

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 26, 1999

REG. NO. 333-74717

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

AMENDMENT NO. 1 TO

FORM S-3  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

JAKKS PACIFIC, INC.  
(EXACT 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.)

22761 PACIFIC COAST HIGHWAY, MALIBU, CALIFORNIA 90265 (310) 456-7799  
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF  
REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

JACK FRIEDMAN, CHAIRMAN  
JAKKS PACIFIC, INC.

22761 PACIFIC COAST HIGHWAY, MALIBU, CALIFORNIA 90265 (310) 456-7799  
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE,  
OF AGENT FOR SERVICE)

COPIES TO:

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:  
As soon as practicable after the effective date of this registration statement

If the only securities being registered on this Form are being offered  
pursuant to dividend or interest reinvestment plans, please check the following  
box. [ ]

If any of the securities being registered on this Form are to be offered on  
a delayed or continuous basis pursuant to Rule 415 under the Securities Act of  
1933, other than securities offered only in connection with dividend or interest  
reinvestment plans, check the following box. [ ]

If this Form is filed to register additional securities for an offering  
pursuant to Rule 462(b) under the Securities Act, please check the following box  
and list the Securities Act registration statement number of the earlier  
effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c)  
under the Securities Act, check the following box and list the Securities Act  
registration statement number of the earlier effective registration statement  
for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434,  
please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE	AMOUNT TO	PROPOSED MAXIMUM OFFERING PRICE PER	PROPOSED MAXIMUM AGGREGATE	AMOUNT OF
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REGISTERED	BE REGISTERED	UNIT(1)	OFFERING PRICE(1)	REGISTRATION FEE
Common Stock, par value \$.001 per share.....	2,702,500 Shares(2)	\$23.25	\$62,833,125	\$17,467.61(3)

(1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457.

(2) Includes 352,500 shares of common stock, par value \$.001 per share, which the underwriters have the option to purchase to cover over-allotments, if any.

(3) Of which \$13,464.90 has been previously paid.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

The information in this prospectus is not complete and may be changed. JAKKS has filed a registration statement with the Securities and Exchange Commission and we may not sell these securities until it becomes effective. We are not offering to sell, or soliciting any offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED APRIL 26, 1999

2,350,000 SHARES

JAKKS PACIFIC, INC.

COMMON STOCK

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Of the 2,350,000 shares of common stock being offered, JAKKS Pacific, Inc. is offering 2,100,000 shares and two of our stockholders are offering 250,000 shares. Our common stock is traded on the Nasdaq National Market under the symbol "JAKK." On April 23, 1999, the last reported sale price of our common stock on the Nasdaq National Market was \$23.25 per share.

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AN INVESTMENT IN OUR COMMON STOCK INVOLVES RISKS.  
SEE "RISK FACTORS" BEGINNING ON PAGE 8.

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	PER SHARE	TOTAL
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Public Offering Price.....	\$	\$
Underwriting Discount.....	\$	\$
Proceeds to JAKKS.....	\$	\$
Proceeds to the Selling Stockholders.....	\$	\$

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT, NOR HAS ANY STATE SECURITIES REGULATOR, APPROVED OR DISAPPROVED THESE SECURITIES, OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

JAKKS and the selling stockholders have granted the underwriters a 30-day option to purchase up to 352,500 additional shares of our common stock to cover over-allotments. The underwriters expect to deliver the shares of common stock to purchasers on or about , 1999.

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ADVEST, INC.

MORGAN KEEGAN & COMPANY, INC.

SOUTHWEST SECURITIES

THE DATE OF THIS PROSPECTUS IS , 1999.

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED IN THIS PROSPECTUS. WE AND THE UNDERWRITERS HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION DIFFERENT FROM THAT CONTAINED IN THIS PROSPECTUS. WE ARE OFFERING TO SELL, AND SEEKING OFFERS TO BUY, SHARES OF COMMON STOCK ONLY IN JURISDICTIONS WHERE OFFERS AND SALES ARE PERMITTED. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS ACCURATE ONLY AS OF THE DATE OF THIS PROSPECTUS, REGARDLESS OF THE TIME OF DELIVERY OF THIS PROSPECTUS OR ANY SALE OF OUR COMMON STOCK. IN THIS PROSPECTUS, REFERENCES TO THE "COMPANY," "JAKKS," "WE," "US" AND "OUR" REFER TO JAKKS PACIFIC, INC. AND ITS SUBSIDIARIES.

TABLE OF CONTENTS

	PAGE
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Disclosure Regarding Forward-Looking Statements.....	3
Summary.....	5
Risk Factors.....	8
Use of Proceeds.....	16
Price Range of Common Stock and Dividend Policy.....	17
Capitalization.....	18
Selected Consolidated Financial Data.....	19
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	20
Business.....	29
Management.....	40
Principal and Selling Stockholders.....	42
Certain Relationships and Related Transactions.....	43
Description of Securities.....	44
Underwriting.....	46
Legal Matters.....	48
Experts.....	48
Where You Can Find More Information.....	49
Index to Consolidated Financial Statements.....	F-1

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus 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 prospectus 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 under "Risk Factors" below and elsewhere in this prospectus. You should understand that forward-looking statements made in connection

with this offering 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.

We own or have rights to various trademarks and brand or trade names that we use in conjunction with the sale of our products. These include World Wrestling Federation, Road Champs, Remco, Child Guidance, Ford, Chevrolet, Car and Driver and B.A.S.S. Masters, among others. We also refer in this prospectus to other trademarks or brand or trade names that are owned or licensed by other companies.

## SUMMARY

Because this is only a summary, it does not contain all the information that may be important to you. You should read the entire prospectus, especially "Risk Factors," beginning on page 8, and our consolidated financial statements and the related notes, before deciding to invest in our common stock. Unless otherwise indicated, all information contained in this prospectus assumes that the underwriters will not exercise their over-allotment option.

## THE COMPANY

- OUR BUSINESS..... We design, develop, produce and market toys and related products. We focus on "evergreen" branded products that are less subject to market fads or trends and feature well-known brand names and simpler, lower-priced toys and accessories.
- OUR PRODUCTS..... Our principal products are (1) action figures and accessories featuring licensed characters, principally from the World Wrestling Federation, (2) Road Champs die-cast collectible and toy vehicles and Remco toy vehicles and role-play toys and accessories, (3) Child Guidance infant and pre-school electronic toys, and (4) fashion and mini dolls and related accessories. We also participate in a joint venture with THQ Inc. ("THQ") that will develop, produce and market video games based on World Wrestling Federation characters and themes under an exclusive license with Titan Sports, Inc. ("Titan Sports").
- OUR CUSTOMERS..... We make most of our sales to major U.S. toy and discount retail store chains, such as Toys 'R Us, Wal-Mart, Kay-Bee Toys, Kmart and Target, department stores, specialty stores, wholesalers, hobby shops and corporate accounts. We also sell our products to customers outside the U.S., including foreign subsidiaries of some of our major U.S. customers and other non-U.S. retailers and distributors.
- OUR INDUSTRY..... According to Toy Manufacturers of America, Inc., the leading industry trade group, total manufacturers' shipments of toys, excluding video games, in the U.S. were approximately \$15.2 billion in 1998, and sales by U.S. toy manufacturers to non-U.S. customers totaled approximately \$5.5 billion in 1997. In the video game segment, manufacturers' shipments of video game software were approximately \$3.0 billion in 1998.

OUR STRATEGY..... We plan to expand our core product lines and diversify into new product categories by growing internally, making strategic acquisitions and entering into additional character and product licenses. We also plan to intensify our international sales efforts. In addition, we will continue our focus on maintaining our low-overhead infrastructure and efficient operating methods.

RECENT OPERATING RESULTS..... On April 12, 1999, we announced operating results for our first quarter ended March 31, 1999. Net sales for the quarter in 1999 totaled \$25.0 million, an increase of 126% from \$11.0 million for the comparable period in 1998. Net income in the 1999 quarter was \$2.0 million, an increase of 334% from \$0.5 million in the 1998 quarter, while diluted earnings per share increased to \$0.25 in the 1999 quarter from \$0.08 in the 1998 quarter.

#### THE OFFERING

Common stock offered by JAKKS.....	2,100,000 shares
Common stock offered by the selling stockholders.....	250,000 shares
Common stock outstanding after this offering.....	9,424,530 shares (1) (2)
Use of proceeds to JAKKS.....	To fund capital obligations to the joint venture, to fund product development, to finance potential acquisitions and for working capital and general corporate purposes
Nasdaq National Market Symbol.....	JAKK

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(1) Does not include 1,786,916 shares issuable upon the exercise of all our outstanding warrants and options or 558,658 shares issuable upon the conversion of all our outstanding convertible preferred stock.

(2) If all the over-allotment shares are also sold, we would issue an additional 307,500 shares, so that 9,732,030 shares would be outstanding after this offering.

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#### RISK FACTORS

You should refer to the section entitled "Risk Factors," beginning on page 8, for a discussion of certain factors you should consider before purchasing our common stock.



SUMMARY CONSOLIDATED FINANCIAL DATA  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	APRIL 1, 1995 (INCEPTION) TO DECEMBER 31, 1995	YEARS ENDED DECEMBER 31,		
	-----	-----	-----	-----
	1995	1996	1997	1998
	-----	-----	-----	-----
CONSOLIDATED STATEMENT OF OPERATIONS DATA:				
Net sales.....	\$6,078	\$12,052	\$41,945	\$85,253
Gross profit.....	1,947	4,821	16,070	33,253
Income from operations.....	547	1,209	4,175	9,246
Net income.....	\$ 436	\$ 1,180	\$ 2,786	\$ 6,375
	=====	=====	=====	=====
Basic earnings per share.....	\$ 0.22	\$ 0.36	\$ 0.60	\$ 1.12
	=====	=====	=====	=====
Weighted average shares outstanding.....	2,000	3,284	4,621	5,693
	=====	=====	=====	=====
Diluted earnings per share.....	\$ 0.20	\$ 0.34	\$ 0.52	\$ 0.89
	=====	=====	=====	=====
Weighted average shares and equivalents outstanding.....	2,191	3,504	6,008	7,602
	=====	=====	=====	=====

AS OF  
DECEMBER 31, 1998

	-----	
	ACTUAL	AS ADJUSTED (1)
	-----	-----
CONSOLIDATED BALANCE SHEET DATA:		
Cash and cash equivalents.....	\$12,452	\$57,798
Working capital.....	13,736	59,142
Total assets.....	58,736	103,674
Total stockholders' equity.....	37,754	88,692

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(1) As adjusted to reflect (a) the sale by JAKKS of 2,100,000 shares of our common stock at an assumed public offering price of \$23.25 per share and our application of the net proceeds we receive from that sale and (b) the conversion of \$6.0 million principal amount of our convertible debentures into 1,043,479 shares of our common stock. You should refer to the section entitled "Use of Proceeds" for a discussion of how we intend to use these net proceeds and the section entitled "Description of Securities -- Convertible Debentures" for a description of these securities and the terms of conversion.

## RISK FACTORS

The purchase of our common stock involves substantial investment risks. You should carefully consider the following risk factors, in addition to the remainder of this prospectus, before purchasing our common stock.

## WE ARE SUBJECT TO CHANGING CONSUMER PREFERENCES AND NEW PRODUCT INTRODUCTIONS

Consumer preferences in the toy industry are continuously changing and difficult to predict. Relatively few products become popular with consumers and they often have short life cycles. We cannot assure you that:

- our current products will continue to be popular with consumers;
- our product lines or products we introduce will achieve any significant degree of market acceptance; or
- the life cycles of our products will be sufficient to permit us to recover licensing, design, manufacturing, marketing and other costs associated with those products.

Accordingly, our success will depend on our ability to enhance existing product lines and to develop new products and product lines. The failure of new product lines to achieve or sustain market acceptance could adversely affect our business, financial condition and results of operations. In addition, the success of many of our character- and theme-related products depends on the popularity of characters in movies, television programs, live wrestling exhibitions and other media. We cannot assure you that:

- if the media related to our existing character- and theme-related product lines are successful, this success will result in substantial promotional value to our products;
- we will be successful in obtaining licenses to produce new character- and theme-related products in the future; or
- media related to our character- and theme-related product lines will be released at the times we expect or will be successful.

## A LIMITED NUMBER OF OUR PRODUCT LINES ACCOUNT FOR A SUBSTANTIAL PORTION OF OUR NET SALES

We derive a substantial portion of our net sales from a limited number of product lines. Sales of the World Wrestling Federation, Road Champs and Remco product lines represented approximately 82.7% of our net sales in 1997 and 78.5% in 1998. We cannot assure you that any of the products in these branded product lines will retain their current popularity. A decrease in the popularity of any one of these branded product lines may adversely affect our business, financial condition and results of operations.

## THERE ARE RISKS ASSOCIATED WITH OUR LICENSE AGREEMENTS

## 1. OUR CURRENT LICENSES REQUIRE US TO PAY MINIMUM ROYALTIES

Sales of products under trademarks or trade or brand names licensed from others accounted for substantially all of our net sales in 1997 and 1998. Product licenses allow us to capitalize on characters, designs, concepts and inventions owned by others or developed

by toy inventors and designers. Our license agreements generally require us to make specified minimum royalty payments, even if we fail to sell a sufficient number of units to cover these amounts. In addition, under certain of our license agreements, if we fail to achieve certain prescribed sales targets, we may be unable to retain or renew these licenses. Our payments for royalties earned under our license agreements were approximately \$2,858,000 in 1997 and approximately \$6,322,000 in 1998. As of December 31, 1998, our aggregate minimum royalty payments for 1999 under our then current license agreements were approximately \$1,753,000.

## 2. THE USE OF OUR LICENSES IS RESTRICTED

Under some of our license agreements, the licensors have the right to review and approve our use of licensed products, designs or materials before we are permitted to make any sales. The refusal to permit our use of any licensed property in the way we propose, or any delay resulting from their review process, could prohibit or impede our development or sale of new products.

## 3. NEW LICENSES ARE DIFFICULT TO OBTAIN

Our success will depend in part on our ability to obtain additional licenses. Competition for desirable licenses is intense. We cannot assure you that we will be able to secure or renew significant licenses on terms acceptable to us. In addition, as we add licenses, the need to fund additional royalty advances and guaranteed minimum royalty payments may strain our cash resources.

## THE NEW JOINT VENTURE IS SUBJECT TO NUMEROUS RISKS AND UNCERTAINTIES

In addition to the risks relating to us and the toy industry, the joint venture faces the following risks:

- The joint venture depends entirely on a single license, which gives it the exclusive right to produce and market video games based on World Wrestling Federation characters and themes. The popularity of wrestling, in general, and the World Wrestling Federation, in particular, is subject to changing consumer tastes and demands. A decline in the popularity of the World Wrestling Federation could adversely affect the joint venture's and our business, financial condition and results of operations.
- The joint venture will rely on hardware manufacturers and THQ's non-exclusive licenses with them for the right to publish titles for their platforms and for the manufacture of the joint venture's titles. If THQ's licenses were to terminate and the joint venture could not otherwise obtain these licenses from the manufacturers, it would be unable to publish additional titles for these manufacturers' platforms, which would materially adversely affect its and our business, financial condition and results of operations.
- The software industry has experienced periods of significant growth in consumer interest, followed by periods in which growth has substantially declined. The joint venture's sales of software titles will be dependent, among other factors, on the popularity and unit sales of platforms generally, as well as on the relative popularity and unit sales of various platforms. The relative popularity of platforms has fluctuated significantly in recent years. An unexpected decline in the popularity of a

particular platform can be expected to have a material adverse effect on consumer demand for titles released or to be released by the joint venture for these platforms.

- The joint venture's failure to timely develop titles for new platforms that achieve significant market acceptance, to maintain net sales that are commensurate with product development costs or to maintain compatibility between its PC CD-ROM titles and the related hardware and operating systems would adversely affect the joint venture's and our business, financial condition and results of operations.
- We are required to make capital contributions to the joint venture to enable it to pay guaranteed minimum royalty advances to Titan Sports, as well as other royalties to developers of World Wrestling Federation titles. These significant costs are capitalized and then amortized or otherwise expensed as units of the titles are sold. If future sales of particular titles are not sufficient to recover these costs, the resulting write-off could materially adversely affect the joint venture's and our business, financial condition and results of operations.

#### THE TOY INDUSTRY IS HIGHLY COMPETITIVE

The toy industry is highly competitive. Many of our competitors have certain competitive advantages over us due to:

- greater financial resources;
- longer operating histories;
- stronger name recognition;
- larger sales and marketing and product development departments; and
- greater economies of scale.

In addition, the toy industry has no significant barriers to entry. Competition is based primarily on the ability to design and develop new toys, to procure licenses for popular characters and trademarks and to successfully market products. Many of our competitors offer similar products or alternatives to our products. Our competitors have obtained and are likely to continue to obtain licenses that overlap our licenses with respect to products, geographic areas and markets. We cannot assure you that we will be able to obtain adequate shelf space in retail stores to support our existing products or to expand our products and product lines or that we will be able to continue to compete effectively against current and future competitors.

#### WE MAY NOT BE ABLE TO SUSTAIN OR MANAGE OUR RAPID GROWTH

We experienced rapid growth in net sales and net income in 1996, 1997 and 1998. As a result, comparing our period-to-period operating results may not be meaningful and results of operations from prior periods may not be indicative of future results. We cannot assure you that we will continue to experience growth in, or maintain our present level of, net sales or net income.

Our growth strategy calls for us to continuously develop and diversify our toy business by acquiring other companies, entering into additional license agreements and expanding into international markets, which will place additional demands on our management, operational capacity and financial resources and systems. The increased demand on

management may necessitate the recruitment and retention by JAKKS of additional qualified management personnel. We cannot assure you that we will successfully recruit and retain qualified personnel or expand and manage our operations effectively and profitably.

In addition, implementation of our growth strategy is subject to risks beyond our control, including competition, market acceptance of new products, changes in economic conditions, our ability to obtain or renew licenses on commercially reasonable terms and our ability to finance increased levels of accounts receivable and inventory necessary to support our sales growth, if any. Accordingly, we cannot assure you that our growth strategy will be implemented successfully.

#### WE NEED TO BE ABLE TO ACQUIRE AND INTEGRATE COMPANIES AND NEW PRODUCT LINES SUCCESSFULLY

Our growth strategy depends in part upon our ability to acquire companies or new product lines. Future acquisitions will only succeed if we can effectively assess characteristics of potential target companies or product lines, such as:

- financial condition and results of operations;
- attractiveness of products;
- suitability of distribution channels;
- management ability; and
- the degree to which acquired operations can be integrated with our operations.

We cannot assure you that we can identify attractive acquisition candidates or negotiate acceptable acquisition terms, and our failure to do so may adversely affect our results of operations and our ability to sustain growth. Our acquisition strategy involves a number of risks, each of which could adversely affect our operating results, including:

- difficulties in integrating acquired businesses or product lines, assimilating new facilities and personnel and harmonizing diverse business strategies and methods of operation;
- diversion of management attention from operation of our existing business;
- loss of key personnel from acquired companies; and
- failure of an acquired business to achieve targeted financial results.

#### A FEW CUSTOMERS ACCOUNT FOR A LARGE PORTION OF OUR NET SALES

In 1998, 69.6% of our net sales came from sales of our products to five customers. In 1997, that figure was 61.7%. Except for outstanding purchase orders for specific products, we do not have written contracts with or commitments from any of our customers. A substantial reduction in or termination of orders from any of our largest customers could adversely affect our business, financial condition and results of operations. In addition, pressure by large customers seeking a reduction in prices, financial incentives, a change in other terms of sale or for JAKKS to bear the risks and the cost of carrying inventory could also adversely affect our business, financial condition and results of operations.

## WE DEPEND ON OUR KEY PERSONNEL

Our success is largely dependent upon the experience and continued services of Jack Friedman, our Chairman and Chief Executive Officer, and Stephen G. Berman, our President and Chief Operating Officer. We cannot assure you that we would be able to find an appropriate replacement for Mr. Friedman or Mr. Berman if the need should arise, and any loss or interruption of Mr. Friedman's or Mr. Berman's services could adversely affect our business, financial condition and results of operations. We maintain key-man life insurance on Mr. Friedman in the amount of \$4.0 million, which may be insufficient to fund the cost of employing his successor.

## OUR BUSINESS MAY BE ADVERSELY AFFECTED BY POLITICAL OR ECONOMIC DEVELOPMENTS IN CHINA

Substantially all of our products are produced by unaffiliated manufacturers in the People's Republic of China. As a result, our operations may be affected by many factors, including:

- economic, political, governmental and labor conditions in China;
- the possibility of expropriation, supply disruption, currency controls and exchange fluctuations;
- China's relationship with the United States; and
- fluctuations in the exchange rate of the U.S. dollar against foreign currencies.

## 1. LOSS OF CHINA'S "MOST FAVORED NATION" STATUS

China currently enjoys "Most Favored Nation" status under United States tariff laws. China's Most Favored Nation status is reviewed annually by Congress, and the renewal of this status is subject to significant political uncertainties. The loss of China's Most Favored Nation status or the imposition of retaliatory or protectionist trade policies, such as a substantial increase in the duty on products we import into the United States from China, would adversely affect our business, financial condition and results of operation.

## 2. IMPOSITION OF TRADE RESTRICTIONS

China may be subject to retaliatory trade restrictions imposed by the United States under various provisions of the Trade Act of 1974. In the past, the United States has threatened the imposition of punitive 100% tariffs on selected goods and has withdrawn this threat very shortly before sanctions were to take effect. The imposition by the United States of trade sanctions and subsequent actions by China would result in manufacturing and distribution disruptions or higher costs to us which, in turn, would adversely affect our business, financial condition and results of operations.

## 3. POLITICAL UNCERTAINTY IN HONG KONG

We maintain an office in Hong Kong to supervise and monitor manufacturing and product promotion in China. On July 1, 1997, sovereignty over Hong Kong was transferred from the United Kingdom to China. If Hong Kong's business climate were to become less

favorable as a result of the transfer of sovereignty, it would adversely affect our business, financial condition and results of operations.

#### OUR PRODUCT SALES ARE SUBJECT TO SEASONAL AND QUARTERLY FLUCTUATIONS

Our product sales are highly seasonal, with a majority of our sales occurring between September and December, the traditional holiday season. As a result, approximately 68.1% of our 1998 shipments occurred in the third and fourth quarters. This seasonality causes our quarterly operating results and working capital needs to fluctuate significantly.

#### OUR BUSINESS IS SUBJECT TO EXTENSIVE GOVERNMENT REGULATION AND TO POTENTIAL PRODUCT LIABILITY CLAIMS

Our business is subject to various laws, including the Federal Hazardous Substances Act, the Consumer Product Safety Act, the Flammable Fabrics Act and the rules and regulations promulgated under these acts. These statutes are administered by the Consumer Product Safety Commission, which has the authority to exclude from the market products that are found to be hazardous and which can require a manufacturer to repurchase these products under certain circumstances. We cannot assure you that defects in our products will not be alleged or found. Any such allegations or findings could result in:

- product liability claims;
- loss of sales;
- diversion of resources;
- damage to our reputation; and
- increased warranty costs;

any of which may adversely affect our business, financial condition and results of operations. There can be no assurance that our product liability insurance will be sufficient to avoid or limit our loss in the event of an adverse outcome of any product liability claim.

#### WE DEPEND ON OUR PROPRIETARY RIGHTS

We rely on trademark, copyright and trade secret protection, nondisclosure agreements and licensing arrangements to establish, protect and enforce our proprietary rights in our products. The laws of certain foreign countries may not protect intellectual property rights to the same extent or in the same manner as the laws of the United States. We cannot assure you that we or our licensors will be able to successfully safeguard and maintain our proprietary rights. Further, we cannot assure you that third parties will not assert intellectual property claims against us in the future. These claims could divert management attention from operating our business or result in unanticipated legal and other costs, which could adversely affect our business, financial condition and results of operations.

#### WE DEPEND ON THIRD-PARTY MANUFACTURERS

We depend on third parties to manufacture all our products. Although we own the tools, dies and molds used to manufacture our products, we have limited control over the manufacturing processes themselves. As a result, any difficulties encountered by the third-

party manufacturers that result in product defects, production delays, cost overruns or the inability to fulfill orders on a timely basis could adversely affect our business, financial condition and results of operations.

We do not have long-term contracts with our third-party manufacturers. Although we believe we would be able to secure other third-party manufacturers to produce our products as a result of our ownership of the tools, dies and molds used in the manufacturing process, our operations would be adversely affected if we lost our relationship with any of our current suppliers or if our current suppliers' operations or sea or air transportation with our China-based manufacturers were disrupted or terminated even for a relatively short period of time. Our tools, dies and molds are located at the facilities of our third-party manufacturers. Accordingly, significant damage to these facilities could result in the loss of or damage to a material portion of our tools, dies and molds, in addition to production delays while new facilities were being arranged and replacement tools, dies and molds were being produced. We do not maintain an inventory of sufficient size to provide protection for any significant period against an interruption of supply, particularly if we were required to utilize alternative sources of supply.

Although we do not purchase the raw materials used to manufacture our products, we are potentially subject to variations in the prices we pay our third-party manufacturers for products, depending on what they pay for their raw materials.

#### THE MARKET PRICE OF OUR COMMON STOCK MAY BE VOLATILE

Market prices of the securities of toy companies are often volatile. The market price of our common stock may be affected by many factors, including:

- fluctuations in our financial results;
- the actions of our customers and competitors (including new product line announcements and introductions);
- new regulations affecting foreign manufacturing;
- other factors affecting the toy industry in general; and
- sales of our common stock into the public market.

In addition, the stock market periodically has experienced significant price and volume fluctuations which may have been unrelated to the operating performance of particular companies.

#### FUTURE SALES OF OUR SHARES COULD ADVERSELY AFFECT OUR STOCK PRICE

As of April 26, 1999, there were 7,324,530 shares of our common stock outstanding. An additional 1,438,201 shares of our common stock are issuable upon the conversion of our convertible preferred stock and upon the exercise of currently exercisable warrants and options. If all these shares were issued, we would have 8,762,731 shares of our common stock outstanding. In addition, 907,373 shares of our common stock are issuable upon the exercise of outstanding options that are not currently exercisable. Any sale of a substantial number of shares of our common stock in the public market after this offering, or the perception that such sales could occur, may adversely affect the market price of our common stock.



## OUR MANAGEMENT EXERCISES SUBSTANTIAL CONTROL OVER OUR BUSINESS

As of April 26, 1999, our directors and executive officers beneficially owned, in the aggregate, 1,373,694 shares of our common stock, representing approximately 18.0% of the common stock outstanding. Immediately after this offering, they will beneficially own, in the aggregate, 1,123,694 shares, representing approximately 11.6% of the common stock then to be outstanding. Accordingly, if these persons act together, they could exercise considerable influence over matters requiring approval of our stockholders, including the election of our Board of Directors.

## THE COMPUTER SYSTEMS WE RELY ON MAY NOT ACHIEVE YEAR 2000 READINESS

Many currently installed computer systems and software products are dependent upon internal calendars coded to accept only two digit entries in the date code field. These date code fields will need to accept four digit entries to distinguish 21st century dates from 20th century dates. As a result, our computer systems and software may need to be upgraded to comply with Year 2000 requirements. Otherwise, system failures or miscalculations leading to disruptions in our operations could occur. We also depend on third parties, including suppliers and customers, for the operation of our day-to-day business. We cannot assure you that our efforts or those being taken by these third parties, if any, will be sufficient to eliminate any Year 2000 problem from the computer systems used by us or these third parties. In the event that any modifications or conversions to computer systems required to be Year 2000 compliant are not completed on a timely basis, non-compliant systems or programs may fail or malfunction, which could disrupt our operations, create additional costs, divert management's attention and otherwise adversely affect our business, financial condition and results of operations. For a more detailed discussion of our efforts to address the Year 2000 problem, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Impact of the Year 2000."

