



---

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

---

**Pre-Effective 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.)*

**22619 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.  
22619 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:**

**Murray L. Skala, Esq.  
Feder, Kaszovitz, Isaacson, Weber,  
Skala, Bass & Rhine LLP  
750 Lexington Avenue  
New York, New York 10022-1200  
(212) 888-8200  
Fax: (212) 888-7776**

**Gordon M. Bava, Esq.  
Manatt, Phelps & Phillips, LLP  
11355 West Olympic Boulevard  
Los Angeles, California 90064  
(310) 312-4000  
Fax: (310) 312-4224**

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 Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit(1)	Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Common Stock, par value \$.001 per share	4,025,000 Shares(2)	\$19.95(3)	\$80,298,750	\$7,388

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

(2) Includes 525,000 shares of common stock, par value \$.001 per share, which the underwriters have the option to purchase to cover over-allotments, if any.

(3) Pursuant to Rule 457(c), represents the average of the high and low sales prices of our common stock for April 22, 2002 as reported on the Nasdaq National Market System.

**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 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

The information in this prospectus is not complete and may be changed. We have 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, and we are not soliciting offers to buy these securities, in any jurisdiction where the offer or sale is not permitted.

**SUBJECT TO COMPLETION, DATED MAY 6, 2002**

**PROSPECTUS**

**3,500,000 Shares**



**Common Stock**

Of the 3,500,000 shares of common stock being offered, we are offering 3,000,000 shares and certain of our stockholders are offering 500,000 shares. Our common stock is traded on the Nasdaq National Market under the symbol "JAKK." On May 1, 2002, the last reported sale price of our common stock was \$18.98 per share.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 7 of this prospectus to read about risks that you should consider before buying shares of our common stock.

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

	Per Share	Total
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to us	\$	\$
Proceeds, before expenses, to the selling stockholders	\$	\$

We have granted the underwriters a 30-day option to purchase from us up to an aggregate of 525,000 additional shares of our common stock at the offering price, less the underwriting discount, to cover over-allotments, if any.

The underwriters are severally underwriting the shares being offered. The underwriters expect to deliver the shares against payment in New York, New York, on or about \_\_\_\_\_, 2002.

**Bear, Stearns & Co. Inc. U.S. Bancorp Piper Jaffray**

**Advest, Inc.**

The date of this Prospectus is \_\_\_\_\_, 2002.

[Table of Contents](#)

INSIDE FRONT COVER

Pictures or depictions of our products and our licensed and owned marks including Nickelodeon, WWF, Road Champs, Hello Kitty, Flying Colors, Go Fly A Kite, Fun noodle, Pentech, Toymax and Child Guidance.

---

## **TABLE OF CONTENTS**

[DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS](#)  
[TRADEMARK AND LICENSING INFORMATION](#)  
[PROSPECTUS SUMMARY](#)  
[RISK FACTORS](#)  
[USE OF PROCEEDS](#)  
[PRICE RANGE OF COMMON STOCK](#)  
[DIVIDEND POLICY](#)  
[CAPITALIZATION](#)  
[SELECTED CONSOLIDATED FINANCIAL DATA](#)  
[BUSINESS](#)  
[PRINCIPALS, SELLING STOCKHOLDERS AND RELATED INFORMATION](#)  
[DESCRIPTION OF SECURITIES](#)  
[UNDERWRITING](#)  
[LEGAL MATTERS](#)  
[EXPERTS](#)  
[WHERE YOU CAN FIND MORE INFORMATION](#)  
[INFORMATION INCORPORATED BY REFERENCE](#)  
[SIGNATURES](#)  
[EXHIBIT 1.1](#)  
[EXHIBIT 5.1](#)

---

## [Table of Contents](#)

You should rely only on the information contained or incorporated in this prospectus. We, the selling stockholders and the underwriters have not authorized anyone to provide you with information different from that contained in this prospectus. We and the selling stockholders 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, where the context requires (such as when we discuss our business, operations, properties or products), our subsidiaries.

### TABLE OF CONTENTS

	<u>Page</u>
Disclosure Regarding Forward-Looking Statements	ii
Trademark and Licensing Information	ii
Prospectus Summary	1
The Offering	4
Summary Consolidated Financial Data	5
Risk Factors	7
Use of Proceeds	14
Price Range of Common Stock	15
Dividend Policy	15
Capitalization	16
Selected Consolidated Financial Data	17
Business	19
Principals, Selling Stockholders and Related Information	29
Description of Securities	31
Underwriting	32
Legal Matters	33
Experts	33
Where You Can Find More Information	34
Information Incorporated by Reference	35

Until \_\_\_\_\_, 2002 (25 days after the date of this prospectus), all dealers that buy, sell or trade these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers’ obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

## DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes or incorporates by reference “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 information or upon the occurrence of future events or otherwise.

## TRADEMARK AND LICENSING INFORMATION

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*®, *Nickelodeon*®, *Rugrats*® and *Hello Kitty*®, among others. We also refer in this prospectus to other trademarks or brand or trade names that are owned or licensed by other companies.



