inc., a Delaware corporation ("JAKKS" or the "Company").

## W I T N E S S E T H:

WHEREAS, Executive and the Company entered into an Employment Agreement, dated as of July 1, 1999 (the "Initial Agreement"), amended as of February 7, 2000 by an Amendment to Employment Agreement (the "First Amendment" and, together with the Initial Agreement, the "Employment Agreement"); and

WHEREAS, Executive and the Company desire to amend and restate the terms of the Employment Agreement to provide for Executive's continued employment by the Company on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual promises, representations and warranties set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. OFFICES AND DUTIES. The Company hereby employs Executive during the Term (as hereinafter defined) to serve as the Company's Chief Executive Officer and to perform such executive and supervisory duties on behalf of the Company as the Company's Board of Directors may from time to time reasonably direct. The Company's Board of Directors shall elect Executive to serve as the Company's Chairman, and may elect or designate Executive to serve in such other corporate offices of the Company or a subsidiary of the Company as the Company's Board of Directors from time to time may deem necessary, proper or advisable. Executive hereby accepts such employment and agrees that throughout the Term he shall faithfully, diligently and to the best of his ability, in furtherance of the business of the Company, perform the duties assigned to him or incidental to the offices assumed by him pursuant to this Section. Executive shall devote substantially all of his business time and attention to the business and affairs of the Company, but Executive shall not be required to devote any minimum amount of time or report or perform his duties hereunder on a fixed or periodic basis, and, subject to Sections 9, 10 and 11, Executive may engage or participate in such other activities incidental to any other employment, occupation or business venture or enterprise as do not materially interfere with or compromise his ability to perform his duties hereunder. Executive shall at all times be subject to the direction and control of the Company's Board of Directors, and observe and comply with such rules, regulations, policies and practices as the Company's Board of Directors may from time to time establish.

2. TERM. The employment of Executive hereunder shall commence as of the date hereof and continue for a term ending on December 31, 2010, subject to earlier termination upon the terms and conditions provided elsewhere herein (the "Term"). As used herein, "Termination Date" means the last day of the Term.

3. COMPENSATION.

(a)(i) Base Salary. As compensation for his services hereunder, the Company shall pay to Executive a base salary in 2003 at the rate of \$965,000 per annum, and in each subsequent year during the Term at a rate to be determined by the Compensation Committee of the Company's Board of Directors, but that is at least \$25,000 more than the rate in the immediately preceding year (the "Base Salary"). The Base Salary shall be paid to Executive in substantially equal installments no less often than twice monthly, subject to any required tax withholding.

(a)(ii) Restricted Stock Awards. Subject to the terms of (including, without limitation, the availability of shares reserved for issuance thereunder) the Company's 2002 Stock Award and Incentive Plan (as in effect on the date hereof and as subsequently may be amended, from time to time, the "Plan") and the applicable restricted stock agreement, which shall be substantially in the form annexed hereto as Exhibit A, and as additional consideration for Executive agreeing to amend and restate the terms of his Employment Agreement by, among other things, modifying and replacing the 4% Bonus (as defined in the Initial Agreement) in the manner provided in Section 3(c) herein, (A) upon the execution of this Agreement, the Company shall grant to Executive 240,000 shares of restricted common stock, par value \$.001 per share (the "Restricted Stock"), of the Company and (B) on each of the next seven (7) anniversaries of the date hereof, the Company shall grant to Executive 120,000 shares of Restricted Stock. Each award of Restricted Stock shall vest (and associated restrictions shall lapse) in accordance with Exhibit B hereto and the terms of the applicable restricted stock agreement.

(b) 2003 Bonus Opportunity. In addition to the compensation set forth in Section 3(a), Executive shall be eligible to receive a cash bonus (the "4% Bonus") in respect of the 2003 Bonus Period (as hereinafter defined) if the Company's Pre-Tax Income (as hereinafter defined) equals or exceeds the 2003 Bonus Target (as hereinafter defined), in an amount equal to the lesser of (A) four (4%) percent of such Pre-Tax Income and (B) \$2,000,000. If earned, the Company shall pay the 4% Bonus to Executive, subject to any required tax withholding, no later than March 31, 2004.

For purposes of this Section 3(b):

(A) The "2003 Bonus Period" is either calendar year 2003 or, if the Term ends during 2003 on a day other than December 31, 2003, the portion of calendar year 2003 ending on the last day of the last full month ending during the Term.

(B) The "2003 Bonus Target" is (A) \$2,000,000, if the 2003 Bonus Period consists of twelve (12) calendar months, or (B) in any other case, the product of (I) \$5,479.45 and (II) the number of days included in the 2003 Bonus Period.

(C) The "Pre-Tax Income" in the 2003 Bonus Period is the Company's income before any deduction or reserve for income taxes and without any adjustment for any extraordinary item.

(D) The determination of the 2003 Bonus Target, Pre-Tax Income and the 4% Bonus for the 2003 Bonus Period, including all estimates, allocations or prorations required to be made in connection therewith, shall be made by the Company's regularly-engaged independent certified public accountants (the "Auditors") in accordance with U.S. generally accepted accounting principles ("GAAP") applied on a basis consistent with past periods, which determination, absent manifest error, shall be conclusive and binding upon the Company and Executive. If the 2003 Bonus Period ends prior to December 31, 2003, and any year-end adjustment is subsequently made that affects the determination of the 4% Bonus for the 2003 Bonus Period, the Company shall promptly give written notice to Executive of any change proposed to be made to the 4% Bonus, setting forth in reasonable detail therein the amount of and basis for such change. If such change involves an increase to the 4% Bonus, the Company shall pay such increase to Executive concurrently with the delivery of such notice; and if such change involves a decrease to such 4% Bonus, Executive shall repay the amount of such decrease to the Company promptly, and in any event within sixty (60) days after receipt of such notice.

(c) Subsequent Bonus Opportunity. In addition to the compensation set forth in Section 3(a), Executive shall be eligible to receive during each year of the Term following calendar year 2003, a performance-based award determined as follows:

(c)(i) Cash Bonus. During each calendar year of the Term (or applicable portion thereof) following calendar year 2003, Executive shall be eligible to receive, subject to the terms of the Plan, a cash performance bonus (the "Performance Bonus" and together with the 4% Bonus, the "Bonuses") of up to 200% of Executive's then current Base Salary based on the year-over-year growth of the Company's Adjusted EPS (as defined below). If awarded with respect to any such calendar years, the Company shall pay the Performance Bonus to Executive, subject to any required tax withholding, no later than ninety (90) days after the later of (i) the end of such calendar year or (ii) completion of an audit by the Company's then current Auditors. The Base Salary used to determine the amount of the Performance Bonus shall be the Base Salary in effect during the calendar year for which the Performance Bonus is being determined.

(c)(ii) For purposes of calendar year 2004, such Performance Bonus shall be an amount equal to: (i) the percentage set forth on the following table which corresponds to the increase in the Company's Adjusted EPS in respect of calendar year 2004 over the Adjusted EPS during calendar year 2003; MULTIPLIED BY (ii) the Executive's Base Salary for calendar year

ADJUSTED EPS GROWTH -----	% OF SALARY -----
[LESS THAN] 1%	0%
1--1.999%	50%
2--4.999%	100%
5--9.999%	125%
10--19.999%	150%
20--24.999%	175%
[GREATER THAN OR EQUAL TO] 25%	200%

Thereafter, for subsequent years of the Term, the Compensation Committee of the Board of Directors shall establish the Company's targeted levels of Adjusted EPS growth and corresponding percentage of salary figures during the Company's first fiscal quarter. The Compensation Committee may, but shall have no obligation to, continue using the specific targeted levels of Adjusted EPS growth and corresponding percentage of salary figures set forth above in determining the criteria for Executive's Performance Bonus for such subsequent years; provided, that, the Compensation Committee shall make such determination in a reasonable manner, taking into account the levels of Adjusted EPS growth and corresponding percentage of salary figures set forth above.

(c)(iii) In the event that the Term ends at any time other than on December 31 of any year, Executive's Performance Bonus in respect of such calendar year shall be prorated. In the case of calendar year 2004, such Performance Bonus shall be an amount equal to: (i) the percentage set forth on the above table that corresponds to the increase in the Company's year-to-date Adjusted EPS (as determined by the then most recently publicly announced earnings per share of the Company) over the Adjusted EPS of the Company during the comparable period in calendar year 2003; MULTIPLIED BY (ii) Executive's Base Salary for calendar year 2004; MULTIPLIED BY (iii) a fraction, the numerator of which shall be the number of full calendar months included in the Term for calendar year 2004 and the denominator of which shall be twelve (12).

(c)(iv) For all purposes hereof, the term "Adjusted EPS" shall mean the net income per share of the Company's common stock, par value \$.001 per share (the "Common Stock"), calculated on a fully-diluted basis as determined by the Company's then current Auditors in accordance with GAAP, applied on a basis consistent with past periods, as adjusted in the sole discretion of the Compensation Committee to take account of extraordinary or special items or as otherwise may be permitted by the Plan, and such determination by the Auditors, absent manifest error, as adjusted by the Compensation Committee, shall be conclusive and binding upon the Company and Executive.

(d) Additional Compensation. The Compensation Committee of the Board of Directors may, from time to time, award such additional compensation to Executive, in cash or in property and irrespective of the Bonuses set forth in Section 3(b) or Section 3(c) hereof, as such Committee may determine in its sole discretion to be appropriate based on business criteria established or determined by the Committee, including economic and business conditions affecting the Company, and Executive's personal performance. Such additional compensation may be awarded in accordance with the Plan or as otherwise determined by the Committee.

(e) Nothing contained herein and no action taken in respect of any Bonus (or otherwise in respect of Sections 3(b), 3(c) or 3(d)) shall create or be construed to create a trust of any kind. All Bonuses under Sections 3(b), 3(c) or 3(d) shall be paid from general funds of the Company, and no special or separate fund shall be established, and no segregation of assets shall be made, to assure payment of any Bonus hereunder.

(f) At his request, the Company shall use its best efforts to procure major medical, hospitalization, dental and disability insurance for the benefit of Executive and life insurance in the amount of \$500,000 in favor of such beneficiary or beneficiaries as Executive may from time to time designate, and the Company shall pay all premiums and any other costs or expenses incurred to maintain such policies in effect during the Term.

(g) In addition to his Base Salary and other compensation provided herein, Executive shall be entitled to participate, to the extent he is eligible under the terms and conditions thereof, in any stock, stock option or other equity participation plan and any profit-sharing, pension, retirement, insurance, medical service or other employee benefit plan generally available to the executive officers of the Company, and to receive any other benefits or perquisites generally available to the executive officers of the Company pursuant to any employment policy or practice, which may be in effect from time to time during the Term. Except as otherwise expressly provided herein, the Company shall be under no obligation hereunder to institute or to continue any such employee benefit plan or employment policy or practice.

(h) Except as explicitly provided herein, no provision hereof is intended, or shall be deemed, to impair or limit Executive's eligibility to receive, or any right he may now or at any time hereafter have to receive, hold or dispose of any Common Stock of the Company or other securities of the Company or to receive, hold or exercise any options, warrants or other rights to acquire any Common Stock or other securities of the Company.

(i) During the Term, Executive shall not be entitled to additional compensation for serving in any office of the Company (or any subsidiary thereof) to which he is elected or appointed.

4. EXPENSE ALLOWANCE.

(a) The Company shall pay directly, or advance funds to Executive or reimburse Executive for, all expenses reasonably incurred by him in connection with the performance of his duties hereunder and the business of the Company, upon the submission to the Company of itemized expense reports, receipts or vouchers in accordance with its then customary policies and practices.

(b) The Company shall provide to Executive a suitable automobile or other vehicle for his exclusive use and the Company shall pay the entire cost thereof, including, without limitation, purchase price or lease payments, insurance premiums, repair charges, and maintenance and operating expenses, or if, in lieu thereof, Executive uses his own automobile or other vehicle, the Company shall grant him a monthly allowance in an amount sufficient to pay all such costs therefor.

5. LOCATION. Except for routine travel and temporary accommodation reasonably required to perform his services hereunder, Executive shall not be required to perform his services hereunder at any location other than the principal executive office of the Company, which office shall be located throughout the Term at its location on the date hereof, or, if relocated, at a location within a distance of 30 miles from its location on the date hereof, or at such other office or site to which Executive may, in his sole discretion, consent; nor shall he be required to relocate his principal residence to, or otherwise to reside at, any location specified by the Company.

6. OFFICE. The Company shall provide Executive with suitable office space, furnishings and equipment, secretarial and clerical services and such other facilities and office support as Executive may reasonably request.

7. VACATION. Executive shall be entitled to four weeks paid vacation during each year of his employment hereunder, such vacation to be taken at such time or times as shall be agreed upon by Executive and the Company. Vacation time shall be cumulative from year to year, except that Executive shall not be entitled to take more than eight weeks vacation during any consecutive 12-month period during the Term.

8. KEY-MAN INSURANCE. The Company shall have the right from time to time to purchase, increase, modify or terminate insurance policies on the life of Executive for the benefit of the Company in such amounts as the Company may determine in its sole discretion. In connection therewith, Executive shall, at such time or times and at such place or places as the Company may reasonably direct, submit himself to such physical examinations and execute and deliver such documents as the Company may deem necessary or appropriate.

9. CONFIDENTIAL INFORMATION.

(a) Executive shall, during the Term and for a period of five years thereafter, hold in a fiduciary capacity for the benefit of the Company all confidential or proprietary information relating to or concerned with the Company and its affiliates or their products, prospective products, operations, business and affairs ("Confidential Information"), and he shall not, at any time hereafter, use or disclose any Confidential Information to any Person other than to the Company or its designees or except as may otherwise be required in connection with the business and affairs of the Company, and in furtherance of the foregoing Executive agrees that:

- (i) Executive will receive, maintain and hold Confidential Information in strict confidence and will use the same level of care in safeguarding it that he uses with his own confidential material of a similar nature;
- (ii) Executive will take all such steps as may be reasonably necessary to prevent the disclosure of Confidential Information; and
- (iii) Executive will not utilize Confidential Information without first having obtained the Company's written consent to such utilization.

(b) The commitments set forth in Section 9(a) shall not extend to any portion of Confidential Information that is generally available to the public or that, hereafter, through no act or omission on the part of the Executive, becomes information generally available to the public.

(c) At any time upon written request by the Company (i) the Confidential Information, including any copies, shall be returned to the Company, and (ii) all documents, drawings, specifications, computer software, and any other material whatsoever in the possession of the Executive that relates to such Confidential Information, including all copies and/or any other form of reproduction and/or description thereof made by Executive shall, at the Company's option, be returned to the Company or destroyed.

(d) In the event that Executive becomes legally compelled (by deposition, interrogatory, request of documents, subpoena, civil investigative demand or similar process) to disclose any of the Confidential Information, Executive shall provide the Company with prompt prior written notice of such requirement so that it may seek a protective order or other appropriate remedy and/or waive compliance with the terms of this Agreement. In the event that such protective order or other remedy is not obtained, or the Company waives compliance with the provisions hereof, Executive agrees to furnish only such portion of the Confidential Information that is legally required to be furnished as determined by Executive's outside counsel in a written opinion letter.

10. INTELLECTUAL PROPERTY. Subject to Sections 2870 and 2871 of the California

Labor Code:

(i) Any idea, invention, design, process, system, procedure, improvement, development or discovery conceived, developed, created or made by Executive, alone or with others, during the Term and applicable to the business of the Company, whether or not patentable or registrable, shall become the sole and exclusive property of the Company.

(ii) Executive shall disclose the same promptly and completely to the Company and shall, during the Term or thereafter, (i) execute all documents requested by the Company for vesting in the Company the entire right, title and interest in and to the same, (ii) execute all documents requested by the Company for filing and procuring such applications for patents, trademarks, service marks or copyrights as the Company, in its sole discretion, may desire to prosecute, and (iii) give the Company all assistance it may reasonably require, including the giving of testimony in any Proceeding (as hereinafter defined), in order to obtain, maintain and protect the Company's right therein and thereto.

11. NO COMPETITION.

(a) During the Term and thereafter during the period, if any, that he receives all or any portion of the Retirement Benefit (as hereinafter defined), and if his employment terminates because he is discharged by the Company "for cause" pursuant to Section 13 or he voluntarily resigns pursuant to Section 14(c), for a further period of one year thereafter, Executive shall not, directly or indirectly:

(i) own, control, manage, operate, participate or invest in, or otherwise be connected with, in any manner, any business activity, venture or enterprise which is engaged in any business in the United States in which the Company (or any subsidiary thereof) has been engaged in during the Term or the last five years of the Term, whichever is shorter, or is engaged in at the time of termination of Executive's employment hereunder, or

(ii) for himself or on behalf of any other Person, employ or engage any Person who at the time shall have been within the preceding 12-month period an employee of the Company (or such subsidiary) or contact any supplier, customer or employee of the Company (or such subsidiary) for the purpose of soliciting or diverting any supplier, customer or employee from the Company (or such subsidiary).

(b) The provisions of Section 11(a) notwithstanding, Executive may invest his funds in securities of an issuer if the securities of such issuer are listed for trading on a registered securities exchange or actively traded in an over-the-counter market and Executive's holdings therein represent less than 1% of the total number of shares or principal amount of the securities of such issuer outstanding.

(c) Executive acknowledges that the provisions of this Section, and the period of

time, geographic area and scope and type of restrictions on his activities set forth herein, are reasonable and necessary for the protection of the Company.

12. TERMINATION UPON DEATH OR DISABILITY. Executive's employment hereunder shall terminate immediately upon his death. In the event that Executive is unable to perform his duties hereunder by reason of any disability or incapacity (due to any physical or mental injury, illness or defect) for an aggregate of 180 days in any consecutive 12-month period, the Company shall have the right to terminate Executive's employment hereunder within 60 days after the 180th day of his disability or incapacity by giving Executive notice to such effect at least 30 days prior to the date of termination set forth in such notice, and on such date such employment shall terminate.

13. TERMINATION FOR CAUSE.

(a) In addition to any other rights or remedies provided by law or in this Agreement, the Company may terminate Executive's employment under this Agreement if:

(i) Executive is convicted of, or enters a plea of guilty or nolo contendere (which plea is not withdrawn prior to its approval by the court) to, a felony offense and either Executive fails to perfect an appeal of such conviction prior to the expiration of the maximum period of time within which, under applicable law or rules of court, such appeal may be perfected or, if Executive does perfect such an appeal, his conviction of a felony offense is sustained on appeal; or

(ii) the Company's Board of Directors determines, after due inquiry, based on convincing evidence, that Executive has:

(A) committed fraud against, or embezzled or misappropriated funds or other assets of, the Company (or any subsidiary thereof);

(B) violated, or caused the Company (or any subsidiary thereof) or any officer, employee or other agent thereof, or any other Person to violate, any material law, rule, regulation or ordinance, or any material written policy, rule or directive of the Company or the Company's Board of Directors;

(C) willfully, or because of gross or persistent inaction, (a) failed properly to perform his duties hereunder or (b) acted in a manner detrimental to, or adverse to the interests of, the Company; or

(D) violated, or failed to perform or satisfy any material covenant, condition or obligation required to be performed or satisfied by Executive hereunder; and that, in the case of any violation or failure referred to in clause (B), (C) or (D) of this paragraph (ii) of Section 13(a), such violation or failure has caused, or is reasonably likely to cause, the Company to suffer or incur a substantial casualty, loss, penalty, expense or other liability or cost.