## OUR ABILITY TO ISSUE "BLANK CHECK" PREFERRED STOCK AND OUR OBLIGATION TO MAKE SEVERANCE PAYMENTS COULD PREVENT OR DELAY TAKEOVERS

Our certificate of incorporation authorizes the issuance of "blank check" preferred stock (that is, preferred stock which our Board of Directors can create and issue without prior stockholder approval) with rights senior to those of our common stock. In addition, our employment agreements with two of our executive officers require us, under certain conditions, to make substantial severance payments to them if they resign after a change of control. These provisions could delay or impede a merger, tender offer or other transaction resulting in a change in control of JAKKS, even if such a transaction would have significant benefits to our stockholders. As a result, these provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock.

## OUR MANAGEMENT HAS BROAD DISCRETION AS TO THE USE OF THE NET PROCEEDS OF THIS OFFERING

We are allocating a substantial portion of the net proceeds of this offering to potential acquisitions, working capital and other general corporate purposes. We do not currently have any binding agreement with respect to any acquisition of any company or product line that would require the application of any significant portion of these net proceeds. In addition, our management may apply our net proceeds to purposes different from those currently contemplated or change the allocation of our net proceeds among these purposes. Thus, our management will have substantial discretion with regard to the ultimate use of the net proceeds of this offering.

## USE OF PROCEEDS

If we sell the common stock offered hereby at a public offering price of \$23.25 per share, after we deduct the underwriting discount and pay the offering expenses, JAKKS will receive net proceeds of approximately \$45.3 million and the selling stockholders will receive net proceeds of approximately \$5.5 million. If the underwriters' over-allotment option is exercised in full, JAKKS will receive additional net proceeds of approximately \$6.7 million and the selling stockholders will receive additional net proceeds of approximately \$1.0 million. We will not receive or benefit from any proceeds from the sale of shares by the selling stockholders.

We currently intend to use the net proceeds of this offering received by us, as follows:

- approximately \$13.0 million to fund the operation of our joint venture, including our share of its minimum royalty advance payments and its video game development and production costs;
- approximately \$4.0 million to enhance existing products and to develop new products for introduction under our current product lines in or after 2000;
- approximately \$1.5 million to develop and expand our interactive wrestling figures product line;
- approximately \$1.0 million to design and implement our e-commerce web site; and
- the balance for the acquisition of new character or product licenses, new products or product lines or other toy companies or businesses, working capital and general corporate purposes.

Depending on future events, we may determine at a later time to use our net proceeds for different purposes or to allocate our net proceeds differently among the uses described above. Pending these uses, we expect to invest these funds in short-term, interest-bearing, investment grade securities.

## PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

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 closing sale prices for our common stock on the Nasdaq National Market.

	PRICE RANGE OF COMMON STOCK	
	HIGH	LOW
1997:		
First quarter.....	8 3/4	7 1/8
Second quarter.....	8 1/4	4 1/2
Third quarter.....	10 13/16	5 3/4
Fourth quarter.....	11 1/8	7 5/8
1998:		
First quarter.....	9 3/8	7 3/16
Second quarter.....	12 1/4	7 15/16
Third quarter.....	10 15/16	7
Fourth quarter.....	17 5/8	10 11/16
1999:		
First quarter.....	19 3/4	10 11/16
Second quarter (through April 23).....	23 11/16	18 3/8

As of April 23, 1999, there were approximately 65 holders of record of our common stock. On April 23, 1999, the last sale price of our common stock reported on the Nasdaq National Market was \$23.25 per share.

We 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. The payment of dividends on our common stock (other than dividends payable in shares of our common stock) is prohibited until all accumulated dividends on our preferred stock are paid in full and sufficient funds to pay the current dividends thereon are set aside. Moreover, the loan agreements relating to our revolving credit lines prohibit some of our subsidiaries from distributing funds to us without the lender's consent.

## CAPITALIZATION

The following table reflects our actual short-term debt and capitalization as of December 31, 1998 and as adjusted to reflect the receipt and application of the estimated net proceeds from the sale of our common stock offered by us hereby at an assumed public offering price of \$23.25 per share, after deducting the underwriting discount and estimated offering expenses, and the conversion of \$6.0 million principal amount of our convertible debentures into 1,043,479 shares of our common stock.

	AS OF DECEMBER 31, 1998	
	ACTUAL	AS ADJUSTED
	(IN THOUSANDS, EXCEPT SHARE DATA)	
Current portion of long-term debt.....	\$ 60	\$ --
	=====	=====
Long-term debt, net of current portion.....	\$ 5,940	\$ --
	-----	-----
Stockholders' equity:		
Convertible preferred stock, \$.001 par value, 5,000 shares authorized; 1,000 shares issued and outstanding.....	--	--
Common stock, \$.001 par value, 25,000,000 shares authorized; 6,026,042 shares issued and outstanding, actual; 9,169,521 shares issued and outstanding, as adjusted.....	6	9
Additional paid-in capital.....	27,044	77,979
Retained earnings.....	10,778	10,778
Unearned compensation from grant of options.....	(74)	(74)
	-----	-----
Total stockholders' equity.....	37,754	88,692
	-----	-----
Total capitalization.....	\$43,694	\$88,692
	=====	=====

## SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated statement of operations data for each of the three years in the period ended December 31, 1998 and selected consolidated balance sheet data as of December 31, 1997 and 1998 have been derived from our audited consolidated financial statements, which begin on page F-1 of this prospectus. The following selected consolidated statement of operations data for the nine-month period ended December 31, 1995 and selected consolidated balance sheet data as of December 31, 1995 and 1996 have been derived from our audited consolidated financial statements, which are not included in this prospectus. 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 this prospectus, beginning on page F-1.

SELECTED CONSOLIDATED FINANCIAL DATA  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	APRIL 1, 1995	YEARS ENDED DECEMBER 31,		
	(INCEPTION) TO DECEMBER 31, 1995	1996	1997	1998
CONSOLIDATED STATEMENT OF OPERATIONS				
DATA:				
Net sales.....	\$6,078	\$12,052	\$41,945	\$85,253
Cost of sales.....	4,131	7,231	25,875	52,000
Gross profit.....	1,947	4,821	16,070	33,253
Selling, general and administrative expenses.....	1,400	3,612	11,895	24,007
Income from operations.....	547	1,209	4,175	9,246
Interest, net.....	8	(134)	418	423
Other (income) expense.....	(12)	--	328	591
Income before provision for income taxes.....	551	1,343	3,429	8,232
Provision for income taxes.....	115	163	643	1,857
Net income.....	\$ 436	\$ 1,180	\$ 2,786	\$ 6,375
Basic earnings per share.....	\$ 0.22	\$ 0.36	\$ 0.60	\$ 1.12
Weighted average shares outstanding.....	2,000	3,284	4,621	5,693
Diluted earnings per share.....	\$ .20	\$ 0.34	\$ 0.52	\$ 0.89
Weighted average shares and equivalents outstanding.....	2,191	3,504	6,008	7,602

## AS OF DECEMBER 31,

	1995	1996	1997	1998
CONSOLIDATED BALANCE SHEET DATA:				
Cash and cash equivalents.....	\$ 82	\$ 6,355	\$ 2,536	\$12,452
Working capital (deficit).....	(621)	7,824	3,368	13,736
Total assets.....	4,128	14,200	43,605	58,736
Long-term debt, net of current portion.....	613	--	6,000	5,940
Total stockholders' equity.....	1,850	11,746	25,959	37,754

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, including those set forth under "Risk Factors" and elsewhere in this prospectus. You should read this section in conjunction with our consolidated financial statements and the related notes, which begin on page F-1.

OVERVIEW

JAKKS was founded to develop, produce and market children's toys and related products. We commenced business operations when we assumed operating control over the toy business of Justin Products Limited ("Justin"), and have included the results of Justin's operations in our consolidated financial statements from July 1, 1995, the effective date of that acquisition. The Justin product lines, which consisted primarily of fashion dolls and accessories and electronic products for children, accounted for substantially all of our net sales for the period from April 1, 1995 (inception) to December 31, 1995.

One of our key strategies has been to grow through the acquisition or licensing of product lines, concepts and characters. In 1996, we expanded our product lines to include products based on licensed characters and properties, such as World Wrestling Federation action figures.

We acquired Road Champs in February 1997, and have included the results of operations of Road Champs from February 1, 1997, the effective date of the acquisition. We acquired the Child Guidance and Remco trademarks in October 1997, both of which contributed to operations nominally in 1997, but contributed more significantly to operations commencing in 1998.

Our products currently include (1) toys and action figures featuring licensed characters, including popular wrestling characters under our World Wrestling Federation license, (2) die-cast collectible and toy vehicles marketed under our Road Champs and Remco brand names, (3) pre-school electronic toys marketed under our Child Guidance brand name, and (4) fashion dolls and related accessories.

In general, we acquire products or product concepts from others or we engage unaffiliated third parties to develop our own products, thus minimizing operating costs. Royalties payable to our developers generally range from 1% to 6% of the wholesale price for each unit of a product sold by us. We expect that outside inventors will continue to be a source of new products in the future. We also generate internally new product concepts, for which we pay no royalties.

In June 1998, we formed a joint venture with THQ, a developer, publisher and distributor of interactive entertainment software, and the joint venture licensed the rights from Titan Sports to publish World Wrestling Federation electronic video games on all platforms. The license agreement permits the joint venture to release these games after November 16, 1999. We expect that the first game produced under this license will be released in late 1999. We also expect that JAKKS and THQ will share equally any profits generated by the joint venture.

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. These methods allow us to reduce certain operating costs and working capital requirements. A portion of our sales, primarily sales of our Road Champs products, originate in the United States, so we hold certain inventory in a warehouse and fulfillment facility operated by an unaffiliated third party. In addition, we hold inventory of other products from time to time in support of promotions or other domestic programs with retailers. To date, substantially all of our sales have been to domestic customers. We intend to expand distribution of our products into foreign territories and, accordingly, we have (1) engaged a representative to oversee sales in certain territories, (2) engaged distributors in certain territories, and (3) established direct relationships with retailers in certain territories.

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.

Our cost of sales consists primarily of the cost of goods produced for us by unaffiliated third-party manufacturers, royalties earned by licensors on the sale of these goods and amortization of the tools, dies and molds owned by us that are used in the manufacturing process. Other costs include inbound freight and provisions for obsolescence. Significant factors affecting our cost of sales as a percentage of net sales include (1) the proportion of net sales generated by various products with disparate gross margins, (2) the proportion of net sales made domestically, which typically carry higher gross margins than sales made in Hong Kong, and (3) the effect of amortizing the fixed cost components of cost of sales, primarily amortization of tools, dies and molds, over varying levels of net sales.

Selling, general and administrative expenses include costs directly associated with the selling process, such as sales commissions, advertising and travel expenses, as well as general corporate expenses, goodwill and trademark amortization and product development. We have recorded goodwill of approximately \$11.0 million and trademarks of approximately \$14.4 million in connection with acquisitions made to date. Goodwill is being amortized over a 30-year period, while trademark acquisition costs are being amortized over periods ranging from 10 to 30 years.

#### RECENT OPERATING RESULTS

On April 12, 1999, we announced operating results for our first quarter ended March 31, 1999. Net sales for the quarter in 1999 totaled \$25.0 million, an increase of 126% from \$11.0 million for the comparable period in 1998. Net income in the 1999 quarter was \$2.0 million, an increase of 334% from \$0.5 million in the 1998 quarter, while diluted earnings per share increased to \$0.25 in the 1999 quarter from \$0.08 in the 1998 quarter.

## RESULTS OF OPERATIONS

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

	APRIL 1, 1995	YEARS ENDED DECEMBER 31,		
	(INCEPTION) TO DECEMBER 31, 1995	1996	1997	1998
Net sales.....	100.0%	100.0%	100.0%	100.0%
Cost of sales.....	68.0	60.0	61.7	61.0
Gross profit.....	32.0	40.0	38.3	39.0
Selling, general and administrative expenses.....	23.0	30.0	28.4	28.2
Income from operations.....	9.0	10.0	9.9	10.8
Interest, net.....	0.1	(1.1)	1.0	0.4
Other (income) expense.....	(0.2)	--	0.7	0.7
Income before income taxes.....	9.1	11.1	8.2	9.7
Provision for income taxes.....	1.9	1.3	1.6	2.2
Net income.....	7.2%	9.8%	6.6%	7.5%

## YEARS ENDED DECEMBER 31, 1998 AND 1997

Net Sales. Net sales increased \$43.4 million, or 103%, to \$85.3 million in 1998 from \$41.9 million in 1997. The significant growth in net sales was due primarily to the continuing growth of the World Wrestling Federation action figure product line with its expanded product offerings and frequent character releases, as well as to the full year impact on sales of the Remco toy vehicles and Child Guidance pre-school toys which contributed only nominally in 1997 from their acquisition date in late October 1997. Contributions made by sales of Road Champs die-cast toy and collectible vehicles and our holiday doll line were comparable with the prior year, while our line of radio-controlled vehicles made only nominal contributions to net sales in 1998.

Gross Profit. Gross profit increased \$17.2 million, or 107%, to \$33.3 million in 1998, or 39.0% of net sales, from \$16.1 million, or 38.3% of net sales, in 1997. The overall increase in gross profit was attributable to the significant increase in net sales. The increase in the gross profit margin of 0.7% of net sales was due in part to the changing product mix, which included products, such as World Wrestling Federation action figures, with higher margins than some of our other products. The higher margin resulting from lower product costs was offset in part by higher royalties, and the amortization expense of molds and tools used in the manufacture of our products was comparable on a percentage basis.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$12.1 million, or 102%, to \$24.0 million, or 28.2% of net sales, in 1998, from \$11.9 million, or 28.4% of net sales, in 1997. The overall significant increase of \$12.1 million in these costs was due in large part to the full year impact of costs associated with our addition of infrastructure in the United States and Hong Kong in connection with the Road Champs acquisition, as well as to development and marketing costs of products under our recently-acquired Child Guidance and Remco trademarks and under existing products lines, such as the World Wrestling Federation action figures. Selling, general and administrative expenses decreased modestly as a percentage of net sales due in part to the fixed nature of certain of these expenses, which were offset in part by increases in



advertising expenses and product development costs in 1998. The overall dollar increase was also due to the significant increase in net sales with their proportionate impact on variable selling costs, such as freight and shipping related expenses, sales commissions, cooperative advertising and travel expenses. We produced television commercials in support of several of our products, including World Wrestling Federation action figures in 1998 and 1997, as well as radio-controlled vehicles in 1997. From time to time, we may increase our advertising efforts, including the use of more expensive advertising media, such as television, if we deem it appropriate for particular products.

Interest, Net. We had comparable interest-bearing obligations in 1998 and in 1997 with our convertible debentures and seller notes issued in connection with the Child Guidance/Remco and Road Champs acquisitions. In addition, we had comparable average cash balances during 1998 and 1997.

Provision for Income Taxes. Provision for income taxes included Federal, state and foreign income taxes in 1998 and also included a tax benefit generated by operating losses for Federal and state purposes in 1997. Our earnings were subject to effective tax rates of 22.6% and 18.8% in 1998 and 1997, respectively, benefiting from a flat 16.5% Hong Kong Corporation Tax on our income arising in, or derived from, Hong Kong. As of December 31, 1997, we had federal and state net operating loss carry-forwards of \$727,000 and \$306,000, respectively, available to offset future taxable income. The carry-forwards were fully utilized in 1998. As of December 31, 1998, we had deferred tax assets of approximately \$493,000 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, 1997 AND 1996

Net Sales. Net sales increased \$29.8 million, or 248%, to \$41.9 million in 1997 from \$12.1 million in 1996. The significant growth in net sales was due primarily to the continuing growth of the World Wrestling Federation action figure product line with its expanded product offerings and frequent character releases, as well as to the contribution made by sales of Road Champs die-cast toy and collectible vehicles, which have been included from the effective date of the acquisition, February 1, 1997. Our holiday doll line performed comparably with the prior year and our new line of radio-controlled vehicles made modest contributions to net sales in 1997.

Gross Profit. Gross profit increased \$11.3 million, or 233%, to \$16.1 million, or 38.3% of net sales, in 1997 from \$4.8 million, or 40.0% of net sales, in 1996. The overall increase in gross profit was attributable to the significant increase in net sales. The decline in the gross profit margin of 1.7% of net sales was due in part to the changing product mix, which included products, such as Road Champs and radio-controlled vehicles, with lower margins than some of our other products.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$8.3 million, or 229%, to \$11.9 million, or 28.4% of net sales, in 1997 from \$3.6 million, or 30.0% of net sales, in 1996. The significant overall increase of \$8.3 million in such costs was due in large part to the costs associated with our addition of infrastructure in the United States and Hong Kong in connection with the Road Champs acquisition. We have since combined the acquired operations in Hong Kong with those of our existing operations and may achieve other efficiencies in our operations. As expected,

selling, general and administrative expenses decreased as a percentage of net sales due in part to the fixed nature of certain of these expenses. The overall dollar increase was also due to the significant increase in net sales with their proportionate impact on variable selling costs, such as freight and shipping related expenses, sales commissions and travel expenses. Additionally, we produced television commercials in support of several of our products, including World Wrestling Federation action figures and radio-controlled vehicles.

Interest, Net. We had significantly higher interest-bearing obligations in 1997 than in 1996 resulting from the issuance of our convertible debentures and seller notes in connection with the Road Champs acquisition. In addition, we had lower average cash balances during 1997 than in 1996 due to significant cash payments made and working capital employed in connection with the Road Champs acquisition.

Provision for Income Taxes. Provision for income taxes included state and foreign income taxes in 1997 and also included a tax benefit generated by operating losses for Federal and state purposes in 1996. Our earnings were subject to effective tax rates of 18.8% and 12.2% in 1997 and 1996, respectively, benefiting from a flat 16.5% Hong Kong Corporation Tax on our income arising in, or derived from, Hong Kong. As of December 31, 1997, we had federal and state net operating loss carry-forwards of \$727,000 and \$306,000, respectively, available to offset future taxable income.

#### 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.

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

	1997				1998			
	1ST	2ND	3RD	4TH	1ST	2ND	3RD	4TH
	(IN THOUSANDS, EXCEPT PER SHARE DATA)							
Net sales.....	\$5,235	\$8,059	\$15,919	\$12,732	\$11,030	\$16,131	\$34,218	\$23,873
Gross profit.....	2,058	3,203	6,620	4,189	4,350	6,118	13,242	9,542
Income from operations.....	173	721	2,021	1,260	768	1,427	5,069	1,983
Income before income taxes.....	124	604	1,908	793	610	1,316	4,648	1,658
Net income.....	203	457	1,455	671	462	958	3,434	1,521
Diluted earnings per share.....	\$ 0.05	\$ 0.10	\$ 0.29	\$ 0.11	\$ 0.08	\$ 0.14	\$ 0.45	\$ 0.21
Weighted average shares and equivalents outstanding.....	4,332	4,752	5,092	6,953	7,160	7,786	7,872	7,837

	1997				1998			
	1ST	2ND	3RD	4TH	1ST	2ND	3RD	4TH
	(IN PERCENTAGES OF NET SALES)							
Net sales.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit.....	39.3	39.7	41.6	32.9	39.4	37.9	38.7	40.0
Income from operations.....	3.3	8.9	12.7	9.9	7.0	8.8	14.8	8.3
Income before income taxes.....	2.4	7.5	12.0	6.2	5.5	8.2	13.6	6.9
Net income.....	3.9	5.7	9.1	5.3	4.2	5.9	10.0	6.4

#### LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 1998, we had working capital of \$13.7 million, as compared to \$3.4 million as of December 31, 1997. This increase was primarily attributable to operating activities and the placement of our preferred stock in April 1998.

Operating activities provided net cash of \$12.0 million in 1998 as compared to \$3.2 million in 1997. Net cash was provided primarily by net income, non-cash charges, such as depreciation, amortization and recognition of compensation expense for options, and increases in operating liabilities, which were offset in part by increases in accounts receivable and inventory. As of December 31, 1998, we had cash and cash equivalents of \$12.5 million.

Our investing activities used net cash of \$5.1 million in 1998, as compared to \$24.4 million in 1997, consisting primarily of the purchase of molds and tooling used in the manufacture of our products, the initial funding of the World Wrestling Federation joint venture in 1998, trademarks purchased in connection with the acquisitions of Road Champs and the Child Guidance and Remco brands, and goodwill acquired in connection with the acquisition of Road Champs in 1997. 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 10% payable on net sales of such products. As of January 1, 1999, these agreements required future aggregate minimum guarantees of \$17.2 million, exclusive of \$1.3 million in advances already paid.

Our financing activities provided net cash of \$3.0 million in 1998, consisting primarily of the issuance of 1,000 shares of our preferred stock at a price of \$5,000 per share in a private placement to two investors, partially offset by the repayment of various debt issued in connection with the Road Champs and Child Guidance/Remco trademark acquisitions. In 1997, financing activities provided net cash of \$17.4 million, consisting of the issuance of our 4% Redeemable Convertible Preferred Stock in October 1997, which provided \$6.8 million, net of offering costs, the placement of our convertible debentures in January 1997, which provided \$5.5 million, net of offering costs, and various notes and other debt issued in connection with our acquisitions in 1997, less approximately \$5.2 million in debt repaid.

In January 1997, we received proceeds, net of issuance costs, of approximately \$5.5 million from the issuance of \$6.0 million in convertible debentures, which were converted in March and April 1999 into 1,043,479 shares of our common stock at a conversion price of \$5.75 per share. These debentures bore interest at 9% per annum, payable monthly, and were due in December 2003.

In February 1997, we acquired Road Champs for approximately \$12.5 million. Consideration paid at closing was approximately \$4.7 million in cash plus the issuance of 198,020 shares of our common stock (valued at approximately \$1.5 million) and the assumption of approximately \$766,000 of liabilities. The balance of the cash consideration (\$5.5 million) was paid during the twelve-month period ended in February 1998. Assets included in the purchase were molds and tooling, office and warehouse equipment and other operating assets, as well as license agreements, trade name and goodwill.

In October 1997, we acquired the Child Guidance and Remco trademarks for approximately \$13.4 million. Consideration paid at closing was \$10.6 million in cash plus the issuance of a 10% note payable in the amount of \$1.2 million, which was paid in five quarterly installments ended December 31, 1998. In addition, we incurred legal and accounting fees of approximately \$203,000 and assumed liabilities of \$1.4 million. The acquisition was funded in part by the issuance of shares of our 4% Redeemable Convertible Preferred Stock, which were converted into 939,998 shares of our common stock in March 1998. Also in connection with this acquisition, we entered into a manufacturing and supply agreement whereby the seller of the trademarks will provide the tools and other manufacturing resources for the production of products under the trademarks. That agreement provides for four quarterly payments to the seller of \$110,000, followed by six quarterly payments of \$160,000, which commenced on December 31, 1997.

In October 1997, we entered into a credit facility agreement with Norwest Bank Minnesota, N.A. which provides our Hong Kong subsidiaries with a working capital line of credit and letters of credit for the purchase of products and the operation of those subsidiaries. The facility, which expires on May 31, 1999, has an overall limit of \$5.0 million, but is subject to other limitations based on advance rates on letters of credit and open accounts receivable. We expect to extend the term of this facility or to seek an alternative facility. As of December 31, 1998, there were no advances outstanding under the facility.

In April 1998, we received \$4.7 million in net proceeds from the issuance of shares of our Series A Cumulative Convertible Preferred Stock to two investors in a private placement, which are currently convertible into 558,658 shares of our common stock at a conversion price of \$8.95 per share. The use of proceeds was for working capital and general corporate purposes.

We believe that our cash flows from operations, cash and cash equivalents on hand and cash from the net proceeds of this offering, together with the availability under the Norwest facility, 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

We sell all of our products in U.S. dollars and pay for all of our manufacturing costs in either U.S. or Hong Kong dollars. Operating expenses of the Hong Kong office are paid in Hong Kong dollars. 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 will not have a material adverse effect on our business, financial condition or results of operations.

#### RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board ("FASB") recently issued Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income," which is effective for financial statements issued for fiscal years beginning after December 15, 1997. This statement establishes standards for reporting and displaying comprehensive income and its components in financial statements. Comprehensive income, as defined, includes all changes to equity (net assets) during a period from non-owner sources. To date, we have not had any transactions that are required to be reported in other comprehensive income.

The FASB recently issued SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," which is effective for financial statements issued for fiscal years beginning after December 15, 1997. This statement establishes standards for the way public business enterprises are to report information about operating segments in annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports. We operate in one reportable segment: the development, production and marketing of toys and related products.

#### IMPACT OF THE YEAR 2000

Many currently installed computer systems and software products are dependent upon internal calendars coded to accept only two digit entries in the date code field. These date code fields will need to accept four digit entries to distinguish 21st century dates from 20th century dates. As a result, our computer systems and software may need to be upgraded to comply with Year 2000 requirements. Otherwise, system failures or miscalculations leading to disruptions in our operations could occur. We have taken actions to address this potential problem, including the identification of any non-compliant processes or systems and the implementation of corrective measures. We expect to replace internal software with non-compliant codes with software that is compliant by July 1999.

We believe the financial reporting systems of our Hong Kong subsidiaries are Year 2000 compliant. Their systems were upgraded in 1998 in the normal course of business with software and hardware which the manufacturer has represented as being Year 2000 compliant. We are currently in the process of selecting a new software package in our corporate office which the manufacturer has represented as being Year 2000 compliant, and we believe it will be implemented by July 1999. We estimate the cost of this new software, including implementation and data conversion costs, to be approximately \$60,000. Our other software is generally certified as Year 2000 compliant or is not considered critical to our operations.

Other than the cost of the new software to be implemented in our corporate office, we have spent only nominal amounts on the Year 2000 issue, and we do not expect any significant future expenditures. Although we believe our cost estimates to be accurate, we cannot assure you that these costs will not increase or that the proposed solutions will be installed on schedule by the date estimated.

We have addressed the Year 2000 preparedness of our critical suppliers and major customers and related electronic data interfaces with these third parties. We began in 1998, and are continuing our efforts, to contact critical suppliers and larger customers to determine whether they are, or will be, compliant by the Year 2000. Based on our evaluation and testing, these third parties are, or are expected to be, compliant by the Year 2000. However, we will continue to monitor the situation and we will formulate contingency plans to resolve customer-related issues that may arise. At this time we cannot estimate the impact that noncompliant suppliers and customers may have on us or our level of operations in the Year 2000. At present, we have not developed contingency plans, but we will determine whether to develop such plans when our assessment is completed.

## BUSINESS

## COMPANY OVERVIEW

We design, develop, produce and market toys and related products. Our principal products are (1) action figures and accessories featuring licensed characters, principally from the World Wrestling Federation, (2) Road Champs die-cast collectible and toy vehicles and Remco toy vehicles and role-play toys and accessories, (3) Child Guidance infant and pre-school electronic toys, and (4) fashion and mini dolls and related accessories. We focus on "evergreen" branded products that are less subject to market fads or trends and feature well-known brand names and simpler, lower-priced toys and accessories.

We have been successful at acquiring and capitalizing on "evergreen" brands, which are well-recognized trademarks or corporate, trade or brand names with long product histories. We continually review the marketplace to identify and evaluate evergreen brands that, for various reasons, we believe are underperforming. We seek to acquire or license these brands and revitalize them by intensifying the marketing effort to restore and enhance consumer recognition and retailer interest. We reinforce brands by linking them with other evergreen brands on our products, adding to the branded product lines new items that we expect to enjoy greater popularity, eliminating products with fading popularity, adding new features and improving the functionality of products in the line. We also try to improve point-of-sale brand visibility through better shelf positioning and more eye-catching product packaging.

We license much of the intellectual property we use in our business. We license the World Wrestling Federation trademark, as well as numerous other trademarks, corporate, trade and brand names and logos from third parties, including Car and Driver, Caterpillar, Peterson Publishing Co. and B.A.S.S. Masters. This enables us to use high-profile marks at a lower cost than that which 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 those that would be available for purchase, and we maintain the flexibility to acquire newly-popular marks and to discontinue our use of marks whose popularity or value has faded. We also license technology produced by unaffiliated inventors and product developers to improve the design and functionality of our products. We believe that our experience in the toy industry, our flexibility and our recent success in developing and marketing products make us more attractive to toy inventors and developers.