## PROSPECTUS SUMMARY

This summary highlights information more fully described elsewhere in this prospectus. Because it is a summary, it does not contain all the information that you should consider before buying shares of our common stock in this offering. You should read the entire prospectus, especially the “Risk Factors” section beginning on page 7, and our consolidated financial statements and the related notes incorporated by reference elsewhere in this prospectus, 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.

### JAKKS Pacific, Inc.

#### Our Business

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

- Action figures and accessories including licensed characters, principally based on the *World Wrestling Federation*, and toy vehicles, including *Road Champs*® die-cast collectibles and *Remco*™ toy vehicles and role-play toys and accessories;
- Craft, activity and stationery products, including *Flying Colors*® activity sets, compounds, playsets and lunch boxes, and *Pentech*® writing instruments, stationery and activity products;
- *Child Guidance*® infant and pre-school electronic toys, toy foam puzzle mats and blocks, activity sets, outdoor products, plush toys and slumber bags; and
- Fashion and mini dolls and related accessories, including *Disney*® Princesses sold exclusively in The Disney Store.

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

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

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

We have capitalized on our relationship with World Wrestling Federation Entertainment, Inc. (WWF) by obtaining an exclusive worldwide license for our joint venture with THQ Inc. (THQ), which develops, produces, manufactures and markets video games based on *World Wrestling Federation* characters and themes. Since the joint venture’s first title release in 1999, it has released 11 new titles. We have received \$27.5 million as our share of the joint venture’s profit through March 31, 2002.

On March 11, 2002, we acquired a controlling interest in Toymax International, Inc. (Toymax), a developer and marketer of toys and related products, which added toy brand names such as *Laser Challenge*™ and *Creepy Crawlers*® to our brand portfolio. In addition, pool-related products branded under the name

## [Table of Contents](#)

*Funnoodle*® and kites branded under the name *Go Fly a Kite*™ further diversified our portfolio with products popular in the spring and summer seasons.

Most of our current products are relatively simple and inexpensive. In 2001, approximately 70% of our revenue came from products priced below ten dollars at retail. We believe that these products have enduring appeal and are less subject to general economic conditions, toy product fads and trends, and changes in retail distribution channels. As of March 31, 2002, we had over 4,300 products and 19 product categories. In addition, the simplicity of these products enables us to choose among a wider range of manufacturers and affords us greater flexibility in product design, pricing and marketing. Our product development process typically takes from three to nine months from concept to production and shipment to our customers. We believe that many licensors and retailers recognize and reward our ability to bring product to market faster and more efficiently than many of our competitors.

We sell our products through our in-house sales staff and independent sales representatives to toy and mass-market retail chain stores, department stores, office supply stores, drug and grocery store chains, club stores, toy specialty stores and wholesalers. The *Road Champs*, *Flying Colors* and *Pentech* products also are sold to smaller hobby shops, specialty retailers and corporate accounts, among others. Our five largest customers are Target, Kmart, Toys 'R' Us, Wal-Mart, and Kay Bee Toys, which collectively accounted for approximately 54.7% of our net sales in 2001. We have over 10,000 other customers, none of which accounted for more than 2.0% of our net sales in 2001.

### **Our Growth Strategy**

The successful execution of our growth strategy has resulted in increased revenues and earnings. From 1996 to 2001, our net sales, EBITDA and net income grew at a compound annual rate of 88.2%, 95.0% and 88.7%, respectively. In 2001, we generated net sales and EBITDA of \$284.3 million and \$44.1 million, respectively. Key elements of our growth strategy include:

- **Expand Core Products.** We manage our existing and new brands through strong product development initiatives, including introducing new products, modifying existing products and extending existing product lines. Our product designers strive to develop new products or product lines to offer added technological, aesthetic and functional improvements to our product lines. In 2001, we expanded the use of real-scan technology in our action toys, which produces higher quality and better likenesses of the representative characters and vehicle parts. In addition, we introduced action figures with significantly greater ranges of motion, and expanded our electronic action figure recognition play sets.
- **Enter New Product Categories.** We will continue to use our extensive experience in the toy and other industries to evaluate products and licenses in new product categories and to develop additional product lines. We have entered the plush toy category through the licensing of *Pound Puppies*®, as well as through the creation of our own *Limbo Legs*™, and expanded into slumber bags through the licensing of this category from our current licensors, such as MTV Networks, Inc. (Nickelodeon).
- **Pursue Strategic Acquisitions.** We intend to supplement our internal growth rate with selected strategic acquisitions. Since our inception in 1995, we have successfully completed and integrated nine acquisitions of companies and trademarks. These include our acquisitions of Justin Products, Road Champs, *Remco*, *Child Guidance*, Berk, Flying Colors, Pentech, Kidz Biz and most recently, our controlling interest in Toymax. We will continue focusing our acquisition strategy on businesses or brands that have compatible product lines and offer valuable trademarks or brands.
- **Acquire Additional Character and Product Licenses.** We have acquired the rights to use many familiar corporate, trade and brand names and logos from third parties that we use with our primary trademarks and brands. Currently, we have license agreements with the WWF, Nickelodeon, Disney, and Warner Bros., as well as with the licensors of the many popular licensed children's characters previously mentioned, among others. We intend to continue to pursue new licenses from these entertainment and media companies and other licensors. We also intend to continue to purchase additional inventions and product concepts through our existing network of product developers.