(b) The Company may effect such termination for cause by giving Executive notice to such effect, setting forth in reasonable detail the factual basis for such termination, at least ten days prior to the date of termination set forth therein; provided, however, that Executive may avoid such termination if Executive, prior to the date of termination set forth in such notice, cures to the reasonable satisfaction of the Company's Board of Directors the factual basis for termination set forth therein or otherwise provides the Board of Directors with information reasonably sufficient for the Board to determine that the termination should not be effected.

(c) In making any determination pursuant to Section 13(a) as to the occurrence of any act or event described in clauses (A) to (D) of paragraph (ii) thereof (each, a "For Cause Event"), each of the following shall constitute convincing evidence of such occurrence:

(i) if Executive is made a party to, or target of, any Proceeding arising under or relating to any For Cause Event, Executive's failure to defend against such Proceeding or to answer any complaint filed against him therein, or to deny any claim, charge, averment, or allegation thereof asserting or based upon the occurrence of a For Cause Event;

(ii) any judgment, award, order, decree or other adjudication or ruling in any such Proceeding finding or based upon the occurrence of a For Cause Event (that is not reversed or vacated on appeal); or

(iii) any settlement or compromise of, or consent decree issued in, any such Proceeding in which Executive expressly admits the occurrence of a For Cause Event;

provided that none of the foregoing shall be dispositive or create an irrebuttable presumption of the occurrence of such For Cause Event; and provided further that the Company's Board of Directors may rely on any other factor or event as convincing evidence of the occurrence of a For Cause Event.

(d) In determining and assessing the detrimental effect of any For Cause Event on the Company and whether such For Cause Event warrants the termination of Executive's employment hereunder, the Company's Board of Directors shall take the following factors, to the extent applicable and material, into account:

(i) whether the Company's Board of Directors directed or authorized Executive to take, or to omit to take, any action involved in such For Cause Event, or approved, consented to or acquiesced in his taking or omitting to take such action;

(ii) any award of damages, penalty or other sanction, remedy or relief granted or imposed in any Proceeding based upon or relating to such For Cause Event, and whether such sanction, remedy or relief is sufficient to recompense the Company or any other injured Person, or to prevent or to deter the recurrence of such For Cause Event;

(iii) whether any lesser sanction would be appropriate and effective; and

(iv) any adverse effect that the loss of Executive's services would have, or be reasonably likely to have, upon the Company.

14. TERMINATION BY EXECUTIVE. In addition to any other rights or remedies provided by law or in this Agreement, Executive may terminate his employment hereunder:

(a) if (i) the Company violates, or fails to perform or satisfy any material covenant, condition or obligation required to be performed or satisfied by it hereunder, or (ii) as a result of any action or failure to act by the Company, there is a material change in the nature or scope of the duties, obligations, rights or powers of Executive's employment, by giving the Company notice to such effect, setting forth in reasonable detail the factual basis for such termination, at least ten days prior to the date of termination set forth therein; provided, however, that the Company may avoid such termination if it, prior to the date of termination set forth in such notice, (i) cures or explains to the reasonable satisfaction of Executive the factual basis for termination set forth therein, or (ii) confirms in writing that Executive has no further obligation to perform any of the duties assigned to him by the Company or any other services for the Company, and continues to pay and/or provide Executive with the compensation and benefits set forth in Sections 3 and 4 hereof in accordance with the provisions of this Agreement;

(b) if a Change of Control (as hereinafter defined) occurs during the Term, by giving the Company notice to such effect at any time within the two-year period thereafter, setting forth the event or circumstance constituting such Change of Control, such termination to be effective upon the date of termination set forth therein (not more than 30 days after the date of such notice) or, if no such date is set forth therein, immediately upon delivery of such notice to the Company; or

(c) at any time by giving the Company written notice to such effect at least 60 days prior to the date of termination set forth therein, such termination to be irrevocable upon receipt of such notice by the Company. The termination by Executive of his employment hereunder pursuant to Section 14(a) or 14(b) shall not constitute or be deemed to constitute for any purpose a "voluntary resignation" of his employment.

15. COMPENSATION UPON TERMINATION. Notwithstanding anything contained herein to the contrary:

(a) Upon termination of Executive's employment hereunder, he shall be entitled to receive, in any case, any compensation or other amounts due to him pursuant to Section 3 (except as otherwise provided in Section 15(b) below) or Section 4 in respect of his employment prior to the Termination Date.

(b) If Executive is discharged "for cause" pursuant to Section 13, from and after the Termination Date, the Company shall have no further obligation to Executive hereunder, including, without limitation, any obligation pursuant to Section 17, except for the payment to Executive of any amount required to be made by Section 15(a), provided, however, that payment of any Bonus compensation under Sections 3(b), (c) or (d) shall only be made to the extent it has been earned or awarded with respect to the last full fiscal year immediately preceding the Termination Date, and no Bonus compensation shall be paid with respect to the fiscal year in which the Termination Date occurs.

(c) If his employment is terminated by Executive pursuant to Section 14(a) or by the Company other than "for cause" pursuant to Section 13, he shall be entitled to receive an amount equal to the product of (i) the sum of (A) his Base Salary in effect on the Termination Date and (B) his 4% Bonus or Performance Bonus, as the case may be, for the most recently completed calendar year prior to the Termination Date, and (ii) a fraction, the numerator of which is the number of full months remaining in the balance of the Term after the Termination Date and the denominator of which is 96.

(d) If his employment terminates pursuant to Section 14(b) and, if at the time Executive gives the Company the notice of termination referred to therein, the Company has not given to Executive a notice of termination upon his disability pursuant to Section 12 or "for cause" pursuant to Section 13, he shall be entitled to receive, upon the terms and subject to the conditions set forth in Section 16, the Parachute Amount (as hereinafter defined).

(e) If his employment terminates pursuant to Section 14(c) based on Executive's decision to retire from the Company and Executive is at least sixty seven (67) years old on the Date of Termination, then Executive, in recognition of his unique contributions to the formation and growth of the Company during his tenure as Chairman and Chief Executive Officer, shall receive an annual retirement benefit of \$975,000 (the "Retirement Benefit") during the ten (10) year period following the Termination Date. Notwithstanding the foregoing, if Executive should die before the payment of his entire Retirement Benefit, the remaining Retirement Benefit shall be reduced such that Executive's designated beneficiary or estate, as the case may be, shall be

entitled to receive in a lump sum the positive difference, if any, between \$2,925,000 and any Retirement Benefit already paid by the Company to Executive, and the Company shall have no further obligation to Executive's designated beneficiary or estate, as the case may be, in this regard. The Retirement Benefit shall be paid to Executive in substantially equal installments no less often than monthly, subject to any required tax withholding, except if it is reduced in accordance with the foregoing sentence. Executive agrees, if requested by the Board of Directors, to serve as non-executive Chairman Emeritus of the Company following the Termination Date for so long as may be requested by the Board of Directors.

(f) If his employment terminates pursuant to Section 12 by reason of his disability or incapacity, Executive shall be entitled to receive a modified retirement benefit (in all instances net of any insurance proceeds received by Executive pursuant to Section 3(f)) equal to (i) seventy (70%) percent of the Retirement Benefit if the disability or incapacity occurs before the Executive has reached the age of sixty five (65), (ii) eighty (80%) percent of the Retirement Benefit if the disability or incapacity occurs before the Executive has reached the age of sixty six (66) or (iii) ninety (90%) percent of the Retirement Period if the disability or incapacity occurs before the Executive has reached the age of sixty seven (67).

(g) Any amount payable to Executive upon termination of his employment hereunder (with the exception of the Retirement Benefit unless same is reduced due to Executive's death in accordance with subsection (e) above) shall be paid promptly, and in any event within thirty (30) days, after the Termination Date. If Executive shall die prior to Executive's receipt of all payments required under this Agreement, the Company shall pay Executive's designated beneficiary or, if there is no designated beneficiary, his estate all such amounts that would have otherwise been payable to Executive under this Agreement as of the date of his death.

(h) Except for serving as non-executive Chairman Emeritus as provided in subsection (e) above, Executive shall have no obligation hereunder to seek or to accept any other employment after the Termination Date or otherwise to mitigate the payments required to be made by this Section.

16. CHANGE OF CONTROL.

(a) For the purposes of this Section 16:

(i) The "Act" is the Securities Exchange Act of 1934, as amended.

(ii) A "person" includes a "group" within the meaning of Section 13(d)(3) of the Act.

(iii) "Control" is used herein as defined in Rule 12b-2 under the Act.

(iv) "Beneficially owns" and "acquisition" are used herein as defined in Rules 13d-3 and 13d-5, respectively, under the Act.

(v) "Non-Affiliated Person" means any person, other than Executive, an employee stock ownership trust of the Company (or any trustee thereof for the benefit of such trust), or any person controlled by Executive, the Company or such a trust.

(vi) "Voting Securities" includes Common Stock and any other securities of the Company that ordinarily entitle the holders thereof to vote, together with the holders of Common Stock or as a separate class, with respect to matters submitted to a vote of the holders of Common Stock, but securities of the Company as to which the consent of the holders thereof is required by applicable law or the terms of such securities only with respect to certain specified transactions or other matters, or the holders of which are entitled to vote only upon the occurrence of certain specified events (such as default in the payment of a mandatory dividend on preferred stock or a scheduled installment of principal or interest of any debt security), shall not be Voting Securities.

(vii) "Right" means any option, warrant or other right to acquire any Voting Security (other than such a right of conversion or exchange included in a Voting Security).

(viii) The "Code" is the Internal Revenue Code of 1986, as amended.

(ix) "Base amount," "present value" and "parachute payment" are used herein as defined in Section 280G of the Code.

(b) A "Change of Control" occurs when:

(i) a Non-Affiliated Person acquires control of the Company;

(ii) upon an acquisition of Voting Securities or Rights by a Non-Affiliated Person or any change in the number or voting power of outstanding Voting Securities, such Non-Affiliated Person beneficially owns Voting Securities or Rights entitling

such person to cast a number of votes (determined in accordance with Section 16(g)) equal to or greater than 25% of the sum of (A) the number of votes that may be cast by all other holders of outstanding Voting Securities and (B) the number of votes that may be cast by such Non-Affiliated Person (determined in accordance with Section 16(g)); or

(iii) upon any change in the membership of the Company's Board of Directors, a majority of the directors are persons who are not nominated or appointed by the Company's Board of Directors as constituted prior to such change.

(c) The "Parachute Amount" to which Executive shall be entitled pursuant to Section 15(d) shall equal 2.99 times Executive's base amount.

(d) It is intended that the present value of any payments or benefits to Executive, whether hereunder or otherwise, that are includable in the computation of parachute payments shall not exceed 2.99 times the base amount. Accordingly, if Executive receives any payment or benefit from the Company prior to payment of the Parachute Amount which, when added to the Parachute Amount, would subject any of the payments or benefits to Executive to the excise tax imposed by Section 4999 of the Code, the Parachute Amount shall be reduced by the least amount necessary to avoid such tax. The Company shall have no obligation hereunder to make any payment or provide any benefit to Executive after the payment of the Parachute Amount which would subject any of such payments or benefits to the excise tax imposed by Section 4999 of the Code.

(e) Any other provision hereof notwithstanding, Executive may, prior to his receipt of the Parachute Amount pursuant to Section 15(d), waive the payment thereof, or, after his receipt of the Parachute Amount thereunder, treat some or all of such amount as a loan from the Company which Executive shall repay to the Company within 180 days after the receipt thereof, together with interest thereon at the rate provided in Section 7872 of the Code, in either case, by giving the Company notice to such effect.

(f) Any determination of the base amount, the Parachute Amount, any liability for excise tax under Section 4999 of the Code or other matter required to be made pursuant to this Section 18, shall be made by the Company's regularly-engaged independent certified public accountants, whose determination shall be conclusive and binding upon the Company and Executive; provided that such accountants shall give to Executive, on or before the date on which payment of the Parachute Amount or any later payment or benefit would be made, a notice setting forth in reasonable detail such determination and the basis therefor, and stating expressly that Executive is entitled to rely thereon.

(g) The number of votes that may be cast by holders of Voting Securities or Rights upon the issuance or grant thereof shall be deemed to be the largest number of votes that

may be cast by the holders of such securities or the holders of any other Voting Securities into which such Voting Securities or Rights are convertible or for which they are exchangeable or exercisable, determined as though such Voting Securities or Rights were immediately convertible, exchangeable or exercisable and without regard to any anti-dilution or other adjustments provided for therein.

17. OTHER TERMINATION PROVISIONS.

(a) Upon request by Executive, on the Termination Date or as soon as practicable thereafter, the Company shall assign to Executive, and Executive shall assume, the purchase agreement or lease relating to any automobile or other vehicle that the Company provides for his use on the Termination Date pursuant to Section 4(b) (other than an automobile or other vehicle owned or leased by Executive), if and to the extent assignable under the terms and conditions thereof, and thereafter Executive shall be liable for, and the Company shall be relieved of all liability for, any amount or other obligation required to be paid or performed thereunder in respect of any period commencing after the date of assignment.

(b) Throughout the 10-year period following the Termination Date, the Company shall indemnify Executive, and hold him harmless from, any loss, damages, liability, obligation or expense that he may suffer or incur in connection with any claim made or Proceeding commenced during such period relating to his service as a director, officer, employee or agent of the Company (or any subsidiary thereof) to the same extent and in same manner as the Company shall be obligated so to indemnify Executive immediately prior to the Termination Date; provided that, if during such 10-year period the Company adopts or assumes any indemnification policy or practice with respect to its directors, officers, employees or agents that is more favorable than that in effect on the Termination Date, Executive shall be entitled to such more favorable indemnification.

(c) Throughout the 10-year period following the Termination Date, the Company shall maintain for the benefit of Executive directors' and officers' liability insurance (on a "claims made" basis) providing coverage at least as favorable to Executive (including with respect to limits of liability, exclusions, and deductible and retention amounts) as that in effect on the Termination Date.

(d) If his employment terminates pursuant to Section 14(c) based on Executive's decision to retire from the Company and Executive is at least sixty seven (67) years old on the Date of Termination, then the Company shall maintain for the benefit of Executive major medical, hospitalization, and dental insurance and the Company shall pay all premiums and any other costs or expenses incurred to maintain such policies in effect providing coverage at least as favorable to Executive (including with respect to limits of liability, exclusions, and deductible and retention amounts) as that in effect on the Termination Date for the period that Executive receives the Retirement Benefit.

18. LIMITATION OF AUTHORITY. Except as expressly provided herein, no provision hereof shall be deemed to authorize or empower either party hereto to act on behalf of, obligate or bind the other party hereto.

19. NOTICES. Any notice or demand required or permitted to be given or made hereunder to or upon either party hereto shall be deemed to have been duly given or made for all purposes if (a) in writing and sent by (i) messenger or an overnight courier service against receipt, or (ii) certified or registered mail, postage paid, return receipt requested, or (b) sent by telegram, telecopy, telex or similar electronic means, provided that a written copy thereof is sent on the same day by postage-paid first-class mail, to such party at the following address:

to the Company at: 22619 Pacific Coast Highway, Suite 250  
Malibu, California 90265  
Attn: President  
Fax: (310) 456-7099

with a copy to: Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine LLP

750 Lexington Avenue  
New York, New York 10022  
Attn: Geoffrey A. Bass, Esq.  
Fax: (212) 888-7776

to Executive at: 232 West Stafford Road  
Thousand Oaks, California 91361  
Fax: (805) 495-8069

or such other address as either party hereto may at any time, or from time to time, direct by notice given to the other party in accordance with this Section. The date of giving or making of any such notice or demand shall be, in the case of clause (a) (i), the date of the receipt; in the case of clause (a) (ii), five business days after such notice or demand is sent; and, in the case of clause (b), the business day next following the date such notice or demand is sent.

20. AMENDMENT. Except as otherwise provided herein, no amendment of this Agreement shall be valid or effective, unless in writing and signed by or on behalf of the parties hereto.

21. WAIVER. No course of dealing or omission or delay on the part of either party hereto in asserting or exercising any right hereunder shall constitute or operate as a waiver of any such right. No waiver of any provision hereof shall be effective, unless in writing and signed by or on behalf of the party to be charged therewith. No waiver shall be deemed a continuing waiver or waiver in respect of any other or subsequent breach or default, unless expressly so stated in writing.

22. GOVERNING LAW. This Agreement shall be governed by, and interpreted and enforced in accordance with, the laws of the State of California without regard to principles of choice of law or conflict of laws.

23. JURISDICTION. Each of the parties hereto hereby irrevocably consents and submits to the jurisdiction of the courts of the State of California and the United States District Court for the Central District of California in connection with any suit, action or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby, waives any objection to venue in the County of Los Angeles, State of California, or such District, and agrees that service of any summons, complaint, notice or other process relating to such Proceeding may be effected in the manner provided by clause (a) (ii) of Section 19.

24. REMEDIES. In the event of any actual or prospective breach or default by either party hereto, the other party shall be entitled to equitable relief, including remedies in the nature of rescission, injunction and specific performance. All remedies hereunder are cumulative and not exclusive, and nothing herein shall be deemed to prohibit or limit either party from pursuing any other remedy or relief available at law or in equity for such actual or prospective breach or

default, including the recovery of damages.

25. SEVERABILITY. The provisions hereof are severable and in the event that any provision of this Agreement shall be determined to be invalid or unenforceable in any respect by a court of competent jurisdiction, the remaining provisions hereof shall not be affected, but shall, subject to the discretion of such court, remain in full force and effect, and any invalid or unenforceable provision shall be deemed, without further action on the part of the parties hereto, amended and limited to the extent necessary to render the same valid and enforceable.

26. COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed an original and which together shall constitute one and the same agreement.

27. ASSIGNMENT. This Agreement, and each right, interest and obligation hereunder, may not be assigned by either party hereto without the prior written consent of the other party hereto, and any purported assignment without such consent shall be void and without effect, except that this Agreement shall be assigned to, and assumed by, any Person with or into which the Company merges or consolidates, or which acquires all or substantially all of its assets, or which otherwise succeeds to and continues the Company's business substantially as an entirety. Except as otherwise expressly provided herein or required by law, Executive shall not have any power of anticipation, assignment or alienation of any payments required to be made to him hereunder, and no other Person may acquire any right or interest in any thereof by reason of any purported sale, assignment or other disposition thereof, whether voluntary or involuntary, any claim in a bankruptcy or other insolvency Proceeding against Executive, or any other ruling, judgment, order, writ or decree.

28. BINDING EFFECT. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. This Agreement is not intended, and shall not be deemed, to create or confer any right or interest for the benefit of any Person not a party hereto.

29. TITLES AND CAPTIONS. The titles and captions of the Articles and Sections of this Agreement are for convenience of reference only and do not in any way define or interpret the intent of the parties or modify or otherwise affect any of the provisions hereof.

30. GRAMMATICAL CONVENTIONS. Whenever the context so requires, each pronoun or verb used herein shall be construed in the singular or the plural sense and each capitalized term defined herein and each pronoun used herein shall be construed in the masculine, feminine or neuter sense.

31. REFERENCES. The terms "herein," "hereto," "hereof," "hereby," and "hereunder," and other terms of similar import, refer to this Agreement as a whole, and not to any Article,

Section or other part hereof.

32. NO PRESUMPTIONS. Each party hereto acknowledges that it has had an opportunity to consult with counsel and has participated in the preparation of this Agreement. No party hereto is entitled to any presumption with respect to the interpretation of any provision hereof or the resolution of any alleged ambiguity herein based on any claim that the other party hereto drafted or controlled the drafting of this Agreement.