Most of our current products are relatively simple and inexpensive toys. We believe that these products have proven to have enduring appeal and are less subject to general economic conditions, toy product fads and trends, changes in retail distribution channels and other factors. 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.

We formed our joint venture with THQ in June 1998 to develop, manufacture and market, under an exclusive license with Titan Sports, video games based on World Wrestling Federation characters and themes. The joint venture's first product is expected to be released at the end of 1999.

We sell our products through our in-house sales staff and independent sales representatives. Purchasers of our products include toy and discount retail chain stores,

department stores, toy specialty stores and wholesalers. The Road Champs products are also sold to smaller hobby shops, specialty retailers and corporate accounts, among others. Our five largest customers are Toys 'R Us, Wal-Mart, Kay-Bee Toys, Kmart and Target.

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 not to 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 with a smaller staff.

#### INDUSTRY OVERVIEW

According to Toy Manufacturers of America, Inc. ("TMA"), the leading industry trade group, total manufacturers' shipments of toys, excluding video games, in the U.S., were approximately \$15.2 billion in 1998. According to the TMA, the United States is the world's largest toy market, followed by Japan and Western Europe. Sales by U.S. toy manufacturers to non-U.S. customers totaled approximately \$5.5 billion in 1997 (the last year for which TMA published this data). We believe the two largest U.S. 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 video game segment, manufacturers' shipments of video game software were approximately \$3.0 billion in 1998.

#### BUSINESS STRATEGY

Our business strategy consists of the following elements:

- Expand core products. In 1999, we plan to introduce hundreds of new items within our core product lines, including World Wrestling Federation action figures and accessories, Road Champs and Remco vehicles, Child Guidance toys and our fashion dolls, and to continue to add technological and functional innovations to our product lines.
- Enter new product categories. Through our participation in the joint venture, we expect to enter the video game market with its line of World Wrestling Federation licensed video games. Also, we will continue to use our extensive experience in the toy industry to evaluate toys and licenses in new product categories and to develop additional product lines in 1999 and beyond.
- Pursue strategic acquisitions. Since our inception, we have acquired and developed evergreen brands through the acquisition of other toy companies or their assets. These include our Road Champs, Remco and Child Guidance product lines. We intend to continue our efforts to acquire and develop evergreen brands through the opportunistic acquisition of other toy businesses with valuable trademarks or brands and compatible product lines.
- Acquire 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 in conjunction with our primary trademarks and brands. Currently, we have license



agreements with Titan Sports, Car and Driver, Caterpillar, Petersen Publishing Co. and B.A.S.S. Masters, among others. We intend to continue to pursue new licenses from these companies and from other entertainment and media companies. 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 in Europe and Canada, offer us the opportunity for growth. We intend to expand our international sales by capitalizing on our experience and our relationships with foreign distributors and retailers.
- Exploit our operating efficiencies. We believe that our current infrastructure and low-overhead operating methods can accommodate significant growth without a proportionate increase in our operating and administrative expenses, thereby increasing our operating margins.
- Leverage core product cash flows. Allowing for the natural seasonal fluctuations in the toy industry, sales of our core products have historically generated a reliable revenue stream. We expect this trend to continue and plan to use a portion of these cash flows to fund our entry into new product lines and consumer markets.

## PRODUCTS

- - World Wrestling Federation Action Figures and Accessories

We have a master toy license with Titan Sports pursuant to which we have the exclusive right, until December 31, 2009, to develop and market a full line of toy products based on the popular World Wrestling Federation professional wrestlers in the United States, Canada, Europe (excluding Great Britain), Australia and Africa. 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 six-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. The six-inch figures currently make up a substantial portion of the overall World Wrestling Federation line, which has since grown to include many other new products. Our strategy has been to release new figures and accessories frequently to keep the line fresh and to retain the interest of the consumers.

Following the launch of the action figures, we marketed wrestling ring play sets and microphones with action background sounds to enhance the play value of the action figures. Since then, we have continually added new products, including action figures of varying sizes, such as three-inch sets with wrestling rings, amplifying microphones, seven-inch collector's editions, large soft body figures and small bean-bag figures with electronic sound chips of the popular wrestlers' catch phrases and in-ring banter. Building on the popularity of World Wrestling Federation and its wrestlers, we have continued to develop the line with exciting and innovative technological and functional concepts to enhance the value of the line.

In 1999, we will be introducing a line of 12-inch interactive figures that has created a new category of toys in the industry. The line will be launched with a figure based on the World Wrestling Federation World Champion, "Stone Cold Steve Austin." The figures will be capable of accepting daily downloads of sound bites from a World

Wrestling Federation web site, to which we expect to contribute content compatible with our toy products. We expect this product to create awareness of our pending presence on the internet in support of our current e-commerce efforts. Another technological innovation that will be added in 1999 is the "Titan Tron," featuring proximity-based technology that enables this play set to recognize the character of specially-equipped wrestling figures in order to play the wrestler's unique video and theme music with flashing lights. Other enhancements to the World Wrestling Federation product line include a sweating functionality in the "Maximum Sweat" line of action figures where the figures, when filled with water, "sweat" from the brow and chest, adding more realism and play value to the line. The various World Wrestling Federation products retail from \$5.99 to \$49.99.

- - World Wrestling Federation 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 Titan Sports under which it acquired the exclusive worldwide right to publish World Wrestling Federation video games on all hardware platforms. The games will be designed, developed, manufactured and marketed by the joint venture. We expect that JAKKS and THQ will share equally any profits generated by the joint venture.

The license agreement with Titan Sports permits the joint venture to release its first World Wrestling Federation game after November 16, 1999, and we expect that the first game produced under this license will be released in late 1999. The term of the license agreement expires on December 31, 2009, subject to a right of the joint venture to renew the license for an additional five years under various conditions.

The joint venture will publish titles for the Sony PlayStation and Nintendo 64 consoles, hand-held Game Boy and personal computers ("PCs"). We expect the joint venture will launch its first product, a video game for the Nintendo 64 platform, and, if possible, a product for Game Boy, in late November or December 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 will be marketed to our existing customers as well as to game, electronics and other specialty stores, such as Electronics Boutique and Best Buy. The home video game software market consists both of (1) cartridge-based and CD-ROM-based software for use solely on dedicated hardware systems, such as Sony PlayStation and Nintendo 64, and (2) software distributed on CD-ROMs for use on PCs. According to NPD Group, a leading independent toy industry research firm, Nintendo 64 and Sony PlayStation accounted for a substantial portion of the installed base of all hardware platforms and software sales in 1998.

Under non-exclusive licenses with Sony, Nintendo and Sega, the joint venture will arrange for the manufacture of the CD-ROMs and cartridges. No other licenses are required for the manufacture of the PC titles. Profit margins for cartridge products can vary based on the cost of the memory chip used for a particular title. As software has grown more complex, the trend in the software industry has been to utilize chips with greater capacity and thus greater cost. CD-ROMs have significantly lower per unit manufacturing costs than cartridge-based products. However, these savings may be offset by typically higher development costs for titles published on CD-ROMs; these higher

costs result from increasing and enhancing content to take advantage of the greater storage capacity of CD-ROMs.

Wrestling video games have demonstrated consistent popularity, with two wrestling-theme video games among the top 10 video games, in terms of unit sales volumes, in 1998. Approximately 2.3 million units of these two games were sold in 1998, at retail prices ranging from approximately \$42 to \$60. We believe that the success of the World Wrestling Federation titles is dependent on the graphic look and feel of the software, the depth and variation of game play and the popularity of the World Wrestling Federation. We believe that as a franchise property, the World Wrestling Federation titles will 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. Also, as new hardware platforms are introduced, software for these platforms requires new standards of design and technology to fully exploit these platforms' capabilities and requires that software developers devote substantial resources to product design and development.

The joint venture will use external software developers to conceptualize and develop titles. We expect that, generally, these developers will receive advances based on specific development milestones and royalties in excess of the advances based on a fixed amount per unit sold or on a percentage, typically ranging from 8% to 12%, of net sales. Upon completion of development, each title will be extensively "play-tested" by us and THQ and sent to the manufacturer for its review and approval.

- - 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). As a part of the Road Champs acquisition in February 1997, we acquired the right to produce the Road Champs line of die-cast and collectible vehicle replicas, including various well-known vehicles from Ford, Chevrolet and Jeep, as well as the right to use familiar corporate names on the die-cast vehicles, such as Pepsi and Hershey. Recently, we licensed the right to reproduce vehicles featured on the covers of automotive magazines, such as Rod & Custom and Car and Driver, and to market vehicles with the B.A.S.S. Masters logo and replicas of the World Wrestling Federation Attitude Racing NHRA Team. We believe that these licenses increase the perceived value of the products and enhance their marketability. Under the terms of these licenses, which expire on various dates through May 10, 2001 (many of which include automatic annual extensions without affirmative action taken by either party), we pay the licensor a royalty based on our sales of each product bearing such licensed name. While we are not required to pay any royalty on some of the products, the royalties on a majority of the products range from 1% to 9% of sales. The Road Champs products are produced by unaffiliated foreign manufacturers. These products are sold individually, retailing from \$2.99 to \$7.99 each, and in play sets which retail from \$9.99 to \$24.99 each.

We have divided the markets of this product line into adult collectible and children's toy segments, recognizing the specific needs of these different consumers. Each collector product features a collector case in which to store and display the vehicle and a certificate of authenticity. We produce a limited number, generally not more than 10,000, of each distinctive product to enhance its collectibility. This line presently has

numerous themes, including Anniversary Collection, Police, Then & Now, World War II Fighter Planes and Classics Scenes, with die-cast scenic accessories, such as 1950's soda machines or gas pumps. The toy segment is marketed by focusing on size and value with its slogan "Bigger is Better." Our die-cast vehicles are 1/43 scale, which are larger than most other competing die-cast vehicles. The size appeals to collectors, since it enables us to show greater detail on the vehicles, and to children and their parents, who perceive a greater value in the larger size. The toys are packaged on two-pack blister cards, further highlighting the value. In addition, series were created to encourage children to collect our vehicles.

- - Remco Toy Vehicles and Role Play

Our Remco toy line includes toy vehicles, role play and other toys. Our toy vehicle line is comprised of a large assortment of rugged die-cast and plastic vehicles. Marketed under a sub-brand called "Tuff Ones," our toy vehicles range in size from 4 3/4" to big-wheeled 17" vehicles. We have revitalized them considerably by creating new packaging, redecorating the vehicles and adding highly-recognized licensed names, such as NASA, Pennzoil, U-Haul and Castrol, among others. The breadth of the line is extensive, with themes ranging from emergency, fire, farm and construction, to racing and jungle adventure. In 1999, we expanded our Remco vehicle line by adding an innovative line of trucks, called "Real Ones," which enhances the traditional play pattern by allowing children to drain an oil tanker, empty a dump truck full of dirt, or dispose of an entire load of garbage without making a mess. We accomplished this by enclosing real materials inside the trucks in a way that makes vehicle play more fun without the mess.

We offer a variety of branded and non-branded role play sets in this new category under the Remco name. Themes include Caterpillar construction, B.A.S.S. Masters fishing, police, fire and NASA. Additionally, capitalizing on the popularity of World Wrestling Federation, we will be introducing a World Wrestling Federation role play product which will give children the opportunity to dress like and imagine being their favorite wrestling superstars.

We market Remco "Fight Back Action Fishing Poles" under the B.A.S.S. Masters license for fun with simulated fishing action.

- - Child Guidance Infant and Pre-school Toys

We acquired the Child Guidance trade name in 1997 to accelerate our entry into the infant/pre-school toy category. This category has been recently dominated by higher-priced licensed products, which creates an opportunity for us to sell our lower price, high value line of 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. The line consists of more than 50 products that are marketed in continually updated "try me" interactive packaging that allows the consumers to sample the product prior to purchase. We support the products with extensive advertising in popular magazines and other publications, focusing on parenting, women's and family publications, including Good Housekeeping. These products carry the Good Housekeeping Seal of Approval(R). Our current products include the Wiggle Waggle Caterpillar and Musical Pony pull-along toys, which were introduced in 1998. Other 1998 noteworthy products include

Musical Magnets, which were recognized as one of the top toys of the year by Sesame Street Parent Magazine. In 1999, we have extended the Wiggle Waggle line to include the Wiggle Waggle Duck, which features spinning action. We have added approximately 30 other new products to the line in 1999. We have recently expanded the distribution of the Child Guidance products to include more upscale and specialty retailers. Child Guidance products are priced at retail from \$2.99 to \$14.99.

In addition to creating products internally, we often acquire products and concepts from numerous toy inventors with whom we have ongoing relationships. 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. Both development of internally-created items and acquiring items are ongoing efforts. In either case, it may take as long as nine months for an item to reach the market. As part of an effort to keep the product line fresh and to extend the life of the item, we create new packaging, change sound chips and change product colors from time to time.

- - Fashion/Mini Dolls

We produce various proprietary fashion dolls and accessories for children between the ages of three and 10. The product lines include: (1) 11 1/2" fashion dolls customized with high-fashion designs that correspond with particular holidays, events or themes, such as Christmas, birthdays, Fairytale, Victorian Romance and Gibson Girl Romance; and (2) 6 1/2" fashion dolls based on children's classic fairy tales and holidays. In 1999, we intend to add to our doll line by producing additional dolls based on other theme-based play sets.

We have introduced two new line extensions for sale in 1999: (1) 15 1/2" fashion dolls that have movable body parts and intricate hairstyles and that have themes such as Era of Elegance, Renaissance and Ballet; and (2) our American Sisters baby dolls in paired 12" and 8" sizes with themes like Off to School, Ballet Recital, Birthday Surprise and Tea Party Fun. These dolls will be priced at retail from \$9.99 to \$24.99.

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.

SALES, MARKETING AND DISTRIBUTION

We sell all of our products through our own in-house sales staff and independent sales representatives. Purchasers of our products include toy and discount retail chain stores, department stores, toy specialty stores and wholesalers. The Road Champs product line is also sold to smaller hobby shops, specialty retailers and corporate accounts, among others. Our five largest customers are Toys 'R Us, Wal-Mart, Kay-Bee Toys, Kmart and Target, which accounted for approximately 61.7% of our net sales in 1997 and 69.6% in 1998. 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 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 are generally made in writing, and we take appropriate steps to notify our manufacturers of such cancellations. Based upon the sales of the Road Champs products in the past, we expect approximately half of the Road Champs products to be sold domestically through a third-party warehouse and fulfillment center in Seattle, Washington, where we store inventory for sale.

We maintain a full-time sales and marketing staff, many of whom make on-site visits to customers for the purpose of 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 generally budget approximately 5% of our net sales for advertising and promotion of our products. We produce and broadcast television commercials for our World Wrestling Federation action figure line. 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. We advertise our products in trade and consumer magazines and other publications, market our products at major and regional toy trade shows, conventions and exhibitions and carry on cooperative advertising with toy retailers and other customers.

Outside of the United States, we currently sell our products primarily in Canada, Great Britain, Latin America, Australia and Japan. Sales of our products abroad accounted for approximately 8.9% of our net sales in 1997 and 7.4% in 1998. We believe that foreign markets present an attractive opportunity, and we plan to intensify our marketing efforts and expand our distribution channels abroad.

#### PRODUCT DEVELOPMENT

Each of our product lines has an in-house manager responsible for product development, including identifying and evaluating 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. While we do have the capability to create and develop products from inception to production, we 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 to culminate in production of the products for shipment to our customers.

We generally acquire our 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 developers generally range from 1% to 6% 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 our experience in the toy industry, our flexibility and 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 independent third-party contractors engaged by us, and is designed to meet safety regulations imposed by federal and state governmental authorities. We also monitor quality assurance procedures for our products for safety purposes.

#### MANUFACTURING AND SUPPLIES

Our products are currently produced by 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. All of the manufacturing services performed overseas for us are paid for either by letter of credit or 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 approximately 15 manufacturers. We believe that alternative sources of supply are available, although we cannot assure you that adequate supplies of manufactured products can be obtained.

Although we do not conduct the day-to-day manufacturing of our products, we participate in the design of the product prototype and production tooling and molds for the products we develop or acquire, 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 production.

The principal raw materials used in the production and sale of our toy products are zinc alloy, plastics, 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 molds and tooling used in the manufacturing process, and these are transferable among manufacturers if we choose to employ alternative manufacturers.

#### 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. Many of our competitors have greater financial resources, stronger name recognition and larger sales, marketing and product development departments 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, Inc. and Hasbro, Inc. In addition, we compete, in our action figures line, with the Toy-Biz division of Marvel Enterprises, Inc. and, in our toy vehicle lines, with Racing Champions, Inc. We also compete with numerous smaller domestic and foreign toy manufacturers, importers and marketers in each of our product categories. We expect that the joint venture's principal competition in the video game market will be Electronic Arts, which will produce video games based on World Championship Wrestling characters, and Acclaim Entertainment, Inc.

#### SEASONALITY AND BACKLOG

Sales of toy products are seasonal. In 1998, approximately 68.1% our 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. Due to these fluctuations, our results of operations for any quarter may vary significantly. Our results of operations may also fluctuate as a result of factors such as the timing of new products (and expenses incurred in connection therewith) 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 product lines that we sell 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 Product Safety Commission 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 Consumer Products Safety Commission to regulate and enforce flammability standards for fabrics used in consumer products. The Consumer Products Safety Commission may also require the repurchase by the manufacturer of articles which are banned. 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. In addition, many of our Child Guidance products are sold under the Good Housekeeping Seal of Approval(R). To qualify for this designation, our products are tested by Good Housekeeping to ensure compliance with its product safety and quality standards.



## EMPLOYEES

As of April 26, 1999, we employed 70 persons, including three executive officers. Forty of our employees were located in the United States as of such date, while the remaining 30 were located in Hong Kong. We believe that we have good relationships with our employees. None of our employees is represented by a union.

## PROPERTIES

Our principal executive offices occupy approximately 9,000 square feet of space in Malibu, California under a lease expiring on August 31, 2002. We lease showroom and office space of approximately 4,100 square feet at the International Toy Center in New York City. We also have leased office and showroom space of approximately 5,000 square feet in Hong Kong from which we oversee our China-based third-party manufacturing operations, and we have smaller leased sites in Dallas, Texas and Union, New Jersey. We believe that our facilities in the United States and Hong Kong are adequate for our reasonably foreseeable future needs.

## 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. We do not believe that any environmental obligations will have a material adverse effect on our business, financial condition or results of operations.

## LEGAL PROCEEDINGS; INSURANCE

We are not a party to, nor is our property the subject of, any pending legal proceeding, other than routine litigation that is incidental to our business. We maintain comprehensive liability insurance with total coverage of \$12.0 million to reduce our exposure from product liability, consumer protection and other claims or legal proceedings.

## MANAGEMENT

## DIRECTORS AND EXECUTIVE OFFICERS

Our directors and executive officers are as follows:

NAME	AGE	POSITIONS WITH THE COMPANY
----	---	-----
Jack Friedman	59	Chairman and Chief Executive Officer
Stephen G. Berman	34	Chief Operating Officer, President, Secretary and Director
Joel M. Bennett	37	Chief Financial Officer
Robert E. Glick	53	Director
Michael G. Miller	51	Director
Murray L. Skala	52	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 LNJ Toys, Ltd., a toy and software company. After LNJ 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. 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.

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 several privately-held affiliated 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 LLP, our general counsel. Mr. Skala is a director of Quintel Entertainment, Inc., a publicly-held company in the business of telecommunications services and entertainment. Mr. Skala has also served as a director of other public companies, including THQ from January 1991 to January 1997, Katz Digital Technologies, Inc., a digital prepress and printing company, from December 1995 to December 1998, and Grand Toys International, Inc. from 1993 to 1994.

All directors hold office until the next annual meeting of stockholders and until their successors are elected and qualified. Directors currently receive no cash compensation for serving on the Board, but are reimbursed for reasonable expenses incurred in attending meetings. Directors who are not employees are entitled to receive options to purchase shares of our common stock upon their initial election as a director and annually while they serve as directors. The holders of our preferred stock have the right, if we miss two quarterly dividends, to designate two persons to be added to our Board of Directors. Officers are elected annually by the Board and serve at the discretion of the Board.

#### 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 recommend the appointment of our independent certified public accountants and to review the scope and effect of such audits. Messrs. Glick, Miller and Skala 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 and compensation, other than our Third Amended and Restated 1995 Stock Option Plan (the "Option Plan"). Messrs. Friedman, Miller and Skala are the current members of the Compensation Committee.

**Stock Option Committee.** The function of the Stock Option Committee is to determine the recipients of and the size of awards granted under the Option Plan. Messrs. Glick and Miller, both of whom are non-employee directors, are the current members of the Stock Option Committee.

## PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth certain information as of April 26, 1999 with respect to the beneficial ownership of our common stock by (1) each of our directors, (2) each Named Officer, (3) all our directors and executive officers as a group and (4) each person known by us to own beneficially more than 5% of the outstanding shares of our common stock.

NAME AND ADDRESS OF BENEFICIAL OWNER -----	SHARES BENEFICIALLY OWNED PRIOR TO THIS OFFERING -----		NUMBER OF SHARES OFFERED -----	SHARES BENEFICIALLY OWNED AFTER THIS OFFERING -----	
	NUMBER -----	PERCENT -----		NUMBER -----	PERCENT -----
Jack Friedman(1) (2).....	959,655 (4)	13.0	192,000	767,655 (4)	8.1
Stephen G. Berman(1) (2).....	171,165 (5)	2.3	58,000	113,165 (5)	1.2
Joel M. Bennett(1).....	24,250 (6)	*	0	24,250 (6)	*
Robert E. Glick(1).....	67,025 (7)	*	0	67,025 (7)	*
Michael G. Miller(1).....	60,025 (8)	*	0	60,025 (8)	*
Murray L. Skala(1).....	158,446 (9)	2.1	0	158,446 (9)	1.7
Renaissance Capital Growth & Income Fund III, Inc.(3)...	596,065 (10)	8.1	0	596,065 (10)	6.3
Renaissance US Growth & Income Trust PLC(3).....	521,739	7.1	0	521,739	5.5
All directors and executive officers as a group (6 persons).....	1,373,694 (11)	18.0	250,000	1,123,694 (11)	11.6

\* Less than 1% of our outstanding shares.

- (1) The address of Messrs. Friedman, Berman, Bennett, Glick, Miller and Skala is 22761 Pacific Coast Highway, Malibu, California 90265.
- (2) If the underwriters' over-allotment option is exercised in full, Mr. Friedman will sell 227,000 shares and will beneficially own 732,655 shares (7.7% of the outstanding shares) after this offering, and Mr. Berman will sell 68,000 shares and will beneficially own 103,165 shares (1.1% of the outstanding shares) after this offering.
- (3) The address of this beneficial owner is 8080 N. Central Parkway, Dallas, TX 75026.
- (4) Includes 66,872 shares held in trusts for the benefit of children of Mr. Friedman. Also includes 41,667 shares which Mr. Friedman may purchase upon the exercise of certain stock options.
- (5) Includes 41,667 shares which Mr. Berman may purchase upon the exercise of certain stock options.
- (6) Includes 23,250 shares which Mr. Bennett may purchase upon the exercise of certain stock options.
- (7) Includes 60,025 shares which Mr. Glick may purchase upon the exercise of certain stock options.
- (8) Represents shares which Mr. Miller may purchase upon the exercise of certain stock options.
- (9) Includes 65,450 shares which Mr. Skala may purchase upon the exercise of certain stock options and 66,872 shares held by Mr. Skala as trustee under trusts for the benefit of children of Mr. Friedman.

- (10) Includes 335,195 shares which Renaissance Capital Growth & Income Fund III, Inc. has the right to acquire upon the conversion of 600 shares of our preferred stock held by it (at a conversion price of \$8.95 per share).
- (11) Includes 66,872 shares held in trusts for the benefit of children of Mr. Friedman and an aggregate of 292,084 shares which the directors and executive officers may purchase upon the exercise of certain stock options.

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 LLP, which has performed, and is expected to continue to perform, legal services for us.

## DESCRIPTION OF SECURITIES

## GENERAL

We are currently authorized to issue 25,000,000 shares of common stock, par value \$.001 per share, and 1,000,000 shares of preferred stock, par value \$.001 per share. As of April 26, 1999, 7,324,530 shares of our common stock were outstanding and owned of record by approximately 65 persons, and 1,000 shares of our preferred stock, consisting of Series A Cumulative Convertible Preferred Stock, were outstanding. After we issue an additional 2,100,000 shares in this offering, 9,424,530 shares will be outstanding.

## COMMON STOCK

Holders of our common stock are entitled to one vote for each share on all matters submitted to a vote of our stockholders, including the election of directors. Our certificate of incorporation does not provide for cumulative voting. Accordingly, holders of a majority of the shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election if they choose to do so. Holders of common stock will be entitled to receive ratably dividends, if any, declared from time to time by our Board of Directors, and will be entitled to receive ratably all of our assets available for distribution to them upon liquidation. Holders of common stock have no preemptive, subscription or redemption rights. All the currently outstanding shares of our common stock are, and all shares of our common stock offered by us hereby, upon issuance and sale, will be, fully paid and nonassessable.

## PREFERRED STOCK

Our certificate of incorporation currently provides that we are authorized to issue up to 1,000,000 shares of "blank check" preferred stock. Without any further approval by our stockholders, our Board of Directors may designate and authorize the issuance, upon the terms and conditions it may determine, of one or more classes or series of preferred stock with prescribed preferential dividend and liquidation rights, voting, conversion, redemption and other rights. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, adversely affect the voting power of the holders of the common stock. Under certain circumstances, the issuance of preferred stock could also make it more difficult for a third party to gain control of JAKKS, discourage bids for the common stock at a premium or otherwise adversely affect the market price of our common stock.

On April 1, 1998, we issued and sold 1,000 shares of our Series A Cumulative Convertible Preferred Stock in a private placement to two investment funds at a price of \$5,000 per share. The holders of our preferred stock are entitled to receive quarterly payments of preferential dividends at an annual rate of \$350 per share and to convert their shares into our common stock based on a current conversion price of \$8.95 (subject to adjustment for certain dilutive events and specified transactions). The preferred stock is redeemable, in whole, but not in part, at its liquidation value (together with all accrued and unpaid dividends) at our option if (1) our common stock is then traded on the Nasdaq National Market or the New York Stock Exchange; (2) the average "Current Market Price" (as defined) of our common stock over a period of 20 trading days equals or exceeds \$20.00; and (3) the shares of our common stock issuable upon conversion of the preferred stock are subject to a registration statement under the Securities Act that has

become effective and permits the sale of such shares on a continuous or delayed basis. The preferred stock is also redeemable at its liquidation value (together with accrued and unpaid dividends) at the option of any holder upon the occurrence of specified "Events of Redemption," including an amendment to our certificate of incorporation or our by-laws affecting our Board of Directors, our merger or consolidation with another company, or a sale of all or substantially all of our assets. The holders of the preferred stock have no voting rights, other than as required by the Delaware General Corporation Law, class voting with respect to certain amendments of our certificate of incorporation or by-laws or the authorization or issuance of certain shares of our capital stock. In addition, if at any time dividends on our preferred stock for two quarters are not paid in full, they may, subject to certain limitations, designate or elect two additional directors.

#### CONVERTIBLE DEBENTURES

On December 31, 1996, we issued and sold at par \$6.0 million principal amount of our 9.00% Convertible Debentures due December 31, 2003 in a private placement to two investment funds. The convertible debentures bore interest, payable monthly, at a rate of 9% per annum on the outstanding principal amount. The entire principal amount of the convertible debentures were converted in March and April 1999 into 1,043,479 shares of our common stock at a conversion price of \$5.75 per share.

#### WARRANTS

In connection with our initial public offering in May 1996, we issued to the representatives of the underwriters warrants to purchase, until May 1, 2001, an aggregate of 150,000 shares of our common stock, of which warrants to purchase 78,993 shares at a current exercise price of \$8.4375 per share remain outstanding as of April 26, 1999.