## Table of Contents

- **Expand International Sales.** We believe that foreign markets, especially Europe, Australia, Canada, Latin America and Asia, offer us significant growth opportunities. In 2001, our sales generated outside the United States grew 78% to approximately \$40.0 million, or 14.1% of total sales. We intend to continue to expand our international sales by capitalizing on our experience and our relationships with foreign distributors and retailers. Our recent expansion efforts included entering into a distribution agreement with Funtastic Ltd., an Australia based toy distributor. In addition, in December 2001, we acquired Kidz Biz for its distribution channels in the United Kingdom and surrounding territories. We expect both initiatives to contribute to our continued international growth in 2002.
- **Capitalize On Our Operating Efficiencies.** We believe that our current infrastructure and low-overhead operating model can accommodate significant growth without a proportionate increase in our operating and administrative expenses, thereby increasing our operating margins.

## **Industry Overview**

According to the Toy Industry Association, Inc. (TIA), the leading toy industry trade group, total retail sales of toys, excluding video games, in the United States, were approximately \$25.0 billion in 2001. Sales by domestic toy manufacturers to foreign customers exceeded \$5.0 billion in 2001. In the United States video game segment, total retail sales of video game software were approximately \$9.4 billion in 2001.

## **Recent Developments**

On March 11, 2002, we purchased 8,100,065 shares of common stock of Toymax, a developer and marketer of toys and related products, from four of its stockholders for approximately \$24.3 million in cash and 646,384 shares of our common stock. Previously, between December 2, 2001 and February 4, 2002, we purchased 132,754 shares of Toymax common stock on the open market for an aggregate purchase price of approximately \$0.2 million. As a result of these transactions, we own approximately 66.8% of the outstanding shares of Toymax common stock.

We intend to purchase the remaining shares of Toymax common stock in a merger transaction by the end of the second quarter of 2002, at which point Toymax will become our wholly owned subsidiary. We currently estimate that the consideration payable to acquire the remaining shares of Toymax common stock will consist of approximately \$11.8 million in cash and approximately 312,500 shares of our common stock.

Toymax has an established portfolio of brand names and products including innovative and technologically advanced toys such as *Laser Challenge* and *Creepy Crawlers* activities brands, *Mighty Mo's*® electronic vehicles and radio-controlled vehicles and robots, as well as pool and water toys and accessories and other outdoor products under the *Funnoodle* brand and kites, banners, *WindWheels*™, weathervanes and wind chimes under the *Go Fly a Kite* brand. These brand names and products further diversify and complement our existing brand names and products. We also expect to benefit from efficiencies generated by lowering our combined operating expenses. In addition, the *Funnoodle* and *Go Fly a Kite* products have significant sales through the spring and summer season.

We recently reported our financial results for the quarter ended March 31, 2002. Net sales for the first quarter of 2002 totaled \$59.9 million, as compared to \$60.0 million for the first quarter of the prior year. Excluding a one-time restructuring charge of \$6.6 million related to our acquisitions of Kidz Biz and Toymax, net income for the first quarter of 2002 increased 16.1% to \$7.0 million, or \$0.35 per diluted share, compared to net income of \$6.0 million, or \$0.32 per diluted share, in 2001. Net income, including the one-time charge, was \$2.2 million or \$0.11 per diluted share. Additional information is included in our Quarterly Report on Form 10-Q for the period ended March 31, 2002, which is incorporated by reference in this prospectus.

## **Our Corporate Information**

We were formed as a Delaware corporation in 1995. Our principal executive offices are located at 22619 Pacific Coast Highway, Malibu, California 90265. Our telephone number is (310) 456-7799. Our Internet website address is [www.jakkspacific.com](http://www.jakkspacific.com). The contents of our website are not part of this prospectus.

## THE OFFERING

Common stock offered by us	3,000,000 shares
Common stock offered by the selling stockholders	500,000 shares(1)
Common stock outstanding after this offering	23,018,865 shares(2)(3)
Use of proceeds received by us	To purchase the remaining shares of Toymax, to finance potential acquisitions of companies, product lines, brands and licenses, to fund product development and for working capital and general corporate purposes. We will not receive any proceeds from the sale of our common stock by the selling stockholders pursuant to this prospectus.
Risk Factors	An investment in our common stock involves a high degree of risk. See "Risk Factors."
Nasdaq National Market symbol	JAKK

- 
- (1) Includes 350,078 shares of common stock issuable upon the exercise of stock options.
- (2) Assumes the sale of all of the shares offered hereby. Includes 350,078 shares to be sold by selling stockholders which will be issued upon the exercise of options. Does not include 1,395,735 shares reserved by us for issuance upon exercise of all stock options included in our Third Amended and Restated 1995 Employee Stock Option Plan, all of which have already been granted at prices ranging from \$3.00 to \$26.00 and expiring at various times from October 7, 2002 to January 1, 2012.
- (3) If all the over-allotment shares are sold, we would issue an additional 525,000 shares, so that 23,543,865 shares would be outstanding after this offering.