33. CERTAIN DEFINITIONS. As used herein:

(a) "Person" includes without limitation a natural person, corporation, joint stock company, limited liability company, partnership, joint venture, association, trust, government or governmental authority, agency or instrumentality, or any group of the foregoing acting in concert.

(b) A "Proceeding" is any suit, action, arbitration, audit, investigation or other proceeding before or by any court, magistrate, arbitration panel or other tribunal, or any governmental agency, authority or instrumentality of competent jurisdiction.

34. ENTIRE AGREEMENT. This Agreement embodies the entire agreement of the parties hereto with respect to the subject matter hereof and supersedes any prior agreement, commitment or arrangement relating hereto, including, without limitation, the Employment Agreement, which shall terminate, notwithstanding any contrary provision thereof, immediately upon the commencement of the Term, except that each party thereto shall (a) remain required to perform any act and to satisfy any obligation or condition that such party is required to perform or satisfy thereunder with respect to any event occurring or circumstance existing during the term thereof (including without limitation the payment or delivery to Executive of any compensation, reimbursable expense or employee benefit or perquisite to which he may be entitled, but which has not yet been paid to him, on account of his employment thereunder) that has not been so performed or satisfied, and (b) retain its right thereunder to assert or to allege any claim or cause of action relating to or based upon, or otherwise to enforce, any provision thereof with respect to any event occurring or circumstance existing during the term thereof.

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement as of the day and year first above written.

THE COMPANY:

JAKKS PACIFIC, INC.

By: /s/ Stephen G. Berman

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Stephen G. Berman  
President

EXECUTIVE:

/s/ Jack Friedman

-----  
Jack Friedman

## AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "Agreement"), dated March 26, 2003 and as of January 1, 2003, by and between Stephen G. Berman ("Executive") and JAKKS Pacific, Inc., a Delaware corporation ("JAKKS" or the "Company").

## W I T N E S S E T H:

WHEREAS, Executive and the Company entered into an Employment Agreement, dated as of July 1, 1999 (the "Initial Agreement") amended as of February 7, 2000 by an Amendment to Employment Agreement (the "First Amendment" and, together with the Initial Agreement, the "Employment Agreement"); and

WHEREAS, Executive and the Company desire to amend and restate the terms of the Employment Agreement to provide for Executive's continued employment by the Company on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual promises, representations and warranties set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. OFFICES AND DUTIES. The Company hereby employs Executive during the Term (as hereinafter defined) to serve as the Company's Chief Operating Officer and to perform such executive and supervisory duties on behalf of the Company as the Company's Board of Directors may from time to time reasonably direct. The Company's Board of Directors shall elect Executive to serve as the Company's President, and may elect or designate Executive to serve in such other corporate offices of the Company or a subsidiary of the Company as the Company's Board of Directors from time to time may deem necessary, proper or advisable. Executive hereby accepts such employment and agrees that throughout the Term he shall faithfully, diligently and to the best of his ability, in furtherance of the business of the Company, perform the duties assigned to him or incidental to the offices assumed by him pursuant to this Section. Executive shall devote substantially all of his business time and attention to the business and affairs of the Company, but Executive shall not be required to devote any minimum amount of time or report or perform his duties hereunder on a fixed or periodic basis, and, subject to Sections 9, 10 and 11, Executive may engage or participate in such other activities incidental to any other employment, occupation or business venture or enterprise as do not materially interfere with or

compromise his ability to perform his duties hereunder. Executive shall at all times be subject to the direction and control of the Company's Board of Directors, and observe and comply with such rules, regulations, policies and practices as the Company's Board of Directors may from time to time establish.

2. TERM. The employment of Executive hereunder shall commence as of the date hereof and continue for a term ending on December 31, 2010, subject to earlier termination upon the terms and conditions provided elsewhere herein (the "Term"). As used herein, "Termination Date" means the last day of the Term.

### 3. COMPENSATION.

(a)(i) Base Salary. As compensation for his services hereunder, the Company shall pay to Executive a base salary in 2003 at the rate of \$965,000 per annum, and in each subsequent year during the Term at a rate to be determined by the Compensation Committee of the Company's Board of Directors, but that is at least \$25,000 more than the rate in the immediately preceding year (the "Base Salary"). The Base Salary shall be paid to Executive in substantially equal installments no less often than twice monthly, subject to any required tax withholding.

(a)(ii) Restricted Stock Awards. Subject to the terms of (including, without limitation, the availability of shares reserved for issuance thereunder) the Company's 2002 Stock Award and Incentive Plan (as in effect on the date hereof and as subsequently may be amended, from time to time, the "Plan") and the applicable restricted stock agreement, which shall be substantially in the form annexed hereto as Exhibit A, and as additional consideration for Executive agreeing to amend and restate the terms of his Employment Agreement by, among other things, modifying and replacing the 4% Bonus (as defined in the Initial Agreement) in the manner provided in Section 3(c) herein, (A) upon the execution of this Agreement, the Company shall grant to Executive 240,000 shares of restricted common stock, par value \$.001 per share (the "Restricted Stock"), of the Company and (B) on each of the next seven (7) anniversaries of the date hereof, the Company shall grant to Executive 120,000 shares of Restricted Stock. Each award of Restricted Stock shall vest (and associated restrictions shall lapse) in accordance with Exhibit B hereto and the terms of the applicable restricted stock agreement.

(b) 2003 Bonus Opportunity. In addition to the compensation set forth in Section 3(a), Executive shall be eligible to receive a cash bonus (the "4% Bonus") in respect of the 2003 Bonus Period (as hereinafter defined) if the Company's Pre-Tax Income (as hereinafter defined) equals or exceeds the 2003 Bonus Target (as hereinafter defined), in an amount equal to the lesser of (A) four (4%) percent of such Pre-Tax Income and (B) \$2,000,000. If earned, the Company shall pay the 4% Bonus to Executive, subject to any required tax withholding, no later than March 31, 2004.

For purposes of this Section 3(b):

(A) The "2003 Bonus Period" is either calendar year 2003 or, if the Term ends during 2003 on a day other than December 31, 2003, the portion of calendar year 2003 ending on the last day of the last full month ending during the Term.

(B) The "2003 Bonus Target" is (A) \$2,000,000, if the 2003 Bonus Period consists of twelve (12) calendar months, or (B) in any other case, the product of (I) \$5,479.45 and (II) the number of days included in the 2003 Bonus Period.

(C) The "Pre-Tax Income" in the 2003 Bonus Period is the Company's income before any deduction or reserve for income taxes and without any adjustment for any extraordinary item.

(D) The determination of the 2003 Bonus Target, Pre-Tax Income and the 4% Bonus for the 2003 Bonus Period, including all estimates, allocations or prorations required to be made in connection therewith, shall be made by the Company's regularly-engaged independent certified public accountants (the "Auditors") in accordance with U.S. generally accepted accounting principles ("GAAP") applied on a basis consistent with past periods, which determination, absent manifest error, shall be conclusive and binding upon the Company and Executive. If the 2003 Bonus Period ends prior to December 31, 2003, and any year-end adjustment is subsequently made that affects the determination of the 4% Bonus for the 2003 Bonus Period, the Company shall promptly give written notice to Executive of any change proposed to be made to the 4% Bonus, setting forth in reasonable detail therein the amount of and basis for such change. If such change involves an increase to the 4% Bonus, the Company shall pay such increase to Executive concurrently with the delivery of such notice; and if such change involves a decrease to such 4% Bonus, Executive shall repay the amount of such decrease to the Company promptly, and in any event within sixty (60) days after receipt of such notice.

(c) Subsequent Bonus Opportunity. In addition to the compensation set forth in Section 3(a), Executive shall be eligible to receive during each year of the Term following calendar year 2003, a performance-based award determined as follows:

(c)(i) Cash Bonus. During each calendar year of the Term (or applicable portion thereof) following calendar year 2003, Executive shall be eligible to receive, subject to the terms of the Plan, a cash performance bonus (the "Performance Bonus" and together with the 4% Bonus, the "Bonuses") of up to 200% of Executive's then current Base Salary based on the year-over-year growth of the Company's Adjusted EPS (as defined below). If awarded with respect

to any such calendar years, the Company shall pay the Performance Bonus to Executive, subject to any required tax withholding, no later than ninety (90) days after the later of (i) the end of such calendar year or (ii) completion of an audit by the Company's then current Auditors. The Base Salary used to determine the amount of the Performance Bonus shall be the Base Salary in effect during the calendar year for which the Performance Bonus is being determined.

(c)(ii) For purposes of calendar year 2004, such Performance Bonus shall be an amount equal to: (i) the percentage set forth on the following table which corresponds to the increase in the Company's Adjusted EPS, in respect of calendar year 2004 over the Adjusted EPS during calendar year 2003; MULTIPLIED BY (ii) the Executive's Base Salary for calendar year 2004.

ADJUSTED EPS GROWTH -----	% OF SALARY -----
[LESS THAN] 1%	0%
1--1.999%	50%
2--4.999%	100%
5--9.999%	125%
10--19.999%	150%
20--24.999%	175%
[GREATER THAN OR EQUAL TO] 25%	200%

Thereafter, for subsequent years of the Term, the Compensation Committee of the Board of Directors shall establish the Company's targeted levels of Adjusted EPS growth and corresponding percentage of salary figures during the Company's first fiscal quarter. The Compensation Committee may, but shall have no obligation to, continue using the specific targeted levels of Adjusted EPS growth and corresponding percentage of salary figures set forth above in determining the criteria for Executive's Performance Bonus for such subsequent years; provided, that, the Compensation Committee shall make such determination in a reasonable manner, taking into account the levels of Adjusted EPS growth and corresponding percentage of salary figures set forth above.

(c)(iii) In the event that the Term ends at any time other than on December 31 of any year, Executive's Performance Bonus in respect of such calendar year shall be prorated. In the case of calendar year 2004, such Performance Bonus shall be an amount equal to: (i) the percentage set forth on the above table that corresponds to the increase in the Company's year-to-date Adjusted EPS (as determined by the then most recently publicly announced earnings per share of the Company) over the Adjusted EPS of the Company during the comparable period in calendar year 2003; MULTIPLIED BY (ii) Executive's Base Salary for calendar year 2004;

MULTIPLIED BY (iii) a fraction, the numerator of which shall be the number of full calendar months included in the Term for calendar year 2004 and the denominator of which shall be twelve (12).

(c)(iv) For all purposes hereof, the term "Adjusted EPS" shall mean the net income per share of the Company's common stock, par value \$.001 per share (the "Common Stock"), calculated on a fully-diluted basis as determined by the Company's then current Auditors in accordance with GAAP, applied on a basis consistent with past periods, as adjusted in the sole discretion of the Compensation Committee to take account of extraordinary or special items or as otherwise may be permitted by the Plan, and such determination by the Auditors, absent manifest error, as adjusted by the Compensation Committee, shall be conclusive and binding upon the Company and Executive.

(d) Additional Compensation. The Compensation Committee of the Board of Directors may, from time to time, award such additional compensation to Executive, in cash or in property and irrespective of the Bonuses set forth in Section 3(b) or Section 3(c) hereof, as such Committee may determine in its sole discretion to be appropriate based on business criteria established or determined by the Committee, including economic and business conditions affecting the Company, and Executive's personal performance. Such additional compensation may be awarded in accordance with the Plan or as otherwise determined by the Committee.

(e) Nothing contained herein and no action taken in respect of any Bonus (or otherwise in respect of Sections 3(b), 3(c) or 3(d)) shall create or be construed to create a trust of any kind. All Bonuses under Sections 3(b), 3(c) or 3(d) shall be paid from general funds of the Company, and no special or separate fund shall be established, and no segregation of assets shall be made, to assure payment of any Bonus hereunder.

(f) At his request, the Company shall use its best efforts to procure major medical, hospitalization, dental and disability insurance for the benefit of Executive and life insurance in the amount of \$500,000 in favor of such beneficiary or beneficiaries as Executive may from time to time designate, and the Company shall pay all premiums and any other costs or expenses incurred to maintain such policies in effect during the Term.

(g) In addition to his Base Salary and other compensation provided herein, Executive shall be entitled to participate, to the extent he is eligible under the terms and conditions thereof, in any stock, stock option or other equity participation plan and any profit-sharing, pension, retirement, insurance, medical service or other employee benefit plan generally available to the executive officers of the Company, and to receive any other benefits or perquisites generally available to the executive officers of the Company pursuant to any employment policy or practice, which may be in effect from time to time during the Term.

Except as otherwise expressly provided herein, the Company shall be under no obligation hereunder to institute or to continue any such employee benefit plan or employment policy or practice.

(h) Except as explicitly provided herein, no provision hereof is intended, or shall be deemed, to impair or limit Executive's eligibility to receive, or any right he may now or at any time hereafter have to receive, hold or dispose of any Common Stock of the Company or other securities of the Company or to receive, hold or exercise any options, warrants or other rights to acquire any Common Stock or other securities of the Company.

(i) During the Term, Executive shall not be entitled to additional compensation for serving in any office of the Company (or any subsidiary thereof) to which he is elected or appointed.

#### 4. EXPENSE ALLOWANCE.

(a) The Company shall pay directly, or advance funds to Executive or reimburse Executive for, all expenses reasonably incurred by him in connection with the performance of his duties hereunder and the business of the Company, upon the submission to the Company of itemized expense reports, receipts or vouchers in accordance with its then customary policies and practices.

(b) The Company shall provide to Executive a suitable automobile or other vehicle for his exclusive use and the Company shall pay the entire cost thereof, including, without limitation, purchase price or lease payments, insurance premiums, repair charges, and maintenance and operating expenses, or if, in lieu thereof, Executive uses his own automobile or other vehicle, the Company shall grant him a monthly allowance in an amount sufficient to pay all such costs therefor.

5. LOCATION. Except for routine travel and temporary accommodation reasonably required to perform his services hereunder, Executive shall not be required to perform his services hereunder at any location other than the principal executive office of the Company, which office shall be located throughout the Term at its location on the date hereof, or, if relocated, at a location within a distance of 30 miles from its location on the date hereof, or at such other office or site to which Executive may, in his sole discretion, consent; nor shall he be required to relocate his principal residence to, or otherwise to reside at, any location specified by the Company.

6. OFFICE. The Company shall provide Executive with suitable office space, furnishings and equipment, secretarial and clerical services and such other facilities and office support as Executive may reasonably request.

7. VACATION. Executive shall be entitled to four weeks paid vacation during each year of his employment hereunder, such vacation to be taken at such time or times as shall be agreed upon by Executive and the Company. Vacation time shall be cumulative from year to year, except that Executive shall not be entitled to take more than eight weeks vacation during any consecutive 12-month period during the Term.

8. KEY-MAN INSURANCE. The Company shall have the right from time to time to purchase, increase, modify or terminate insurance policies on the life of Executive for the benefit of the Company in such amounts as the Company may determine in its sole discretion. In connection therewith, Executive shall, at such time or times and at such place or places as the Company may reasonably direct, submit himself to such physical examinations and execute and deliver such documents as the Company may deem necessary or appropriate.

9. CONFIDENTIAL INFORMATION.

(a) Executive shall, during the Term and for a period of five years thereafter, hold in a fiduciary capacity for the benefit of the Company all confidential or proprietary information relating to or concerned with the Company and its affiliates or their products, prospective products, operations, business and affairs ("Confidential Information"), and he shall not, at any time hereafter, use or disclose any Confidential Information to any Person other than to the Company or its designees or except as may otherwise be required in connection with the business and affairs of the Company, and in furtherance of the foregoing Executive agrees that:

- (i) Executive will receive, maintain and hold Confidential Information in strict confidence and will use the same level of care in safeguarding it that he uses with his own confidential material of a similar nature;
- (ii) Executive will take all such steps as may be reasonably necessary to prevent the disclosure of Confidential Information; and
- (iii) Executive will not utilize Confidential Information without first having obtained the Company's written consent to such utilization.

(b) The commitments set forth in Section 9(a) shall not extend to any portion of Confidential Information that is generally available to the public or that, hereafter, through no act or omission on the part of the Executive, becomes information generally available to the public.

(c) At any time upon written request by the Company (i) the Confidential Information, including any copies, shall be returned to the Company, and (ii) all documents,

drawings, specifications, computer software, and any other material whatsoever in the possession of the Executive that relates to such Confidential Information, including all copies and/or any other form of reproduction and/or description thereof made by Executive shall, at the Company's option, be returned to the Company or destroyed.

(d) In the event that Executive becomes legally compelled (by deposition, interrogatory, request of documents, subpoena, civil investigative demand or similar process) to disclose any of the Confidential Information, Executive shall provide the Company with prompt prior written notice of such requirement so that it may seek a protective order or other appropriate remedy and/or waive compliance with the terms of this Agreement. In the event that such protective order or other remedy is not obtained, or the Company waives compliance with the provisions hereof, Executive agrees to furnish only such portion of the Confidential Information that is legally required to be furnished as determined by Executive's outside counsel in a written opinion letter.

10. INTELLECTUAL PROPERTY. Subject to Sections 2870 and 2871 of the California Labor Code:

(i) Any idea, invention, design, process, system, procedure, improvement, development or discovery conceived, developed, created or made by Executive, alone or with others, during the Term and applicable to the business of the Company, whether or not patentable or registrable, shall become the sole and exclusive property of the Company.

(ii) Executive shall disclose the same promptly and completely to the Company and shall, during the Term or thereafter, (i) execute all documents requested by the Company for vesting in the Company the entire right, title and interest in and to the same, (ii) execute all documents requested by the Company for filing and procuring such applications for patents, trademarks, service marks or copyrights as the Company, in its sole discretion, may desire to prosecute, and (iii) give the Company all assistance it may reasonably require, including the giving of testimony in any Proceeding (as hereinafter defined), in order to obtain, maintain and protect the Company's right therein and thereto.

11. NO COMPETITION.

(a) During the Term, and if his employment terminates because he is discharged by the Company "for cause" pursuant to Section 13 or he voluntarily resigns pursuant to Section 14(c), for a further period of one year thereafter, Executive shall not, directly or indirectly:

(i) own, control, manage, operate, participate or invest in, or otherwise be connected with, in any manner, any business activity, venture or enterprise which is engaged in any business in the United States in which the Company (or any subsidiary thereof) has been engaged in during the Term or the last five years of the Term, whichever is shorter, or is engaged in at the time of termination of Executive's employment hereunder, or

(ii) for himself or on behalf of any other Person, employ or engage any Person who at the time shall have been within the preceding 12-month period an employee of the Company (or such subsidiary) or contact any supplier, customer or employee of the Company (or such subsidiary) for the purpose of soliciting or diverting any supplier, customer or employee from the Company (or such subsidiary).

(b) The provisions of Section 11(a) notwithstanding, Executive may invest his funds in securities of an issuer if the securities of such issuer are listed for trading on a registered securities exchange or actively traded in an over-the-counter market and Executive's holdings therein represent less than 1% of the total number of shares or principal amount of the securities of such issuer outstanding.

(c) Executive acknowledges that the provisions of this Section, and the period of time, geographic area and scope and type of restrictions on his activities set forth herein, are reasonable and necessary for the protection of the Company.

12. TERMINATION UPON DEATH OR DISABILITY. Executive's employment hereunder shall terminate immediately upon his death. In the event that Executive is unable to perform his duties hereunder by reason of any disability or incapacity (due to any physical or mental injury, illness or defect) for an aggregate of 180 days in any consecutive 12-month period, the Company shall have the right to terminate Executive's employment hereunder within 60 days after the 180th day of his disability or incapacity by giving Executive notice to such effect at least 30 days prior to the date of termination set forth in such notice, and on such date such employment shall terminate.