For its assistance in connection with our sale of the convertible debentures in January 1997, we issued to an investment banking firm a warrant to purchase, until January 8, 2002, an aggregate of 150,000 shares of our common stock, of which warrants to purchase 74,013 shares at a current exercise price of \$6.75 per share remain outstanding as of April 26, 1999.

In connection with a public offering of our common stock in May 1997, we issued to the underwriter warrants to purchase, until May 1, 2002, up to 60,000 shares of our common stock at an exercise price of \$7.475 per share, all of which have been exercised.

In connection with the formation of our joint venture, we agreed to issue to THQ a warrant to purchase, at any time during a five year period, up to 150,000 shares of our common stock and to issue to Titan Sports and a related party warrants to purchase, at any time during a 10 year period, up to 125,000 shares of our common stock. These warrants will have an exercise price of \$10.00 per share. We also agreed to grant the holders of these warrants certain registration rights under the Securities Act. To date, we have not issued and delivered these warrants, although we remain obligated to do so.

#### SECURITIES ACT REGISTRATION

All of the shares of our common stock issued or issuable upon the conversion of our convertible preferred stock and upon the exercise of our outstanding warrants and options have been registered under the Securities Act.

#### TRANSFER AGENT

The transfer agent for our common stock is U.S. Stock Transfer Corporation, Glendale, California.

## UNDERWRITING

The underwriters named below, acting through their representatives, Advest, Inc., Morgan Keegan & Company, Inc. and Southwest Securities, Inc. (the "Representatives"), have severally agreed with us and the selling stockholders, subject to the terms and conditions of the Underwriting Agreement, to purchase from us and the selling stockholders the number of shares of our common stock set forth opposite their names below. The underwriters are committed to purchase and pay for all such shares, if any are purchased.

UNDERWRITERS -----	NUMBER OF SHARES -----
Advest, Inc.....	
Morgan Keegan & Company, Inc.....	
Southwest Securities, Inc.....	
Total	2,350,000 =====

The Representatives have advised us that the underwriters propose to offer these shares of common stock to the public at the public offering price set forth on the cover page of this prospectus and to certain dealers at this price less a concession of not more than \$        per share, of which \$        may be reallocated to other dealers. After the public offering, the public offering price, concession and reallocation to dealers may be reduced by the underwriters. No such reduction will change the amount of proceeds to be received by us or the selling stockholders as set forth on the cover page of this prospectus.

We and the selling stockholders have granted to the underwriters an option, exercisable during the 30-day period after the date of this prospectus, to purchase up to 352,500 additional shares of common stock at the same price per share as is being paid for the 2,350,000 shares that the underwriters have committed to purchase. To the extent that the underwriters exercise this option, each of the underwriters will have a firm commitment to purchase approximately the same percentage of such additional shares that the number of shares of common stock to be purchased by it shown in the above table represents as a percentage of the first 2,350,000 shares offered hereby. If any of these additional shares are purchased, they will be sold by the underwriters on the same terms as those on which the first 2,350,000 shares are sold.

The following table presents certain information about compensation that the underwriters will receive in connection with this offering:

	PER SHARE -----	TOTAL -----	
		MINIMUM*	MAXIMUM*
JAKKS.....	\$	\$	\$
Selling Stockholders.....	\$	\$	\$

\*Minimum amounts assume that the over-allotment option is not exercised; maximum amounts assume that the over-allotment option is exercised in full.



In addition, JAKKS will pay to Advest, Inc., upon completion of this offering, a financial advisory fee in the amount of \$50,000. We have also agreed that upon the completion of this offering and for a nine month period thereafter, Advest, Inc. will have the right of first offer to provide us with investment banking services in connection with subsequent public offerings of our equity securities and merger and acquisition advisory services relating to a sale or other disposition of all our securities or a material portion of our assets. In connection with such investment banking or advisory services, prior to contacting any other investment banking or financial advisory firms, we will first provide Advest, Inc. with a description of the contemplated services and invite Advest, Inc. to submit to us a proposal for providing such services. If its fees are no less favorable than those submitted by another nationally recognized investment banking or advisory firm, we will engage Advest, Inc. exclusively to provide such services.

We expect the total expenses incurred in connection with this offering (excluding the underwriting discount discussed above) to be \$550,000. JAKKS is obligated to pay all these expenses; the selling stockholders will not pay any of these expenses.

The Underwriting Agreement contains covenants of indemnity among us, the selling stockholders and the underwriters against certain civil liabilities, including liabilities arising under the Securities Act.

All of our directors and officers have agreed that until 180 days after the date of this prospectus (the "Lock-up Period") they will not, without the prior written consent of Advest, Inc., offer, contract to sell, sell, encumber, grant any option for the sale of, distribute, transfer or dispose of any of our common stock or any options, warrants or securities convertible into or exercisable or exchangeable for shares of our common stock now owned or hereafter acquired by them or with respect to which they have or acquire the power of disposition (other than shares of common stock being sold hereby by selling stockholders or shares disposed of by bona fide gifts). They have also agreed to waive their registration rights with respect to our common stock during the Lock-up Period.

Similarly, we have agreed that, during the Lock-up Period, we will not, subject to some exceptions, issue, sell, contract to sell or otherwise dispose of any shares of our common stock other than the issuance of our common stock upon the exercise of outstanding options, warrants or convertible securities.

The Representatives have advised us that, pursuant to Regulation M under the Securities Exchange Act of 1934, certain persons participating in this offering may engage in transactions, including stabilizing bids, syndicate covering transactions or the imposition of penalty bids which may have the effect of stabilizing or maintaining the market price of the common stock at a level about that which might otherwise prevail in the open market. A "stabilizing bid" is a bid for or the purchase of our common stock on behalf of the underwriters for the purpose of fixing or maintaining the price of our common stock. A "syndicate covering transaction" is the bid for or the purchase of our common stock on behalf of the underwriters to reduce a short position incurred by the underwriters in connection with this offering. A "penalty bid" is an arrangement permitting the underwriters to reclaim the selling concession otherwise accruing to an underwriter or syndicate member in connection with this offering if the common stock originally sold by such underwriter or syndicate member is purchased by underwriters in a syndicate covering transaction and has therefore not been effectively placed by such underwriter or syndicate member. The underwriters have advised us that such transactions may be effected on the

Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

In connection with this offering, certain underwriters and selling group members (if any) who are qualified market makers on the Nasdaq National Market may engage in passive market making transactions in our common stock on the Nasdaq National Market in accordance with Rule 103 of Regulation M under the Exchange Act. Passive market makers must comply with applicable volume and price limitations and must be identified as such. In general, a passive market maker must display its bid at a price not in excess of the highest independent bid for such security; if all independent bids are lowered below the passive market maker's bid, however, its bid must then be lowered when certain purchase limits are exceeded.

#### LEGAL MATTERS

The legality of the common stock offered hereby is being passed upon for us by Feder, Kaszovitz, Isaacson, Weber, Skala & Bass LLP, New York, New York. Murray L. Skala, a partner of that firm, is one of our directors and holds of record 92,996 shares (of which 66,872 shares are held in trust for the benefit of Mr. Friedman's children) and options to purchase 65,450 shares of our common stock, all of which are currently exercisable. Morgan, Lewis & Bockius LLP, New York, New York will pass upon certain legal matters for the underwriters in connection with this offering.

#### EXPERTS

Our consolidated financial statements as of December 31, 1997 and 1998 and for each of the three years in the period ended December 31, 1998 included in this prospectus were audited by Pannell Kerr Forster, Certified Public Accountants, A Professional Corporation, Los Angeles, California, independent auditors, as stated in their report appearing herein and are included in reliance upon the report of that firm given upon their authority as experts in accounting and auditing.

## WHERE YOU CAN FIND MORE INFORMATION

This prospectus is part of a registration statement we filed with the SEC. We also file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public from the SEC's Website at "<http://www.sec.gov>."

The SEC allows us, under certain circumstances, to "incorporate by reference" the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we will make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (File No. 0-28104).

1. Our Annual Report on Form 10-KSB for our fiscal year ended December 31, 1998;
2. Our Quarterly Report on Form 10-Q for our fiscal quarter ended March 31, 1999; and
3. The "Description of Registrant's Securities to be Registered" contained in our Registration Statement on Form 8-A (File No. 0-28104), filed March 29, 1996, and the "Description of Securities -- Common Stock" incorporated therein by reference to our Registration Statement on Form SB-2 (Reg. No. 333-2048-LA).

You may request a copy of these filings, at no cost, by writing or telephoning our Chief Financial Officer at the following address:

JAKKS Pacific, Inc.  
22761 Pacific Coast Highway  
Suite 226  
Malibu, California 90265  
(310) 456-7799

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	PAGE
Independent Auditors' Report.....	F-2
Consolidated Balance Sheets as of December 31, 1997 and 1998.....	F-3
Consolidated Statements of Operations for the years ended December 31, 1996, 1997 and 1998.....	F-4
Consolidated Statements of Stockholders' Equity for the years ended December 31, 1996, 1997 and 1998.....	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 1996, 1997 and 1998.....	F-6
Notes to Consolidated Financial Statements.....	F-7
Financial Statement Schedule: Schedule II -- Valuation and Qualifying Accounts.....	F-23

## 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, 1997 and 1998, and the related consolidated statements of operations, stockholders' equity and cash flows and the financial statement schedule listed in the accompanying index on page F-1 for each of the three years in the period ended December 31, 1998. 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 generally accepted auditing standards. 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, 1997 and 1998, and the results of their operations and cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

PANNELL KERR FORSTER  
Certified Public Accountants  
A Professional Corporation

February 22, 1999  
except for note 18, for which  
the date is March 1, 1999

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

## ASSETS

	DECEMBER 31,	
	1997	1998
	-----	-----
Current assets		
Cash and cash equivalents.....	\$ 2,535,925	\$12,452,201
Accounts receivable, net of allowance for uncollectible accounts of \$51,153 and \$133,986 for 1997 and 1998, respectively.....	8,735,528	11,926,725
Inventory, net of reserves of \$129,695 and \$464,133 for 1997 and 1998, respectively.....	1,948,250	2,918,941
Deferred product development costs.....	807,603	237,914
Prepaid expenses and other.....	632,315	789,691
Advanced royalty payments.....	252,603	307,542
Due from officers.....	15,112	--
	-----	-----
Total current assets.....	14,927,336	28,633,014
Property and equipment		
Office furniture and equipment.....	217,786	440,162
Molds and tooling.....	3,647,638	5,826,643
Leasehold improvements.....	90,432	195,909
	-----	-----
Total.....	3,955,856	6,462,714
Less accumulated depreciation and amortization.....	1,099,207	2,173,708
	-----	-----
Property and equipment, net.....	2,856,649	4,289,006
Deferred offering and acquisition costs.....	626,713	408,151
Intangibles and deposits, net.....	318,511	489,936
Investment in joint venture.....	--	1,044,708
Goodwill, net.....	10,695,488	10,322,896
Trademarks, net.....	14,180,118	13,548,054
	-----	-----
Total assets.....	\$43,604,815	\$58,735,765
	=====	=====
	LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities		
Accounts payable.....	\$ 4,266,456	\$ 3,705,116
Accrued expenses.....	2,467,246	4,371,711
Reserve for sales returns and allowances.....	1,860,821	5,341,517
Current portion of long-term debt.....	2,361,076	60,000
Income taxes payable.....	603,614	1,418,763
	-----	-----
Total current liabilities.....	11,559,213	14,897,107
Long-term debt, net of current portion.....	6,000,000	5,940,000
Deferred income taxes.....	86,896	144,705
	-----	-----
Total liabilities.....	17,646,109	20,981,812
	-----	-----
Commitments and contingencies		
Stockholders' equity		
Common stock, \$.001 par value; 25,000,000 shares authorized; issued and outstanding 4,942,094 and 6,026,042 shares, respectively.....	4,942	6,026
Convertible preferred stock, \$.001 par value; 5,000 shares authorized; issued and outstanding 3,525 and 1,000, respectively.....	4	1
Additional paid-in capital.....	21,693,061	27,044,536
Retained earnings.....	4,402,636	10,777,662
	-----	-----
Unearned compensation from grant of options.....	141,937	74,272
	-----	-----
Total stockholders' equity.....	25,958,706	37,753,953
	-----	-----
Total liabilities and stockholders' equity.....	\$43,604,815	\$58,735,765
	=====	=====

See notes to consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

	YEARS ENDED DECEMBER 31,		
	1996	1997	1998
Net sales.....	\$12,052,016	\$41,944,921	\$85,252,563
Cost of sales.....	7,231,296	25,874,784	52,000,135
Gross profit.....	4,820,720	16,070,137	33,252,428
Selling, general and administrative expenses.....	3,611,471	11,895,260	24,006,497
Income from operations.....	1,209,249	4,174,877	9,245,931
Interest, net.....	(133,795)	417,293	422,553
Other (income) expense.....	--	328,139	590,948
Income before provision for income taxes.....	1,343,044	3,429,445	8,232,430
Provision for income taxes.....	163,275	642,949	1,857,404
Net income.....	\$ 1,179,769	\$ 2,786,496	\$ 6,375,026
Basic earnings per share.....	\$ 0.36	\$ 0.60	\$ 1.12
Diluted earnings per share.....	\$ 0.34	\$ 0.52	\$ 0.89

See notes to consolidated financial statements.

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
DECEMBER 31, 1996, 1997 AND 1998

	COMMON SHARES OUTSTANDING	CONVERTIBLE PREFERRED SHARES OUTSTANDING	PAR VALUE PER SHARE	STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	UNEARNED COMPENSATION FROM GRANT OF OPTIONS	TOTAL STOCKHOLDERS' EQUITY
Balance, December 31, 1995.....	2,000,000	--	\$.001	\$2,000	\$ 1,624,238	\$ 436,371	\$ (212,905)	\$ 1,849,704
Issuance of common stock for cash.....	1,502,000	--	.001	1,502	7,652,761	--	--	7,654,263
Issuance of common stock from bridge financing conversion.....	469,300	--	.001	469	1,044,310	--	--	1,044,779
Issuance of common stock in partial consideration for purchase of toy business assets.....	13,649	--	.001	14	(14)	--	--	--
Earned compensation from grant of options.....	--	--	--	--	--	--	17,742	17,742
Net income.....	--	--	--	--	--	1,179,769	--	1,179,769
Balance, December 31, 1996.....	3,984,949	--	.001	3,985	10,321,295	1,616,140	(195,163)	11,746,257
Issuance of common stock for cash.....	690,000	--	.001	690	2,921,063	--	--	2,921,753
Exercise of options.....	69,125	--	.001	69	132,555	--	--	132,624
Issuance of common stock in partial consideration for purchase of toy business.....	198,020	--	.001	198	1,499,802	--	--	1,500,000
Issuance of convertible preferred stock for cash.....	--	3,525	.001	4	6,818,346	--	--	6,818,350
Earned compensation from grant of options.....	--	--	--	--	--	--	53,226	53,226
Net income.....	--	--	--	--	--	2,786,496	--	2,786,496
Balance, December 31, 1997.....	4,942,094	3,525	.001	4,946	21,693,061	4,402,636	(141,937)	25,958,706
Conversion of preferred stock.....	--	(3,525)	.001	(4)	4	--	--	--
Issuance of common stock from conversion of preferred stock.....	939,998	--	.001	940	(940)	--	--	--
Issuance of 7% convertible preferred stock for cash.....	--	1,000	.001	1	4,731,151	--	--	4,731,152
Exercise of options.....	143,950	--	.001	144	647,248	--	--	647,392
Earned compensation from grant of options.....	--	--	--	--	--	--	41,677	41,677
Cancellation of options, unearned compensation...	--	--	--	--	(25,988)	--	25,988	--
Net income.....	--	--	--	--	--	6,375,026	--	6,375,026
Balance, December 31, 1998.....	6,026,042	1,000	\$.001	\$6,027	\$27,044,536	\$10,777,662	\$ (74,272)	\$37,753,953

See notes to consolidated financial statements.



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

	YEARS ENDED DECEMBER 31,		
	1996	1997	1998
Cash flows from operating activities			
Net income.....	\$ 1,179,769	\$ 2,786,496	\$ 6,375,026
Adjustments to reconcile net income to net cash provided (used) by operating activities			
Depreciation and amortization.....	338,032	1,605,226	2,986,137
Earned compensation from stock option grants.....	17,742	53,226	41,677
Loss on disposal of property and equipment.....	--	328,139	719,331
Changes in operating assets and liabilities			
Accounts receivable.....	(1,844,981)	(6,315,058)	(3,191,197)
Inventory.....	(53,977)	(1,808,145)	(970,691)
Prepaid expenses and other.....	(973,076)	(450,545)	357,374
Accounts payable.....	899,929	2,655,469	(561,340)
Accrued expenses.....	27,049	2,262,159	1,904,465
Income taxes payable.....	191,622	331,009	815,149
Reserve for sales returns and allowances.....	(285,513)	1,685,621	3,480,696
Deferred income taxes.....	(40,186)	94,427	57,809
Total adjustments.....	(1,723,359)	441,528	5,639,410
Net cash provided (used) by operating activities.....	(543,590)	3,228,024	12,014,436
Cash flows from investing activities			
Deferred offering and acquisition costs.....	(85,300)	--	--
Property and equipment.....	(1,058,654)	(2,934,935)	(3,875,852)
Due from officers.....	(120,030)	104,918	15,112
Other assets.....	(49,129)	(241,572)	(197,928)
Trademarks.....	--	(14,352,556)	(12,252)
Investment in joint venture.....	--	--	(1,044,708)
Cash paid in excess of cost over toy business assets acquired (goodwill).....	--	(7,006,753)	--
Net cash used by investing activities.....	(1,313,113)	(24,430,898)	(5,115,628)
Cash flows from financing activities			
Proceeds from sale of common stock.....	7,669,263	2,946,603	--
Proceeds from convertible preferred stock.....	--	6,818,350	4,731,152
Proceeds from debt.....	1,104,694	13,413,659	--
Repayments of note payable to officer.....	(382,816)	--	--
Proceeds from stock options exercised.....	--	132,624	647,392
Repayments of debt.....	(260,930)	(5,245,665)	(2,361,076)
Deferred financing costs.....	--	(682,032)	--
Net cash provided by financing activities....	8,130,211	17,383,539	3,017,468
Net increase (decrease) in cash and cash equivalents...	6,273,508	(3,819,335)	9,916,276
Cash and cash equivalents, beginning of year.....	81,752	6,355,260	2,535,925
Cash and cash equivalents, end of year.....	\$ 6,355,260	\$ 2,535,925	12,452,201
Cash paid during the period for:			
Interest.....	\$ 49,638	\$ 648,187	\$ 647,404
Income taxes.....	\$ 11,839	\$ 217,213	\$ 1,042,255

See note 16 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, 1998

## NOTE 1 -- PRINCIPAL INDUSTRY

JAKKS Pacific, Inc. (the "Company"), a Delaware corporation, is engaged in the development, production and marketing of toys and children's electronics products, some of which are based on highly-recognized entertainment properties and character licenses. The Company commenced operations in July 1995 through the purchase of substantially all of the assets of a Hong Kong toy company. The Company is marketing 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 generally accepted accounting principles 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 defective products and markdowns are made at the time of sale.

## DEFERRED PRODUCT DEVELOPMENT COSTS

The Company defers certain costs related to the preliminary activities associated with the manufacture of its products, which the Company has determined have future economic benefit. These costs are then expensed in the period in which the initial shipment of the related product is made. Management periodically reviews and revises, when necessary, its

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 1998

## NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

estimate of the future benefit of these costs, and expenses them if it is deemed there no longer is a future benefit.

## DEFERRED OFFERING, FINANCING AND ACQUISITION COSTS

During 1997, financing costs were incurred in obtaining a line of credit facility. The deferred financing costs are being amortized over the term of the credit facility.

During 1996, costs incurred for a follow-on offering, debenture offering and certain acquisition costs were deferred. The deferred acquisition costs were reclassified to investment costs upon completion of the acquisition of Road Champs, Inc. The deferred offering costs related to the debentures are being amortized over the term of the debentures, or will be written-off upon conversion (note 8).

## INVENTORY

Inventory is valued at the lower of cost (first-in, first-out) or market.

## 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:

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

## 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, 1996, 1997 and 1998 was approximately \$22,000, \$1,304,000 and \$3,903,000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 1998NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)  
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 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 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 are translated into United States dollars at the rates 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 statement of operations.

## GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess purchase price paid over the fair market value of the assets of acquired toy companies. Goodwill is being amortized over 30 years on a straight-line basis. Accumulated amortization at December 31, 1997 and 1998 totaled \$482,263 and \$632,519, respectively.

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, 1997 and 1998 was \$192,606 and \$1,177,306, respectively.

## EARNINGS PER SHARE (EPS)

In February 1997, the Financial Accounting Standards Board issued SFAS No. 128, "Earnings per Share." This statement establishes simplified standards for computing and presenting earnings per share (EPS). It requires dual presentation of basic and diluted

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 1998

## NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## EARNINGS PER SHARE (EPS) (CONTINUED)

EPS on the face of the income statement for entities with complex capital structures and disclosures of the calculation of each EPS amount.

	1996		
	INCOME	WEIGHTED AVERAGE SHARES	PER SHARE
Basic EPS			
Income available to common stockholders....	\$1,179,769	3,284,432	\$ 0.36
Effect of dilutive securities			
Options and warrants.....	--	219,335	
Diluted EPS			
Income available to common stockholders plus assumed exercises.....	\$1,179,769	3,503,767	\$ 0.34

	1997		
	INCOME	WEIGHTED AVERAGE SHARES	PER SHARE
Basic EPS			
Income available to common stockholders....	\$2,786,496	4,621,369	\$ 0.60
Effect of dilutive securities			
Options and warrants.....	--	187,761	
9% convertible debentures.....	363,286	1,023,411	
4% convertible preferred stock.....	--	175,904	
Diluted EPS			
Income available to common stockholders plus assumed exercises and conversions...	\$3,149,782	6,008,445	\$ 0.52

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 1998

## NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## EARNINGS PER SHARE (EPS) (CONTINUED)

	1998		
	INCOME	WEIGHTED AVERAGE SHARES	PER-SHARE
Basic EPS			
Income available to common stockholders....	\$6,375,026	5,692,601	\$ 1.12
			=====
Effect of dilutive securities			
Options and warrants.....	--	217,898	
9% convertible debentures.....	372,732	1,043,479	
4% convertible preferred stock.....	--	227,252	
7% convertible preferred stock.....	--	420,528	
	-----	-----	
Diluted EPS			
Income available to common stockholders			
plus assumed exercises and conversions...	\$6,747,758	7,601,758	\$ 0.89
	=====	=====	=====

## NOTE 3 -- ACQUISITIONS AND JOINT VENTURE

In February 1997, the Company acquired all of the stock of Road Champs, Inc. (RCI) and all of the operating assets of an affiliated company for \$11,723,924. Consideration paid at closing was \$4,719,413 in cash plus the issuance of \$1,500,000 (198,020 shares) of the Company's common stock. The balance of the adjusted purchase price of \$3,079,026 was paid in three equal installments bearing interest at a rate of 7.0% per annum. As of December 31, 1998, all such payments were made in full. In addition, the payment for inventory of \$2,188,778, without interest, was made in 1997. Professional fees totaling \$236,707 were incurred as part of the acquisition costs. Outstanding balances were secured by all acquired shares and assets, however, they were subordinated to the convertible debentures due December 31, 2003 (note 8).

The assets acquired and liabilities assumed from RCI were as follows:

Inventory, net of reserve of \$200,000.....	\$ 1,956,358
Prepaid expenses.....	226,881
Property and equipment.....	694,788
Deposits.....	105,461
Trademarks.....	1,000,000
Goodwill.....	8,506,753
Liabilities assumed.....	(766,317)
	-----
Net assets acquired	\$11,723,924
	=====

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 1998

## NOTE 3 -- ACQUISITIONS AND JOINT VENTURE (CONTINUED)

In October 1997, the Company acquired the right, title and interest in and to the Remco and Child Guidance (R&CG) trademarks, and all registrations and applications for registration thereof, throughout the world. Total costs of the trademarks included:

Cash.....	\$10,600,000
Promissory note.....	1,200,000
Liabilities assumed.....	1,350,000
Professional service fees.....	202,556
	-----
Total acquisition costs	\$13,352,556
	=====

The total purchase price paid to the seller consisted of cash and a promissory note totaling \$11,800,000. The liabilities assumed included a reserve for returns and allowances of \$750,000 and a reserve of \$600,000 that represents the Company's contributions to the seller's settlement with its Hong Kong representative agent for early termination of its service contract due to sale of the trademarks. Costs incurred in professional service fees of \$202,556 are attributed to executing the acquisition of the trademarks. The Company also entered into a firm commitment, manufacturing and supply agreement with seller (note 12).

In June 1998, the Company formed 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. As of December 31, 1998, the Company has made initial contributions to the joint venture of \$1,044,708 (note 12).

## NOTE 4 -- CONCENTRATION OF CREDIT RISK

Financial instruments that subject the Company to concentration of credit risk are cash equivalents and trade receivables. 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 ongoing credit evaluations of its customers' financial condition, but does not require collateral to support customer receivables. Most goods are sold on irrevocable letter of credit basis.

Included in the Company's consolidated balance sheets at December 31, 1997 and 1998 are its operating net assets, most of which are located in facilities in Hong Kong and China and which totaled \$8,948,131 and \$8,627,240 for 1997 and 1998, respectively.

## NOTE 5 -- DUE FROM OFFICERS

Due from officers represented a balance of \$15,112 at December 31, 1997 due from a Company officer. The \$15,112, due on demand, was non-interest bearing and was repaid in 1998.

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 1998

## NOTE 6 -- ACCRUED EXPENSES

Accrued expenses consist of the following:

	1997	1998
	-----	-----
Bonuses.....	\$ 254,737	\$ 841,000
Trademarks acquisition reserve.....	600,000	177,245
Interest expense.....	37,607	--
Royalties and sales commissions.....	1,130,512	2,681,973
Hong Kong subsidiaries accruals.....	384,747	529,722
Other.....	59,643	141,771
	-----	-----
	\$2,467,246	\$4,371,711
	=====	=====

## 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 paid legal fees and expenses to the law firm in the amount of approximately \$270,000 in 1996, \$151,000 in 1997 and \$510,000 in 1998. Also see note 5 for other related party transactions.



## JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 1998

## NOTE 8 -- LONG-TERM DEBT

Long-term debt consists of the following:

	1997	1998
	-----	-----
Convertible debentures, bearing interest on the principal amounts outstanding at 9% per annum with the first monthly installment payable on February 1, 1997. If not sooner redeemed or converted into common stock, the debenture shall mature on December 31, 2003. Commencing on December 31, 1999, mandatory monthly principal redemption installments are to be made in the amount of \$10 per \$1,000 of the then remaining principal amount of the debenture. Such debentures are convertible into 1,043,479 shares of the Company's common stock at \$5.75 per share. The debentures are secured by all outstanding shares of the Company's wholly-owned subsidiaries and substantially all operating assets of the Company (note 2).....	\$6,000,000	\$6,000,000
Note payable, due in five quarterly principal installments of \$240,000 starting December 31, 1997, with interest at 10% per annum. The note is secured by the Remco and Child Guidance trademarks.....	1,200,000	--
Note payable, due in three principal payments with the final installment due February 6, 1998, with interest at 7% per annum. The note is secured by the RCI assets.....	1,046,376	--
Line of credit facility (note 12).....	114,700	--
	-----	-----
	8,361,076	6,000,000
Less current portion of long-term debt.....	2,361,076	60,000
	-----	-----
Long-term debt, net of current portion.....	\$6,000,000	\$5,940,000
	=====	=====

## NOTE 9 -- INCOME TAXES

The provision differs from the expense that would result from applying Federal statutory rates to income before taxes because of the inclusion of a provision for state income taxes and the income of the Company's foreign subsidiaries is taxed at a rate of 16.5% applicable in Hong Kong. In addition, the provision includes deferred income taxes resulting from adjustments in the amount of temporary differences. Temporary differences arise primarily from differences in timing in the deduction of state income taxes and the use of the straight-line method of depreciation for financial reporting purposes and accelerated methods of depreciation for tax purposes.