## SUMMARY CONSOLIDATED FINANCIAL DATA

The following summary consolidated financial data have been derived from our audited and unaudited consolidated financial statements, which are incorporated by reference 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 notes incorporated by reference in this prospectus.

	Year Ended December 31,					Three Months Ended March 31,	
	1997	1998	1999	2000	2001	2001	2002
(in thousands, except per share data)							
<b>Consolidated Statement of Operations Data:</b>							
Net sales	\$41,945	\$85,253	\$183,685	\$252,288	\$284,309	\$59,962	\$59,895
Cost of sales	25,875	52,000	107,602	149,881	164,222	35,494	33,425
Gross profit	16,070	33,253	76,083	102,407	120,087	24,468	26,470
Income from operations	4,175	9,246	24,929	20,503	29,298(1)	7,267	1,419(2)
(Profit)/loss from joint venture	—	—	(3,605)	(15,906)	(6,675)	(728)	(1,297)
Net income	\$ 2,786	\$ 6,375	\$ 21,970	\$ 28,637	\$ 28,233(1)	\$ 6,021	\$ 2,156(2)
Diluted earnings per share	\$ 0.35	\$ 0.59	\$ 1.39	\$ 1.41	\$ 1.45(1)	\$ 0.32	\$ 0.11(2)
Weighted average shares and equivalents outstanding — diluted	9,103	11,403	15,840	20,281	19,410	18,920	20,236

	As of December 31,					As of March 31,	
	1997	1998	1999	2000	2001	2002	As 2002ted(3)
(in thousands)							
<b>Consolidated Balance Sheet Data:</b>							
Cash and cash equivalents	\$ 2,536	\$12,452	\$ 57,546	\$ 29,275	\$ 25,036	\$ 14,937	\$ 70,500
Marketable securities	—	—	39,334	13,618	37,119	16,706	16,706
Working capital	3,368	13,736	113,170	86,897	116,487	82,006	137,569
Total assets	43,605	58,736	232,878	248,722	284,041	330,704	386,267
Total long-term debt	6,000	5,940	9	1,000	73	76	76
Total stockholders’ equity	25,959	37,754	187,501	204,530	244,403	260,890	316,453

## Year Ended December 31,

	1997	1998	1999	2000	2001(1)
(in thousands, except for percentages)					
<b>Other Financial Data:</b>					
EBITDA(4)	\$6,161	\$12,993	\$29,575	\$31,377	\$44,104
EBITDA growth	293.7%	110.9%	127.6%	6.1%	40.6%
Net sales growth	248.0%	103.2%	115.5%	37.3%	12.7%
Net income growth	136.1%	128.8%	244.6%	30.3%	(1.4)%
EBITDA margin	14.7%	15.2%	16.1%	12.4%	15.5%
Gross profit margin	38.3%	39.0%	41.4%	40.6%	42.2%
Net income margin	6.6%	7.5%	12.0%	11.4%	9.9%

- (1) Results reflect a one-time charge of \$5.0 million relating to the bankruptcy filing of Kmart.
- (2) Results reflect one-time restructuring charges of \$6.6 million relating to our acquisitions of Kidz Biz and Toymax.
- (3) The adjusted balance sheet gives effect to receipt of the net proceeds from our sale of shares of our common stock in this offering at an assumed offering price of \$18.98 per share, after we deduct the underwriting discount and pay the expenses associated with this offering and the receipt of the option price from the selling stockholders of \$2,354,754 upon the exercise of options to purchase 350,078 shares that are being sold in this offering.
- (4) EBITDA is defined as earnings from continuing operations before interest and income taxes, net of nonrecurring items, plus depreciation and amortization of long-term assets. EBITDA does not include our profit from the joint venture with THQ in the amounts of \$3.6 million, \$15.9 million and \$6.7 million in the years ended 1999, 2000 and 2001, respectively. EBITDA is generally regarded as providing useful information regarding a company's financial performance, but it is not a measure of financial performance under generally accepted accounting principles. EBITDA should not be considered an alternative to measures of operating performance as determined in accordance with generally accepted accounting principles, including net income as a measure of our operating results and cash flows as a measure of our liquidity. Additionally, EBITDA is not calculated identically by all companies, therefore, our calculation of EBITDA may not be comparable to other similarly titled measures of other companies.

## RISK FACTORS

*An investment in our securities involves a high degree of risk. You should carefully consider the following risk factors in conjunction with the other information contained and incorporated by reference in this prospectus before purchasing our securities. If any of the risks discussed in this prospectus actually occur, our business, operating results, cash flows, prospects or financial condition could be materially adversely affected. This may cause the market price of our securities to decline and could cause you to lose all or part of your investment.*

### ***We Are Subject to Changing Consumer Preferences and New Product Introductions***

Our business and operating results depend largely upon the appeal of our products. Our continued success in the toy industry will depend on our ability to redesign, restyle and extend our existing core products and product lines as consumer preferences evolve, and to develop, introduce and gain customer acceptance of new products and product lines. Several trends in recent years have presented challenges for the toy industry, including:

- the phenomenon of children outgrowing toys at younger ages, particularly in favor of interactive and high technology products;
- increasing use of technology;
- shorter life cycles for individual products; and
- higher consumer expectations for product quality, functionality and value.