#### 13. TERMINATION FOR CAUSE.

(a) In addition to any other rights or remedies provided by law or in this Agreement, the Company may terminate Executive's employment under this Agreement if:

(i) Executive is convicted of, or enters a plea of guilty or nolo contendere (which plea is not withdrawn prior to its approval by the court) to, a felony offense and either Executive fails to perfect an appeal of such conviction prior to the expiration of the maximum period of time within which, under applicable law or rules of court, such appeal may be perfected or, if Executive does perfect such an appeal, his conviction of a felony offense is sustained on appeal; or

(ii) the Company's Board of Directors determines, after due inquiry, based on convincing evidence, that Executive has:

(A) committed fraud against, or embezzled or misappropriated funds or other assets of, the Company (or any subsidiary thereof);

(B) violated, or caused the Company (or any subsidiary thereof) or any officer, employee or other agent thereof, or any other Person to violate, any

material law, rule, regulation or ordinance or any material written policy, rule or directive of the Company or the Company's Board of Directors;

(C) willfully, or because of gross or persistent inaction, (a) failed properly to perform his duties hereunder or (b) acted in a manner detrimental to, or adverse to the interests of, the Company; or

(D) violated, or failed to perform or satisfy any material covenant, condition or obligation required to be performed or satisfied by Executive hereunder; and that, in the case of any violation or failure referred to in clause (B), (C) or (D) of this paragraph (ii) of Section 13(a), such violation or failure has caused, or is reasonably likely to cause, the Company to suffer or incur a substantial casualty, loss, penalty, expense or other liability or cost.

(b) The Company may effect such termination for cause by giving Executive notice to such effect, setting forth in reasonable detail the factual basis for such termination, at least ten days prior to the date of termination set forth therein; provided however that Executive may avoid such termination if Executive, prior to the date of termination set forth in such notice, cures to the reasonable satisfaction of the Company's Board of Directors the factual basis for termination set forth therein or otherwise provides the Board of Directors with information reasonably sufficient for the Board to determine that the termination should not be effected.

(c) In making any determination pursuant to Section 13(a) as to the occurrence of any act or event described in clauses (A) to (D) of paragraph (ii) thereof (each, a "For Cause Event"), each of the following shall constitute convincing evidence of such occurrence:

(i) if Executive is made a party to, or target of, any Proceeding arising under or relating to any For Cause Event, Executive's failure to defend against such Proceeding or to answer any complaint filed against him therein, or to deny any claim, charge, averment, or allegation thereof asserting or based upon the occurrence of a For Cause Event;

(ii) any judgment, award, order, decree or other adjudication or ruling in any such Proceeding finding or based upon the occurrence of a For Cause Event (that is not reversed or vacated on appeal); or

(iii) any settlement or compromise of, or consent decree issued in, any such Proceeding in which Executive expressly admits the occurrence of a For Cause Event;

provided that none of the foregoing shall be dispositive or create an irrebuttable presumption of the occurrence of such For Cause Event; and provided further that the Company's Board of Directors may rely on any other factor or event as convincing evidence of the occurrence of a For Cause Event.

(d) In determining and assessing the detrimental effect of any For Cause Event on the Company and whether such For Cause Event warrants the termination of Executive's employment hereunder, the Company's Board of Directors shall take the following factors, to the extent applicable and material, into account:

(i) whether the Company's Board of Directors directed or authorized Executive to take, or to omit to take, any action involved in such For Cause Event, or approved, consented to or acquiesced in his taking or omitting to take such action;

(ii) any award of damages, penalty or other sanction, remedy or relief granted or imposed in any Proceeding based upon or relating to such For Cause Event, and whether such sanction, remedy or relief is sufficient to recompense the Company or any other injured Person, or to prevent or to deter the recurrence of such For Cause Event;

(iii) whether any lesser sanction would be appropriate and effective; and

(iv) any adverse effect that the loss of Executive's services would have, or be reasonably likely to have, upon the Company.

14. TERMINATION BY EXECUTIVE. In addition to any other rights or remedies provided by law or in this Agreement, Executive may terminate his employment hereunder:

(a) if (i) the Company violates, or fails to perform or satisfy any material covenant, condition or obligation required to be performed or satisfied by it hereunder, or (ii) as a result of any action or failure to act by the Company, there is a material change in the nature or scope of the duties, obligations, rights or powers of Executive's employment, by giving the Company notice to such effect, setting forth in reasonable detail the factual basis for such termination, at least ten days prior to the date of termination set forth therein; provided, however, that the Company may avoid such termination if it, prior to the date of termination set forth in such notice, (i) cures or explains to the reasonable satisfaction of Executive the factual basis for termination set forth therein, or (ii) confirms in writing that Executive has no further obligation to perform any of the duties assigned to him by the Company or any other services for the Company, and continues to pay and/or provide Executive with the compensation and benefits set forth in Sections 3 and 4 hereof in accordance with the provisions of this Agreement;

(b) if a Change of Control (as hereinafter defined) occurs during the Term, by giving the Company notice to such effect at any time within the two-year period thereafter, setting forth the event or circumstance constituting such Change of Control, such termination to be effective upon the date of termination set forth therein (not more than 30 days after the date of such notice) or, if no such date is set forth therein, immediately upon delivery of such notice to the Company; or

(c) at any time by giving the Company written notice to such effect at least 60 days prior to the date of termination set forth therein, such termination to be irrevocable upon receipt of such notice by the Company.

The termination by Executive of his employment hereunder pursuant to Section 14(a) or 14(b) shall not constitute or be deemed to constitute for any purpose a "voluntary resignation" of

his employment.

15. COMPENSATION UPON TERMINATION. Notwithstanding anything contained herein to the contrary:

(a) Upon termination of Executive's employment hereunder, he shall be entitled to receive, in any case, any compensation or other amounts due to him pursuant to Section 3 (except as otherwise provided in Section 15(b) below) or Section 4 in respect of his employment prior to the Termination Date.

(b) If Executive is discharged "for cause" pursuant to Section 13, from and after the Termination Date, the Company shall have no further obligation to Executive hereunder, including, without limitation, any obligation pursuant to Section 17 except for the payment to Executive of any amount required to be made by Section 15(a), provided, however, that payment of any Bonus compensation under Sections 3(b), (c) or (d) shall only be made to the extent it has been earned or awarded with respect to the last full fiscal year immediately preceding the Termination Date, and no Bonus compensation shall be paid with respect to the fiscal year in which the Termination Date occurs.

(c) If his employment is terminated by Executive pursuant to Section 14(a) or by the Company other than "for cause" pursuant to Section 13, he shall be entitled to receive an amount equal to the product of (i) the sum of (A) his Base Salary in effect on the Termination Date and (B) his 4% Bonus or Performance Bonus, as the case may be, for the most recently completed calendar year prior to the Termination Date, and (ii) a fraction, the numerator of which is the number of full months remaining in the balance of the Term after the Termination Date and the denominator of which is 96.

(d) If his employment terminates pursuant to Section 14(b) and, if at the time Executive gives the Company the notice of termination referred to therein, the Company has not given to Executive a notice of termination upon his disability pursuant to Section 12 or "for cause" pursuant to Section 13, he shall be entitled to receive, upon the terms and subject to the conditions set forth in Section 16, the Parachute Amount (as hereinafter defined).

(e) Any amount payable to Executive upon termination of his employment hereunder shall be paid promptly, and in any event within thirty (30) days, after the Termination Date. If Executive shall die prior to Executive's receipt of all payments required under this Agreement, the Company shall pay Executive's designated beneficiary or, if there is no designated beneficiary, his estate all such amounts that would have otherwise been payable to Executive under this Agreement as of the date of his death.

(f) Executive shall have no obligation hereunder to seek or to accept any other employment after the Termination Date or otherwise to mitigate the payments required to be made by this Section.

16. CHANGE OF CONTROL.

(a) For the purposes of this Section 16:

(i) The "Act" is the Securities Exchange Act of 1934, as amended.

(ii) A "person" includes a "group" within the meaning of Section 13(d)(3) of the Act.

(iii) "Control" is used herein as defined in Rule 12b-2 under the Act.

(iv) "Beneficially owns" and "acquisition" are used herein as defined in Rules 13d-3 and 13d-5, respectively, under the Act.

(v) "Non-Affiliated Person" means any person, other than Executive, an employee stock ownership trust of the Company (or any trustee thereof for the benefit of such trust), or any person controlled by Executive, the Company or such a trust.

(vi) "Voting Securities" includes Common Stock and any other securities of the Company that ordinarily entitle the holders thereof to vote, together with the holders of Common Stock or as a separate class, with respect to matters submitted to a vote of the holders of Common Stock, but securities of the Company as to which the consent of the holders thereof is required by applicable law or the terms of such securities only with respect to certain specified transactions or other matters, or the holders of which are entitled to vote only upon the occurrence of certain specified events (such as default in the payment of a mandatory dividend on preferred stock or a scheduled installment of principal or interest of any debt security), shall not be Voting Securities.

(vii) "Right" means any option, warrant or other right to acquire any Voting Security (other than such a right of conversion or exchange included in a Voting Security).

(viii) The "Code" is the Internal Revenue Code of 1986, as amended.

(ix) "Base amount," "present value" and "parachute payment" are used herein as defined in Section 280G of the Code.

(b) A "Change of Control" occurs when:

(i) a Non-Affiliated Person acquires control of the Company;

(ii) upon an acquisition of Voting Securities or Rights by a Non-Affiliated Person or any change in the number or voting power of outstanding Voting Securities, such Non-Affiliated Person beneficially owns Voting Securities or Rights entitling such person to cast a number of votes (determined in accordance with Section 16(g)) equal to or greater than 25% of the sum of (A) the number of votes that may be cast by all other holders of outstanding Voting Securities and (B) the number of votes that may be cast by such Non-Affiliated Person (determined in accordance with Section 16(g)); or

(iii) upon any change in the membership of the Company's Board of Directors, a majority of the directors are persons who are not nominated or appointed by the Company's Board of Directors as constituted prior to such change.

(c) The "Parachute Amount" to which Executive shall be entitled pursuant to Section 15(d) shall equal 2.99 times Executive's base amount.

(d) It is intended that the present value of any payments or benefits to Executive, whether hereunder or otherwise, that are includable in the computation of parachute payments shall not exceed 2.99 times the base amount. Accordingly, if Executive receives any payment or benefit from the Company prior to payment of the Parachute Amount which, when added to the Parachute Amount, would subject any of the payments or benefits to Executive to the excise tax imposed by Section 4999 of the Code, the Parachute Amount shall be reduced by the least amount necessary to avoid such tax. The Company shall have no obligation hereunder to make any payment or provide any benefit to Executive after the payment of the Parachute Amount which would subject any of such payments or benefits to the excise tax imposed by Section 4999 of the Code.

(e) Any other provision hereof notwithstanding, Executive may, prior to his receipt of the Parachute Amount pursuant to Section 15(d), waive the payment thereof, or, after his receipt of the Parachute Amount thereunder, treat some or all of such amount as a loan from the Company which Executive shall repay to the Company within 180 days after the receipt thereof, together with interest thereon at the rate provided in Section 7872 of the Code, in either case, by giving the Company notice to such effect.

(f) Any determination of the base amount, the Parachute Amount, any liability for excise tax under Section 4999 of the Code or other matter required to be made pursuant to this Section 18, shall be made by the Company's regularly-engaged independent certified public accountants, whose determination shall be conclusive and binding upon the Company and Executive; provided that such accountants shall give to Executive, on or before the date on which payment of the Parachute Amount or any later payment or benefit would be made, a notice setting forth in reasonable detail such determination and the basis therefor, and stating expressly that Executive is entitled to rely thereon.

(g) The number of votes that may be cast by holders of Voting Securities or Rights upon the issuance or grant thereof shall be deemed to be the largest number of votes that may be cast by the holders of such securities or the holders of any other Voting Securities into which

such Voting Securities or Rights are convertible or for which they are exchangeable or exercisable, determined as though such Voting Securities or Rights were immediately convertible, exchangeable or exercisable and without regard to any anti-dilution or other adjustments provided for therein.

17. OTHER TERMINATION PROVISIONS.

(a) Upon request by Executive, on the Termination Date or as soon as practicable thereafter, the Company shall assign to Executive, and Executive shall assume, the purchase agreement or lease relating to any automobile or other vehicle that the Company provides for his use on the Termination Date pursuant to Section 4(b) (other than an automobile or other vehicle owned or leased by Executive), if and to the extent assignable under the terms and conditions thereof, and thereafter Executive shall be liable for, and the Company shall be relieved of all liability for, any amount or other obligation required to be paid or performed thereunder in respect of any period commencing after the date of assignment.

(b) Throughout the 10-year period following the Termination Date, the Company shall indemnify Executive, and hold him harmless from, any loss, damages, liability, obligation or expense that he may suffer or incur in connection with any claim made or Proceeding commenced during such period relating to his service as a director, officer, employee or agent of the Company (or any subsidiary thereof) to the same extent and in same manner as the Company shall be obligated so to indemnify Executive immediately prior to the Termination Date; provided that, if during such 10-year period the Company adopts or assumes any indemnification policy or practice with respect to its directors, officers, employees or agents that is more favorable than that in effect on the Termination Date, Executive shall be entitled to such more favorable indemnification.

(c) Throughout the 10-year period following the Termination Date, the Company shall maintain for the benefit of Executive directors' and officers' liability insurance (on a "claims made" basis) providing coverage at least as favorable to Executive (including with respect to limits of liability, exclusions, and deductible and retention amounts) as that in effect on the Termination Date.

18. LIMITATION OF AUTHORITY. Except as expressly provided herein, no provision hereof shall be deemed to authorize or empower either party hereto to act on behalf of, obligate or bind the other party hereto.

19. NOTICES. Any notice or demand required or permitted to be given or made hereunder to or upon either party hereto shall be deemed to have been duly given or made for all purposes if (a) in writing and sent by (i) messenger or an overnight courier service against receipt, or (ii) certified or registered mail, postage paid, return receipt requested, or (b) sent by telegram, telecopy, telex or similar electronic means, provided that a written copy thereof is sent on the same day by postage-paid first-class mail, to such party at the following address:

to the Company at:

22619 Pacific Coast Highway, Suite 250  
Malibu, California 90265  
Attn: Chief Executive Officer  
Fax: (310) 456-7099

with a copy to:

Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine LLP  
750 Lexington Avenue  
New York, New York 10022  
Attn: Geoffrey A. Bass, Esq.  
Fax: (212) 888-7776

to Executive at:

27086 Malibu Cove Colony Drive  
Malibu, California 90265  
Fax: (310) 457-3311

or such other address as either party hereto may at any time, or from time to time, direct by notice given to the other party in accordance with this Section. The date of giving or making of any such notice or demand shall be, in the case of clause (a) (i), the date of the receipt; in the case of clause (a) (ii), five business days after such notice or demand is sent; and, in the case of clause (b), the business day next following the date such notice or demand is sent.

20. AMENDMENT. Except as otherwise provided herein, no amendment of this Agreement shall be valid or effective, unless in writing and signed by or on behalf of the parties hereto.

21. WAIVER. No course of dealing or omission or delay on the part of either party hereto in asserting or exercising any right hereunder shall constitute or operate as a waiver of any such right. No waiver of any provision hereof shall be effective, unless in writing and signed by or on behalf of the party to be charged therewith. No waiver shall be deemed a continuing waiver or waiver in respect of any other or subsequent breach or default, unless expressly so stated in writing.

22. GOVERNING LAW. This Agreement shall be governed by, and interpreted and enforced in accordance with, the laws of the State of California without regard to principles of choice of law or conflict of laws.

23. JURISDICTION. Each of the parties hereto hereby irrevocably consents and submits to the jurisdiction of the courts of the State of California and the United States District Court for the Central District of California in connection with any suit, action or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby, waives any objection to venue in the County of Los Angeles, State of California, or such District, and agrees that service

of any summons, complaint, notice or other process relating to such proceeding may be effected in the manner provided by clause (a) (ii) of Section 19.

24. REMEDIES. In the event of any actual or prospective breach or default by either party hereto, the other party shall be entitled to equitable relief, including remedies in the nature of rescission, injunction and specific performance. All remedies hereunder are cumulative and not exclusive, and nothing herein shall be deemed to prohibit or limit either party from pursuing any other remedy or relief available at law or in equity for such actual or prospective breach or default, including the recovery of damages.

25. SEVERABILITY. The provisions hereof are severable and in the event that any provision of this Agreement shall be determined to be invalid or unenforceable in any respect by a court of competent jurisdiction, the remaining provisions hereof shall not be affected, but shall, subject to the discretion of such court, remain in full force and effect, and any invalid or unenforceable provision shall be deemed, without further action on the part of the parties hereto, amended and limited to the extent necessary to render the same valid and enforceable.

26. COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed an original and which together shall constitute one and the same agreement.

27. ASSIGNMENT. This Agreement, and each right, interest and obligation hereunder, may not be assigned by either party hereto without the prior written consent of the other party hereto, and any purported assignment without such consent shall be void and without effect, except that this Agreement shall be assigned to, and assumed by, any Person with or into which the Company merges or consolidates, or which acquires all or substantially all of its assets, or which otherwise succeeds to and continues the Company's business substantially as an entirety. Except as otherwise expressly provided herein or required by law, Executive shall not have any power of anticipation, assignment or alienation of any payments required to be made to him hereunder, and no other Person may acquire any right or interest in any thereof by reason of any purported sale, assignment or other disposition thereof, whether voluntary or involuntary, any claim in a bankruptcy or other insolvency Proceeding against Executive, or any other ruling, judgment, order, writ or decree.

28. BINDING EFFECT. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. This Agreement is not intended, and shall not be deemed, to create or confer any right or interest for the benefit of any Person not a party hereto.

29. TITLES AND CAPTIONS. The titles and captions of the Articles and Sections of this Agreement are for convenience of reference only and do not in any way define or interpret the intent of the parties or modify or otherwise affect any of the provisions hereof.

30. GRAMMATICAL CONVENTIONS. Whenever the context so requires, each pronoun or verb used herein shall be construed in the singular or the plural sense and each capitalized term

defined herein and each pronoun used herein shall be construed in the masculine, feminine or neuter sense.

31. REFERENCES. The terms "herein," "hereto," "hereof," "hereby," and "hereunder," and other terms of similar import, refer to this Agreement as a whole, and not to any Article, Section or other part hereof.

32. NO PRESUMPTIONS. Each party hereto acknowledges that it has had an opportunity to consult with counsel and has participated in the preparation of this Agreement. No party hereto is entitled to any presumption with respect to the interpretation of any provision hereof or the resolution of any alleged ambiguity herein based on any claim that the other party hereto drafted or controlled the drafting of this Agreement.

33. CERTAIN DEFINITIONS. As used herein:

(a) "Person" includes without limitation a natural person, corporation, joint stock company, limited liability company, partnership, joint venture, association, trust, government or governmental authority, agency or instrumentality, or any group of the foregoing acting in concert.

(b) A "Proceeding" is any suit, action, arbitration, audit, investigation or other proceeding before or by any court, magistrate, arbitration panel or other tribunal, or any governmental agency, authority or instrumentality of competent jurisdiction.