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 1998

## NOTE 9 -- INCOME TAXES (CONTINUED)

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 returns. Income taxes reflected in the accompanying consolidated statements of operations are comprised of the following:

	1996	1997	1998
	-----	-----	-----
Federal.....	\$ --	\$ --	\$ 715,000
State and local.....	1,350	26,000	210,000
Hong Kong.....	277,994	522,522	874,595
	-----	-----	-----
	279,344	548,522	1,799,595
Deferred.....	(116,069)	94,427	57,809
	-----	-----	-----
	\$ 163,275	\$642,949	\$1,857,404
	=====	=====	=====

As of December 31, 1998, the Company has utilized all net operating loss carry-forwards.

	1997	1998
	-----	-----
Deferred tax assets resulting from deductible temporary differences from loss carry-forwards, noncurrent.....	\$ 258,239	\$ 493,134
Deferred tax liabilities resulting from taxable temporary differences, noncurrent.....	(345,135)	(637,839)
	-----	-----
	\$ (86,896)	\$ (144,705)
	=====	=====

The Company's management concluded that a deferred tax asset valuation allowance as of December 31, 1997 and 1998 was not necessary.

A reconciliation of the statutory United States Federal income tax rate to the Company's effective income tax rate is as follows:

	1996	1997	1998
	----	----	----
Statutory income tax rate.....	35%	35%	35%
State and local income taxes, net of Federal income tax effect.....	1	1	1
Effect of temporary differences and Hong Kong's lower tax rate.....	--	--	(22)
Effect of net operating loss carry-forwards.....	(40)	(35)	(11)
Income taxes on foreign earnings at rates other than the United States Statutory rate not subject to United States income taxes.....	16	18	19
	----	----	----
	12%	19%	22%
	====	====	====

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 1998

## NOTE 9 -- INCOME TAXES (CONTINUED)

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

	1996	1997	1998
	-----	-----	-----
Domestic.....	\$ (360,040)	\$ 16,216	\$3,681,456
Foreign.....	1,703,084	3,413,229	4,550,974
	-----	-----	-----
	\$1,343,044	\$3,429,445	\$8,232,430
	=====	=====	=====

## NOTE 10 -- LEASES

The Company leases office and showroom facilities and certain equipment under operating leases. The following is a schedule of minimum annual lease payments. Rent expense for the years ended December 31, 1996, 1997 and 1998 totaled \$182,690, \$582,766 and \$550,360, respectively.

1999.....	\$ 549,360
2000.....	423,940
2001.....	324,852
2002.....	223,632
2003.....	23,032
	-----
	\$1,544,816
	=====

## NOTE 11 -- COMMON STOCK AND PREFERRED STOCK

The Company has 25,005,000 authorized shares of stock consisting of 25,000,000 shares of \$.001 par value common stock and 5,000 shares of \$.001 par value preferred stock.

On April 1, 1998, the Company sold 1,000 shares of its Series A 7% cumulative convertible preferred stock to two investors for \$4,731,152, net of issuance costs. The holders of the shares have the right, at their option, to convert such shares into common stock of the Company at any time. The price at which shares of common stock shall be delivered upon conversion shall initially be \$8.95 per share of common stock. The conversion price may be adjusted in certain instances. Preferred stockholders are entitled to receive cumulative cash dividends at an annual rate of \$350 per share payable as and when declared by the Company's Board of Directors.

During 1998, 143,950 shares of the Company's common stock were issued on exercise of options for a total of \$647,392.

During 1997, the Company issued 690,000 shares of its common stock in a public offering and 198,020 shares as partial consideration for the RCI acquisition (note 3).

During 1997, in a private placement, the Company issued 3,525 shares of its 4% redeemable convertible preferred stock at a purchase price of \$2,000 per share. In March 1998, all of the 3,525 shares of such issue were converted into an aggregate of

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 1998

## NOTE 11 -- COMMON STOCK AND PREFERRED STOCK (CONTINUED)

939,998 shares of the Company's common stock based on a conversion price of \$7.50 per share.

## NOTE 12 -- 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 10% of net sales with minimum guarantees and advance payments. Additionally, under one such license, the Company has committed to spend 12.5% of related net sales, not to exceed \$1,000,000, on advertising per year.

Future annual minimum royalty guarantees as of December 31, 1998 are as follows:

1999.....	\$ 1,752,833
2000.....	1,653,583
2001.....	1,551,750
2002.....	1,475,000
2003.....	1,380,000
Thereafter.....	9,387,500
	-----
	\$17,200,666
	=====

The Company entered into a joint venture agreement (note 3) creating a new limited liability company (LLC) in which the Company holds a 50% ownership interest. On June 10, 1998, the LLC entered into a license agreement expiring December 31, 2009, with an option for a five year automatic extension if the LLC pays the licensor \$27,000,000 in royalties during the initial ten year period of the agreement. The license agreement includes guaranteed minimum royalty payments of \$18,000,000 payable over the ten year initial term and \$7,500,000 payable over the five year renewal period, if applicable. The Company is responsible for \$7,500,000 of the \$18,000,000 guaranteed royalty payments. The guarantee payments include a \$3,000,000 advance, paid within 15 days after the agreements were executed, and ten minimum guaranteed installments of \$1,500,000, due each January 30, starting in 2000 and ending 2009. The Company was responsible for funding \$1,000,000 of the initial advance and is responsible for funding \$500,000 of the first four and \$750,000 of the next six of ten yearly installments. All unpaid guaranteed amounts for which the Company is responsible as of December 31, 1998 are included in the totals of the "future annual minimum royalty guarantees" table noted above. The \$7,500,000 renewal guaranteed will be payable in five yearly installments, of which the Company will be responsible for funding 50% of each yearly payment.

The Company entered into a firm price commitment manufacturing and supply agreement in connection with the acquisition of the R&CG trademarks purchased in 1997 (note 3). The agreement was entered into with the seller of the trademarks to obtain from the seller tools and other manufacturing resources of the seller for the manufacture of products, upon request by the Company. The manufacturing and supply agreement has

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 1998

## NOTE 12 -- COMMITMENTS (CONTINUED)

created a firm commitment by the Company for a minimum of \$1,400,000. A minimum payment of \$110,000 on the agreement was due on December 31, 1997, with three additional payments of \$110,000 and six payments of \$160,000 to follow thereafter, through March 31, 2000, which is also the date on which the agreement terminates.

The Company and its subsidiaries are acting as joint and several guarantors of a \$5,000,000 conditional, secured, revolving, short-term trade facility available to the Company's Hong Kong wholly-owned subsidiaries. Proceeds on the credit facility are to finance working capital needs and operations in the normal course of business. At December 31, 1997 and 1998, there were unused amounts available on the line of credit of \$4,885,300 and \$5,000,000 and outstanding balances of \$114,700 and \$0, respectively. Outstanding balances accrue interest at rates equal to the bank's base rate of interest plus 1% per annum for advances of open accounts receivable, and the bank's base rate of interest plus 1/2% for advances received under negotiation of export letters of credit. At December 31, 1998, the credit facility carried interest at rates of 9.5% and 9%, respectively. Outstanding balances are collateralized by all assets of the borrower and accounts receivable and inventory of the guarantors. The credit facility expires May 31, 1999, unless terminated sooner (note 8).

## NOTE 13 -- STOCK OPTION PLAN

Under its Third Amended and Restated 1995 Stock Option Plan (the Plan), the Company has reserved 1,250,000 shares of its common stock for issuance upon exercise of options granted under the Plan. In 1998, stockholders approved an increase of 500,000 shares in the number of shares available for grant. Under the Plan, employees (including officers), non-employee directors and independent consultants may be granted options to purchase shares of common stock. Prior to the adoption of the Plan in 1995, options for 276,500 shares were granted at an exercise price of \$2.00 per share. The Company recorded deferred compensation costs and a related increase in paid-in capital of \$212,905 for the difference between the grant price and the deemed fair market value of the common stock of \$2.77 per share at the date of grant. Such compensation costs are recognized on a straight-line basis over the vesting period of the options, which is 25% per year commencing twelve months after the grant date of such options. In 1996, 1997 and 1998, 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%; dividend yield of 0%; and expected lives of five years.

As of December 31, 1998, 308,000 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.

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 1998

## NOTE 13 -- STOCK OPTION PLAN (CONTINUED)

Stock option activity pursuant to the Plan is summarized as follows:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----
Outstanding, December 31, 1995.....	10,850	\$ 4.50
Granted.....	114,625	6.70
Exercised.....	--	--
Canceled.....	--	--
	-----	-----
Outstanding, December 31, 1996.....	125,475	6.51
Granted.....	405,025	9.92
Exercised.....	--	--
Canceled.....	--	--
	-----	-----
Outstanding, December 31, 1997.....	530,500	9.12
Granted.....	484,500	8.38
Exercised.....	(31,800)	8.18
Canceled.....	(73,000)	8.77
	-----	-----
Outstanding, December 31, 1998.....	910,200	\$ 8.79
	=====	=====

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

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----
Outstanding, December 31, 1995.....	276,500	\$ 2.00
Granted.....	75,000	7.54
Exercised.....	--	--
Canceled.....	--	--
	-----	-----
Outstanding, December 31, 1996.....	351,500	3.18
Granted.....	60,000	6.88
Exercised.....	(69,125)	2.00
Canceled.....	--	--
	-----	-----
Outstanding, December 31, 1997.....	342,375	4.07
Granted.....	--	--
Exercised.....	(100,900)	3.93
Canceled.....	(33,750)	2.00
	-----	-----
Outstanding, December 31, 1998.....	207,725	\$ 4.47
	=====	=====

The weighted average fair value of options granted to employees in 1996, 1997 and 1998 was \$2.30, \$5.01 and \$6.15 per share, respectively.

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 1998

## NOTE 13 -- STOCK OPTION PLAN (CONTINUED)

The following table summarizes information about stock options outstanding and exercisable at December 31, 1998:

OPTION PRICE RANGE	OUTSTANDING			EXERCISABLE	
	NUMBER OF SHARES	WEIGHTED AVERAGE LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
\$2.00-\$10.725.....	1,117,925	5.7 years	\$7.99	434,400	\$7.53

In addition, as of December 31, 1998, 635,000 shares were reserved for issuance upon exercise of warrants granted in connection with the Company's initial public offering, follow-on public offering, private placement of convertible debentures and certain license agreements, at exercise prices ranging from \$6.75 to \$10.00 per share.

Had the compensation cost for the Company's Plan been determined on a basis consistent with SFAS No. 123, the Company's net income and earnings per share (EPS) for 1996, 1997 and 1998 would approximate the pro forma amounts below, which are not indicative of future amounts:

	YEARS ENDED DECEMBER 31,					
	1996		1997		1998	
	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA
SFAS No. 123 charge, net of tax.....	\$ --	\$ 18,172	\$ --	\$ 132,895	\$ --	\$ 551,541
Net income.....	1,179,769	1,161,597	2,786,496	2,653,601	6,375,026	5,823,485
Basic EPS.....	0.36	0.35	0.60	0.57	1.12	1.02
Diluted EPS.....	\$ 0.34	\$ 0.33	\$ 0.52	\$ 0.50	\$ 0.89	\$ 0.82

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 1998

## NOTE 14 -- PROFIT SHARING PLAN

Effective January 1, 1997, the Company adopted a 401(k) profit sharing plan and trust (Plan). The Plan is for the exclusive benefit of eligible employees and beneficiaries. Under the Plan, employees may choose to reduce their compensation and have those amounts contributed to the Plan on their behalf. Contributions made to the Plan will be held and invested by the Plan's trustee. The Company will act as the Plan's administrator. The Plan year begins on January 1st and ends on December 31st. Employees then employed were eligible to participate in the Plan as of the effective date. Otherwise, employees may be eligible to participate in the Plan after they have completed one year of service. The Company will make matching contributions equal to 50% of the amount of salary reduction deferred. However, in applying the matching percent, only salary reductions up to 10% of compensation will be considered. The Company may also make discretionary contributions to the Plan each year. Participants may elect to defer up to 15% of their compensation each year. However, deferrals in any taxable year may not exceed a dollar limit which is set by law. The limit for 1998 was \$10,000. Vesting in the Plan is based on years of service, as follows:

YEARS OF SERVICE	CUMULATIVE PERCENT VESTED
-----	-----
1	20%
2	40
3	60
4	80
5	100

Participants are immediately 100% vested in their salary reduction amounts contributed to the Plan.

The Company has the right to amend and, terminate the Plan at any time. Upon termination, all amounts credited to participants accounts will become 100% vested.

As of December 31, 1998, the Plan has not been "qualified" under the provisions of the Internal Revenue Code, and for the year then ended, the Company contributed \$65,217 in matching contributions to the Plan.

## NOTE 15 -- MAJOR CUSTOMERS AND INTERNATIONAL SALES

Net sales to major customers were as follows:

1996		1997		1998	
AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE
-----	-----	-----	-----	-----	-----
\$3,398,000..	28.2%	\$14,689,000	35.0%	\$23,604,000	27.7%
1,679,000..	13.9	3,422,000	8.2	11,103,000	13.0
1,008,000..	8.4	3,199,000	7.6	10,944,000	12.8
847,000...	7.0	2,658,000	6.3	9,951,000	11.7
509,000...	4.2	1,925,000	4.6	3,717,000	4.4
-----	-----	-----	-----	-----	-----
\$7,441,000..	61.7%	\$25,893,000	61.7%	\$59,319,000	69.6%
=====	=====	=====	=====	=====	=====



## JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 1998

## NOTE 15 -- MAJOR CUSTOMERS AND INTERNATIONAL SALES (CONTINUED)

Net sales to international customers totaled approximately \$1,043,000, \$3,733,000 and \$6,309,000 in 1996, 1997 and 1998, respectively.

## NOTE 16 -- SUPPLEMENTAL INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS

In March 1998, the 3,525 shares of 4% redeemable convertible preferred stock with a total stockholders' equity value of \$6,818,350 were converted into an aggregate of 939,998 shares of the Company's common stock.

In 1997, 198,020 shares of common stock valued at \$1,500,000 were issued in connection with the acquisition of RCI (note 3).

In 1996, 469,300 shares of common stock were issued pursuant to the conversion of bridge financing promissory notes which provided net proceeds of \$1,044,779.

## NOTE 17 -- RECENT ACCOUNTING PRONOUNCEMENTS

In March 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." This statement establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. This statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. This new standard requires that an enterprise classify items of other comprehensive income by their nature in a financial statement; display the accumulated balances of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. This statement is effective for fiscal years beginning after December 15, 1997. To date, the Company has not had any transactions that are required to be reported in other comprehensive income.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement requires public business enterprises to report financial and descriptive information about reportable segments. The statement also establishes standards for related disclosures about products and services, geographic areas and major customers. This statement is effective for fiscal years beginning after December 15, 1997. The Company operates in one reportable segment: the development, production and marketing of toy and related products.

## NOTE 18 -- SUBSEQUENT EVENT

On March 1, 1999, the holders of the Company's 9% convertible debentures have elected to convert an aggregate of \$3,000,000 principal amount of the debentures into 521,740 shares of the Company's common stock on May 25, 1999.

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

## SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998

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, 1996:					
Allowance for:					
Uncollectible accounts.....	\$ --	\$ --	\$ --	\$ --	\$ --
Reserve for potential product obsolescence.....	--	--	--	--	--
Reserve for sales returns and allowances.....	460,513	253,568	--	539,081	175,000
	-----	-----	-----	-----	-----
	\$ 460,513	\$ 253,568	\$ --	\$ 539,081	\$ 175,000
	=====	=====	=====	=====	=====
Year ended December 31, 1997:					
Allowance for:					
Uncollectible accounts.....	\$ --	\$ --	\$ 51,153	\$ --	\$ 51,153
Reserve for potential product obsolescence.....	--	--	200,000	70,305	129,695
Reserve for sales returns and allowances.....	175,000	3,660,775	1,050,000	3,024,954	1,860,821
	-----	-----	-----	-----	-----
	\$ 175,000	\$3,660,775	\$1,301,153	\$3,095,259	\$2,041,669
	=====	=====	=====	=====	=====
Year ended December 31, 1998:					
Allowance for:					
Uncollectible accounts.....	\$ 51,153	\$ 82,833	\$ --	\$ --	\$ 133,986
Reserve for potential product obsolescence.....	129,695	334,438	--	--	464,133
Reserve for sales returns and allowances.....	1,860,821	6,525,867	--	3,045,171	5,341,517
	-----	-----	-----	-----	-----
	\$2,041,669	\$6,943,138	\$ --	\$3,045,171	\$5,939,636
	=====	=====	=====	=====	=====

## PART II. INFORMATION NOT REQUIRED IN PROSPECTUS

## ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth all costs and expenses in connection with the issuance and distribution of the securities being registered, other than underwriting discounts. All such expenses will be paid by the Company; none will be paid by the selling stockholders.

SEC registration fee.....	\$ 17,468
NASD filing fee.....	5,343
*Blue sky fees and expenses (including legal fees).....	500
Nasdaq National Market listing fee.....	17,500
*Printing and engraving expenses.....	125,000
*Legal fees and expenses.....	200,000
*Accounting fees and expenses.....	50,000
*Miscellaneous.....	134,189
	-----
*TOTAL.....	\$550,000
	=====

-----  
\* Estimated

## ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Registrant's Certificate of Incorporation provides that the personal liability of the directors of the Registrant shall be limited to the fullest extent permitted by the provisions of Section 102(b)(7) of the General Corporation Law of the State of Delaware ("DGCL"). Section 102(b)(7) of the DGCL generally provides that no director shall be liable personally to the Registrant or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that the Certificate of Incorporation does not eliminate the liability of a director for (1) any breach of the director's duty of loyalty to the Registrant or its stockholders; (2) acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law; (3) acts or omissions in respect of certain unlawful dividend payments or stock redemptions or repurchases; or (4) any transaction from which such director derives an improper personal benefit. The effect of this provision is to eliminate the rights of the Registrant and its stockholders to recover monetary damages against a director for breach of her or his fiduciary duty of care as a director (including breaches resulting from negligent or grossly negligent behavior) except in the situations described in clauses (1) through (4) above. The limitations summarized above, however, do not affect the ability of the Registrant or its stockholders to seek nonmonetary remedies, such as an injunction or rescission, against a director for breach of her or his fiduciary duty.

In addition, the Certificate of Incorporation provides that the Registrant shall, to the fullest extent permitted by Section 145 of the DGCL, indemnify all persons whom it may indemnify pursuant to Section 145 of the DGCL. In general, Section 145 of the DGCL permits the Registrant to indemnify a director, officer, employee or agent of the Registrant or, when so serving at the Registrant's request, another company who was or is a party or is threatened to be made a party to any proceeding because of his or her position, if he or she acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the Registrant and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

The Registrant maintains a directors' and officers' liability insurance policy covering certain liabilities that may be incurred by any director or officer in connection with the performance of his or her duties and certain liabilities that may be incurred by the Registrant, including the indemnification payable to any director or officer. This policy provides for \$1.0 million in maximum aggregate coverage, including defense costs. The entire premium for such insurance is paid by the Registrant.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers, or persons controlling the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been informed that in the opinion of the Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

#### ITEM 16. EXHIBITS

EXHIBIT NUMBER -----	DESCRIPTION -----
1.1	Form of Underwriting Agreement(1)
4.1	Restated Certificate of Incorporation of the Registrant(2)
4.1.1	Certificate of Designation and Preferences of Series A Cumulative Convertible Preferred Stock of the Registrant(3)
4.1.2	Amendment to Restated Certificate of Incorporation of the Registrant(4)
4.2	By-laws of the Registrant(2)
4.2.1	Amendment to By-laws of the Registrant(5)
5.1	Opinion of Feder, Kaszovitz, Isaacson, Weber, Skala & Bass LLP(1)
23.1	Consent of Pannell Kerr Forster, Certified Public Accountants, A Professional Corporation(1)
23.2	Consent of Feder, Kaszovitz, Isaacson, Weber, Skala & Bass LLP (included in Exhibit 5.1)(1)
24.1	Power of Attorney (4)
27.1	Financial Data Schedule(4)

-----  
(1) Filed herewith.

(2) Filed previously as an exhibit to the Registrant's Registration Statement on Form SB-2 (Reg. No. 333-2048-LA), dated May 1, 1996, and incorporated herein by reference.

(3) Filed previously as an exhibit to the Registrant's Current Report on Form 8-K, filed August 7, 1998, and incorporated herein by reference.

(4) Previously filed.

(5) Filed previously as an exhibit to the Registrant's Registration Statement on Form SB-2 (Reg. No. 333-22583), effective May 1, 1997, and incorporated herein by reference.

#### ITEM 17. UNDERTAKINGS

1. The Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (and, where

applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

2. The Registrant hereby undertakes that:

(a) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(b) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

3. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements of filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Malibu, State of California, on April 26, 1999.

JAKKS PACIFIC, INC.

By: /s/ JACK FRIEDMAN\*

-----  
Jack Friedman, Chairman

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the date indicated.

SIGNATURE -----	TITLE -----	DATE ----
/s/ JACK FRIEDMAN* ----- Jack Friedman	Chief Executive Officer and Chairman (Principal Executive Officer)	April 26, 1999
/s/ STEPHEN G. BERMAN* ----- Stephen G. Berman	Director	April 26, 1999
/s/ JOEL M. BENNETT ----- Joel M. Bennett	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	April 26, 1999
/s/ ROBERT E. GLICK* ----- Robert E. Glick	Director	April 26, 1999
/s/ MICHAEL G. MILLER* ----- Michael G. Miller	Director	April 26, 1999
/s/ MURRAY L. SKALA* ----- Murray L. Skala	Director	April 26, 1999
*By: /s/ JOEL M. BENNETT ----- Joel M. Bennett, Attorney-in-Fact		

## EXHIBIT INDEX

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MLB-NY DRAFT  
4/23/99

JAKKS PACIFIC, INC.

2,350,000 Shares(1)  
Common Stock  
(\$ .001 par value)

UNDERWRITING AGREEMENT

New York, New York  
April \_\_, 1999

Advest, Inc.  
Morgan Keegan & Company, Inc.  
Southwest Securities, Inc.

As Representatives of the several Underwriters  
c/o Advest, Inc.  
One Rockefeller Plaza, 20th Floor  
New York, New York 10020

Ladies and Gentlemen:

JAKKS Pacific, Inc., a Delaware corporation (the "Company"), and the persons named in Schedule I hereto (the "Selling Stockholders") propose to sell to the several underwriters named in Schedule II hereto (the "Underwriters"), for whom you (the "Representatives") are acting as representatives, a total of 2,350,000 shares of Common Stock, \$.001 par value ("Common Stock"), of the Company (said shares to be sold by the Company and the Selling Stockholders collectively are hereinafter called the "Underwritten Securities"). Of the 2,350,000 shares of Underwritten Securities, 2,100,000 are being sold by the Company and 250,000 by the Selling Stockholders. The Company and the Selling Stockholders also propose to grant to the Underwriters an option to purchase up to 352,500 additional shares of Common Stock to cover over-allotments (the "Option Securities"; the Option Securities, together with the Underwritten Securities, are hereinafter called the "Securities"). Of the 352,500 Option Securities, 307,500 are being offered by the Company and 45,000 by the Selling

- -----

- (1) Plus an option to purchase from the Company up to 352,500 additional shares of Common Stock to cover over-allotments.



Stockholders; in the event that the Underwriters do not purchase all of the Option Securities, the Company and the Selling Stockholders will sell their respective pro rata portions of the Option Securities actually purchased. To the extent there are no additional Underwriters listed on Schedule II other than you, the terms Representatives and Underwriters, shall mean either the singular or plural as the context requires. The use of the neuter in this Agreement shall include the feminine and masculine wherever appropriate. Certain terms used herein are defined in Section 18 hereof.

1. Representations and Warranties.

(a) The Company. The Company represents and warrants to, and agrees with, each Underwriter as set forth below in this Section 1:

(i) Registration Statement; Amendments; Final Prospectus. The Company meets the requirements for the use of Form S-3 under the Act and has prepared and filed with the Commission a registration statement (Registration Number 333-74717) on Form S-3, including a related preliminary prospectus, for the registration under the Act of the offering and sale of the Securities. The Company may have filed one or more amendments thereto, including a related preliminary prospectus, each of which has previously been furnished to you. The Company will next file with the Commission either (1) prior to the Effective Date of such registration statement, a further amendment to such registration statement (including the form of final prospectus) or (2) after the Effective Date of such registration statement, a final prospectus in accordance with Rules 430A and 424(b). In the case of clause (2), the Company has included in such registration statement, as amended at the Effective Date, all information (other than Rule 430A Information) required by the Act and the rules thereunder to be included in such registration statement and the Prospectus. As filed, such amendment and form of final prospectus, or such final prospectus, shall contain all Rule 430A Information, together with all other such required information, and, except to the extent the Representatives shall agree in writing to a modification, shall be in all substantive respects in the form furnished to you prior to the Execution Time or, to the extent not completed at the Execution Time, shall contain only such specific additional information and other changes (beyond that contained in the latest Preliminary Prospectus) as the Company has advised you, prior to the Execution Time, will be included or made therein.

(ii) Compliance. On the Effective Date, the Registration Statement did or will, and when the Prospectus is first filed (if required) in accordance with Rule 424(b) and on the Closing Date (as defined herein) and on any date on which Option Securities are purchased, if such date is not the Closing Date (a "settlement date"), the Prospectus (and any supplements thereto) will, comply in all material respects with the applicable requirements of the Act and the Exchange Act and the respective rules thereunder; on the Effective Date and at the Execution Time, the Registration Statement did not or will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading; and, on the Effective Date, the Prospectus, if not filed

pursuant to Rule 424(b), did or will not, and on the date of any filing pursuant to Rule 424(b) and on the Closing Date and any settlement date, the Prospectus (together with any supplement thereto) will not, include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the Company makes no representations or warranties as to the information contained in or omitted from the Registration Statement or the Prospectus (or any supplement thereto) in reliance upon and in conformity with information furnished herein or in writing to the Company by or on behalf of any Underwriter through the Representatives specifically for inclusion in the Registration Statement or the Prospectus (or any supplement thereto).

(iii) Subsidiaries. The subsidiaries of the Company (the "Subsidiaries") listed in Exhibit 21 to the Company's Annual Report on Form 10-KSB most recently filed with the Commission are the only material subsidiaries of the Company.

(iv) Due Organization. Each of the Company and the Subsidiaries has been duly organized and is validly existing as a corporation in good standing under the laws of the jurisdiction in which it is organized with full corporate power and authority to own its properties and conduct its business as described in the Prospectus, and is duly qualified to do business as a foreign corporation and is in good standing under the laws of each jurisdiction which requires such qualification.

(v) Capitalization of Subsidiaries. All the outstanding shares of capital stock of each Subsidiary have been duly and validly authorized and issued and are fully paid and nonassessable and, except as otherwise set forth in the Prospectus, all outstanding shares of capital stock of the Subsidiaries are owned by the Company either directly or through wholly owned Subsidiaries or through a designated nominee of the Company, free and clear of any security interests, claims, liens or encumbrances, except that all of the outstanding shares of each of the Subsidiaries have been pledged in connection with the issuance of the Company's Convertible Debentures described in the Prospectus.

(vi) Capitalization. The authorized, issued and outstanding capital stock of the Company, as of December 31, 1998, was as set forth under the caption "Capitalization" in the Prospectus and there will be no material change in such authorized, issued and outstanding capital stock prior to the Closing Date. The capital stock of the Company conforms in all material respects to the description thereof contained in the Prospectus. The outstanding shares of capital stock of the Company have been duly and validly authorized and issued free of preemptive rights, and are fully paid and nonassessable. The Securities being sold hereunder by the Company and by the Selling Stockholders have been duly and validly authorized and, when issued and delivered to and paid for by the Underwriters pursuant to this Agreement, will be duly issued, fully paid and nonassessable. The Securities have been approved for listing on the Nasdaq National Market upon notice of issuance. The certificates for the Securities are in valid and sufficient form; no holder of capital stock of the Company is entitled to preemptive or other

rights to subscribe for the Securities and, except as set forth in the Prospectus, no options, warrants or other rights to purchase, agreements or other obligations to issue, or rights to convert any obligations into or exchange any securities for, shares of capital stock of or other ownership interests in the Company are outstanding.