We cannot assure you that:

- our current products will continue to be popular with consumers;
- the product lines or products that 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.

### ***We Are Subject to Changing Popularity of Our Products***

The success of many of our character-related 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:

- media associated with our character-related and theme-related product lines will be released at the times we expect or will be successful;
- the success of media associated with our existing character-related and theme-related product lines will result in substantial promotional value to our products;
- we will be successful in renewing licenses upon expiration on terms that are favorable to us; or
- we will be successful in obtaining licenses to produce new character-related and theme-related products in the future.

### ***There Are Risks Associated with Our License Agreements***

- *Our Current Licenses Require Us to Pay Minimum Royalties*

Sales of products under trademarks or trade or brand names licensed from others account for substantially all of our net sales. 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

## Table of Contents

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.

- *Some of Our Licenses Are Restricted as to Use*

Under some of our license agreements, including WWF and Nickelodeon, the licensors have the right to review and approve our use of their licensed products, designs or materials before we may make any sales. If a licensor refuses to permit our use of any licensed property in the way we propose, or if their review process is delayed, our development or sale of new products could be impeded.

- *New Licenses Are Difficult and Expensive to Obtain*

Our continued success will depend substantially on our ability to obtain additional licenses. Intensive competition exists for desirable licenses in our industry. 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.

- *A Limited Number of Licensors Account for a Large Portion of Our Net Sales*

We derive a significant portion of our net sales from a limited number of licensors. If one or more of these licensors were to terminate or fail to renew our license or not grant us new licenses, our business, financial condition and results of operations could be adversely affected.

### ***The Toy Industry Is Highly Competitive***

The toy industry is highly competitive. Globally, certain of our competitors have financial and strategic advantages over us, including:

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

### ***Our Video Game Joint Venture with THQ Is Subject to Numerous Risks and Uncertainties***

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

- The joint venture depends entirely on a single license, which gives the venture exclusive worldwide rights to produce and market video games based on World Wrestling Federation characters and themes. The popularity of professional wrestling, in general, and the World Wrestling Federation, in particular, is subject to changing consumer tastes and demands. The relative popularity of professional wrestling has fluctuated significantly in recent years. 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 relies 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



## Table of Contents

THQ's manufacturing licenses were to terminate and the joint venture could not otherwise obtain these licenses from other manufacturers, the joint venture would be unable to publish additional titles for these manufacturers' platforms, which would materially adversely affect the joint venture's 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 depend, 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 certain 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 affect on consumer demand for titles released or to be released by the joint venture for such 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 personal computer 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.
- In general, THQ controls the day-to-day operations of the joint venture and all of its product development and production operations. Accordingly, the joint venture relies exclusively on THQ to manage these operations effectively. THQ's failure to effectively manage the joint venture would have a material adverse effect on the joint venture's and our business and results of operations.

### ***We May Not Be Able To Sustain or Manage Our Rapid Growth***

We have experienced rapid growth in net sales, operating income and net income over the last five years. 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, refining our product lines 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 our recruitment and retention of qualified management personnel. We cannot assure you that we will be able to recruit and retain qualified personnel or expand and manage our operations effectively and profitably. To effectively manage future growth, we must continue to expand our operational, financial and management information systems and to train, motivate and manage our work force. There can be no assurance that our operational, financial and management information systems will be adequate to support our future operations. Failure to expand our operational, financial and management information systems or to train, motivate or manage employees could have a material adverse effect on our business, financial condition and results of operations.

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 continue to 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 and new product lines. Future acquisitions will succeed only if we can effectively assess characteristics of potential target companies and product lines, such as:

- attractiveness of products;
- suitability of distribution channels;
- management ability;
- financial condition and results of operations; 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 Limited Number of Customers Account for a Large Portion of Our Net Sales***

Our five largest customers accounted for 54.7% of our net sales in 2001. 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 price reductions, financial incentives, changes in other terms of sale or for us to bear the risks and the cost of carrying inventory also could adversely affect our business, financial condition and results of operations. If one or more of our major customers were to experience difficulties in fulfilling their obligations to us, cease doing business with us, significantly reduce the amount of their purchases from us or return substantial amounts of our products, it could have a material adverse effect on our business, financial condition and results of operations. In addition, the bankruptcy or other lack of success of one or more of our significant retailers could negatively impact our revenues and bad debt expense. Kmart, one of our major customers, filed for Chapter 11 bankruptcy protection on January 22, 2002. We recorded a \$5.0 million charge in our 2001 financial statements to allow for any losses that may result from Kmart's bankruptcy filing. However, it is not possible to predict the ultimate impact of Kmart's bankruptcy filing at this time.

***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, Stephen G. Berman, our President and Chief Operating Officer, and Michael Bianco, Jr., our Executive Vice President and Chief Merchandising Officer. We cannot assure you that we would be able to find an appropriate replacement for Mr. Friedman, Mr. Berman or Mr. Bianco if the need should arise, and any loss or interruption of Mr. Friedman's, Mr. Berman's or Mr. Bianco's services could adversely affect our business, financial condition and results of operations. We maintain, and are the beneficiary of, a \$4.0 million key-man life insurance policy on Mr. Friedman, which may be insufficient to fund the cost of employing his successor.