34. ENTIRE AGREEMENT. This Agreement embodies the entire agreement of the parties hereto with respect to the subject matter hereof and supersedes any prior agreement, commitment or arrangement relating hereto, including, without limitation, the Employment Agreement, which shall terminate, notwithstanding any contrary provision thereof, immediately upon the commencement of the Term, except that each party thereto shall (a) remain required to perform any act and to satisfy any obligation or condition that such party is required to perform or satisfy thereunder with respect to any event occurring or circumstance existing during the term thereof (including without limitation the payment or delivery to Executive of any compensation, reimbursable expense or employee benefit or perquisite to which he may be entitled, but which has not yet been paid to him, on account of his employment thereunder) that has not been so performed or satisfied, and (b) retain its right thereunder to assert or to allege any claim or cause of action relating to or based upon, or otherwise to enforce, any provision thereof with respect to any event occurring or circumstance existing during the term thereof.

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement as of the day and year first above written.

THE COMPANY:

JAKKS PACIFIC, INC.

By: /s/ Jack Friedman

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Jack Friedman  
Chairman

EXECUTIVE:

/s/ Stephen G. Berman

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Stephen G. Berman

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "Agreement"), dated March 26, 2003 and as of January 1, 2003, by and between Michael Bianco ("Executive") and JAKKS Pacific, Inc., a Delaware corporation ("JAKKS" or the "Company").

W I T N E S S E T H :

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WHEREAS, since October 1, 1999, Executive has served as Senior Vice President - Sales and Development of the Company's Flying Colors division pursuant to an Amended and Restated Employment Agreement (the "Original Employment Agreement"); and

WHEREAS, the Company and Executive desire to further amend and restate the terms of the Original Employment Agreement to provide for Executive's continued employment by the Company on the terms and subject to the conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual promises, representations and warranties set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. OFFICES AND DUTIES. The Company hereby employs Executive during the Term (as hereinafter defined) to serve as an Executive Vice President and Chief Merchandising Officer of the Company and, as such, to perform such executive and supervisory duties on behalf of the Company as the Company's Board of Directors, chief executive officer or chief operating officer may from time to time reasonably direct. The Company's Board of Directors may elect or designate Executive to serve in such other corporate offices of the Company or a subsidiary thereof as they may from time to time deem necessary, proper or advisable. Executive hereby accepts such employment and agrees that throughout the Term he shall faithfully, diligently and to the best of his ability, in furtherance of the business of the Company, perform the duties assigned to him or incidental to the offices assumed by him pursuant to this Section. Executive shall devote substantially all of his business time and attention to the business and affairs of the Company, but Executive shall not be required to devote any minimum amount of time or report or perform his duties hereunder on a fixed or periodic basis, and, subject to Sections 9, 10 and 11, Executive may engage or participate in such other activities incidental to any other employment, occupation or business venture or enterprise as do not materially interfere with or compromise his ability to perform his duties hereunder. Executive shall at all times be subject to

the direction and control of the Company's Board of Directors, chief executive officer and chief operating officer and observe and comply with such rules, regulations, policies and practices as they may, from time to time, establish.

2. TERM. The employment of Executive hereunder shall commence as of the date hereof and continue for a term ending on December 31, 2007, subject to earlier termination upon the terms and conditions provided elsewhere herein (the "Term"). As used herein, "Termination Date" means the last day of the Term.

3. COMPENSATION.

(a)(i) Base Salary. As compensation for his services hereunder, the Company shall pay to Executive a base salary in 2003 at the rate of \$700,000 per annum, and, in each subsequent year during the Term, at a rate to be determined by the Compensation Committee of the Company's Board of Directors, but that is at least \$25,000 more than (the "Annual Adjustment") the rate in effect for the immediately preceding year (the "Base Salary"). Notwithstanding the foregoing, if the Company's Adjusted EPS (as hereinafter defined) for the immediately preceding fiscal year (the "Operative Year") increased by at least six (6%) percent from the fiscal year immediately preceding the Operative Year, the Annual Adjustment shall be increased to \$35,000. The Base Salary shall be paid to Executive in substantially equal installments no less often than twice monthly, subject to any required tax withholding.

(a)(ii) Restricted Stock Awards. Subject to the terms of (including, without limitation, the availability of shares reserved for issuance thereunder) the Company's 2002 Stock Award and Incentive Plan (as in effect on the date hereof and as subsequently may be amended, from time to time, the "Plan") and the applicable restricted stock agreement, which shall be substantially in the form annexed hereto as Exhibit A, and as additional consideration for Executive agreeing to amend and restate the terms of his Original Employment Agreement by, among other things, modifying and replacing the 4% Bonus (as defined in the Original Employment Agreement) in the manner provided in Section 3(b) herein, (A) upon the execution of this Agreement, the Company shall grant to Executive 96,000 shares of restricted common stock, par value \$.001 per share (the "Restricted Stock"), of the Company and (B) on each of the next four (4) anniversaries of the date hereof, the Company shall grant to Executive 96,000 shares of Restricted Stock. Each award of Restricted Stock shall vest (and associated restrictions shall lapse) in accordance with Exhibit B hereto and the terms of the applicable restricted stock agreement.

(b) Bonus Opportunity. In addition to the compensation set forth in Section 3(a), Executive shall be eligible to receive during each year of the Term the following performance-based award determined as follows:

(b)(i) Cash Bonus. During each calendar year of the Term (or applicable portion thereof), Executive shall be eligible to receive, subject to the terms of the Plan, a

cash performance bonus (the "Performance Bonus") of up to 200% of Executive's then current Base Salary based on the year-over-year growth of the Company's Adjusted EPS (as defined below). If awarded with respect to any such calendar years, the Company shall pay the Performance Bonus to Executive, subject to any required tax withholding, no later than ninety (90) days after the later of (i) the end of such calendar year or (ii) completion of an audit by the Company's then regularly-engaged independent certified public accountants (the "Auditors"). The Base Salary used to determine the amount of the Performance Bonus shall be the Base Salary in effect during the calendar year for which the Performance Bonus is being determined.

(b)(ii) For purposes of calendar year 2003, such Performance Bonus shall be an amount equal to: (i) the percentage set forth on the following table which corresponds to the increase in the Company's Adjusted EPS, in respect of calendar year 2003 over the Adjusted EPS during calendar year 2002; MULTIPLIED BY (ii) the Executive's Base Salary for calendar year 2003.

ADJUSTED EPS GROWTH -----	% OF SALARY -----
[LESS THAN] 1%	0%
1--1.999%	50%
2--4.999%	100%
5--9.999%	125%
10--19.999%	150%
20--24.999%	175%
[GREATER THAN OR EQUAL TO] 25%	200%

Thereafter, for subsequent years of the Term, the Compensation Committee of the Board of Directors shall establish the Company's targeted levels of Adjusted EPS growth and corresponding percentage of salary figures during the Company's first fiscal quarter. The Compensation Committee may, but shall have no obligation to, continue using the specific targeted levels of Adjusted EPS growth and corresponding percentage of salary figures set forth above in determining the criteria for Executive's Performance Bonus for such subsequent years; provided, that, the Compensation Committee shall make such determination in a reasonable manner, taking into account the levels of Adjusted EPS growth and corresponding percentage of salary figures set forth above.

(b)(iii) In the event that the Term ends at any time other than on December 31 of any year, Executive's Performance Bonus in respect of such calendar year shall be prorated. In the case of calendar year 2003, such Performance Bonus shall be an amount equal to: (i) the percentage set forth on the above table that corresponds to the increase in

the Company's year-to-date Adjusted EPS (as determined by the then most recently publicly announced earnings per share of the Company) over the Adjusted EPS of the Company during the comparable period in calendar year 2002; MULTIPLIED BY (ii) Executive's Base Salary for calendar year 2003; MULTIPLIED BY (iii) a fraction, the numerator of which shall be the number of full calendar months included in the Term for calendar year 2003 and the denominator of which shall be twelve (12).

(b)(iv) For all purposes hereof, the term "Adjusted EPS" shall mean the net income per share of the Company's common stock, par value \$.001 per share (the "Common Stock"), calculated on a fully-diluted basis as determined by the Company's then current Auditors in accordance with U.S. generally accepted accounting principles, applied on a basis consistent with past periods, as adjusted in the sole discretion of the Compensation Committee to take account of extraordinary or special items or as otherwise may be permitted by the Plan, and such determination by the Auditors, absent manifest error, as adjusted by the Compensation Committee, shall be conclusive and binding upon the Company and Executive.

(c) Additional Compensation. The Compensation Committee of the Board of Directors may, from time to time, award such additional compensation to Executive, in cash or in property and irrespective of the Performance Bonus set forth in Section 3(b) hereof, as such Committee may determine in its sole discretion to be appropriate based on business criteria established or determined by the Committee, including economic and business conditions affecting the Company, and Executive's personal performance. Such additional compensation may be awarded in accordance with the Plan or as otherwise determined by the Committee.

(d) Nothing contained herein and no action taken in respect of any Performance Bonus (or otherwise in respect of Sections 3(b) or 3(c)) shall create or be construed to create a trust of any kind. All Performance Bonuses under Sections 3(b) or 3(c) shall be paid from general funds of the Company, and no special or separate fund shall be established, and no segregation of assets shall be made, to assure payment of any Performance Bonus hereunder.

(e) At his request, the Company shall use its best efforts to procure major medical, hospitalization, dental and disability insurance for the benefit of Executive and life insurance in the amount of \$500,000 in favor of such beneficiary or beneficiaries as Executive may from time to time designate, and the Company shall pay all premiums and any other costs or expenses incurred to maintain such policies in effect during the Term.

(f) In addition to his Base Salary and other compensation provided herein, Executive shall be entitled to participate, to the extent he is eligible under the terms and conditions thereof, in any stock, stock option or other equity participation plan and any profit-sharing, pension, retirement, insurance, medical service or other employee benefit plan generally available to the executive officers of the Company, and to receive any other benefits or perquisites generally available to the executive officers of the Company pursuant to any employment policy or practice, which may be in effect from time to time during the Term. Except as otherwise

expressly provided herein, the Company shall be under no obligation hereunder to institute or to continue any such employee benefit plan or employment policy or practice.

(g) During the Term, Executive shall not be entitled to additional compensation for serving as a director or corporate officer (other than Executive Vice President) of the Company (or any subsidiary thereof) to which he is elected or appointed.

4. EXPENSE ALLOWANCE. The Company shall pay directly, or advance funds to Executive or reimburse Executive for, all expenses reasonably incurred by him in connection with the performance of his duties hereunder and the business of the Company, upon the submission to the Company of itemized expense reports, receipts or vouchers in accordance with its then customary policies and practices.

5. LOCATION. Except for routine travel and temporary accommodation reasonably required to perform his services hereunder, Executive shall not be required to perform his services hereunder at any location other than the Company's principal executive office, which office shall be located throughout the Term at its location on the date hereof, or, if relocated, at a location within a distance of 30 miles from its location on the date hereof, or at such other office or site to which Executive may, in his sole discretion, consent; nor shall he be required to relocate his principal residence to, or otherwise to reside at, any location specified by the Company.

6. OFFICE. The Company shall provide Executive with suitable office space, furnishings and equipment, secretarial and clerical services and such other facilities and office support as are reasonably necessary for the performance of his services hereunder.

7. VACATION. Executive shall be entitled to four weeks paid vacation during each year of his employment hereunder, such vacation to be taken at such time or times as shall be agreed upon by Executive and the Company. Vacation time shall be cumulative from year to year, except that Executive shall not be entitled to take more than six weeks vacation during any consecutive 12-month period during the Term.

8. KEY-MAN INSURANCE. The Company shall have the right from time to time to purchase, increase, modify or terminate insurance policies on the life of Executive for the benefit of the Company in such amounts as the Company may determine in its sole discretion. In connection therewith, Executive shall, at such times and at such places as the Company may reasonably direct, submit himself to such physical examinations and execute and deliver such documents as the Company may deem necessary or appropriate.

9. CONFIDENTIAL INFORMATION.

(a) Executive shall, during the Term and for a period of five years thereafter, hold in a fiduciary capacity for the benefit of the Company all confidential or proprietary information relating to or concerned with the Company and its affiliates or their products, prospective products, operations, business and affairs ("Confidential Information"), and he shall not, at any

time hereafter, use or disclose any Confidential Information to any Person other than to the Company or its designees or except as may otherwise be required in connection with the business and affairs of the Company, and in furtherance of the foregoing Executive agrees that:

(i) Executive will receive, maintain and hold Confidential Information in strict confidence and will use the same level of care in safeguarding it that he uses with his own confidential material of a similar nature;

(ii) Executive will take all such steps as may be reasonably necessary to prevent the disclosure of Confidential Information; and

(iii) Executive will not utilize Confidential Information without first having obtained the Company's written consent to such utilization.

(b) The commitments set forth in Section 9(a) shall not extend to any portion of Confidential Information that is generally available to the public or that, hereafter, through no act or omission on the part of the Executive, becomes information generally available to the public.

(c) At any time upon written request by the Company (i) the Confidential Information, including any copies, shall be returned to the Company, and (ii) all documents, drawings, specifications, computer software, and any other material whatsoever in the possession of the Executive that relates to such Confidential Information, including all copies and/or any other form of reproduction and/or description thereof made by Executive shall, at the Company's option, be returned to the Company or destroyed.

(d) In the event that Executive becomes legally compelled (by deposition, interrogatory, request of documents, subpoena, civil investigative demand or similar process) to disclose any of the Confidential Information, Executive shall provide the Company with prompt prior written notice of such requirement so that it may seek a protective order or other appropriate remedy and/or waive compliance with the terms of this Agreement. In the event that such protective order or other remedy is not obtained, or the Company waives compliance with the provisions hereof, Executive agrees to furnish only such portion of the Confidential Information that is legally required to be furnished as determined by Executive's outside counsel in a written opinion letter.

10. INTELLECTUAL PROPERTY. Subject to Sections 2870 and 2871 of the California Labor Code:

(i) Any idea, invention, design, process, system, procedure, improvement, development or discovery conceived, developed, created or made by Executive, alone or with others, during the Term and applicable to the business of the Company, whether or not patentable or registrable, shall become the sole and exclusive property of the Company.

(ii) Executive shall disclose the same promptly and completely to the Company and shall, during the Term or thereafter, (i) execute all documents requested by the Company for

vesting in the Company the entire right, title and interest in and to the same, (ii) execute all documents requested by the Company for filing and procuring such applications for patents, trademarks, service marks or copyrights as the Company, in its sole discretion, may desire to prosecute, and (iii) give the Company all assistance it may reasonably require, including the giving of testimony in any Proceeding (as hereinafter defined), in order to obtain, maintain and protect the Company's right therein and thereto.

11. NO COMPETITION.

(a) During the Term, and unless his employment terminates pursuant to Section 14 or by action of the Company other than pursuant to Section 13, for a further period of one year thereafter, Executive shall not, directly or indirectly:

(i) own, control, manage, operate, participate or invest in, or otherwise be connected with, in any manner, any business activity, venture or enterprise which is engaged in any business in which the Company (or any subsidiary thereof) has been engaged in during the Term or the last five years of the Term, whichever is shorter, or is engaged on the Termination Date; provided, however, that Executive may invest his funds in securities of an issuer engaged in such business if the securities of such issuer are listed for trading on a registered securities exchange or actively traded in an over-the-counter market and Executive's holdings therein represent less than 1% of the total number of shares or principal amount of the securities of such issuer outstanding; or

(ii) for himself or on behalf of any other Person, employ or engage any Person who at the time shall have been within the preceding 12-month period an employee of the Company (or any subsidiary thereof) or contact any supplier, customer or employee of the Company (or such subsidiary) for the purpose of soliciting or diverting any supplier, customer or employee from the Company (or such subsidiary).

(b) Executive acknowledges that the provisions of this Section, and the period of time, geographic area and scope and type of restrictions on his activities set forth herein, are reasonable and necessary for the protection of the Company.

12. TERMINATION UPON DEATH OR DISABILITY. Executive's employment hereunder shall terminate immediately upon his death. In the event that Executive is unable to perform his duties hereunder by reason of any disability or incapacity (due to any physical or mental injury, illness or defect) for an aggregate of 90 days in any consecutive 12-month period, the Company shall have the right to terminate Executive's employment hereunder within 60 days after the 90th day of his disability or incapacity by giving Executive notice to such effect at least 30 days prior to the date of termination set forth in such notice, and on such date such employment shall terminate.

13. TERMINATION FOR CAUSE.

(a) In addition to any other rights or remedies provided by law or in this Agreement, the Company may terminate Executive's employment under this Agreement if:

(i) Executive is convicted of, or enters a plea of guilty or nolo contendere (which plea is not withdrawn prior to its approval by the court) to, a felony offense and either Executive fails to perfect an appeal of such conviction prior to the expiration of the maximum period of time within which, under applicable law or rules of court, such appeal may be perfected or, if Executive does perfect such an appeal, his conviction of a felony offense is sustained on appeal; or

(ii) the Company's Board of Directors determines, after due inquiry, that Executive has:

(A) committed fraud against, or embezzled or misappropriated funds or other assets of, the Company (or any subsidiary thereof);

(B) violated, or caused the Company (or any subsidiary thereof) or any officer, employee or other agent thereof, or any other Person to violate, any material law, rule, regulation or ordinance, which violation has or would reasonably be expected to have a material adverse effect on the Company, or any material rule, regulation, policy or practice established by the Company's Board of Directors, chief executive officer or chief operating officer;

(C) willfully, or because of gross or persistent negligence, (a) failed properly to perform his duties hereunder or (b) acted in a manner detrimental to, or adverse to the interests of, the Company; or

(D) violated, or failed to perform or satisfy any material covenant, condition or obligation required to be performed or satisfied by Executive hereunder.

(b) The Company may effect such termination for cause by giving Executive notice to such effect, setting forth in reasonable detail the factual basis for such termination, at least ten days prior to the date of termination set forth therein; provided however that Executive may avoid such termination if Executive, prior to the date of termination set forth in such notice, cures to the reasonable satisfaction of the Company's Board of Directors the factual basis for termination set forth therein or otherwise provides the Board of Directors with information reasonably sufficient for the Board to determine that the termination should not be effected.

(c) In making any determination pursuant to Section 13(a) as to the occurrence of any act or event described in clauses (A) to (D) of paragraph (ii) thereof (each, a "For Cause Event"), each of the following shall constitute convincing evidence of such occurrence:

(i) if Executive is made a party to, or target of, any Proceeding arising under or relating to any For Cause Event, Executive's failure to defend against such Proceeding or to answer any complaint filed against him therein, or to deny any claim, charge, averment or allegation thereof asserting or based upon the occurrence of a For Cause Event;

(ii) any judgment, award, order, decree or other adjudication or ruling in any such Proceeding finding or based upon the occurrence of a For Cause Event (that is not reversed or vacated on appeal); or

(iii) any settlement or compromise of, or consent decree issued in, any such Proceeding in which Executive expressly admits the occurrence of a For Cause Event;

provided that none of the foregoing shall be dispositive or create an irrebuttable presumption of the occurrence of such For Cause Event; and provided further that the Company's Board of Directors may rely on any other factor or event as convincing evidence of the occurrence of a For Cause Event.

14. TERMINATION BY EXECUTIVE FOR GOOD REASON OR UPON A CHANGE OF CONTROL. In addition to any other rights or remedies provided by law or in this Agreement, Executive may terminate his employment hereunder if:

(a) (i) the Company violates, or fails to perform or satisfy any material covenant, condition or obligation required to be performed or satisfied by it hereunder or (ii) as a result of any action or failure to act by the Company, there is a material adverse change in the nature or scope of the duties, obligations, rights or powers of Executive's employment, by giving the Company notice to such effect, setting forth in reasonable detail the factual basis for such termination, at least ten days prior to the date of termination set forth therein; provided, however, that the Company may avoid such termination if it, prior to the date of termination set forth in such notice, (i) cures or explains to the reasonable satisfaction of Executive the factual basis for termination set forth therein, or (ii) confirms in writing that Executive has no further obligation to perform any of the duties assigned to him by the Company or any other services for the Company, and continues to pay and/or provide Executive with the compensation and benefits set forth in Sections 3 and 4 hereof in accordance with the provisions of this Agreement.