(vii) Registration Statement. There is no franchise, contract or other document of a character required to be described in the Registration Statement or Prospectus, or to be filed as an exhibit thereto, which is not described or filed as required; and the statements in the Prospectus under the headings "Risk Factors -- Our ability to issue "blank check" preferred stock and our obligation to make severance payments could prevent or delay takeovers", "Management's Discussion and Analysis of Financial Condition and Results of Operations -Impact of Year 2000", "Certain Relationships and Related Transactions" and "Description of Securities" fairly summarize the matters therein described.

(viii) Due Authorization. This Agreement has been duly authorized, executed and delivered by the Company and constitutes its legal, valid and binding obligation.

(ix) Investment Company. The Company is not and, after giving effect to the offering and sale of the Securities and the application of the proceeds thereof as described in the Prospectus, will not be an "investment company" as defined in the Investment Company Act of 1940, as amended.

(x) Consents. No consent, approval, authorization, filing with or order of any court or governmental agency or body is required to be obtained or made by the Company or the Selling Stockholders in connection with the transactions contemplated herein, except such as have been obtained under the Act and such as may be required under the blue sky laws of any jurisdiction in connection with the purchase and distribution of the Securities by the Underwriters in the manner contemplated herein and in the Prospectus.

(xi) Market Manipulation. The Company has not taken and will not take, directly or indirectly, any action designed to or which has constituted or which might reasonably be expected to cause or result, under the Exchange Act or otherwise, in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities.

(xii) No Conflicts. Neither the issue and sale of the Securities nor the consummation of any other of the transactions herein contemplated nor the fulfillment of the terms hereof will conflict with, or result in a breach or violation of, or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of the Subsidiaries pursuant to, (A) the charter or by-laws of the Company or any of the Subsidiaries, (B) the terms of any indenture, contract, lease, mortgage, deed of trust, note agreement, loan agreement or other agreement, obligation, condition, covenant or instrument to which the Company or any of the Subsidiaries is a party or bound or to which its or their property is subject or (C) any statute,

law, rule, regulation, judgment, order or decree applicable to the Company or any of the Subsidiaries of any court, regulatory body, administrative agency, governmental body, arbitrator or other authority having jurisdiction over the Company or any of the Subsidiaries or any of its or their properties.

(xiii) Registration Rights. As indicated in the Prospectus, the Company has registered all applicable securities of any persons or entities which have registration rights.

(xiv) Financial Statements. The consolidated financial statements of the Company and its consolidated subsidiaries included or incorporated by reference in the Prospectus and the Registration Statement present fairly in all material respects the financial condition, results of operations and cash flows of the Company and its consolidated subsidiaries as of the dates and for the periods indicated. Such consolidated financial statements comply as to form with the applicable accounting requirements of the Act, the Exchange Act and the respective rules and regulations of the Commission thereunder and have been prepared in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods involved (except as otherwise noted therein).

(xv) Litigation. No action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of the Subsidiaries or its or their property is pending or, to the best knowledge of the Company, threatened that (A) could reasonably be expected to have a material adverse effect on the performance of this Agreement or the consummation of any of the transactions contemplated hereby or (B) could reasonably be expected to have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company and the Subsidiaries, taken as a whole, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto).

(xvi) Properties. Each of the Company and the Subsidiaries owns or leases all such properties as are necessary to the conduct of its operations as currently conducted.

(xvii) Violations. Neither the Company nor any of the Subsidiaries is in violation or default of (A) any provision of its charter or bylaws, (B) the terms of any indenture, contract, lease, mortgage, deed of trust, note agreement, loan agreement or other agreement, obligation, condition, covenant or instrument to which it is a party or bound or to which its property is subject or (C) any statute, law, rule, regulation, judgment, order or decree of any court, regulatory body, administrative agency, governmental body, arbitrator or other authority having jurisdiction over the Company or any of the Subsidiaries or any of its or their properties, as applicable, except for any such violation or default which would not, singly or in the aggregate, result in a material adverse change in the condition (financial or otherwise), prospects, earnings, business or properties of the Company and the Subsidiaries, taken as a whole, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto).

(xviii) Accountants. Pannell Kerr Forster, Certified Public Accountants, A Professional Corporation, which has certified the consolidated financial statements of the Company and its consolidated subsidiaries and delivered its report with respect to the consolidated financial statements and schedules included or incorporated by reference in the Prospectus, are independent accountants with respect to the Company within the meaning of the Act and the rules and regulations of the Commission thereunder.

(xix) Taxes. Except as set forth in or contemplated by the Prospectus (exclusive of any supplement thereto), the Company and the Subsidiaries have filed all foreign, federal, state and local tax returns that are required to be filed by it or them or have requested extensions thereof (except in any case in which the failure so to file would not have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company and the Subsidiaries, taken as a whole, and have paid all taxes required to be paid by it and them, and any other assessment, fine or penalty levied against it or them, to the extent that any of the foregoing is due and payable, except for any such assessment, fine or penalty that is currently being contested in good faith or which would not have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company and the Subsidiaries, taken as a whole.

(xx) Labor Relations. No labor disturbance exists or is threatened or imminent that could reasonably be expected to have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company and the Subsidiaries, taken as a whole, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto).

(xxi) Insurance. The Company and the Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which the Company and the Subsidiaries are engaged; neither the Company nor any such Subsidiary has been refused any insurance coverage sought or applied for; and neither the Company nor any such Subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a currently anticipated cost that would not have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company and the Subsidiaries, taken as a whole, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto).

(xxii) Dividends. No Subsidiary of the Company is currently prohibited, directly or indirectly, from paying any dividends to the Company, from making any other distribution on such Subsidiary's capital stock, from repaying to the Company any loans or advances to such Subsidiary from the Company or from transferring any of such Subsidiary's property or assets to the Company or any other Subsidiary of the Company, except as described

in or contemplated by the Prospectus (exclusive of any amendment thereto) and subject to the provisions of The Norwest Bank Minnesota, NA Conditional Credit Line, dated October 9, 1997, and all Guarantee Agreements, Security Agreements and Indentures related thereto.

(xxiii) Permits. Except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto), the Company and the Subsidiaries (A) possess all certificates, authorizations and permits, whether from federal, state or foreign regulatory authorities, necessary to conduct their respective businesses, except where the failure to possess such certificates, authorizations and permits would not, singly or in the aggregate, result in a material adverse change in the condition (financial or otherwise), prospects, earnings, business or properties of the Company and the Subsidiaries, taken as a whole, whether or not arising from transactions in the ordinary course of business and (B) have not received any notice of proceedings relating to the revocation or modification of any such certificate, authorization or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would result in a material adverse change in the condition (financial or otherwise), prospects, earnings, business or properties of the Company and the Subsidiaries, taken as a whole, whether or not arising from transactions in the ordinary course of business.

(xxiv) Internal Systems Controls. The Company and the Subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (A) transactions are executed in accordance with management's general or specific authorizations; (B) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain asset accountability; (C) access to assets is permitted only in accordance with management's general or specific authorization; and (D) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(xxv) Intellectual Property. The Company and the Subsidiaries own or have obtained licenses or other rights for all patents, patent applications, trade and service marks, trade names, copyrights, inventions, trade secrets, technology, know-how and other intellectual properties (collectively, the "Intellectual Property"), necessary for the conduct of their businesses as now conducted or as proposed to be conducted in the Prospectus, except where the failure to so own or obtain licenses or other rights would not singly or in the aggregate have a material adverse effect on the condition (financial or otherwise), prospects, earnings, businesses or properties of the Company and the Subsidiaries, taken as a whole. Except as set forth in the Prospectus, (A) there are no rights of third parties to any such Intellectual Property that would materially impair the rights of the Company or any Subsidiary therein; (B) to the Company's knowledge, there is no material infringement by third parties of any such Intellectual Property; (C) there is no pending or, to the Company's knowledge, threatened action, suit, proceeding or claim by others challenging the Company's or any Subsidiary's rights in or to any such Intellectual Property, and the Company is unaware of any facts which would form a reasonable basis for any such claim; (D) there is no pending or, to the Company's knowledge, threatened

action, suit, proceeding or claim by others challenging the validity or scope of any such Intellectual Property, and the Company is unaware of any facts which would form a reasonable basis for any such claim; and (E) there is no pending or, to the Company's knowledge, threatened action, suit, proceeding or claim by others that the Company or any of the Subsidiaries infringes or otherwise violates any patent, trademark, copyright, trade secret or other proprietary rights of others, and the Company is unaware of any fact which would form a reasonable basis for any such claim.

(xxvi) Relationship with Underwriters. Except as disclosed in the Registration Statement and the Prospectus, the Company (A) does not have any material lending or other relationship with any bank affiliate or lending affiliate of Advest, Inc. and (B) does not intend to use any of the proceeds from the sale of the Securities hereunder to repay any outstanding debt owed to any affiliate of any of the Underwriters.

Any certificate signed by any officer of the Company and delivered to the Representatives or counsel for the Underwriters in connection with the offering of the Securities shall be deemed a representation and warranty by the Company, as to matters covered thereby, to each Underwriter.

(b) Selling Stockholders. Each Selling Stockholder severally represents and warrants to, and agrees with, each Underwriter as set forth below in this Section 1:

(i) Title. Such Selling Stockholder is the lawful owner of the Securities to be sold by it hereunder and upon sale and delivery of, and payment for, such Securities, as provided herein, such Selling Stockholder will convey to the Underwriters good and marketable title to such Securities, free and clear of all liens, encumbrances, equities and claims whatsoever.

(ii) Market Manipulation. Such Selling Stockholder has not taken and will not take, directly or indirectly, any action designed to or which has constituted or which might reasonably be expected to cause or result, under the Exchange Act or otherwise, in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities.

(iii) Consents and Approvals. No consent, approval, authorization or order of any court, governmental agency or body or other person is required for the consummation by such Selling Stockholder of the transactions contemplated herein, except such as may have been obtained under the Act and such as may be required under the blue sky laws of any jurisdiction in connection with the purchase and distribution of the Securities by the Underwriters and such other approvals as have been obtained.

(iv) No Violation. Neither the sale of the Securities being sold by such Selling Stockholder nor the consummation of any other of the transactions herein contemplated

by such Selling Stockholder nor the fulfillment of the terms hereof by such Selling Stockholder will conflict with, result in a breach or violation of, or constitute a default under any law or the terms of any indenture or other agreement or instrument to which such Selling Stockholder is a party or by which he is bound, or any judgment, order or decree applicable to such Selling Stockholder of any court, regulatory body, administrative agency, governmental body or arbitrator having jurisdiction over such Selling Stockholder.

Any certificate signed by any representative of a Selling Stockholder and delivered to the Representatives or counsel for the Underwriters in connection with the offering of the Securities shall be deemed a representation and warranty by such Selling Stockholder, as to the matters covered thereby, to each Underwriter.

## 2. Purchase and Sale.

(a) Purchase Price. Subject to the terms and conditions and in reliance upon the representations and warranties herein set forth, (i) the Company agrees to sell 2,100,000 shares of Underwritten Securities, as well as up to 307,500 shares of Option Securities, (ii) each Selling Stockholder agrees, severally and not jointly, to sell the number of Underwritten Securities and Option Securities set forth opposite the name of each such Selling Stockholder on Schedule I hereto and (iii) each Underwriter agrees, severally and not jointly, to purchase, at a purchase price of [ \$ ] per share, the amount of the Underwritten Securities set forth opposite such Underwriter's name in Schedule II hereto.

(b) Option Grant. Subject to the terms and conditions and in reliance upon the representations and warranties herein set forth, (i) the Company agrees to grant an option to the several Underwriters to purchase, severally and not jointly, up to 307,500 shares of Option Securities and (ii) each Selling Stockholder hereby grants an option to the several Underwriters to purchase, severally and not jointly, the number of Option Securities set forth opposite the name of each such Selling Stockholder on Schedule I, all of which shall be exercised at the same purchase price per share as the Underwriters shall pay for the Underwritten Securities. Said options may be exercised only to cover over-allotments in the sale of the Underwritten Securities by the Underwriters. Said options may be exercised in whole or in part at any time on or before the 30th day after the date of the Prospectus upon written notice by the Representatives to the Company setting forth the number of shares of the Option Securities as to which the several Underwriters are exercising the options and the settlement date. In the event that the Underwriters exercise less than their full over-allotment option, (A) the number of shares of the Option Securities to be purchased by each Underwriter shall be the same percentage of the total number of shares of the Option Securities to be purchased by the several Underwriters as such Underwriter is purchasing of the Underwritten Securities, subject to such adjustments as you in your absolute discretion shall make to eliminate any fractional shares, and (B) the Company and each Selling Stockholder shall sell that number of Option Securities based on the same, respective percentage of Option Securities which they offered had the Underwriters exercised their full over-allotment option.



3. Delivery and Payment. Delivery of and payment for the Underwritten Securities and the Option Securities (if the option provided for in Section 2(b) hereof shall have been exercised on or before the third Business Day prior to the Closing Date) shall be made at 10:00 AM, New York City time, on May \_\_, 1999, or at such time on such later date not more than three Business Days after the foregoing date as the Representatives shall designate, which date and time may be postponed by agreement among the Representatives, the Company and the Selling Stockholders or as provided in Section 9 hereof (such date and time of delivery and payment for the Securities being herein called the "Closing Date"). Delivery of the Securities shall be made to the Representatives for the respective accounts of the several Underwriters against payment by the several Underwriters through the Representatives of the respective aggregate purchase prices of the Securities being sold by the Company and each of the Selling Stockholders to or upon the order of the Company and the Custodian on behalf of the Selling Stockholders, respectively, by wire transfer payable in same-day funds to the accounts specified by the Company and an Attorney-in-Fact (as defined in the Custody Agreement) on behalf of the Selling Stockholders. Delivery of the Underwritten Securities and the Option Securities shall be made through the facilities of the Depository Trust Company, 55 North Water Street, New York, New York 10041 unless the Representatives shall otherwise instruct.

Each Selling Stockholder will pay all applicable state transfer taxes, if any, involved in the transfer to the several Underwriters of the Securities to be purchased by them from such Selling Stockholder and the respective Underwriters will pay any additional stock transfer taxes involved in further transfers.

If the option provided for in Section 2(b) hereof is exercised after the third Business Day prior to the Closing Date, the Company and the Selling Stockholders will deliver the Option Securities (at the expense of the Company) to the Representatives on the date specified by the Representatives (which shall be within three Business Days after exercise of said option) for the respective accounts of the several Underwriters, against payment by the several Underwriters through the Representatives of the purchase price thereof to or upon the order of the Company and the Selling Stockholders, as appropriate, by wire transfer payable in same-day funds to the accounts specified by the Company and the Selling Stockholders. If settlement for the Option Securities occurs after the Closing Date, the Company and the Selling Stockholders will deliver to the Representatives on the settlement date for the Option Securities, and the obligation of the Underwriters to purchase the Option Securities shall be conditioned upon receipt of, supplemental opinions, certificates and letters confirming as of such date the opinions, certificates and letters delivered on the Closing Date pursuant to Section 6 hereof.

4. Offering by Underwriters. It is understood that the several Underwriters propose to offer the Securities for sale to the public as set forth in the Prospectus.

## 5. Agreements.

(a) Agreements by the Company. The Company agrees with the several Underwriters that:

(i) Effectiveness; Filing of Amendments. The Company will use its best efforts to cause the Registration Statement, if not effective at the Execution Time, and any amendment thereof, to become effective. Prior to the termination of the offering of the Securities, the Company will not file any amendment of the Registration Statement or supplement to the Prospectus or any Rule 462(b) Registration Statement unless the Company has furnished you a copy for your review prior to filing and will not file any such proposed amendment or supplement to which you reasonably object. Subject to the foregoing sentence, if the Registration Statement has become or becomes effective pursuant to Rule 430A, or filing of the Prospectus is otherwise required under Rule 424(b), the Company will cause the Prospectus, properly completed, and any supplement thereto to be filed with the Commission pursuant to the applicable paragraph of Rule 424(b) within the time period prescribed and will provide evidence satisfactory to the Representatives of such timely filing. The Company will promptly advise the Representatives (A) when the Registration Statement, if not effective at the Execution Time, shall have become effective, (B) when the Prospectus, and any supplement thereto, shall have been filed (if required) with the Commission pursuant to Rule 424(b) or when any Rule 462(b) Registration Statement shall have been filed with the Commission, (C) when, prior to termination of the offering of the Securities, any amendment to the Registration Statement shall have been filed or become effective, (D) of any request by the Commission or its staff for any amendment of the Registration Statement, or any Rule 462(b) Registration Statement, or for any supplement to the Prospectus or for any additional information, (E) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the institution or threatening of any proceeding for that purpose and (F) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Securities for sale in any jurisdiction or the institution or threatening of any proceeding for such purpose. The Company will use its best efforts to prevent the issuance of any such stop order or the suspension of any such qualification and, if issued, to obtain as soon as possible the withdrawal thereof.

(ii) Amendments. If, at any time when a prospectus relating to the Securities is required to be delivered under the Act, any event occurs as a result of which the Prospectus as then supplemented would include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein in the light of the circumstances under which they were made not misleading, or if it shall be necessary to amend the Registration Statement or supplement the Prospectus to comply with the Act or the Exchange Act or the respective rules thereunder, the Company promptly will (A) notify the Representatives of any such event; (B) prepare and file with the Commission, subject to the second sentence of Section 5(a)(i) hereof, an amendment or supplement which will correct such statement or omis-

sion or effect such compliance; and (C) supply any supplemented Prospectus to you in such quantities as you may reasonably request.

(iii) Earnings Statement. As soon as practicable, the Company will make generally available to its security holders and to the Representatives an earnings statement or statements of the Company and the Subsidiaries which will satisfy the provisions of Section 11(a) of the Act and Rule 158 under the Act.

(iv) Copies of the Registration Statement. The Company will furnish, without charge, to the Representatives and counsel for the Underwriters signed copies of the Registration Statement (including exhibits thereto) and to each other Underwriter a copy of the Registration Statement (without exhibits thereto) and, so long as delivery of a prospectus by an Underwriter or dealer may be required by the Act, as many copies of each Preliminary Prospectus and the Prospectus and any supplement thereto as the Representatives may reasonably request. The Company will pay the expenses of printing and producing all documents relating to the offering.

(v) Qualification of Securities. The Company will arrange, if necessary, for the qualification of the Securities for sale under the laws of such jurisdictions as the Representatives may designate, will maintain such qualifications in effect so long as required for the distribution of the Securities and will pay any fee of the National Association of Securities Dealers, Inc. (the "NASD") in connection with NASD's review of the offering; provided that in no event shall the Company be obligated to qualify to do business in any jurisdiction where it is not now so qualified or to take any action that would subject it to service of process in suits, other than those arising out of the offering or sale of the Securities, in any jurisdiction where it is not now so subject.

(vi) Lock-Up. The Company will not, without the prior written consent of the Representatives, for a period commencing on the date of the final prospectus relating to the offering contemplated by the Registration Statement and continuing for 180 days thereafter, offer, sell, offer to sell, solicit an offer to buy, contract to sell, encumber, distribute, pledge, grant any option for the sale of, or otherwise transfer or dispose of, directly or indirectly, in one or a series of transactions (or enter into any transaction which is designed to, or reasonably might be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by the Company or any affiliate of the Company) any shares of Common Stock, any options or warrants to purchase any shares of Common Stock or any securities convertible or exercisable into or exchangeable for shares of Common Stock; provided, however, that (i) the Company may make automatic quarterly grants of options to its non-employee directors and may issue and sell Common Stock pursuant to any director or employee stock option plan, stock ownership plan or dividend reinvestment plan of the Company in effect at the Execution Time, (ii) the Company may issue Common Stock issuable upon the conversion of securities or the exercise of warrants outstanding at the Execution Time, (iii) the Company may issue warrants to purchase up to 125,000 shares of Common Stock to Titan Sports, Inc. and a related party as well as warrants to purchase up to 150,000 shares of Common Stock to THQ Inc. pursuant to the Company's joint venture, as described in the Prospectus, and (iv)

the Company may issue and sell up to 188,235 shares of Common Stock, subject to reasonable adjustments, in connection with the Company's acquisition of Berk Corporation.

(vii) Market Manipulation. The Company will not take, directly or indirectly, any action designed to or which has constituted or which might reasonably be expected to cause or result, under the Exchange Act or otherwise, in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities.

(viii) Certificate, Letters and Opinions. The Company will cause (i) the certificate and the letters to be delivered to the several Underwriters pursuant to paragraphs (b) and (e) of Section 6 at the Execution Time and the Closing Date, also to be addressed to the directors of the Company and (ii) each opinion of counsel delivered to the Underwriters pursuant to paragraph (b) of Section 6 on the Closing Date to be accompanied by a letter from the counsel authorizing the directors to rely upon such opinion to the same extent as if it had been addressed to them.

(ix) Financial Advisory Fee. The Company will pay to Advest, Inc. a one-time financial advisory fee in the amount of \$50,000 for general financial advisory services rendered by Advest, Inc. to the Company, which fee shall be due and payable on the Closing Date.

(x) Right of First Offer. Pending the completion of the offering contemplated herein and for a nine month period following the Closing Date, the Company agrees to grant Advest, Inc. the right of first offer to provide the Company with investment banking services in connection with (i) subsequent public offerings of equity securities and (ii) merger and acquisition advisory services relating to a sale or other disposition of the Company or a material portion of the assets thereof. In connection with such investment banking services, the Company will, prior to contacting other investment banking or financial advisory firms, provide Advest, Inc. with a description of the scope of the contemplated investment banking services and invite Advest, Inc. to submit a proposal within five business days for providing such investment banking services to the Company. After contacting Advest, Inc., the Company may contact other investment banking firms concerning fees for contemplated investment banking services. Thereafter, the Company will give Advest, Inc. the opportunity to modify its proposal in light of other proposals the Company may receive. Provided that Advest, Inc.'s fees are no less favorable than those submitted by another nationally recognized investment banking firm, the Company will engage Advest, Inc. exclusively to provide such investment banking services.

(b) Agreements of the Selling Stockholders. Each Selling Stockholder agrees with the several Underwriters that:

(i) Lock-Up. The Selling Stockholders shall have executed the form of Lock-up Agreement attached hereto as Exhibit B.

(ii) Notice of Change. Such Selling Stockholder will advise you promptly, and if requested by you, will confirm such advice in writing, so long as delivery of a prospectus relating to the Securities by an underwriter or dealer may be required under the Act, of (A) any material change in the Company's condition (financial or otherwise), prospects, earnings, business or properties which comes to the attention of such Selling Stockholder or (B) any material change in the information set forth in the Registration Statement or the Prospectus relating to such Selling Stockholder.

(iii) Market Manipulation. Such Selling Stockholder will not take any action designed to or which has constituted or which might reasonably be expected to cause or result, under the Exchange Act or otherwise, in the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities.

(c) Fees and Expenses. The Company agrees to pay the costs and expenses relating to the following matters: (i) the preparation, printing or reproduction and filing with the Commission of the Registration Statement (including the financial statements therein and the exhibits thereto), each Preliminary Prospectus, the Prospectus, and each amendment or supplement to any of them; (ii) the printing (or reproduction) and delivery (including postage, air freight charges and charges for counting and packaging) of such copies of the Registration Statement, each Preliminary Prospectus, the Prospectus, and all amendments or supplements to any of them, as may, in each case, be reasonably requested for use in connection with the offering and sale of the Securities; (iii) the preparation, printing, authentication, issuance and delivery of certificates for the Securities, including any stamp or transfer taxes in connection with the original issuance or the sale of the Securities; (iv) the printing (or reproduction) and delivery of this Agreement, any other underwriting-related agreement, any blue sky memorandum and all other agreements or documents printed (or reproduced) and delivered in connection with the offering of the Securities; (v) the listing of the Securities on the Nasdaq National Market; (vi) any registration or qualification of the Securities for offer and sale under the securities or blue sky laws of the several states (including filing fees and the reasonable fees and expenses of counsel for the Underwriters relating to such registration and qualification); (vii) any filings required to be made with the NASD (including filing fees and the reasonable fees and expenses of counsel for the Underwriters relating to such filings, which fees, together with the counsel fees described in subparagraph (vi) shall not exceed \$5,000); (viii) the transportation and other expenses incurred by or on behalf of Company representatives in connection with presentations to prospective purchasers of the Securities; (ix) the fees and expenses of the Company's accountants and the fees and expenses of counsel (including local and special counsel) for the Company; and (x) all other costs and expenses incident to the performance by the Company of its obligations hereunder. Each Selling Stockholder agrees to pay the fees and expenses of its counsel (including local and special counsel) and all costs and expenses, other than those set forth above, incident to the performance of his obligations hereunder.

6. Conditions to the Obligations of the Underwriters. The obligations of the Underwriters to purchase the Underwritten Securities and the Option Securities, as the case may be, shall be subject to the accuracy of the representations and warranties on the part of the Company and the Selling Stockholders contained herein as of the Execution Time, the Closing Date and any settlement date pursuant to Section 3 hereof, to the accuracy of the statements of the Company and the Selling Stockholders made in any certificates pursuant to the provisions hereof, to the performance by the Company and the Selling Stockholders of their respective obligations hereunder and to the following additional conditions:

(a) Effective Time. If the Registration Statement has not become effective prior to the Execution Time, unless the Representatives agree in writing to a later time, the Registration Statement will become effective not later than (i) 6:00 PM New York City time on the date of determination of the public offering price, if such determination occurs at or prior to 3:00 PM New York City time on such date or (ii) 9:30 AM on the Business Day following the day on which the public offering price is determined, if such determination occurs after 3:00 PM New York City time on such date. If filing of the Prospectus, or any supplement thereto, is required pursuant to Rule 424(b), the Prospectus, and any such supplement, will be filed in the manner and within the time period required by Rule 424(b); and no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been instituted or threatened.

(b) Opinion of Counsel to the Company. The Company shall have furnished to the Representatives the opinion of Feder, Kaszovitz, Isaacson, Weber, Skala & Bass LLP, counsel for the Company, dated the Closing Date and addressed to the Representatives, to the effect that:

(i) Organization. Each of the Company and each of its Subsidiaries has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction in which it is organized, with full corporate power and authority to own or lease, as the case may be, and to operate its properties and conduct its business as described in the Prospectus, and is duly qualified to do business as a foreign corporation and is in good standing under the laws of each jurisdiction set forth on a schedule to such opinion.

(ii) Capitalization of Subsidiaries. All the outstanding shares of capital stock of each Subsidiary have been duly and validly authorized and issued and are fully paid and nonassessable and, except as otherwise set forth in the Prospectus, all outstanding shares of capital stock of the Subsidiaries are held of record by the Company, either directly or through wholly owned subsidiaries, free and clear of any perfected security interest and, to the knowledge of such counsel, after due inquiry, any other security interest, claim, lien or encumbrance, except that all of the outstanding shares of each of the Subsidiaries have been pledged in connection with the issuance of the Company's Convertible Debentures described in the Prospectus.

(iii) Capital Stock. The capital stock of the Company conforms in all material respects to the description thereof contained in the Prospectus; the outstanding shares of Common Stock (including the Securities being sold hereunder by the Selling Stockholders) have been duly and validly authorized and issued and are fully paid and nonassessable; the Securities being sold hereunder by the Company have been duly and validly authorized, and, when issued and delivered to and paid for by the Underwriters pursuant to this Agreement, will be fully paid and nonassessable; all of the Securities have been approved for listing on the Nasdaq National Market; the form of certificates for the Securities complies with the requirements of the Delaware General Corporation Law; the holders of outstanding shares of capital stock of the Company are not entitled to preemptive or other rights to subscribe for the Securities; and, except as set forth in the Prospectus, no options, warrants or other rights to purchase, agreements or other obligations to issue, or rights to convert any obligations into or exchange any securities for, shares of capital stock of or other ownership interests in the Company are, to the knowledge of such counsel, outstanding.