***We Depend on Third-Party Manufacturers***

We depend on approximately 20 third-party manufacturers who develop, provide and use the tools, dies and molds that we own to manufacture our products. However, 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 could secure other third-party manufacturers to produce our products, 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 overseas 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.

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.

***We Have Substantial Sales and Manufacturing Operations Outside of the United States Subjecting Us to Risks Common to International Operations.***

We sell products and operate facilities in numerous countries outside the United States. For the fiscal year ended December 31, 2001, sales to our international customers comprised approximately 14.1% of our net sales. We expect our sales to international customers to account for a greater portion of our revenues in future fiscal periods. Additionally, we utilize third-party manufacturers located principally in The People's Republic of China. These sales and manufacturing operations are subject to the risks normally associated with international operations, including:

- currency conversion risks and currency fluctuations;
- limitations, including taxes, on the repatriation of earnings;
- political instability, civil unrest and economic instability;
- greater difficulty enforcing intellectual property rights and weaker laws protecting such rights;
- complications in complying with laws in varying jurisdictions and changes in governmental policies;
- greater difficulty and expenses associated with recovering from natural disasters;
- transportation delays and interruptions; and
- the potential imposition of tariffs.

Our reliance on external sources of manufacturing can be shifted, over a period of time, to alternative sources of supply, should such changes be necessary. However, if we were prevented from obtaining products or components for a material portion of our product line due to political, labor or other factors beyond our control, our operations would be disrupted while alternative sources of products were secured. Also, the imposition of trade sanctions by the United States against a class of products imported by us from, or the loss of "normal trade relations" status by China, could significantly increase our cost of products imported from that nation. Because of the importance of our international sales and international sourcing of manufacturing to our business, our financial condition and results of operations could be significantly and adversely affected if any of the risks described above were to occur.

***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 (CPSC), which has the authority to remove from the market products that are found to be defective and present a substantial hazard

## Table of Contents

or risk of serious injury or death. The CPSC can require a manufacturer to recall, repair or replace 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;
- increased warranty costs; and
- removal of our products from the market.

Any of these results 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, certain parties have commenced legal proceedings or made claims against us based on our alleged patent infringement, misappropriation of trade secrets or other violations of their intellectual property rights. We cannot assure you that other parties will not assert intellectual property claims against us in the future. These claims could divert our 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.

### ***Market Conditions and Other Third-Party Conduct Could Negatively Impact Our Margins and Implementation of Other Business Initiatives.***

Economic conditions, such as rising fuel prices and decreased consumer confidence, may adversely impact our margins. In addition, general economic conditions were significantly and negatively affected by the September 11th terrorist attacks and could be similarly affected by any future attacks. Such a weakened economic and business climate, as well as consumer uncertainty created by such a climate, could adversely affect our sales and profitability. Other conditions, such as the unavailability of electronics components, may impede our ability to manufacture, source and ship new and continuing products on a timely basis. Significant and sustained increases in the price of oil could adversely impact the cost of the raw materials used in the manufacture of our products, such as plastic.

### ***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.

## [Table of Contents](#)

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 May 1, 2002, there were 19,668,787 shares of our common stock outstanding. An additional 912,467 shares of our common stock are issuable upon the exercise of currently exercisable options. If all these shares were issued, we would have 20,581,254 shares of our common stock outstanding. In addition, 833,346 shares of our common stock are issuable upon the exercise of outstanding options that are not currently exercisable. We are required to register an additional 646,384 shares of our common stock that we issued in connection with our purchase of our controlling interest in Toymax. These shares may not be sold until after we acquire the remaining shares of Toymax common stock. In addition, no more than 25% of these shares may be sold in any given quarter during the 12-month period following our purchase of the remaining shares of Toymax common stock. Furthermore, we anticipate issuing and registering approximately 312,500 additional shares of our common stock upon our purchase of the remaining shares of Toymax common stock. 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 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 that 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 certain of our senior 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.

## USE OF PROCEEDS

If we sell all of the common stock offered hereby at an assumed public offering price of \$18.98 per share, after we deduct the underwriting discount and pay the offering expenses, we will receive net proceeds of approximately \$53.2 million and the selling stockholders will receive net proceeds of approximately \$9.0 million. If the underwriters' over-allotment option is exercised in full, we will receive additional net proceeds of approximately \$9.4 million. We will not receive or benefit from any proceeds from the sale of shares by the selling stockholders.

We intend to use \$11.8 million of the net proceeds of this offering received by us to complete the purchase of the remaining shares of Toymax common stock and approximately \$41.4 million of the net proceeds will be used to finance potential acquisitions of companies, licenses, brands, and product lines, for product development, for 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. The amounts and timing of our actual expenditures will depend upon numerous factors, including the amount and extent of our acquisitions, our product development activities, our investments in technology and the amount of cash generated by our operations. Actual expenditures may vary substantially from our estimates. We may find it necessary or advisable to use portions of the proceeds for other purposes. Our failure to use such funds effectively could have a material adverse effect on our business, results of operations and financial condition. Pending application of the net proceeds, we intend to invest the net proceeds of this offering in short-term, investment-grade, interest-bearing securities.