(b) a Change of Control (as hereinafter defined) occurs during the Term, by giving the Company notice to such effect at any time within the two-year period thereafter, setting forth the event or circumstance constituting such Change of Control, such termination to be effective upon the date of termination set forth therein (not more than 30 days after the date of such notice) or, if no such date is set forth therein, immediately upon delivery of such notice to the Company.

The termination by Executive of his employment pursuant to this Section 14 shall not constitute or be deemed to constitute for any purpose a "voluntary resignation" of his employment.

15. COMPENSATION UPON TERMINATION. Notwithstanding anything contained herein to the contrary;

(a) Upon termination of Executive's employment hereunder, he shall be entitled to receive, in any case, any compensation or other amount due to him pursuant to Section 3 (except as otherwise provided in Section 15(b) below) or Section 4 in respect of his employment prior to the Termination Date.

(b) If Executive's employment hereunder terminates upon his death, disability or incapacity pursuant to Section 12 or he is discharged "for cause" pursuant to Section 13, from and after the Termination Date, the Company shall have no further obligation to Executive hereunder except for the payment to Executive of any amount required to be made by Section 15(a); provided, however, that payment of any Performance Bonus or other bonus under Sections 3(b) or 3(c) shall only be made to the extent it has been earned or awarded with respect to the last full fiscal year immediately preceding the Termination Date, and no Performance Bonus or other bonus shall be paid with respect to the fiscal year in which the Termination Date occurs.

(c) If Executive terminates his employment hereunder for Good Reason pursuant to Section 14(a) or if the Company terminates his employment hereunder other than upon his death, disability or incapacity pursuant to Section 12 and other than "for cause" pursuant to Section 13, he shall be entitled to receive an amount equal to the product of (i) the sum of (A) his Base Salary in effect on the Termination Date and (B) his Performance Bonus for the most recently completed calendar year prior to the Termination Date, and (ii) a fraction, the numerator of which is the number of full months remaining in the balance of the Term after the Termination Date and the denominator of which is 60.

(d) If his employment terminates pursuant to Section 14(b) and, if at the time Executive gives the Company the notice of termination referred to therein, the Company has not given to Executive a notice of termination upon his disability or incapacity pursuant to Section 12 or "for cause" pursuant to Section 13, he shall be entitled to receive, upon the terms and subject to the conditions set forth in Section 16, the Parachute Amount (as hereinafter defined).

(e) Any amount payable to Executive upon termination of his employment hereunder shall be paid promptly, and in any event within thirty (30) days, after the Termination Date.

(f) Executive shall have no obligation hereunder to seek or to accept any other employment after the Termination Date or otherwise to mitigate the payments required to be made by this Section.

16. CHANGE OF CONTROL.

(a) For the purposes of this Section 16:

(i) The "Act" is the Securities Exchange Act of 1934, as amended.

(ii) A "person" includes a "group" within the meaning of Section 13(d)(3) of the Act.

(iii) "Control" is used herein as defined in Rule 12b-2 under the Act.

(iv) "Beneficially owns" and "acquisition" are used herein as defined in Rules 13d-3 and 13d-5, respectively, under the Act.

(v) "Non-Affiliated Person" means any person, other than Executive, an employee stock ownership trust of the Company (or any trustee thereof for the benefit of such trust), or any person controlled by Executive, the Company or such a trust.

(vi) "Voting Securities" includes Common Stock and any other securities of the Company that ordinarily entitle the holders thereof to vote, together with the holders of Common Stock or as a separate class, with respect to matters submitted to a vote of the holders of Common Stock, but securities of the Company as to which the consent of the holders thereof is required by applicable law or the terms of such securities only with respect to certain specified transactions or other matters, or the holders of which are entitled to vote only upon the occurrence of certain specified events (such as default in the payment of a mandatory dividend on preferred stock or a scheduled installment of principal or interest of any debt security), shall not be Voting Securities.

(vii) "Right" means any option, warrant or other right to acquire any Voting Security (other than such a right of conversion or exchange included in a Voting Security).

(viii) The "Code" is the Internal Revenue Code of 1986, as amended.

(ix) "Base amount," "present value" and "parachute payment" are used herein as defined in Section 280G of the Code.

(b) A "Change of Control" occurs when:

(i) a Non-Affiliated Person acquires control of the Company;

(ii) upon an acquisition of Voting Securities or Rights by a Non-Affiliated Person or any change in the number or voting power of outstanding Voting Securities, such Non-Affiliated Person beneficially owns Voting Securities or Rights entitling such person to cast a number of votes (determined in accordance with Section 16(g)) equal to or greater than 25% of the sum of (A) the number of votes that may be cast by all other

holders of outstanding Voting Securities and (B) the number of votes that may be cast by such Non-Affiliated Person (determined in accordance with Section 16(g)); or

(iii) upon any change in the membership of the Company's Board of Directors, a majority of the directors are persons who are not nominated or appointed by the Company's Board of Directors as constituted prior to such change.

(c) The "Parachute Amount" to which Executive shall be entitled pursuant to Section 15(d) shall equal 2.99 times Executive's base amount.

(d) It is intended that the present value of any payments or benefits to Executive, whether hereunder or otherwise, that are includable in the computation of parachute payments shall not exceed 2.99 times the base amount. Accordingly, if Executive receives any payment or benefit from the Company prior to payment of the Parachute Amount which, when added to the Parachute Amount, would subject any of the payments or benefits to Executive to the excise tax imposed by Section 4999 of the Code, the Parachute Amount shall be reduced by the least amount necessary to avoid such tax. The Company shall have no obligation hereunder to make any payment or provide any benefit to Executive after the payment of the Parachute Amount which would subject any of such payments or benefits to the excise tax imposed by Section 4999 of the Code.

(e) Any other provision hereof notwithstanding, Executive may, prior to his receipt of the Parachute Amount pursuant to Section 15(d), waive the payment thereof, or, after his receipt of the Parachute Amount thereunder, treat some or all of such amount as a loan from the Company which Executive shall repay to the Company within 180 days after the receipt thereof, together with interest thereon at the rate provided in Section 7872 of the Code, in either case, by giving the Company notice to such effect.

(f) Any determination of the base amount, the Parachute Amount, any liability for excise tax under Section 4999 of the Code or other matter required to be made pursuant to this Section 16, shall be made by the Company's regularly-engaged independent certified public accountants, whose determination shall be conclusive and binding upon the Company and Executive; provided that such accountants shall give to Executive, on or before the date on which payment of the Parachute Amount or any later payment or benefit would be made, a notice setting forth in reasonable detail such determination and the basis therefor, and stating expressly that Executive is entitled to rely thereon.

(g) The number of votes that may be cast by holders of Voting Securities or Rights upon the issuance or grant thereof shall be deemed to be the largest number of votes that may be cast by the holders of such securities or the holders of any other Voting Securities into which such Voting Securities or Rights are convertible or for which they are exchangeable or exercisable, determined as though such Voting Securities or Rights were immediately convertible, exchangeable or exercisable and without regard to any anti-dilution or other adjustments provided for therein.

17. LIMITATION OF AUTHORITY. Except as expressly provided herein, no provision hereof shall be deemed to authorize or empower either party hereto to act on behalf of, obligate or bind the other party hereto.

18. NOTICES. Any notice or demand required or permitted to be given or made hereunder to or upon either party hereto shall be deemed to have been duly given or made for all purposes if (a) in writing and sent by (i) messenger or an overnight courier service against receipt, or (ii) certified or registered mail, postage paid, return receipt requested, or (b) sent by telegram, telecopy, telex or similar electronic means, provided that a written copy thereof is sent on the same day by postage-paid first-class mail, to such party at the following address:

to the Company at: 22619 Pacific Coast Highway  
Suite 250  
Malibu, California 90265  
Attn: President  
Fax: (310) 456-7099

with a copy to: Feder, Kaszovitz, Isaacson, Weber, Skala, Bass  
& Rhine LLP  
750 Lexington Avenue  
New York, New York 10022  
Attn: Geoffrey A. Bass, Esq.  
Fax: (212) 888-7776

to Executive at: 1625 Crown Ridge Court  
Westlake Village, California 91362  
Fax: (805) 370-3785

or such other address as either party hereto may at any time, or from time to time, direct by notice given to the other party in accordance with this Section. The date of giving or making of any such notice or demand shall be, in the case of clause (a) (i), the date of the receipt; in the case of clause (a) (ii), five business days after such notice or demand is sent; and, in the case of clause (b), the business day next following the date such notice or demand is sent.

19. AMENDMENT. No amendment of this Agreement shall be valid or effective, unless in writing and signed by or on behalf of the parties hereto.

20. WAIVER. No course of dealing or omission or delay on the part of either party hereto in asserting or exercising any right hereunder shall constitute or operate as a waiver of any such right. No waiver of any provision hereof shall be effective, unless in writing and signed by or on behalf of the party to be charged therewith. No waiver shall be deemed a continuing waiver or waiver in respect of any other or subsequent breach or default, unless expressly so stated in writing.

21. GOVERNING LAW. This Agreement shall be governed by, and interpreted and enforced in accordance with, the laws of the State of New York without regard to principles of choice of law or conflict of laws.

22. JURISDICTION. Each of the parties hereto hereby irrevocably consents and submits to the jurisdiction of the courts of the State of New York and the United States District Court for the Southern District of New York in connection with any suit, action or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby, waives any objection to venue in the County of New York, State of New York, or such District, and agrees that service of any summons, complaint, notice or other process relating to such proceeding may be effected in the manner provided by clause (a) (ii) of Section 18.

23. REMEDIES. In the event of any actual or prospective breach or default under this Agreement by either party hereto, the other party shall be entitled to equitable relief, including remedies in the nature of rescission, injunction and specific performance. All remedies hereunder are cumulative and not exclusive, and nothing herein shall be deemed to prohibit or limit either party from pursuing any other remedy or relief available at law or in equity for such actual or prospective breach or default, including the recovery of damages; provided that, except as otherwise provided in Section 15 and except with respect to a breach by Executive of his obligations pursuant to Sections 9, 10 and 11, no party hereto shall be liable under this Agreement for lost profits or consequential damages.

24. SEVERABILITY. The provisions hereof are severable and in the event that any provision of this Agreement shall be determined to be invalid or unenforceable in any respect by a court of competent jurisdiction, the remaining provisions hereof shall not be affected, but shall, subject to the discretion of such court, remain in full force and effect, and any invalid or unenforceable provision shall be deemed, without further action on the part of the parties hereto, amended and limited to the extent necessary to render the same valid and enforceable.

25. COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed an original and which together shall constitute one and the same agreement.

26. ASSIGNMENT. This Agreement, and each right, interest and obligation hereunder, may not be assigned by either party hereto without the prior written consent of the other party hereto, and any purported assignment without such consent shall be void and without effect, except that this Agreement shall be assigned to, and assumed by, any Person with or into which the Company merges or consolidates, or which acquires all or substantially all of its assets, or which otherwise succeeds to and continues the Company's business substantially as an entirety. Except as otherwise expressly provided herein or required by law, Executive shall not have any power of anticipation, assignment or alienation of any payments required to be made to him hereunder, and no other Person may acquire any right or interest in any thereof by reason of any purported sale, assignment or other disposition thereof, whether voluntary or involuntary, any claim in a bankruptcy or other insolvency Proceeding against Executive, or any other ruling, judgment, order, writ or decree.

27. BINDING EFFECT. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. This Agreement is not intended, and shall not be deemed, to create or confer any right or interest for the benefit of any Person not a party hereto.

28. TITLES AND CAPTIONS. The titles and captions of the Articles and Sections of this Agreement are for convenience of reference only and do not in any way define or interpret the intent of the parties or modify or otherwise affect any of the provisions hereof.

29. GRAMMATICAL CONVENTIONS. Whenever the context so requires, each pronoun or verb used herein shall be construed in the singular or the plural sense and each capitalized term defined herein and each pronoun used herein shall be construed in the masculine, feminine or neuter sense.

30. REFERENCES. The terms "herein," "hereto," "hereof," "hereby," and "hereunder," and other terms of similar import, refer to this Agreement as a whole, and not to any Article, Section or other part hereof.

31. NO PRESUMPTIONS. Each party hereto acknowledges that it has had an opportunity to consult with counsel and has participated in the preparation of this Agreement. No party hereto is entitled to any presumption with respect to the interpretation of any provision hereof or the resolution of any alleged ambiguity herein based on any claim that the other party hereto drafted or controlled the drafting of this Agreement.

32. CERTAIN DEFINITIONS. As used herein:

(a) "Person" includes without limitation a natural person, corporation, joint stock company, limited liability company, partnership, joint venture, association, trust, government or governmental authority, agency or instrumentality, or any group of the foregoing acting in concert.

(b) A "Proceeding" is any suit, action, arbitration, audit, investigation or other proceeding before or by any court, magistrate, arbitration panel or other tribunal, or any governmental agency, authority or instrumentality of competent jurisdiction.

33. ENTIRE AGREEMENT. This Agreement embodies the entire agreement of the parties hereto with respect to the subject matter hereof and supersedes any prior agreement, commitment or arrangement relating hereto, including, without limitation, the Original Employment Agreement which shall terminate, notwithstanding any contrary provisions thereof, immediately upon the commencement of the Term.

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement as of the day and year first above written.

THE COMPANY:

JAKKS PACIFIC, INC.

By: /s/ Stephen G. Berman

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Stephen G. Berman  
President

EXECUTIVE:

/s/ Michael Bianco

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Michael Bianco

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "Agreement"), dated March 26, 2003 and as of January 1, 2003, by and between Joel M. Bennett ("Executive") and JAKKS Pacific, Inc., a Delaware corporation ("JAKKS" or the "Company").

W I T N E S S E T H:

WHEREAS, Executive and the Company entered into an Employment Agreement, dated as of January 1, 2000 (the "Employment Agreement"); and

WHEREAS, Executive and the Company desire to amend and restate the terms of the Employment Agreement to provide for Executive's continued employment by the Company on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual promises, representations and warranties set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. OFFICES AND DUTIES.

(a) The Company hereby employs Executive during the Term (as hereinafter defined) to serve as the Company's Executive Vice President and Chief Financial Officer. As such, Executive shall have principal responsibility and authority (subject to the provisions of Section 1(c)) to administer all financial and accounting functions for the Company and its subsidiaries, including without limitation with respect to:

(i) financial recordkeeping and reporting;

(ii) interfacing with the Company's independent auditors;

(iii) preparation and interpretation of budgets, projections and other financial analyses;

(iv) tax reporting and compliance;

(v) cash management; and

(vi) reporting to and advising the Company's Board of Directors and executive management on financial, accounting, tax and compensation matters.

Within the scope of such functions and duties, Executive shall perform such administrative and supervisory services on behalf of the Company as the Company's Board of Directors or a Superior Officer (as hereinafter defined) may from time to time reasonably direct. The Company's Board of Directors or a Superior Officer may appoint or designate Executive to serve in such other corporate offices of the Company or a Subsidiary (as hereinafter defined) as they may from time to time deem necessary, proper or advisable; provided that, without his consent (which shall not be unreasonably withheld), Executive shall not be required to occupy or serve in any office which (i) is not reasonably related to his functions and duties as Chief Financial Officer and (ii) involves other substantial duties or liabilities.

(b) Executive shall devote substantially all of his business time and attention to the business and affairs of the Company.

(c) Executive shall at all times be subject to the direction and control of the Company's Board of Directors and the Superior Officers and observe and comply with such rules, regulations, policies and practices as the Company's Board of Directors or the Superior Officers may from time to time establish.

(d) Executive hereby accepts such employment and agrees that throughout the Term he shall faithfully, diligently and to the best of his ability, in furtherance of the business of the Company, perform the duties assigned to him or incidental to the offices assumed by him pursuant to this Section.

2. TERM. The employment of Executive hereunder shall commence as of the date hereof and continue for a term ending on December 31, 2006, subject to earlier termination upon the terms and conditions provided elsewhere herein (the "Term"). As used herein, "Termination Date" means the last day of the Term.

### 3. COMPENSATION.

(a)(i) Base Salary. As compensation for his services hereunder, the Company shall pay to Executive a base salary in 2003 at the rate of \$300,000 per annum, and in each subsequent year during the Term at a rate to be determined by the Compensation Committee of the Company's Board of Directors, but that is at least \$20,000 more than the rate in the immediately preceding year (the "Base Salary"). The Base Salary shall be paid to Executive in substantially equal installments no less often than twice monthly, subject to any required tax withholding.

(a)(ii) Restricted Stock Award. Subject to the terms of the Company's 2002 Stock Award and Incentive Plan (as in effect on the date hereof and as subsequently may be amended, from time to time, the "Plan") and the applicable restricted stock agreement, which shall be

substantially in the form annexed hereto as Exhibit A, and as additional consideration for Executive agreeing to amend and restate the terms of his Employment Agreement by, among other things, modifying and replacing the Bonus (as defined in the Employment Agreement) in the manner provided in Section 3(b) herein, upon the execution of this Agreement, the Company shall grant to Executive 120,000 shares of restricted common stock, par value \$.001 per share (the "Restricted Stock"), of the Company. This award of Restricted Stock shall vest (and associated restrictions shall lapse) in accordance with Exhibit B hereto and the terms of the applicable restricted stock agreement.

(b) Additional Compensation. The Compensation Committee of the Board of Directors may, from time to time, award such additional compensation to Executive, in cash or in property, as such Committee may determine in its sole discretion to be appropriate based on business criteria established or determined by the Committee, including economic and business conditions affecting the Company, and Executive's personal performance. Such additional compensation may be awarded in accordance with the Plan or as otherwise determined by the Committee.

(c) Nothing contained herein and no action taken in respect of any bonus (or otherwise in respect of Section 3(b)), shall create or be construed to create a trust of any kind. Any bonus under Section 3(b) shall be paid from general funds of the Company, and no special or separate fund shall be established, and no segregation of assets shall be made, to assure payment of any bonus hereunder.

(d) In addition to his Base Salary and other compensation provided herein, Executive shall be entitled to participate, to the extent he is eligible under the terms and conditions thereof, in any stock, stock option or other equity participation plan and any profit-sharing, pension, retirement, insurance, medical service or other employee benefit plan generally available to the executive officers of the Company, and to receive any other benefits or perquisites generally available to the executive officers of the Company pursuant to any employment policy or practice, which may be in effect from time to time during the Term. Except as otherwise expressly provided herein, the Company shall be under no obligation hereunder to institute or to continue any such employee benefit plan or employment policy or practice.

(e) During the Term, Executive shall not be entitled to additional compensation for serving as a director or officer of the Company or any Subsidiary (other than Executive Vice President or Chief Financial Officer of the Company), if such service is reasonably related to his duties and functions as the Company's Chief Financial Officer and does not involve any other substantial duties or liabilities.

4. EXPENSE ALLOWANCE.

(a) The Company shall pay directly, or advance funds to Executive or reimburse Executive for, all expenses reasonably incurred by him in connection with the performance of his duties hereunder and the business of the Company, upon the submission to the Company of itemized expense reports, receipts or vouchers in accordance with its then customary policies and practices.

(b) The Company shall provide to Executive a suitable automobile or other vehicle for his exclusive use and shall pay the entire cost thereof (including, without limitation, purchase price or lease payments, insurance premiums, repair charges, and maintenance and operating expenses), other than fuel charges, or shall pay to executive a monthly automobile allowance in the amount of \$600.