(iv) Litigation. To the knowledge of such counsel, there is no pending or threatened action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of the Subsidiaries or its or their property of a character required to be disclosed in the Registration Statement that is not adequately disclosed in the Prospectus, and there is no franchise, contract or other document of a character required to be described in the Registration Statement or Prospectus, or to be filed as an exhibit thereto, that is not described or filed as required.

(v) Effectiveness; Compliance. Such counsel has been advised that the Registration Statement has become effective under the Act; any required filing of the Prospectus, and any supplements thereto, pursuant to Rule 424(b) has been made in the manner and within the time period required by Rule 424(b); to the knowledge of such counsel, no stop order suspending the effectiveness of the Registration Statement has been issued, no proceedings for that purpose have been instituted or threatened and the Registration Statement and the Prospectus (other than the financial statements and other financial information contained therein, as to which such counsel need express no opinion) comply as to form in all material respects with the applicable requirements of the Act and the Exchange Act and the respective rules thereunder.

(vi) Due Authorization. This Agreement has been duly authorized, executed and delivered by the Company.

(vii) Investment Company. The Company is not and, after giving effect to the offering and sale of the Securities and the application of the proceeds thereof as described in the Prospectus, will not be, an "investment company" as defined in the Investment Company Act of 1940, as amended.

(viii) Consents. No consent, approval, authorization, filing with or order of any court or governmental agency or body is required for the consummation by the Company or the Selling Stockholders of the transactions contemplated herein, except such as have been

obtained under the Act and such as may be required under the blue sky laws of any jurisdiction in connection with the purchase and distribution of the Securities by the Underwriters in the manner contemplated in this Agreement and in the Prospectus and such other approvals (specified in such opinion) as have been obtained.

(ix) Conflicts. Neither the issue and sale of the Securities, nor the consummation of any other of the transactions herein contemplated nor the fulfillment of the terms hereof will, in any material respect, conflict with, result in a breach or violation of or imposition of any lien, charge or encumbrance upon any property or assets of the Company or the Subsidiaries pursuant to, (A) the charter or by-laws of the Company or the Subsidiaries, or (B) the terms of any indenture, contract, lease, mortgage, deed of trust, note agreement, loan agreement or other agreement, obligation, condition, covenant or instrument, known to such counsel, to which the Company or any of the Subsidiaries is a party or bound or to which its or their property is subject, or (C) any statute, law, rule, regulation, judgment, order or decree applicable to the Company or any of the Subsidiaries of any court, regulatory body, administrative agency, governmental body, arbitrator or other authority having jurisdiction over the Company or the Subsidiaries or any of its or their properties.

(x) No Registration Rights. As indicated in the Prospectus, the Company has registered all applicable securities of any persons or entities which have registration rights.

Such counsel shall further state that they have no reason to believe that on the Effective Date or at the Execution Time the Registration Statement contains or contained any untrue statement of a material fact or omitted or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus as of its date and on the Closing Date includes or included any untrue statement of a material fact or omitted or omits to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading (in each case, other than the financial statements and other financial information contained therein, as to which such counsel need express no belief).

In rendering the foregoing opinion, such counsel may rely (A) as to matters involving the application of laws of any jurisdiction other than the State of New York, the Federal laws of the United States or the General Corporation Law of the State of Delaware, to the extent they deem proper and specified in such opinion, upon the opinion of other counsel of good standing whom they believe to be reliable and who are satisfactory to counsel for the Underwriters and (B) as to matters of fact, to the extent they deem proper, on certificates of responsible officers of the Company and public officials. References to the Prospectus in this paragraph 6(b) include any supplements thereto at the Closing Date. The opinion of any such other counsel shall be rendered to the Underwriters at the request of the Company and shall so state therein and shall further state that counsel for the Underwriters may rely upon such opinion in rendering their opinion to the Underwriters.



(c) Opinion of Counsel to the Selling Stockholders. Each of the Selling Stockholders shall have furnished to the Representatives the opinion of its counsel (who shall be acceptable to the Representatives) dated the Closing Date and addressed to the Representatives, to the effect that:

(i) Due Authorization. This Agreement has been duly authorized, executed and delivered by such Selling Stockholder. Such Selling Stockholder has full legal right and authority to sell, transfer and deliver, in the manner provided in this Agreement, the Securities being sold by it hereunder.

(ii) Title. Good and valid title to the Securities being sold hereunder by such Selling Stockholder, free and clear of all liens, encumbrances, equities or claims, has been transferred to each Underwriter that has purchased such Securities without notice of an adverse claim thereto (within the meaning of the Uniform Commercial Code of the State of New York).

(iii) No Consent. All consents, approvals, authorizations and filings required to be made or obtained by such Selling Stockholder for the sale and delivery of the Securities being sold by it to the Underwriters hereunder have been made or obtained, as the case may be.

(iv) No Conflict. Neither the sale of the Securities being sold by such Selling Stockholder, nor the consummation of the transactions herein contemplated by such Selling Stockholder nor the fulfillment of the terms hereof by such Selling Stockholder will result in a breach or violation of, or constitute a default under, (A) the charter or by-laws or other organizational documents of such Selling Stockholder, or (B) the terms of any indenture or other agreement or instrument, known to such counsel and to which such Selling Stockholder is a party or by which it or its properties are bound, or (C) any law, judgment, order or decree known to such counsel of any court, regulatory body, administrative agency, governmental body or arbitrator having jurisdiction over such Selling Stockholder.

In rendering such opinion, such counsel may rely (A) as to matters involving the application of laws of any jurisdiction other than the State of New York, the Federal laws of the United States and the General Corporation Law of the State of Delaware, to the extent they deem proper and specified in such opinion, upon the opinion of other counsel of good standing whom they believe to be reliable and who are satisfactory to counsel for the Underwriters, and (B) as to matters of fact, to the extent they deem proper, on certificates of officers or other representatives of such Selling Stockholder and public officials. The opinion of any such other counsel shall be rendered to the Underwriters at the request of such Selling Stockholder and shall so state therein and shall further state that counsel for the Underwriters may rely upon such opinion in rendering their opinion to the Underwriters.

(d) Opinion of Counsel to the Underwriters. The Representatives shall have received from Morgan, Lewis & Bockius LLP, counsel for the Underwriters, such opinion or

opinions, dated the Closing Date and addressed to the Representatives, with respect to the issuance and sale of the Securities, the Registration Statement, the Prospectus (together with any supplement thereto) and other related matters as the Representatives may reasonably require, and the Company and each Selling Stockholder shall have furnished to such counsel such documents as they request for the purpose of enabling them to pass upon such matters.

(e) Certificate from the Company. The Company shall have furnished to the Representatives a certificate of the Company, signed by the Chairman of the Board or the President and the principal financial or accounting officer of the Company, dated the Closing Date, to the effect that the signers of such certificate have carefully examined the Registration Statement, the Prospectus, any supplements to the Prospectus and this Agreement and that:

(i) Bring-down of Representations and Warranties. The representations and warranties of the Company in this Agreement are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date and the Company has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied by it at or prior to the Closing Date.

(ii) Stop Orders. The Company has not received or become aware of the issuance of any stop order suspending the effectiveness of the Registration Statement, nor, to the Company's knowledge, have proceedings for that purpose been instituted or threatened.

(iii) Adverse Change. Since the date of the most recent financial statements included or incorporated by reference in the Prospectus (exclusive of any supplement thereto), there has been no material adverse change in the condition (financial or otherwise), prospects, earnings, business or properties of the Company and the Subsidiaries, taken as a whole, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto).

(f) Certificate from the Selling Stockholders. Each Selling Stockholder shall have furnished to the Representatives a certificate, signed by a duly authorized person and dated the Closing Date, to the effect that the representations and warranties of such Selling Stockholder in this Agreement are true and correct in all material respects on and as of the Closing Date to the same effect as if made on the Closing Date and such Selling Stockholder has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied by it at or prior to the Closing Date.

(g) Accountant's Letters. At the Execution Time and at the Closing Date, the Company shall have caused Pannell Kerr Foster, Certified Public Accountants, A Professional Corporation to furnish to the Representatives letters, dated respectively as of the Execution Time and as of the Closing Date, in form and substance satisfactory to the Representatives, confirming that they are independent accountants within the meaning of the Act and the Exchange Act and

the applicable published rules and regulations thereunder and covering other customary matters with respect to the Registration Statement, the Preliminary Prospectus and the Prospectus.

(h) Subsequent to the Execution Time or, if earlier, the dates as of which information is given in the Registration Statement (exclusive of any amendment thereof) and the Prospectus (exclusive of any supplement thereto), there shall not have been (i) any change or decrease specified in the letter or letters referred to in Section 6(g) hereof or (ii) any change, or any development involving a prospective change, in or affecting the condition (financial or otherwise), earnings, business or properties of the Company and the Subsidiaries, taken as a whole, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto) the effect of which, in any case referred to in clause (i) or (ii) above, is, in the sole judgment of the Representatives, so material and adverse as to make it impractical or inadvisable to proceed with the offering or delivery of the Securities as contemplated by the Registration Statement (exclusive of any amendment thereof) and the Prospectus (exclusive of any supplement thereto).

(i) Lock-Up Agreements. At or prior to the Execution Time, a letter substantially in the form of Exhibit B hereto, shall have been furnished to the Representatives by each officer and director of the Company.

(j) Listing of Securities. The Securities shall have been approved for listing on the Nasdaq National Market upon official notice of issuance.

(k) Additional Information. Prior to the Closing Date, the Company and the Selling Stockholders shall have furnished to the Representatives such further information, certificates and documents as the Representatives may reasonably request.

If any of the conditions specified in this Section 6 shall not have been fulfilled in all material respects when and as provided in this Agreement, or if any of the opinions and certificates mentioned above or elsewhere in this Agreement shall not be in all material respects reasonably satisfactory in form and substance to the Representatives and counsel for the Underwriters, this Agreement and all obligations of the Underwriters hereunder may be canceled at, or at any time prior to, the Closing Date by the Representatives. Notice of such cancellation shall be given to the Company and each Selling Stockholder in writing or by telephone or facsimile confirmed in writing.

The documents required to be delivered by this Section 6 shall be delivered at the office of Morgan, Lewis & Bockius LLP, counsel for the Underwriters, at 101 Park Avenue, New York, New York 10178, on the Closing Date.

7. Reimbursement of Underwriters' Expenses. If the sale of the Securities provided for herein is not consummated because any condition to the obligations of the Underwriters set forth in Section 6 hereof is not satisfied, because of any termination pursuant to Section 10 hereof or because of any refusal, inability or failure on the part of the Company or any Selling Stockholder to perform any agreement herein or comply with any provision hereof other than by reason of a default by any of the Underwriters, the Company will reimburse the Underwriters severally through Advest, Inc. on demand for all out-of-pocket expenses (including reasonable fees and disbursements of counsel) that shall have been incurred by them in connection with the proposed purchase and sale of the Securities. If the Company is required to make any payments to the Underwriters under this Section 7 because of any Selling Stockholder's refusal, inability or failure to satisfy any condition to the obligations of the Underwriters set forth in Section 6, the Selling Stockholders pro rata in proportion to the percentage of Securities to be sold by each shall reimburse the Company on demand for all amounts so paid.

8. Indemnification and Contribution.

(a) Indemnification by the Company. The Company agrees to indemnify and hold harmless each Underwriter, the directors, officers, employees and agents of each Underwriter and each person who controls any Underwriter within the meaning of either the Act or the Exchange Act against any and all losses, claims, damages or liabilities, joint or several, to which they or any of them may become subject under the Act, the Exchange Act or other federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the registration statement for the registration of the Securities as originally filed or in any amendment thereof, or in any Preliminary Prospectus or the Prospectus, or in any amendment thereof or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and agrees to reimburse each such indemnified party, as incurred, for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made therein in reliance upon and in conformity with written information furnished to the Company specifically for inclusion therein by or on behalf of any Underwriter through the Representatives. This indemnity agreement will be in addition to any liability which the Company may otherwise have.

(b) Indemnification by Selling Stockholders. Each Selling Stockholder agrees to indemnify and hold harmless each Underwriter, the directors, officers, employees and agents of each Underwriter, and each person who controls any Underwriter within the meaning of either

the Act or the Exchange Act, to the same extent as the foregoing indemnity to each Underwriter, but only with reference to written information relating to such Selling Stockholder furnished to the Company by or on behalf of such Selling Stockholder specifically for inclusion in the documents referred to in paragraph (a) above. This indemnity agreement will be in addition to any liability which any Selling Stockholder may otherwise have. The Underwriters acknowledge that the information related to such Selling Stockholder set forth in the table and the footnotes thereto appearing under the heading "Principal and Selling Stockholders" in any Preliminary Prospectus and the Prospectus constitutes the only information furnished in writing by or on behalf of such Selling Stockholder for inclusion in any Preliminary Prospectus or the Prospectus.

(c) Indemnification by Underwriters. Each Underwriter severally and not jointly agrees to indemnify and hold harmless the Company, each of its directors, each of its officers who signs the Registration Statement, and each person who controls the Company within the meaning of either the Act or the Exchange Act and each Selling Stockholder, to the same extent as the foregoing indemnities to each Underwriter, but only with reference to written information relating to such Underwriter furnished to the Company by or on behalf of such Underwriter through the Representatives specifically for inclusion in the documents referred to in paragraph (a) above. This indemnity agreement will be in addition to any liability which any Underwriter may otherwise have. The Company and the Selling Stockholders acknowledge that the statements set forth in the last paragraph of the cover page regarding delivery of the Securities and paragraphs 1, 2, 3, 4, 10 and 11 under the heading "Underwriting" in any Preliminary Prospectus and the Prospectus constitute the only information furnished in writing by or on behalf of the several Underwriters for inclusion in any Preliminary Prospectus or the Prospectus.

(d) Notice of Action. Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 8, notify the indemnifying party in writing of the commencement thereof, but the failure so to notify the indemnifying party (i) will not relieve it from liability under paragraph (a), (b) or (c) above unless and to the extent it did not otherwise learn of such action and such failure results in the forfeiture by the indemnifying party of substantial rights and defenses and (ii) will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraph (a), (b) or (c) above. The indemnifying party shall be entitled to appoint counsel of the indemnifying party's choice at the indemnifying party's expense to represent the indemnified party in any action for which indemnification is sought (in which case the indemnifying party shall not thereafter be responsible for the fees and expenses of any separate counsel retained by the indemnified party or parties except as set forth below); provided, however, that such counsel shall be reasonably satisfactory to the indemnified party. Notwithstanding the indemnifying party's election to appoint counsel to represent the indemnified party in an action, the indemnified party shall have the right to employ separate counsel (including local counsel), and the indemnifying party shall bear the reasonable fees, costs and expenses of such separate counsel if (i) the use of counsel chosen by the indemnifying

party to represent the indemnified party would present such counsel with a conflict of interest, (ii) the actual or potential defendants in, or targets of, any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, (iii) the indemnifying party shall not have employed counsel reasonably satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of the institution of such action or (iv) the indemnifying party shall authorize the indemnified party to employ separate counsel at the expense of the indemnifying party. An indemnifying party will not, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding.

(e) Contribution. In the event that the indemnity provided in paragraph (a), (b) or (c) of this Section 8 is unavailable or insufficient to hold harmless an indemnified party for any reason, the Company and the Underwriters severally agree to contribute to the aggregate of the losses, claims, damages and liabilities (including legal or other expenses reasonably incurred in connection with investigating or defending same) (collectively, "Losses") to which the Company and one or more of the Underwriters may be subject in such proportion as is appropriate to reflect the relative benefits received by the Company, the Selling Stockholders and the Underwriters from the offering of the Securities; provided, however, that in no case shall any Underwriter (except as may be provided in any agreement among underwriters relating to the offering of the Securities) be responsible for any amount in excess of the underwriting discount or commission applicable to the Securities purchased by such Underwriter hereunder. If the allocation provided by the immediately preceding sentence is unavailable for any reason, the Company, the Selling Stockholders and the Underwriters severally shall contribute in such proportion as is appropriate to reflect the relative fault of the Company, the Selling Stockholders and the Underwriters in connection with the statements or omissions which resulted in such Losses as well as any other relevant equitable considerations. Benefits received by the Underwriters shall be deemed to be equal to the total underwriting discounts and commissions, in each case as set forth on the cover page of the Prospectus and under the heading "Underwriting", and the Company shall be deemed to receive all remaining benefits (which shall be deemed to be equal to the total net proceeds from the Offering (before deducting expenses) received by it and the Selling Stockholders. Relative fault shall be determined by reference to, among other things, whether any untrue or any alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information provided by the Company, the Selling Stockholders or the Underwriters, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The Company, the Selling Stockholders and the Underwriters agree that it would not be just and equitable if contribution were determined by pro rata allocation or any other method of allocation which does not take

account of the equitable considerations referred to above. Notwithstanding the provisions of this paragraph (e), no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 8, each person who controls an Underwriter within the meaning of either the Act or the Exchange Act and each director, officer, employee and agent of an Underwriter shall have the same rights to contribution as such Underwriter, and each person who controls the Company within the meaning of either the Act or the Exchange Act, each officer of the Company who shall have signed the Registration Statement and each director of the Company shall have the same rights to contribution as the Company, subject in each case to the applicable terms and conditions of this paragraph (e).

9. Default by an Underwriter. If any one or more Underwriters shall fail to purchase and pay for any of the Securities agreed to be purchased by such Underwriter or Underwriters hereunder and such failure to purchase shall constitute a default in the performance of its or their obligations under this Agreement, the remaining Underwriters shall be obligated severally to take up and pay for (in the respective proportions which the amount of Securities set forth opposite their names in Schedule II hereto bears to the aggregate amount of Securities set forth opposite the names of all the remaining Underwriters) the Securities which the defaulting Underwriter or Underwriters agreed but failed to purchase; provided, however, that in the event that the aggregate amount of Securities which the defaulting Underwriter or Underwriters agreed but failed to purchase shall exceed 10% of the aggregate amount of Securities set forth in Schedule II hereto, the remaining Underwriters shall have the right to purchase all, but shall not be under any obligation to purchase any, of the Securities, and if such nondefaulting Underwriters do not purchase all the Securities, this Agreement will terminate without liability to any nondefaulting Underwriter, the Selling Stockholders or the Company. In the event of a default by any Underwriter as set forth in this Section 9, the Closing Date shall be postponed for such period, not exceeding five Business Days, as the Representatives shall determine in order that the required changes in the Registration Statement and the Prospectus or in any other documents or arrangements may be effected. Nothing contained in this Agreement shall relieve any defaulting Underwriter of its liability, if any, to the Company, the Selling Stockholders and any nondefaulting Underwriter for damages occasioned by its default hereunder.

10. Termination. This Agreement shall be subject to termination in the absolute discretion of the Representatives, by notice given to the Company prior to delivery of and payment for the Securities, if at any time prior to such time (i) trading in the Company's Common Stock shall have been suspended by the Commission or the Nasdaq National Market or trading in securities generally on the Nasdaq National Market shall have been suspended or limited or minimum prices shall have been established on such Exchange, (ii) a banking moratorium shall have been declared either by Federal or New York State authorities or (iii) there shall have occurred any outbreak or escalation of hostilities, declaration by the United States of a national emergency or war or other calamity or crisis the effect of which on financial markets is such as to make it, in the sole judgment of the Representatives, impractical or

inadvisable to proceed with the offering or delivery of the Securities as contemplated by the Prospectus (exclusive of any supplement thereto).

11. Representations and Indemnities to Survive. The respective agreements, representations, warranties, indemnities and other statements of the Company or its officers, of each Selling Stockholder and of the Underwriters set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation made by or on behalf of any Underwriter, any Selling Stockholder or the Company or any of the officers, directors or controlling persons referred to in Section 8 hereof, and will survive delivery of and payment for the Securities. The provisions of Sections 5(c), 7 and 8 hereof shall survive the termination or cancellation of this Agreement. The provision of Sections 5(a)(vi) and 5(b)(i) shall terminate upon the termination or cancellation of this Agreement.

12. Notices. All communications hereunder will be in writing and effective only on receipt, and:

(a) if sent to the Representatives, will be mailed, delivered or telefaxed to Advest, Inc., One Rockefeller Plaza, 20th Floor, New York, New York 10020, Attention: Brett A. Chamberlain (Fax number: (212) 584-4292) (with a copy forwarded to Morgan, Lewis & Bockius LLP, 101 Park Avenue, New York, NY 10178, Attention: Christopher T. Jensen, Esq. (Fax number: (212) 309-6273));

(b) if sent to the Company, will be mailed, delivered or telefaxed to JAKKS Pacific, Inc., 22761 Pacific Coast Highway, Malibu, CA 90265, Attention: Stephen G. Berman (Fax number: (310) 456-7099) (with a copy forwarded to Feder, Kaszovitz, Isaacson, Weber, Skala & Bass LLP, 750 Lexington Avenue, New York, New York 10022, Attention: Murray L. Skala (Fax number: (212) 888-7776)); or

(c) if sent to any Selling Stockholder, will be mailed, delivered or telefaxed and confirmed to it at the address set forth in Schedule I hereto.

13. Successors and Reliance. This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and the officers and directors and controlling persons referred to in Section 8 hereof, and no other person will have any right or obligation hereunder.

14. Applicable Law. This Agreement will be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed within the State of New York.

15. Counterparts. This Agreement may be signed in one or more counterparts, each of which shall constitute an original and all of which together shall constitute one and the same agreement.



16. Headings. The section headings used herein are for convenience only and shall not affect the construction hereof.

17. Submission to Jurisdiction, Etc. (a) To the fullest extent permitted by applicable law, the Company and the Selling Stockholders irrevocably submit to the jurisdiction of any federal or state court in the City, County and State of New York, United States of America, in any suit or proceeding based on or arising under this Agreement, the Custody Agreement, the Registration Statement, the Prospectus or any Preliminary Prospectus, and irrevocably agree that all claims in respect of any such suit or proceeding may be determined in any such court. The Company and the Selling Stockholders irrevocably and fully waive the defense of an inconvenient forum to the maintenance of such suit or proceeding. They hereby irrevocably designate and appoint Murray L. Skala (the "Process Agent"), as their authorized agent upon whom process may be served in any such suit or proceeding, it being understood that the designation and appointment of the Process Agent as such authorized agent shall become effective immediately without any further action on the part of the Selling Stockholders. The Selling Stockholders represent to the Underwriters that they have notified the Process Agent of such designation and appointment and that the Process Agent has accepted the same in writing. The Selling Stockholders hereby irrevocably authorize and direct the Process Agent to accept such service. They further agree that service of process upon the Process Agent and written notice of said service to the Selling Stockholders mailed by prepaid registered first-class mail or delivered to the Process Agent at its principal office, shall be deemed in every respect effective service of process upon the Selling Stockholders in any such suit or proceeding. Nothing herein shall affect the right of any Underwriter or any person controlling such Underwriter to serve process in any other manner permitted by law. The Selling Stockholders further agree to take any and all action, including the execution and filing of any and all such documents and instruments as may be necessary to continue the designation and appointment of the Process Agent in full force and effect so long as they have any outstanding obligations under this Agreement or the Custody Agreement. If for any reason the Process Agent is no longer able to serve as such authorized agent, the Selling Stockholders shall appoint another agent reasonably satisfactory to Advest, Inc. To the extent that the Selling Stockholders have or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether through service of note, attachment prior to judgment, attachment in aid of execution, executor or otherwise) with respect to themselves or their properties, they hereby irrevocably waive such immunity in respect of their obligations under this Agreement and the Custody Agreement, to the extent permitted by law.

(b) The obligation of the parties to make payments hereunder is in U.S. dollars (the "Obligation Currency") and such obligation shall not be discharged or satisfied by any tender or recovery pursuant to any judgment expressed in or converted into any currency other than the Obligation Currency or any other realization in such other currency, whether as proceeds of set-off, security, guarantee, distributions, or otherwise, except to the extent to which such tender, recovery or realization shall result in the effective receipt by the party which is to receive such payment of the full amount of the Obligation Currency expressed to be payable

hereunder, and the party liable to make such payment agrees to indemnify the party which is to receive such payment (as an additional, separate and independent cause of action) for the amount (if any) by which such effective receipt shall fall short of the full amount of the Obligation Currency expressed to be payable hereunder and such obligation to indemnify shall not be affected by judgment being obtained for any other sums due under this Agreement.

18. Definitions. The terms which follow, when used in this Agreement, shall have the meanings indicated.

"Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations of the Commission promulgated thereunder.

"amend," "amendment" or "supplement" with respect to the Registration Statement, any Preliminary Prospectus or the Prospectus shall mean and include the filing of any document under the Exchange Act after the Effective Date, or the issue date of any Preliminary Prospectus or the Prospectus, as the case may be, deemed to be incorporated therein by reference.

"Business Day" shall mean any day other than a Saturday, a Sunday or a legal holiday or a day on which banking institutions or trust companies are authorized or obligated by law to close in New York City.

"Commission" shall mean the Securities and Exchange Commission.

"Effective Date" shall mean each date and time that the Registration Statement, any post-effective amendment or amendments thereto and any Rule 462(b) Registration Statement became or become effective.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission promulgated thereunder.

"Execution Time" shall mean the date and time that this Agreement is executed and delivered by the parties hereto.

"Preliminary Prospectus" shall mean any preliminary prospectus referred to in Section 1(a)(i) above and any preliminary prospectus included in the Registration Statement at the Effective Date that omits Rule 430A Information. Such term shall include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 which were filed on or before the issue date of such Preliminary Prospectus.

"Prospectus" shall mean the prospectus relating to the Securities that is first filed pursuant to Rule 424(b) after the Execution Time or, if no filing pursuant to Rule 424(b) is required, shall mean the form of final prospectus relating to the Securities included in

the Registration Statement at the Effective Date. Such term shall include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 which were filed on or before the issue date of such Prospectus.

"Registration Statement" shall mean the registration statement referred to in Section 1(a)(i) above, including exhibits and financial statements, as amended at the Execution Time (or, if not effective at the Execution Time, in the form in which it shall become effective) and, in the event any post-effective amendment thereto or any Rule 462(b) Registration Statement becomes effective prior to the Closing Date, shall also mean such registration statement as so amended or such Rule 462(b) Registration Statement, as the case may be. Such term shall include any Rule 430A Information deemed to be included therein at the Effective Date as provided by Rule 430A and the documents incorporated by reference therein pursuant to Item 12 of Form S-3 which are filed on or before the Effective Date.

"Rule 424", "Rule 430A" and "Rule 462" refer to such rules under the Act.

"Rule 430A Information" shall mean information with respect to the Securities and the offering thereof permitted to be omitted from the Registration Statement when it becomes effective pursuant to Rule 430A.

"Rule 462(b) Registration Statement" shall mean a registration statement and any amendments thereto filed pursuant to Rule 462(b) relating to the offering covered by the initial registration statement.

If the foregoing Underwriting Agreement is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicate hereof, whereupon this letter and your acceptance shall represent a binding agreement among the Company and the several Underwriters.

Very truly yours,

JAKKS Pacific, Inc.

By: \_\_\_\_\_

Name:  
Title:

SELLING STOCKHOLDERS:

\_\_\_\_\_  
Jack Friedman

\_\_\_\_\_  
Stephen G. Berman

The foregoing Underwriting Agreement is hereby confirmed and accepted as of the date first above written.

ADVEST, INC.  
MORGAN KEEGAN & COMPANY, INC.  
SOUTHWEST SECURITIES, INC.  
Acting on behalf of themselves and as the Representatives of the other several Underwriters named in Schedule II hereof.

By: Advest, Inc.