## PRICE RANGE OF COMMON STOCK

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 sale prices for our common stock, as reported by the Nasdaq National Market.

	Sales Prices	
	High	Low
<b>2000</b>		
First quarter	\$25.19	\$13.94
Second quarter	25.00	13.25
Third quarter	20.75	9.00
Fourth quarter	10.56	7.00
<b>2001</b>		
First quarter	\$15.00	\$ 8.00
Second quarter	19.44	8.78
Third quarter	21.80	12.60
Fourth quarter	25.38	12.44
<b>2002</b>		
First quarter	\$23.70	\$15.85
Second quarter (through May 1, 2002)	\$23.49	\$17.60

As of May 1, 2002, there were approximately 104 holders of record of our common stock. On May 1, 2002, the last sale price of our common stock reported on the Nasdaq National Market was \$18.98 per share.

## DIVIDEND POLICY

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 loan agreement relating to our revolving credit line prohibits some of our subsidiaries from distributing funds to us without the lenders' consent.

**CAPITALIZATION**

The following table reflects our actual capitalization as of March 31, 2002 and as adjusted to reflect the cancellation of 1,493,600 shares of our common stock held by us in treasury and 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 \$18.98 per share, after deducting the underwriting discount and estimated offering expenses and the receipt of the option price from the selling stockholders of \$2,354,754 upon the exercise of options to purchase 350,078 shares that are being sold in this offering.

	As of March 31, 2002	
	Actual	As Adjusted
	(in thousands)	
Cash and cash equivalents	\$ 14,937	\$ 70,500
Long-term debt(1)	\$ 108	\$ 108
Stockholders' equity:		
Common stock, \$.001 par value; 25,000,000 shares authorized, 21,162,387 shares issued and outstanding, actual; 25,000,000 shares authorized, 23,018,865 shares issued and outstanding, as adjusted	21	23
Additional paid-in capital	182,444	225,094
Treasury stock; at cost, 1,493,600, actual; nil, as adjusted	(12,911)	—
Retained earnings	91,336	91,336
Total stockholders' equity	260,890	316,453
Total capitalization	\$260,998	\$316,561

(1) Long-term debt includes a current portion of \$31,631 as of March 31, 2002.



**SELECTED CONSOLIDATED FINANCIAL DATA**

The following selected consolidated statement of operations data and selected consolidated balance sheet data have been derived from our audited consolidated financial statements, which are incorporated by reference 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 notes incorporated by reference in this prospectus.

	Year Ended December 31,					Three Months Ended March 31,	
	1997	1998	1999	2000	2001	2001	2002
(in thousands, except per share data)							
<b>Consolidated Statement of Operations Data:</b>							
Net sales	\$41,945	\$85,253	\$183,685	\$252,288	\$284,309	\$59,962	\$59,895
Cost of sales	25,875	52,000	107,602	149,881	164,222	35,494	33,425
Gross profit	16,070	33,253	76,083	102,407	120,087	24,468	26,470
Selling, general and administrative expenses	11,895	24,007	51,154	80,435	89,575	16,894	18,430
Acquisition shut-down and product recall costs	—	—	—	1,469	1,214	306	6,622
Income from operations	4,175	9,246	24,929	20,503	29,298	7,267	1,419
(Profit)/loss from joint venture	—	—	(3,605)	(15,906)	(6,675)	(728)	(1,297)
Interest, net	418	423	(1,588)	(3,833)	(2,057)	(485)	(268)
Other (income)/expense	328	591	(182)	(92)	—	—	—
Income before provision for income taxes and minority interest	3,429	8,232	30,304	40,334	38,030	8,480	2,984
Provision for income taxes	643	1,857	8,334	11,697	9,797	2,459	806
Income before minority interest	2,786	6,375	21,970	28,637	28,233	6,021	2,178
Minority interest	—	—	—	—	—	—	22
Net income	\$ 2,786	\$ 6,375	\$ 21,970	\$ 28,637	\$ 28,233	\$ 6,021	\$ 2,156
Basic earnings per share	\$ 0.40	\$ 0.75	\$ 1.55	\$ 1.50	\$ 1.55	\$ 0.33	\$ 0.11
Weighted average shares outstanding	6,932	8,539	13,879	19,060	18,199	18,008	19,017
Diluted earnings per share	\$ 0.35	\$ 0.59	\$ 1.39	\$ 1.41	\$ 1.45	\$ 0.32	\$ 0.11
Weighted average shares and equivalents outstanding — diluted	9,103	11,403	15,840	20,281	19,410	18,920	20,236

[Table of Contents](#)

	As of December 31,					As of March 31,
	1997	1998	1999	2000	2001	2002
	(in thousands)					
<b>Consolidated Balance Sheet Data:</b>						
Cash and cash equivalents	\$ 2,536	\$12,452	\$ 57,546	\$ 29,275	\$ 25,036	\$ 14,937
Working capital	3,368	13,736	113,170	86,897	116,487	82,006
Total assets	43,605	58,736	232,878	248,722	284,041	330,704
Long-term debt, net of current portion	6,000	5,940	9	1,000	73	76
Total stockholders' equity	25,959	37,754	187,501	204,530	244,403	260,890