5. LOCATION. Except for routine travel and temporary accommodation reasonably required to perform his services hereunder, Executive shall not be required to perform his services hereunder at any location other than the Company's principal executive office.

6. OFFICE. The Company shall provide Executive with suitable office space, furnishings and equipment, secretarial and clerical services and such other facilities and office support as are reasonably necessary for the performance of his services hereunder.

7. VACATION. Executive shall be entitled to four weeks paid vacation during each year of his employment hereunder, such vacation to be taken at such time or times as shall be agreed upon by Executive and the Company. Vacation time shall be cumulative from year to year, except that Executive shall not be entitled to take more than six weeks vacation during any consecutive 12-month period during the Term.

8. KEY-MAN INSURANCE. The Company shall have the right from time to time to purchase, increase, modify or terminate insurance policies on the life of Executive for the benefit of the Company in such amounts as the Company may determine in its sole discretion. In connection therewith, Executive shall, at such time or times and at such place or places as the Company may reasonably direct, submit himself to such physical examinations and execute and deliver such documents as the Company may deem necessary or appropriate.

9. CONFIDENTIAL INFORMATION. Executive shall, during the Term and for a period of five years thereafter, hold all Confidential Information (as hereinafter defined) in a fiduciary capacity for the benefit of the Company, and he shall not, at any time hereafter, without the prior written consent of the Company, use or disclose to any Person, other than the Company or its designees, any such Confidential Information, except:

(a) to the extent reasonably required for Executive to perform his functions and duties hereunder;

(b) to the extent disclosure is required by an order, subpoena, demand or other legal process; provided that Executive promptly gives notice thereof to the Company so that the Company may oppose such disclosure or seek a protective order or other confidential treatment of such Confidential Information;

(c) to the extent any Confidential Information becomes generally available in the public domain (other than through the disclosure of such Confidential Information by Executive in violation of the provisions of this Section or any other confidentiality obligation of Executive in favor of the Company or a Subsidiary); and

(d) that any Confidential Information that was known to Executive prior to his initial employment by the Company may be used by or disclosed by Executive after the Termination Date.

On the Termination Date or upon request by the Company at any time prior thereto, Executive shall deliver to the Company any manuals, records, files, lists and other documentation (regardless of form) embodying or containing Confidential Information, without retaining any copy thereof, except to the extent such Confidential Information may be retained for use or disclosure by Executive pursuant to clauses (a) through (d) of the preceding sentence.

10. INTELLECTUAL PROPERTY. Subject to Sections 2870 and 2871 of the California Labor Code:

(a) Any Invention conceived, developed, created or made by Executive, alone or with others, during the Term and applicable to the business of the Company, whether or not patentable or registrable, shall become the sole and exclusive property of the Company.

(b) Executive shall disclose the same promptly and completely to the Company and shall, during the Term or thereafter, (i) execute all documents requested by the Company for vesting in the Company the entire right, title and interest in and to the same, (ii) execute all documents requested by the Company for filing applications for and procuring such patents, trademarks, service marks or copyrights as the Company, in its sole discretion, may desire to prosecute, and (iii) give the Company all assistance it may reasonably require, including the giving of testimony in any Proceeding (as hereinafter defined), in order to obtain, maintain and protect the Company's right therein and thereto; provided that the Company shall bear the entire cost and expense of such assistance, including without limitation paying Executive reasonable compensation for any such assistance after the Termination Date.

11. NO COMPETITION.

(a) During the Term, and unless his employment terminates pursuant to Section 14 or by action of the Company other than pursuant to Section 13, for a further period of two years thereafter, Executive shall not, directly or indirectly:

(i) own, control, manage, operate, be employed by, serve as a consultant or advisor to, or otherwise render any service to or for, participate or invest in, or otherwise be connected with, in any manner, any Person that is engaged in the Restricted Business (as hereinafter defined); provided, however, that Executive may invest his funds in securities of a Person engaged in the Restricted Business if the securities of such Person are listed for trading on a registered securities exchange or actively traded in an over-the-counter market and Executive's holdings therein represent less than 1% of the total number of shares or principal amount of the securities of such Person outstanding; or

(ii) for himself or on behalf of any other Person, employ or engage any Person who at the time shall have been within the preceding 12-month period an employee of the Company or any Subsidiary or contact any supplier, customer or employee of the Company or such Subsidiary or take any other action for the purpose of soliciting or diverting any supplier, customer or employee from the Company or such Subsidiary.

(b) Executive acknowledges that the provisions of this Section, and the period of time, geographic area and scope and type of restrictions on his activities set forth herein, are reasonable and necessary for the protection of the Company.

12. TERMINATION UPON DEATH OR DISABILITY. Executive's employment hereunder shall terminate immediately upon his death. In the event that Executive is unable to perform his duties hereunder by reason of any disability or incapacity (due to any physical or mental injury, illness or defect) for an aggregate of 90 days in any consecutive 12-month period, the Company shall have the right to terminate Executive's employment hereunder within 60 days after the 90th day of his disability or incapacity by giving Executive notice to such effect at least 30 days prior to the date of termination set forth in such notice, and on such date such employment shall terminate.

#### 13. TERMINATION FOR CAUSE.

(a) In addition to any other rights or remedies provided by law or in this Agreement, the Company may terminate Executive's employment under this Agreement if:

(i) Executive is convicted of, or enters a plea of guilty or nolo contendere (which plea is not withdrawn prior to its approval by the court) to, a felony offense and either Executive fails to perfect an appeal of such conviction prior to the expiration of the maximum period of time within which, under applicable law or rules of court, such appeal may be perfected or, if Executive does perfect such an appeal, his conviction of a felony offense is sustained on appeal; or

(ii) the Company's Board of Directors determines, after due inquiry, that Executive has:

(A) committed fraud against, or embezzled or misappropriated funds or other assets of, the Company or any Subsidiary;

(B) violated, or caused the Company or any Subsidiary, or any officer, employee or other agent thereof, or any other Person to violate, any material law, regulation or ordinance, which violation has or would reasonably be expected to have a significant detrimental effect on the Company, or any material rule, regulation, policy or practice established by the Board of Directors of the Company or any Subsidiary;

(C) on a persistent or recurring basis, (1) failed properly to perform his duties hereunder or (2) acted in a manner detrimental to, or adverse to the interests of, the Company; or

(D) violated, or failed to perform or satisfy any material covenant, condition or obligation required to be performed or satisfied by Executive hereunder.

(b) The Company may effect such termination for cause by giving Executive notice to such effect, setting forth therein the Termination Date (which may be the date such notice is given, in case such termination is based on paragraph (i) or clause A of paragraph (ii) of Section 13(a), but which shall otherwise be at least 20 days after the date such notice is given) and, in reasonable detail, the factual basis for such termination, and, in such event, such termination shall be effective on the Termination Date set forth in such notice, unless Executive avoids such termination by curing to the reasonable satisfaction of the Company's Board of Directors the factual basis for termination set forth therein or otherwise providing the Board of Directors with information reasonably sufficient for the Board to determine that the termination should not be effected.

(c) In making any determination pursuant to this Section 13(a) as to the occurrence of any act or event described in clauses (A) to (D) of paragraph (ii) thereof (each, a "For Cause Event"), each of the following shall constitute convincing evidence of such occurrence:

(i) if Executive is made a party to, or target of, any Proceeding arising under or relating to any For Cause Event, Executive's failure to defend against such Proceeding or to answer any complaint filed against him therein, or to deny any claim, charge, averment, or allegation thereof asserting or based upon the occurrence of a For Cause Event;

(ii) any judgment, award, order, decree or other adjudication or ruling in any such Proceeding finding or based upon the occurrence of a For Cause Event (that is not reversed or vacated on appeal); or

(iii) any settlement or compromise of, or consent decree issued in, any such Proceeding in which Executive expressly admits the occurrence of a For Cause Event;

provided that none of the foregoing shall be dispositive or create an irrebuttable presumption of the occurrence of such For Cause Event; and provided further that the Company's Board of

Directors may rely on any other factor or event as convincing evidence of the occurrence of a For Cause Event.

14. TERMINATION BY EXECUTIVE. In addition to any other rights or remedies provided by law or in this Agreement, Executive may terminate his employment hereunder if:

(a) (i) the Company violates, or fails to perform or satisfy any material covenant, condition or obligation required to be performed or satisfied by it hereunder or, (ii) as a result of any action or failure to act by the Company, there is a material change in the nature or scope of the duties, obligations, rights or powers of Executive's employment, by giving the Company notice to such effect, setting forth in reasonable detail the factual basis for such termination, at least 10 days prior to the date of termination set forth therein; provided, however, that the Company may avoid such termination if it, prior to the date of termination set forth in such notice, (i) cures or explains to the reasonable satisfaction of Executive the factual basis for termination set forth therein or (ii) confirms in writing that Executive has no further obligation to perform any of the duties assigned to him by the Company or any other services for the Company, and continues to pay and/or provide Executive with the compensation and benefits set forth in Sections 3 and 4 hereof in accordance with the provisions of this Agreement.

(b) a Change of Control (as hereinafter defined) occurs during the Term, by giving the Company notice to such effect at any time within the two-year period thereafter, setting forth the event or circumstance constituting such Change of Control, such termination to be effective upon the date of termination set forth therein (not more than 30 days after the date of such notice) or, if no such date is set forth therein, immediately upon delivery of such notice to the Company.

The termination by Executive of his employment pursuant to this Section 14 shall not constitute or be deemed to constitute for any purpose a "voluntary resignation" of his employment.

15. COMPENSATION UPON TERMINATION. Notwithstanding anything contained herein to the contrary:

(a) Upon termination of Executive's employment hereunder, he shall be entitled to receive, in any case, any compensation or other amounts due to him pursuant to Section 3 (except as otherwise provided in Section 15(b) below) or Section 4 in respect of his employment prior to the Termination Date.

(b) If Executive is discharged "for cause" pursuant to Section 13, from and after the Termination Date, the Company shall have no further obligation to Executive hereunder, including without limitation any obligation pursuant to Section 17, except for the payment to Executive of any amount required to be made by Section 15(a); provided, however, that payment of any bonus compensation under Section 3(b) shall only be made to the extent it has been earned or awarded with respect to the last full fiscal year immediately preceding the Termination Date, and no bonus compensation shall be paid with respect to the fiscal year in which the Termination Date occurs.

(c) If his employment is terminated by Executive pursuant to Section 14(a) or by the Company other than "for cause" pursuant to Section 13, he shall be entitled to receive an amount equal to the product of (i) the sum of (A) his Base Salary for the year in which such termination occurs and (B) any bonus received by Executive for the most recently completed fiscal year prior to the Termination Date, and (ii) a fraction, the numerator of which is the number of full months remaining in the balance of the Term after the Termination Date and the denominator of which is 36.

(d) If his employment terminates pursuant to Section 14(b) and, if at the time Executive gives the Company the notice of termination referred to therein, the Company has not given to Executive a notice of termination upon his disability pursuant to Section 12 or "for cause" pursuant to Section 13, he shall be entitled to receive, upon the terms and subject to the conditions set forth in Section 16, the Parachute Amount (as hereinafter defined).

(e) If Executive's employment hereunder terminates pursuant to Section 12, he or his guardian, custodian or other legal representative or successor shall be entitled to continue to receive the Base Salary payable pursuant to Section 3(a)(i) in the amounts and at the times provided therein for a period of six months following the date of termination.

(f) Except as otherwise provided in Section 15(e), any amount payable to Executive upon termination of his employment hereunder shall be paid promptly, and in any event within 30 days, after the Termination Date.

#### 16. CHANGE OF CONTROL.

(a) For the purposes of this Section 16:

(i) The "Act" is the Securities Exchange Act of 1934, as amended.

(ii) A "person" includes a "group" within the meaning of Section 13(d)(3) of the Act.

(iii) "Control" is used herein as defined in Rule 12b-2 under the Act.

(iv) "Beneficially owns" and "acquisition" are used herein as defined in Rules 13d-3 and 13d-5, respectively, under the Act.

(v) "Non-Affiliated Person" means any person, other than Executive, an employee stock ownership trust of the Company (or any trustee thereof for the benefit of such trust), or any person controlled by Executive, the Company or such a trust.

(vi) "Voting Securities" includes Common Stock and any other securities of the Company that ordinarily entitle the holders thereof to vote, together with the holders of Common Stock or as a separate class, with respect to matters submitted to a vote of the holders of Common Stock, but securities of the Company as to which the consent of the holders thereof is required by applicable law or the terms of such securities only with respect to certain specified transactions or other matters, or the holders of which are entitled to vote only upon the occurrence of certain specified events (such as default in the payment of a mandatory dividend on preferred stock or a scheduled installment of principal or interest of any debt security), shall not be Voting Securities.

(vii) "Right" means any option, warrant or other right to acquire any Voting Security (other than such a right of conversion or exchange included in a Voting Security).

(viii) The "Code" is the Internal Revenue Code of 1986, as amended.

(ix) "Base amount," "present value" and "parachute payment" are used herein as defined in Section 280G of the Code.

(b) A "Change of Control" occurs when:

(i) a Non-Affiliated Person acquires control of the Company;

(ii) upon an acquisition of Voting Securities or Rights by a Non-Affiliated Person or any change in the number or voting power of outstanding Voting Securities, such Non-Affiliated Person beneficially owns Voting Securities or Rights entitling such person to cast a number of votes (determined in accordance with Section 16(g)) equal to or greater than 25% of the sum of (A) the number of votes that may be cast by all other holders of outstanding Voting Securities and (B) the number of votes that may be cast by such Non-Affiliated Person (determined in accordance with Section 16(g)); or

(iii) upon any change in the membership of the Company's Board of Directors, a majority of the directors are persons who are not nominated or appointed by the Company's Board of Directors as constituted prior to such change.

(c) The "Parachute Amount" to which Executive shall be entitled pursuant to Section 15(d) shall equal 2.99 times Executive's base amount.

(d) It is intended that the present value of any payments or benefits to Executive, whether hereunder or otherwise, that are includable in the computation of parachute payments shall not exceed 2.99 times the base amount. Accordingly, if Executive receives any payment or benefit from the Company prior to payment of the Parachute Amount which, when added to the Parachute Amount, would subject any of the payments or benefits to Executive to the excise tax imposed by Section 4999 of the Code, the Parachute Amount shall be reduced by the least amount necessary to avoid such tax. The Company shall have no obligation hereunder to make

any payment or provide any benefit to Executive after the payment of the Parachute Amount which would subject any of such payments or benefits to the excise tax imposed by Section 4999 of the Code.

(e) Any other provision hereof notwithstanding, Executive may, prior to his receipt of the Parachute Amount pursuant to Section 15(d), waive the payment thereof, or, after his receipt of the Parachute Amount thereunder, treat some or all of such amount as a loan from the Company which Executive shall repay to the Company within 180 days after the receipt thereof, together with interest thereon at the rate provided in Section 7872 of the Code, in either case, by giving the Company notice to such effect.

(f) Any determination of the base amount, the Parachute Amount, any liability for excise tax under Section 4999 of the Code or other matter required to be made pursuant to this Section 18, shall be made by the Company's regularly-engaged independent certified public accountants, whose determination shall be conclusive and binding upon the Company and Executive; provided that such accountants shall give to Executive, on or before the date on which payment of the Parachute Amount or any later payment or benefit would be made, a notice setting forth in reasonable detail such determination and the basis therefor, and stating expressly that Executive is entitled to rely thereon.

(g) The number of votes that may be cast by holders of Voting Securities or Rights upon the issuance or grant thereof shall be deemed to be the largest number of votes that may be cast by the holders of such securities or the holders of any other Voting Securities into which such Voting Securities or Rights are convertible or for which they are exchangeable or exercisable, determined as though such Voting Securities or Rights were immediately convertible, exchangeable or exercisable and without regard to any anti-dilution or other adjustments provided for therein.

#### 17. OTHER TERMINATION PROVISIONS.

(a) Upon request by Executive, on the Termination Date or as soon as practicable thereafter, the Company shall assign to Executive, and Executive shall assume, the purchase agreement or lease relating to any automobile or other vehicle that the Company provides for his use on the Termination Date pursuant to Section 4(b) (other than an automobile or other vehicle owned or leased by Executive), if and to the extent assignable under the terms and conditions thereof, and thereafter Executive shall be liable for, and the Company shall be relieved of all liability for, any amount or other obligation required to be paid or performed thereunder in respect of any period commencing after the date of assignment.

(b) Throughout the 10-year period following the Termination Date, the Company shall indemnify Executive, and hold him harmless from, any loss, damages, liability, obligation or expense that he may suffer or incur in connection with any claim made or Proceeding commenced during such period relating to his service as a director, officer, employee or agent of the Company (or any subsidiary thereof) to the same extent and in same manner as the Company shall be obligated so to indemnify Executive immediately prior to the Termination Date;

provided that, if during such 10-year period the Company adopts or assumes any indemnification policy or practice with respect to its directors, officers, employees or agents that is more favorable than that in effect on the Termination Date, Executive shall be entitled to such more favorable indemnification.

(c) Throughout the 10-year period following the Termination Date, the Company shall maintain for the benefit of Executive directors' and officers' liability insurance (on a "claims made" basis) providing coverage at least as favorable to Executive (including with respect to limits of liability, exclusions, and deductible and retention amounts) as that in effect on the Termination Date.

18. LIMITATION OF AUTHORITY. Except as expressly provided herein, no provision hereof shall be deemed to authorize or empower either party hereto to act on behalf of, obligate or bind the other party hereto.

19. NOTICES. Any notice or demand required or permitted to be given or made hereunder to or upon either party hereto shall be deemed to have been duly given or made for all purposes if (a) in writing and sent by (i) messenger or an overnight courier service against receipt, or (ii) certified or registered mail, postage paid, return receipt requested, or (b) sent by telegram, telecopy, telex or similar electronic means, provided that a written copy thereof is sent on the same day by postage-paid first-class mail, to such party at the following address:

to the Company at:

22619 Pacific Coast Highway, Suite 250  
Malibu, California 90265  
Attn: President  
Fax: (310) 456-7099

with a copy to:

Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine LLP  
750 Lexington Avenue  
New York, New York 10022  
Attn: Geoffrey A. Bass, Esq.  
Fax: (212) 888-7776

to Executive at:

11349 Rosecreek Drive  
Moorpark, California 93021  
Fax: (805) 532-1092

or such other address as either party hereto may at any time, or from time to time, direct by notice given to the other party in accordance with this Section. The date of giving or making of

any such notice or demand shall be, in the case of clause (a) (i), the date of the receipt; in the case of clause (a) (ii), five business days after such notice or demand is sent; and, in the case of clause (b), the business day next following the date such notice or demand is sent.

20. AMENDMENT. Except as otherwise provided herein, no amendment of this Agreement shall be valid or effective, unless in writing and signed by or on behalf of the parties hereto.

21. WAIVER. No course of dealing or omission or delay on the part of either party hereto in asserting or exercising any right hereunder shall constitute or operate as a waiver of any such right. No waiver of any provision hereof shall be effective, unless in writing and signed by or on behalf of the party to be charged therewith. No waiver shall be deemed a continuing waiver or waiver in respect of any other or subsequent breach or default, unless expressly so stated in writing.

22. GOVERNING LAW. This Agreement shall be governed by, and interpreted and enforced in accordance with, the laws of the State of New York without regard to principles of choice of law or conflict of laws.