By: \_\_\_\_\_  
Name: Brett A. Chamberlain  
Title: Director

## SCHEDULE I TO UNDERWRITING AGREEMENT

SELLING STOCKHOLDERS	NUMBER OF UNDERWRITTEN SECURITIES TO BE SOLD	NUMBER OF OPTION SECURITIES TO BE SOLD
Jack Friedman c/o JAKKS Pacific, Inc. 2271 Pacific Coast Highway Malibu, CA 90265 Fax No. (310) 456-7099	192,000	35,000
Stephen G. Berman c/o JAKKS Pacific, Inc. 2271 Pacific Coast Highway Malibu, CA 90265 Fax No. (310) 456-7099	58,000	10,000
TOTAL.....	250,000	45,000

## SCHEDULE II TO UNDERWRITING AGREEMENT

UNDERWRITERS	NUMBER OF UNDERWRITTEN SECURITIES TO BE PURCHASED	[NUMBER OF OPTION SECURITIES TO BE PURCHASED]
Advest, Inc.		
Morgan Keegan & Company, Inc.		
Southwest Securities, Inc.		
Total	2,350,000	352,500

## EXHIBIT A

Jack Friedman  
Stephen Berman  
(Names of Selling Stockholders)

CUSTODY AGREEMENT AND POWER OF ATTORNEY  
FOR SALE OF COMMON STOCK OF  
JAKKS PACIFIC, INC.

Murray L. Skala  
As Attorney-in-Fact as provided herein  
c/o Feder, Kaszovitz, Isaacson, Weber, Skala & Bass LLP  
750 Lexington Avenue  
New York, New York 10022-1200

Boston Safe and Deposit Company, as Custodian as provided herein

Gentlemen:

The undersigned stockholders (the "Selling Stockholders") of JAKKS Pacific, Inc., a Delaware corporation (the "Company"), propose to sell shares of Common Stock, \$.001 par value, of the Company ("Common Stock") to certain underwriters (the "Underwriters") for whom Advest, Inc., Morgan Keegan & Company, Inc. and Southwest Securities, Inc. will act as the representatives (the "Representatives"). The shares are being registered for distribution under a Registration Statement on Form S-3 (the "Registration Statement") for distribution by the Underwriters to the public at a price and on terms to be hereafter determined. It is understood that at this time there is no commitment on the part of the Underwriters to purchase any shares of Common Stock and no assurance that an offering of Common Stock will take place. The shares of Common Stock which the undersigned propose to sell to the Underwriters pursuant to the Underwriting Agreement (hereinafter defined) are referred to herein as the "Securities".

1. Appointment and Powers of Attorney-in-Fact.

A. Each of the undersigned hereby irrevocably constitutes and appoints Murray L. Skala (the "Attorney-in-Fact") as his agent and attorney-in-fact, with full power of substitution with respect to all matters arising in connection with the public offering and sale by the undersigned of the Securities, including, but not limited to, the power and authority on behalf of the undersigned to do or cause to be done any of the following things:

(i) negotiate, determine and agree upon (a) the price at which the Securities will be initially offered to the public by the Underwriters pursuant to the Underwriting Agreement, (b) the underwriting discount with respect to the Securities, and (c) the price at which the

Securities will be sold to the Underwriters by the Selling Stockholders pursuant to the Underwriting Agreement;

(ii) execute and deliver on behalf of the undersigned an Underwriting Agreement (the "Underwriting Agreement"), substantially in the form of the draft dated April \_\_, 1999, delivered to the undersigned herewith, receipt of which is acknowledged, but with such insertions, changes (including a change in the number of shares of Common Stock to be sold by the undersigned), additions or deletions as the Attorney-in-Fact, acting in his sole discretion, shall approve, which approval shall be conclusively evidenced by the execution and delivery of the Underwriting Agreement by an Attorney-in-Fact, including the making of all representations and agreements provided in the Underwriting Agreement to be made by, and the exercise of all authority thereunder vested in, the undersigned;

(iii) sell, assign, transfer and deliver the Securities to the Underwriters pursuant to the Underwriting Agreement and deliver to the Underwriters certificates for the Securities so sold;

(iv) endorse (in blank or otherwise) on behalf of the undersigned the certificate or certificates for the Securities to be sold by the undersigned pursuant to the Underwriting Agreement or to execute and deliver a stock power(s) with respect to such certificates;

(v) take any and all steps deemed necessary or desirable by the Attorney-in-Fact in connection with the registration of the Securities under the Securities Act of 1933, as amended (the "Securities Act" ), the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and under the securities or "blue sky" laws of various states and jurisdictions, including, without limitation, the giving or making of such undertakings, representations and agreements and the taking of such other steps as the Attorney-in-Fact may deem necessary or advisable;

(vi) instruct the Company and the Custodian, as hereinafter defined, on all matters pertaining to the sale of the Securities and delivery of certificates therefor;

(vii) make any assurances, communications and reports (including in the form of a signed certificate pursuant to Section 6(f) of the Underwriting Agreement) for and on behalf of the undersigned to the Underwriters, which may be necessary or advisable for facilitating the sale of the Securities, or to appropriate state or governmental authorities, which may be necessary or advisable for effecting the registration of the Securities under the state securities or blue sky laws;

(viii) provide, in accordance with the Underwriting Agreement, for the payment of any expenses of the offering and sale of the Common Stock covered by the Registration Statement to be paid by the Selling Stockholders;



(ix) exercise any power conferred upon, and to take any action authorized to be taken by, the undersigned pursuant to the Underwriting Agreement, in the sole discretion of the Attorney-in-Fact; and

(x) otherwise take all actions and do all things necessary or proper, required, contemplated or deemed advisable or desirable by the Attorney-in-Fact in his discretion, including the execution and delivery of any documents, and generally act for and in the name of the undersigned with respect to the sale of the Securities to the Underwriters and the offering of the Securities by the Underwriters as fully as could the undersigned if then personally present and acting.

B. Power to Act. The Attorney-in-Fact may act alone in exercising the rights and powers conferred on him by this Custody Agreement and Power of Attorney (the "Agreement"). The Attorney-in-Fact is hereby empowered to determine, individually, in his sole and absolute discretion, the time or times when, the purposes for which, and the manner in which, any power herein conferred upon him shall be exercised.

C. Reliance. The Custodian, the Underwriters, the Company and all other persons dealing with the Attorney-in-Fact as such may rely and act upon any writing believed in good faith to be signed by the Attorney-in-Fact.

D. Compensation. The Attorney-in-Fact shall not receive any compensation for his services rendered hereunder, except that he shall be entitled to cause the Custodian to pay, from the proceeds payable to the undersigned, each of the undersigned's proportionate share of any out-of-pocket expenses incurred under this Agreement.

## 2. Appointment of Custodian; Deposit of Securities.

A. Deposit of Certificates. In connection with and to facilitate the sale of the Securities to the Underwriters, each of the undersigned hereby appoints Boston Safe and Deposit Company as custodian (the "Custodian") and herewith deposits with the Custodian one or more certificates for Common Stock that in the aggregate represent not less than the total number of Securities to be sold by him to the Underwriters, which number is set forth on Schedule I hereto. Each such certificate so deposited on the date hereof is in negotiable and proper deliverable form, endorsed in blank with the signature of the undersigned or the Attorney-in-Fact thereon guaranteed by a commercial bank or trust company in the United States or by a member firm of the Nasdaq National Market, or is accompanied by a duly executed stock power or powers in blank, bearing the signature of the undersigned or the Attorney-in-Fact so guaranteed. The Custodian is hereby authorized and directed, subject to the instructions of the Attorney-in-Fact, (a) to hold in custody the certificate or certificates deposited herewith, (b) to deliver or to authorize the Company's transfer agent to deliver the certificate or certificates deposited hereunder (or replacement certificate(s) for the Securities) to or at the direction of the Attorney-in-Fact in accordance with the terms of the Underwriting Agreement and (c) to return or cause the Company's transfer agent to return to the

undersigned new certificate(s) for the shares of Common Stock represented by any certificate deposited hereunder which are not sold pursuant to the Underwriting Agreement.

B. Retention of Rights of Ownership. Until the Securities have been delivered to the Underwriters against payment therefor in accordance with the Underwriting Agreement, the undersigned shall retain all rights of ownership with respect to the Securities deposited hereunder, including the right to vote and to receive all dividends and payment thereon, except the right to retain custody of or dispose of such Securities, which right is subject to this Agreement, lock-up agreements between each of the undersigned and Advest, Inc. and the Underwriting Agreement.

C. Compensation. The Custodian shall be entitled to customary compensation for the services to be rendered hereunder as set forth in Schedule II attached hereto. Such compensation shall be paid to the Custodian by the Company.

### 3. Sale of Securities; Remitting Net Proceeds.

A. Delivery of Securities upon Payment. The Attorney-in-Fact is hereby authorized and directed to deliver or cause the Custodian or the Company's transfer agent to deliver certificates for the Securities to the Representatives, as provided in the Underwriting Agreement, against delivery to the Attorney-in-Fact for the account of the undersigned of the purchase price of the Securities, at the time and in the funds specified in the Underwriting Agreement. The Attorney-in-Fact is authorized, on behalf of the undersigned, to accept and acknowledge receipt of the payment of the purchase price for the Securities and shall promptly deposit such proceeds with the Custodian. After reserving an amount of such proceeds for fees and expenses as provided below, the Custodian shall promptly remit to the undersigned their respective, proportionate shares of the proceeds.

B. Retention of Fees and Expenses. Before any proceeds of the sale of the Securities are remitted to the undersigned, the Attorney-in-Fact is authorized and empowered to direct the Custodian to reserve from the proceeds an amount determined by the Attorney-in-Fact to be sufficient to pay all expenses of the Selling Stockholders, which amount shall be allocated between the undersigned according to their respective, proportionate shares of the proceeds. The Selling Stockholders' expenses shall include those items, if any, of expense of the offering and sale of the Common Stock to be borne by them as provided in the Underwriting Agreement. The Custodian is authorized to pay such expenses from the amount reserved for that purpose pursuant to the written direction of the Attorney-in-Fact. After payment of expenses from this reserve, the Custodian will remit to the undersigned their respective, proportionate shares of any balance. To the extent expenses exceed the amount reserved, the Selling Stockholders shall remain liable for their respective, proportionate shares of such expenses.

4. Representations, Warranties and Agreements. Each of the undersigned represents and warrants to, and agrees with each other, the Company, the Attorney-in-Fact, the Custodian and the Underwriters as follows:

A. Authority. Each of the undersigned has full legal right, power and authority to enter into and perform this Agreement and the Underwriting Agreement and to sell, transfer, assign and deliver the Securities to be sold by him pursuant to the Underwriting Agreement, free and clear of all liens, encumbrances, equities and claims whatsoever. If either of the undersigned is acting as a fiduciary, officer, partner, or agent, he is enclosing with this Agreement certified copies of the appropriate instruments pursuant to which the undersigned is authorized to act hereunder.

B. Bring-down of Representations, Warranties and Covenants. Each of the undersigned has reviewed the representations and warranties to be made by the undersigned as a Selling Stockholder contained in the Underwriting Agreement, and hereby represents, warrants and covenants that each of such representations and warranties is true and correct as of the date hereof and, except as the undersigned shall have notified the Attorney-in-Fact and Advest, Inc. pursuant to paragraph F of the attached instructions, will be true and correct at all times from the date hereof through and including the time of the closing of the sale of the Securities to the Underwriters. Each of the undersigned will promptly notify the Attorney-in-Fact of any development that would make any such representation or warranty untrue.

C. Absence of Changes. Each of the undersigned has reviewed the Registration Statement, including the preliminary prospectus included therein, and (i) the undersigned have no knowledge of any material adverse information with regard to the current and prospective operations of the Company or the Subsidiaries (as defined in the Underwriting Agreement) except as disclosed in such preliminary prospectus, (ii) the information contained in such preliminary prospectus with respect to the undersigned is true and correct, and (iii) to the best of the knowledge and belief of the undersigned, such preliminary prospectus does not contain any misstatement of a material fact or omit to state any material fact.

D. Non-affiliation. Neither of the undersigned is directly or indirectly an affiliate of or associated with any member of the National Association of Securities Dealers, Inc.

E. Lock-up. The undersigned will not sell, offer to sell, contract to sell or otherwise dispose of any shares of Common Stock (or any securities convertible into or exercisable or exchangeable for shares of Common Stock) except in accordance with the terms of the Lock-Up Agreement referred to in Section 5(b) (i) of the Underwriting Agreement.

F. Indemnification. Upon execution and delivery of the Underwriting Agreement by the Attorney-in-Fact on behalf of each of the undersigned, each of the undersigned agrees to indemnify and hold harmless the Underwriters, the Company, each of its directors and each of its officers who signs the Registration Statement, and each person, if any, who controls any Underwriter or the Company, and to contribute to amounts paid as a result of losses, claims, damages, liabilities and expenses, as provided in Section 8 of the Underwriting Agreement.

G. Agreement to be Bound. Upon execution and delivery of the Underwriting Agreement by each of the undersigned or the Attorney-in-Fact on behalf of him, each of the

undersigned agrees to be bound by and to perform each of the covenants and agreements made by each of the undersigned as a Selling Stockholder in the Underwriting Agreement.

H. Additional Information. Each of the undersigned agrees to deliver to the Attorney-in-Fact such documentation as the Attorney-in-Fact, the Company, the other Selling Stockholder or the Underwriters or any of their respective counsel may reasonably request in order to effectuate any of the provisions hereof or of the Underwriting Agreement, all of the foregoing to be in form and substance satisfactory in all respects to the requesting party.

The foregoing representations, warranties and agreements are made for the benefit of, and may be relied upon by, each of the undersigned with respect to the other Selling Stockholder, the Attorney-in-Fact, the Company, the Custodian, the Underwriters and their respective representatives, agents and counsel and are in addition to, and not in limitation of, the representations, warranties and agreements of the Selling Stockholders in the Underwriting Agreement.

#### 5. Irrevocability of Instruments; Termination of this Agreement.

A. Irrevocability. This Agreement, the deposit of the Securities pursuant hereto and all authority hereby conferred, is granted, made and conferred subject to and in consideration of (i) the interests of the Attorney-in-Fact, the Underwriters and the Company for the purpose of completing the transactions contemplated hereunder and by the Underwriting Agreement and (ii) the completion of the registration of Common Stock pursuant to the Registration Statement and the other acts of the above-mentioned parties from the date hereof to and including the execution and delivery of the Underwriting Agreement in anticipation of the sale of Common Stock, including the Securities, to the Underwriters. The Attorney-in-Fact is hereby further vested with an estate, right, title and interest in and to the Securities deposited herewith for the purpose of irrevocably empowering and securing to him authority sufficient to consummate said transactions. Accordingly, this Agreement shall be irrevocable prior to the Closing Date (as defined in the Underwriting Agreement), and shall remain in full force and effect until that date. The undersigned further agree that this Agreement shall not be terminated by operation of law or upon the occurrence of any event whatsoever, including the death, disability or incompetence of either or both of the undersigned. If any event referred to in the preceding sentence shall occur, whether with or without notice thereof to the Attorney-in-Fact, the Custodian, any of the Underwriters or any other person, the Attorney-in-Fact and the Custodian nevertheless shall be authorized and empowered to deliver and deal with the Securities deposited under this Agreement by the undersigned in accordance with the terms and provisions of the Underwriting Agreement and this Agreement as if such event had not occurred.

B. Termination. If the sale of the Securities contemplated by this Agreement is not completed by the 60th day after the date of the Prospectus (as defined in the Underwriting Agreement), this Agreement shall terminate (without affecting any lawful action of the Attorney-in-Fact or the Custodian prior to such termination or the agreement of the undersigned to indemnify the Attorney-in-Fact and the Custodian), and the Attorney-in-Fact shall cause the

Custodian to return to the undersigned all certificates for the Securities deposited hereunder, but only after having received payment of each of the undersigned's proportionate part of any expenses to be paid or borne by the Selling Stockholders. The undersigned hereby covenant with the Attorney-in-Fact and with each other that if for any reason the sale of the Securities contemplated hereby shall not be consummated, each of the undersigned shall pay his proportionate share of all expenses payable by the Selling Stockholders hereunder or under the Underwriting Agreement.

6. Liability and Indemnification of the Attorney-in-Fact and Custodian. The Attorney-in-Fact and the Custodian assume no responsibility or liability to the undersigned or to any other person, other than to deal with the Securities, the proceeds from the sale of the Securities and any other shares of Common Stock deposited with the Custodian pursuant to the terms of this Agreement in accordance with the provisions hereof. The duties and obligations of the Custodian shall be limited to and determined solely by the express provisions of this Agreement, and no implied duties or obligations shall be read into this Agreement against the Custodian. The undersigned hereby agree to indemnify and hold harmless the Attorney-in-Fact and the Custodian, and their respective officers, agents, successors, assigns and personal representatives with respect to any act or omission of or by any of them in good faith in connection with any and all matters within the scope of this Agreement or the Underwriting Agreement; provided, however, that the Attorney-in-Fact and the Custodian may be liable to the undersigned for any such act or omission to the extent attributable to gross negligence or fraud. The Custodian may consult with counsel of its own choice and shall have full and complete authorization and protection for any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such counsel.

7. Interpretation.

A. Survival of Representations, Warranties and Agreements. The representations, warranties and agreements of each of the undersigned contained herein and in the Underwriting Agreement shall survive the sale and delivery of the Securities and the termination of this Agreement.

B. Governing Law. The validity, enforceability, interpretation and construction of this Agreement shall be determined in accordance with the laws of the State of New York applicable to contracts made and to be performed within the State of New York, and this Agreement shall inure to the benefit of, and be binding upon, the undersigned and the undersigned's respective heirs, executors, administrators, successors and assigns, as the case may be.

C. Validity. Wherever possible each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any such provision shall be prohibited by or invalid under applicable law, it shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

D. Usage. The use of the masculine gender in this Agreement includes the feminine and neuter, and the use of the singular includes the plural, wherever appropriate.

E. Counterparts. This Agreement may be executed in any number of counterparts, each of which, when so executed and delivered, shall constitute an original and all together shall constitute one instrument.

F. Binding Effect. This Agreement shall be binding upon, inure to the benefit of, and be enforceable by and against, the respective successors, heirs, personal representatives and assigns of the parties hereto.



Selling Stockholder: Stephen G. Berman Guaranteed by (2): \_\_\_\_\_

By: (1) \_\_\_\_\_ By: \_\_\_\_\_  
Name: Name:  
Title: Title:

Name and address to which notices and funds shall be sent:

Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
(Street)  
\_\_\_\_\_  
(City) (State) (Zip)

ACCEPTED by the Attorney-in-Fact as of the date above set forth: ACCEPTED by the Custodian as of the date above set forth:

By: \_\_\_\_\_ Boston Safe and Deposit Company  
Name: Murray L. Skala  
By: \_\_\_\_\_  
Name:  
Title:

SEE THE ATTACHED INSTRUCTIONS

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- (1) NOTE: Please sign exactly as your name appears on your stock certificate(s).
- (2) NOTE: The signature must be guaranteed by a commercial bank or trust company in the United States or by a member firm of the Nasdaq National Market.



## INSTRUCTIONS

(For completing the Custody Agreement and Power of Attorney)

A. You have been sent five copies of the Custody Agreement and Power of Attorney (the "Agreement"). Please complete and return four copies of the Agreement and stock certificate(s) as set forth in paragraph D below. A fully executed copy of the Agreement will be returned to you; a fully executed copy of the Agreement and your stock certificate(s) will be retained by the Custodian; and a fully executed copy of the Agreement will be delivered to each Attorney-in-Fact and to Counsel for the Underwriters.

B. Complete Schedule I attached hereto.

C. Each copy of the Agreement and each stock certificate or stock power deposited hereunder must be executed by you (or by the Attorney-in-Fact) with your signature on the Agreement and the stock certificate(s) or the accompanying stock power guaranteed by a commercial bank or trust company in the United States or any broker which is a member firm of the Nasdaq National Market. The stock certificate(s) or stock power and the Agreement should be signed exactly as your name appears on your stock certificate(s).

D. Endorsed stock certificate(s) or stock certificate(s) with stock powers attached along with all four executed copies of the completed Agreement should be promptly returned by hand delivery or by certified mail appropriately insured to the Custodian at:

Boston Safe and Deposit Company

Attn: Keith Jackson

If sent through the mail, it is recommended that the certificate(s) not be endorsed, but an executed stock power be sent under separate cover from the certificate(s).

E. If any certificate that you submit represents a greater number of Securities than the aggregate number of Securities which you agree to sell pursuant to the Underwriting Agreement (including any additional shares which you agree to sell), the Custodian will cause to be delivered to you in due course, but not earlier than ten days after the final closing for the purchase of Securities by the Underwriters pursuant to the exercise by the Underwriters of the over-allotment option described in the Underwriting Agreement, a certificate for the excess number of shares.

F. For purposes of discharging your obligations under Section 6(f) of the Underwriting Agreement and Section 4B of the Agreement please contact Brett A. Chamberlain of Advest, Inc. by phone at (212) 584-4274 or by facsimile at (212) 584-4292 if any information or representation included in the foregoing Agreement or the Underwriting Agreement should change, or if you become aware of any new information, at any time prior to termination of the period applicable to you referred to in Section 6(b) (ii) of the Underwriting Agreement.

Jack Friedman  
 (Name of Selling Stockholder)

## SCHEDULE I

Certificate(s) for Securities of Common Stock of JAKKS Pacific, Inc.  
 deposited under  
 Custody Agreement and Power of Attorney

Certificate Number	Number of Shares of Common Stock Represented by Certificate this	Number of Shares of Common Stock from Certificate to Be Sold*
-----	-----	-----
-----	-----	-----
-----	-----	-----
-----	-----	-----
-----	-----	-----
-----	-----	-----
-----	-----	-----
-----	-----	-----
-----	-----	-----
	Total: _____	Total: 192,000

\*If fewer than all shares represented by a certificate are to be sold, indicate below, if desired for income tax purposes, the date of purchase or purchase price of the particular shares to be sold.

Stephen Berman  
(Name of Selling Stockholder)

SCHEDULE I

Certificate(s) for Securities of Common Stock of JAKKS Pacific, Inc.  
deposited under  
Custody Agreement and Power of Attorney

Certificate Number	Number of Shares of Common Stock Represented by Certificate	Number of Shares of Common Stock from this Certificate to Be Sold*
-----	-----	-----
-----	-----	-----
-----	-----	-----
-----	-----	-----
-----	-----	-----
-----	-----	-----
-----	-----	-----
-----	-----	-----
-----	-----	-----
	Total: _____	Total: 58,000

\*If fewer than all shares represented by a certificate are to be sold, indicate below, if desired for income tax purposes, the date of purchase or purchase price of the particular shares to be sold.

SCHEDULE II  
Fees of Custodian

[TO COME]

## EXHIBIT B

JAKKS PACIFIC, INC.

LOCK-UP AGREEMENT

March 19, 1999

Advest, Inc.  
Morgan Keegan & Company  
Southwest Securities, Inc.  
As Representatives of the Underwriters  
One Rockefeller Plaza  
New York, New York 10020

Ladies and Gentlemen:

The undersigned understands that you, as Representatives of the underwriters (the "Underwriters"), propose to enter into an underwriting agreement (the "Underwriting Agreement") with JAKKS Pacific, Inc. (the "Company") providing for the public offering (the "Public Offering") by the Underwriters, including yourself, of common stock of the Company, par value \$.001 (the "Common Stock"), pursuant to the Company's Registration Statement on Form S-3 (the "Registration Statement").

In consideration of the Underwriters' agreement to purchase and make the Public Offering of the Common Stock, and for other good and valuable consideration, receipt of which is hereby acknowledged, the undersigned hereby agrees, for a period commencing on the date of the final prospectus relating to the Public Offering and continuing for 180 days thereafter (but not to extend beyond December 15, 1999) (the "Lock-Up Period"), not to offer, sell, offer to sell, solicit an offer to buy, contract to sell, encumber, distribute, pledge, grant any option for the sale of, or otherwise transfer or dispose of, directly or indirectly, in one or a series of transactions (collectively, a "Disposition"), any shares of Common Stock, any options or warrants to purchase any shares of Common Stock or any securities convertible or exercisable into or exchangeable for shares of Common Stock (collectively, "Securities"), now owned or hereafter acquired by the undersigned or with respect to which the undersigned has acquired or hereafter acquires the power of disposition, without the prior written consent of Advest, Inc., other than (i) any shares of Common Stock to be sold pursuant to the Underwriting Agreement and (ii) shares of Common Stock disposed of as bona fide gifts approved by Advest, Inc. Prior to the expiration of the Lock-Up Period, the undersigned agrees that it will not announce or disclose any intention to do anything after the expiration of such period which the undersigned is prohibited, as provided in the preceding sentence, from doing during the Lock-Up Period. In addition, for the benefit of the Company and the Underwriters, the undersigned hereby (i) waives during the Lock-up Period any right it may have to cause the Company to register pursuant to the Securities Act of 1933, as amended, shares of Common Stock now owned or hereafter acquired or received by the undersigned as a result of the Public Offering and (ii) during the Lock-Up Period, agrees not to

exercise any such registration rights and further agrees that the Company shall not be obligated to register any shares in violation of the Underwriting Agreement.

The undersigned acknowledges and agrees that the restrictions above are expressly agreed to preclude the holder of the Securities from engaging in any hedging or other transaction which is designed to or reasonably expected to lead to or result in a Disposition of Securities (or the economic equivalent thereof) during the Lock-Up Period even if such Securities would be disposed of by someone other than the undersigned. Such prohibited hedging or other transactions would include, without limitation, any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any Securities or with respect to any security (other than a broad-based marked basket or index) that includes, relates to or derives any significant part of its value from the Securities.

The undersigned hereby also agrees and consents to the entry of stop transfer instructions with the Company's transfer agent against the transfer of the Securities held by the undersigned except in compliance with this Lock-Up Agreement.

It is understood that, if the Underwriting Agreement is not executed, or if the Underwriting Agreement shall terminate or be terminated prior to payment for and delivery of the Common Stock the subject thereof, this Lock-Up Agreement shall automatically terminate and be of no further force or effect.

This Lock-Up Agreement shall be governed by and construed in accordance with the laws of the State of New York (without giving effect to its conflict of laws provisions).

Very truly yours,

-----  
Name:  
Address:

CERTIFICATE OF AMENDMENT OF RESTATED CERTIFICATE  
OF INCORPORATION OF JAKKS PACIFIC, INC.

The undersigned hereby certifies as follow:

1. The Board of Directors of JAKKS Pacific, Inc., a Delaware corporation (the "Company"), has adopted resolutions to increase the number of shares of Preferred Stock that the Company shall have authority to issue to 1,000,000 shares, and, for this purpose, authorizing that the Company's Restated Certificate of Incorporation be amended by deleting Article FOURTH thereof in its entirety and by inserting in lieu thereof the following:

FOURTH: The total number of shares of stock which the Company shall have authority to issue is 26,000,000 shares, of which 25,000,000 shares shall comprise a single class of common stock, par value \$.001 per share, and 1,000,000 shares shall comprise a single class of preferred stock, par value \$.001 per share (the "Preferred Stock"). The shares of Preferred Stock may be issued from time to time, when and as authorized by the Company's Board of Directors in one or more series, upon such terms and conditions as the Company's Board of Directors shall approve. The Company's Board of Directors is expressly authorized to provide for the issuance of all or any shares of the Preferred Stock in one or more classes or series, and, subject to the provisions hereof, to fix by resolution or resolutions the designations, powers, preferences and relative, participating, optional or other special rights, and the qualifications, limitations and restrictions, of each such class or series.

2. The foregoing amendment was duly adopted in accordance with Section 242 of the General Corporation Law of Delaware.

IN WITNESS WHEREOF, the undersigned has duly executed this Certificate on this 12th day of February, 1999.

/s/ Stephen G. Berman

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Stephen G. Berman, President

## CONSENT OF PANNELL KERR FORSTER

We hereby consent to the inclusion in the Registration Statement on Form S-3 of JAKKS Pacific, Inc. of our report dated February 22, 1999, except for note 18, for which the date is March 1, 1999, on our audits of the consolidated financial statements of JAKKS Pacific, Inc. as of December 31, 1997 and 1998, and for each of the three years in the period ended December 31, 1998.

We also hereby consent to the reference to our firm as "Experts" in the Registration Statement.

/s/ PANNELL KERR FORSTER

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Pannell Kerr Forster  
Certified Public Accountants  
A Professional Corporation

Los Angeles, California

April 26, 1999