23. JURISDICTION. Each of the parties hereto hereby irrevocably consents and submits to the jurisdiction of the courts of the State of New York and the United States District Court for the Southern District of New York in connection with any Proceeding arising out of or relating to this Agreement, waives any objection to venue in the County of New York, State of New York, or such District, and agrees that service of any summons, complaint, notice or other process relating to such Proceeding may be effected in the manner provided by clause (a)(ii) of Section 19.

24. REMEDIES. In the event of any actual or prospective breach or default under this Agreement by either party hereto, the other party shall be entitled to equitable relief, including remedies in the nature of rescission, injunction and specific performance. All remedies hereunder are cumulative and not exclusive, and nothing herein shall be deemed to prohibit or limit either party from pursuing any other remedy or relief available at law or in equity for such actual or prospective breach or default, including the recovery of damages; provided that, except as provided in Section 15 and except with respect to a breach by Executive of his obligations pursuant to Sections 9, 10 and 11, no party hereto shall be liable under this Agreement for lost profits or consequential damages.

25. SEVERABILITY. The provisions hereof are severable and in the event that any provision of this Agreement shall be determined to be invalid or unenforceable in any respect by a court of competent jurisdiction, the remaining provisions hereof shall not be affected, but shall, subject to the discretion of such court, remain in full force and effect, and any invalid or unenforceable provision shall be deemed, without further action on the part of the parties hereto, amended and limited to the extent necessary to render the same valid and enforceable.

26. COUNTERPARTS. This Agreement may be executed in counterparts, each of which

shall be deemed an original and which together shall constitute one and the same agreement.

27. ASSIGNMENT. This Agreement, and each right, interest and obligation hereunder, may not be assigned by either party hereto without the prior written consent of the other party hereto, and any purported assignment without such consent shall be void and without effect, except that this Agreement shall be assigned to, and assumed by, any Person with or into which the Company merges or consolidates, or which acquires all or substantially all of its assets, or which otherwise succeeds to and continues the Company's business substantially as an entirety. Except as otherwise expressly provided herein or required by law, Executive shall not have any power of anticipation, assignment or alienation of any payments required to be made to him hereunder, and no other Person may acquire any right or interest in any thereof by reason of any purported sale, assignment or other disposition thereof, whether voluntary or involuntary, any claim in a bankruptcy or other insolvency Proceeding against Executive, or any other ruling, judgment, order, writ or decree.

28. BINDING EFFECT. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. This Agreement is not intended, and shall not be deemed, to create or confer any right or interest for the benefit of any Person not a party hereto.

29. TITLES AND CAPTIONS. The titles and captions of the Articles and Sections of this Agreement are for convenience of reference only and do not in any way define or interpret the intent of the parties or modify or otherwise affect any of the provisions hereof.

30. GRAMMATICAL CONVENTIONS. Whenever the context so requires, each pronoun or verb used herein shall be construed in the singular or the plural sense and each capitalized term defined herein and each pronoun used herein shall be construed in the masculine, feminine or neuter sense.

31. REFERENCES. The terms "herein," "hereto," "hereof," "hereby," and "hereunder," and other terms of similar import, refer to this Agreement as a whole, and not to any Article, Section or other part hereof.

32. NO PRESUMPTIONS. Each party hereto acknowledges that it has had an opportunity to consult with counsel and has participated in the preparation of this Agreement. No party hereto is entitled to any presumption with respect to the interpretation of any provision hereof or the resolution of any alleged ambiguity herein based on any claim that the other party hereto drafted or controlled the drafting of this Agreement.

33. CERTAIN DEFINITIONS. As used herein:

(a) "Confidential Information" means all confidential or proprietary information of the Company or a Subsidiary, including without limitation information relating to Inventions (including Confidential Information required to be disclosed to the Company pursuant to Section

10), Trade Rights, plant and equipment, products, customers, suppliers, marketing and sales, personnel, and financing and tax matters.

(b) "Invention" means any invention, design, process, system, improvement, development or discovery or any technical specifications, know-how or information or other intellectual property relating thereto.

(c) "Person" includes without limitation a natural person, corporation, joint stock company, limited liability company, partnership, joint venture, association, trust, government or governmental authority, agency or instrumentality, or any group of the foregoing acting in concert.

(d) A "Proceeding" is any suit, action, arbitration, audit, investigation or other proceeding before or by any court, magistrate, arbitration panel or other tribunal, or any governmental agency, authority or instrumentality of competent jurisdiction.

(e) "Restricted Business" means (i) designing, developing, manufacturing or otherwise producing, marketing, distributing, selling or otherwise trading or dealing in or with any Restricted Product in the Restricted Territory or (ii) acquiring (by purchase, license or otherwise), using or otherwise exploiting any Restricted Trade Right in the Restricted Territory.

(f) "Restricted Product" means any toy, doll, game, electronic game, activity set, collectible model vehicle or other product that, on the Termination Date or at any time during the 12-month period preceding the Termination Date, (i) is or was designed, developed, manufactured or otherwise produced, marketed, distributed, sold or otherwise traded or dealt in or with by or for the Company or any Subsidiary or (ii) is or was subject to a Restricted Trade Right.

(g) "Restricted Territory" means the United States of America.

(h) "Restricted Trade Right" means a Trade Right that, on the Termination Date or at any time during the 12-month period preceding the Termination Date, is or was (i) owned by or licensed to the Company or (ii) owned by or licensed to a Subsidiary and used in connection with any Restricted Product.

(i) "Subsidiary" means any Person in which the Company, directly or indirectly, owns any equity interest (including without limitation as a general partner of a partnership or a member of a limited liability company).

(j) "Superior Officer" means any of the Company's Chairman, Chief Executive Officer, President or Chief Operating Officer.

(k) "Trade Right" means any claim of copyright, trademark, service mark, trade name, brand name, trade dress, logo, symbol, design or other trade right.

34. ENTIRE AGREEMENT. This Agreement embodies the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes any prior agreement, commitment or arrangement relating hereto, including, without limitation, the Employment Agreement, which shall terminate, notwithstanding any contrary provision thereof, immediately upon the commencement of the Term.

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement as of the day and year first above written.

JAKKS PACIFIC, INC.

By: /s/ Stephen G. Berman

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Stephen G. Berman  
President

EXECUTIVE:

/s/ Joel M. Bennett

-----  
Joel M. Bennett

FORM OF  
RESTRICTED STOCK AWARD AGREEMENT  
UNDER THE  
JAKKS PACIFIC, INC.  
2002 STOCK AWARD AND INCENTIVE PLAN

This RESTRICTED STOCK AWARD AGREEMENT (the "Agreement") is entered into effective as of the [Date] by and between [Name] (the "Executive") and JAKKS Pacific, Inc., a Delaware corporation (the "Company").

WITNESSETH:

WHEREAS, the Company and the Executive are parties to that certain Amended and Restated Employment Agreement, dated March 26, 2003 and effective as of January 1, 2003 (the "Employment Agreement"); and

WHEREAS, the terms and conditions of the Employment Agreement call for the Company to grant the Executive certain shares of Restricted Stock (as defined below) in consideration for the Executive agreeing to enter into the Employment Agreement and relinquish certain bonus compensation under his prior employment agreement with the Company; and

WHEREAS, pursuant to the Company's 2002 Stock Award and Incentive Plan (the "Plan"), the Compensation Committee of the Company's Board (the "Compensation Committee") has approved, in accordance with the terms of the Employment Agreement, the grant to the Executive of Restricted Stock set forth herein, subject to the terms and conditions of this Agreement.

1. AWARD OF RESTRICTED STOCK

1.1 The Company hereby grants to the Executive an award of [\_\_\_\_\_] shares of restricted common stock of the Company, par value \$.001 per share (the "Restricted Stock"), subject to, and in accordance with, the restrictions, terms, and conditions set forth in this Agreement. The grant date of this award of Restricted Stock is [Date] (the "Grant Date").

1.2 This Agreement shall be construed in accordance with, and subject to, the provisions of the Plan (the provisions of which are incorporated herein by reference) and, except as otherwise expressly set forth herein, the capitalized terms used in this Agreement shall have the same definitions as set forth in the Plan.

2. RESTRICTIONS

2.1 Subject to Sections 2.2, 3.1 and 3.2 below, and provided in all instances that the

Executive's employment with the Company has not terminated in accordance with the provisions of the Employment Agreement prior to the Final Vesting Date (as defined below), that number of shares of Restricted Stock as set forth below on each anniversary of the Grant Date (each such date shall be a "Vesting Date") shall vest, such that on [December 31, 200\_] (the "Final Vesting Date") all of the shares of Restricted Stock shall be fully vested:

DATE	NUMBER OF SHARES VESTED
----	-----
December 31, 200_	_____ Shares (50%)
December 31, 200_	_____ Shares (50%)

On each Vesting Date, the Executive shall own the vested shares of Restricted Stock free and clear of all restrictions imposed by this Agreement (except those restrictions imposed by Section 4.4 below). The Company shall deliver a certificate(s) for the vested shares of Restricted Stock to the Executive as soon as practical after each Vesting Date.

2.2 Notwithstanding the Vesting Dates set forth in Section 2.1 above, and in order for the Company to preserve the deductibility under Section 162(m) of the Code of the grant of Restricted Stock provided hereby, as a condition precedent to the effectiveness of the above-described vesting schedule, the Company's Pre-Tax Income (as defined below) for the Company's fiscal year ending December 31, 200\_ must exceed \$2,000,000 (the "Vesting Condition"). In the event the Company does not meet the Vesting Condition, (i) the grant of Restricted Stock pursuant to this Agreement shall be null and void, (ii) the Executive shall forfeit any right to receive any Restricted Stock, (iii) any entries on the stock books and ledgers of the Company with respect to the shares of Restricted Stock shall be cancelled, and (iv) the Restricted Stock shall become authorized but unissued shares of the Company's common stock, par value \$.001 per share (the "Common Stock").

The term "Pre-Tax Income" shall mean for the Company's fiscal year ended December 31, 200\_, the Company's income before any deduction or reserve for income taxes and without any adjustment for any extraordinary item. In addition, the determination of Pre-Tax Income, including all estimates, allocations or prorations required to be made in connection therewith, shall be made by the Company's regularly-engaged independent certified public accountants (the "Auditors") in accordance with U.S. generally accepted accounting principles ("GAAP") applied on a basis consistent with past periods, which determination, absent manifest error, shall be conclusive and binding upon the Company and the Executive.

2.4 The Restricted Stock may not be sold, assigned, transferred, pledged, or otherwise encumbered prior to the date, if ever, that the Restricted Stock becomes vested in accordance with the terms of this Agreement.

3. ACCELERATION OF VESTING OF RESTRICTED STOCK

3.1 In the event that the Vesting Condition is achieved by the Company, and the Company's Adjusted EPS Growth (as defined below) for the Company's fiscal year ending December 31, 200\_ shall increase as set forth in the table immediately below, the vesting of certain amounts of the Restricted Stock (as indicated in the below table) that would otherwise vest on the Final Vesting Date shall be accelerated and shall be deemed vested for all purposes on the date that is no later than ninety (90) days after the later of (i) the end of such fiscal year or (ii) completion of an audit of such fiscal year by the Company's then current Auditors, in accordance with the table immediately below.

ADJUSTED EPS GROWTH	% OF RESTRICTED STOCK SUBJECT TO ACCELERATED VESTING	NUMBER OF SHARES OF RESTRICTED STOCK SUBJECT TO ACCELERATED VESTING
*1%	0%	
1--1.999%	10%	
2--4.999%	20%	
5--9.999%	30%	
10--19.999%	50%	
20--24.999%	75%	
**25%	100%	

\* = less than  
 \*\* = greater than or equal to

For all purposes hereof, the term "Adjusted EPS" shall mean the net income per share of the Company's Common Stock, calculated on a fully-diluted basis as determined by the Company's then current Auditors in accordance with GAAP, applied on a basis consistent with past periods, as adjusted in the sole discretion of the Compensation Committee to take account of extraordinary or special items, or as otherwise may be permitted by the Plan, and such determination by the Auditors, absent manifest error, as adjusted by the Compensation Committee, shall be conclusive and binding upon the Company and Executive.

3.2 Notwithstanding the other provisions of this Agreement with the exception of Section 2.2, in the event of a Change in Control prior to the Final Vesting Date, the Restricted Stock shall become fully vested and nonforfeitable as of the time of the Change in Control. On the date of the Change in Control, or as soon as practicable thereafter, the Company shall deliver to the Executive a certificate(s) for the Restricted Stock, free and clear of any restrictions imposed by this Agreement (except for those restrictions imposed by Section 4.4 below).

4. STOCK; DIVIDENDS; VOTING

4.1 The stock certificate(s) evidencing the Restricted Stock shall be registered on the Company's books in the name of the Executive as of the Grant Date. The Company may issue stock certificates or otherwise evidence the Executive's interest by using a book entry account. Physical possession or custody of such stock certificates shall be retained by the Company until such time as the shares of Restricted Stock are vested in accordance with Article 2. The Company reserves the right to place a legend on the stock certificate(s) restricting the transferability of such certificates and referring to the terms and conditions (including forfeiture) of this Agreement and the Plan.

4.2 During the period the Restricted Stock is not vested, the Executive shall be entitled to receive dividends and/or other distributions declared on such Restricted Stock and the Executive shall be entitled to vote such Restricted Stock.

4.3 In the event of a change in capitalization, the number and class of shares of Restricted Stock or other securities that the Executive shall be entitled to, and shall hold, pursuant to this Agreement shall be appropriately adjusted or changed to reflect such change in capitalization, provided that any such additional shares of Restricted Stock or different shares or securities shall remain subject to the restrictions contained in this Agreement.

4.4 The Executive represents and warrants that he is acquiring the Restricted Stock for investment purposes only, and not with a view to distribution thereof. The Executive is aware that the Restricted Stock may not be registered under the federal or any state securities laws and that, in addition to the other restrictions on the shares of Restricted Stock, the Restricted Stock will not be able to be transferred unless an exemption from registration is available or the Restricted Stock becomes registered. By making this award of Restricted Stock, the Company is not undertaking any obligation to register the Restricted Stock under any federal or state securities laws.

#### 5. NO RIGHT TO CONTINUED SERVICE AS AN EMPLOYEE

Nothing in this Agreement or the Plan shall be interpreted or construed to confer upon the Executive any right with respect to continuance as an employee of the Company or any subsidiary of the Company, nor shall this Agreement or the Plan interfere in any way with the right of the Company or a subsidiary of the Company or their respective stockholders to terminate the Executive's service as a director at any time.

#### 6. TAXES AND WITHHOLDING

The Executive shall be responsible for all federal, state, and local income taxes payable with respect to this award of Restricted Stock. The Executive shall have the right to make such elections under the Code as are available in connection with this award of Restricted Stock. The Company and the Executive agree to report the value of the Restricted Stock in a consistent manner for federal income tax purposes. The Company shall have the right to retain and withhold from any payment of Restricted Stock the amount of taxes (if any) required by any

government to be withheld or otherwise deducted and paid with respect to such payment. At its discretion, the Company may require the Executive to reimburse the Company for any such taxes required to be withheld and may withhold any distribution in whole or in part until the Company is so reimbursed. In lieu thereof, the Company shall have the right to withhold from any other cash amounts due to the Executive an amount equal to such taxes required to be withheld or withhold and cancel (in whole or in part) a number of shares of Restricted Stock having a market value not less than the amount of such taxes.

7. EXECUTIVE BOUND BY THE PLAN

The Executive hereby acknowledges receipt of a copy of the Plan and agrees to be bound by all the terms and provisions thereof.

8. MODIFICATION OF AGREEMENT

Except as provided in Section 2.2 above, this Agreement may be modified, amended, suspended, or terminated, or any of the terms or conditions hereof waived, only by a written instrument executed by the parties hereto.

9. SEVERABILITY

Should any provision of this Agreement be held by a court of competent jurisdiction to be unenforceable or invalid for any reason, the remaining provisions of this Agreement shall not be affected by such holding and shall continue in full force in accordance with their terms.

10. GOVERNING LAW

The validity, interpretation, construction, and performance of this Agreement shall be governed by the laws of the State of Delaware without giving effect to the conflicts of laws principles thereof.

11. SUCCESSORS IN INTEREST

This Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns, whether by merger, consolidation, reorganization, sale of assets, or otherwise. This Agreement shall inure to the benefit of the Executive's legal representatives. All obligations imposed upon the Executive and all rights granted to the Company under this Agreement shall be final, binding, and conclusive upon the Executive's heirs, executors, administrators, and successors.

12. RESOLUTION OF DISPUTES

Any dispute or disagreement which may arise under, or as a result of, or in any way relate to the interpretation, construction, or application of this Agreement shall be determined by the Board. Any determination made hereunder shall be final, binding, and conclusive on the Executive and the Company for all purposes.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

JAKKS PACIFIC, INC.

EXECUTIVE

By:

-----

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Name:  
Title:

[Name]

JAKKS SUBSIDIARIES

SUBSIDIARY -----	JURISDICTION -----
JP (HK) Limited .....	Hong Kong
JAKKS Pacific (HK) Limited .....	Hong Kong
Kidz Biz Limited .....	United Kingdom
Kidz Big Far East Limited .....	Hong Kong
J-X Enterprises, Inc. ....	New York
JAKKS Acquisition Corp. ....	Delaware
Road Champs, Inc. ....	Delaware
Road Champs, Ltd. ....	Hong Kong
Pentech International Inc. ....	Delaware
Pentech Cosmetics, Inc. ....	Delaware
Sawdust Pencil Co. ....	Delaware
Pentech Mon Ami, Inc. ....	Delaware
Berk Corporation .....	California
Flying Colors Toys, Inc. ....	Michigan
Flying Colors Toys (HK) Ltd. ....	Hong Kong
JP Ferrero Parkway, Inc. ....	California
JACPAC Ventures Inc. ....	Delaware
All Season Toys, Inc. ....	Delaware
Toymax International, Inc. ....	Delaware
Toymax Inc. ....	New York
Toymax Sales, Inc. ....	Delaware
Toymax (H.K.) Limited .....	Hong Kong
Funnoodle, Inc. ....	Delaware
Funnoodle, (H.K.) Limited .....	Hong Kong
Go Fly A Kite, Inc. ....	Delaware
Go Fly A Kite (H.K.) Limited .....	Hong Kong
Maxverse Interactive, Inc. ....	Nevada
Webgadgits, Inc. ....	Delaware
Kenmax Limited .....	Hong Kong
Billion Delight Limited .....	Hong Kong

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report dated February 10, 2003, except for note 20 for which the date is March 27, 2003, on the consolidated financial statements of JAKKS Pacific Inc. in this Form 10-K into the previously filed Registration Statements of JAKKS Pacific, Inc. on Form S-3 (File Nos. 333-83568 and 333-100195) and Form S-8 (Nos. 333-52205, 333-68313, 333-90055, 333-40392, 333-65324 and 333-101663).

/s/ PKF

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PKF

Certified Public Accountants  
A Professional Corporation

Los Angeles, California  
March 27, 2003

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of JAKKS Pacific, Inc. ("JAKKS"), hereby certifies that JAKKS' Annual Report on Form 10-K for the fiscal year ended December 31, 2002 (the "Annual Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of JAKKS.

Dated: March 27, 2003

/s/ Jack Friedman

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Jack Friedman  
Chairman and Chief Executive Officer  
Principal Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of JAKKS Pacific, Inc. ("JAKKS"), hereby certifies that JAKKS' Annual Report on Form 10-K for the fiscal year ended December 31, 2002 (the "Annual Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of JAKKS.

Dated: March 27, 2003

/s/ Joel M. Bennett

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Joel M. Bennett  
Chief Financial Officer  
Principal Financial Officer