## BUSINESS

### Company Overview

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

- Action figures and accessories including licensed characters, principally based on the *World Wrestling Federation*, and toy vehicles, including *Road Champs* die-cast collectibles and *Remco* toy vehicles and role-play toys and accessories;
- Craft, activity and stationery products, including *Flying Colors* activity sets, compounds, playsets and lunch boxes, and *Pentech* writing instruments, stationery and activity products;
- *Child Guidance* infant and pre-school electronic toys, toy foam puzzle mats and blocks, activity sets, outdoor products, plush toys and slumber bags; and
- Fashion and mini dolls and related accessories, including *Disney Princesses* sold exclusively in the Disney Store.

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

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

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

We have capitalized on our relationship with the WWF by obtaining an exclusive worldwide license for our joint venture with THQ, which develops, produces, manufactures and markets video games based on *World Wrestling Federation* characters and themes. Since the joint venture's first title release in 1999, it has released 11 new titles. We have received \$27.5 million as our share of the joint venture's profit through March 31, 2002.

Our March 11, 2002, we acquired a controlling interest in Toymax, a developer and marketer of toys and related products, which added toy brand names such as *Laser Challenge* and *Creepy Crawlers* to our brand portfolio. In addition, pool-related products branded under the name *Funnoodle* and kites branded under the name *Go Fly a Kite* further diversify our portfolio with products popular in the spring and summer seasons.

Most of our current products are relatively simple and inexpensive toys. In 2001, approximately 70% of our revenue came from products priced less than ten dollars at retail. We believe that these products have enduring appeal and are less subject to general economic conditions, toy product fads and trends, and changes in retail distribution channels. As of March 31, 2002, we had over 4,300 products and 19 product categories. In addition, the simplicity of these products enables us to choose among a wider range of manufacturers and

## [Table of Contents](#)

affords us greater flexibility in product design, pricing and marketing. Our product development process typically takes from three to nine months from concept to production and shipment to our customers. We believe that many licensors and retailers recognize and reward our ability to bring product to market faster and more efficiently than many of our competitors.

We sell our products through our in-house sales staff and independent sales representatives to toy and mass-market retail chain stores, department stores, office supply stores, drug and grocery store chains, club stores, toy specialty stores and wholesalers. The *Road Champs*, *Flying Colors* and *Pentech* products also are sold to smaller hobby shops, specialty retailers and corporate accounts, among others. Our five largest customers are Target, Kmart, Toys 'R' Us, Wal-Mart, and Kay Bee Toys, which collectively accounted for approximately 54.7% of our net sales in 2001. We have over 10,000 other customers, none of which accounted for more than 2.0% of our net sales in 2001.

### **Our Growth Strategy**

The successful execution of our growth strategy has resulted in increased revenues and earnings. From 1996 to 2001, our net sales, EBITDA and net income grew at a compound annual rate of 88.2%, 95.0% and 88.7%, respectively. In 2001, we generated net sales and EBITDA of \$284.3 million and \$44.1 million, respectively. Key elements of our growth strategy include:

- **Expand Core Products.** We manage our existing and new brands through strong product development initiatives, including introducing new products, modifying existing products and extending existing product lines. Our product designers strive to develop new products or product lines to offer added technological, aesthetic and functional improvements to our product lines. In 2001, we expanded the use of real-scan technology in our action toys, which produces higher quality and better likenesses of the representative characters and vehicle parts. In addition, we introduced action figures with significantly greater ranges of motion, and expanded our electronic action figure recognition play sets.
- **Enter New Product Categories.** We will continue to use our extensive experience in the toy and other industries to evaluate products and licenses in new product categories and to develop additional product lines. We have entered the plush toy category through the licensing of *Pound Puppies*, as well as through the creation of our own *Limbo Legs*, and expanded into slumber bags through the licensing of this category from our current licensors, such as Nickelodeon.
- **Pursue Strategic Acquisitions.** We intend to supplement our internal growth rate with selected strategic acquisitions. Since our inception in 1995, we have successfully completed and integrated nine acquisitions of companies and trademarks. These include our acquisitions of Justin Products, Road Champs, Remco, Child Guidance, Berk, Flying Colors, Pentech, Kidz Biz and most recently, our controlling interest in Toymax. We will continue focusing our acquisition strategy on businesses or brands that have compatible product lines and offer valuable trademarks or brands.
- **Acquire Additional Character and Product Licenses.** We have acquired the rights to use many familiar corporate, trade and brand names and logos from third parties that we use with our primary trademarks and brands. Currently, we have license agreements with the WWE, Nickelodeon, Disney, and Warner Bros., as well as with the licensors of the many popular licensed children's characters previously mentioned, among others. We intend to continue to pursue new licenses from these entertainment and media companies and other licensors. We also intend to continue to purchase additional inventions and product concepts through our existing network of product developers.
- **Expand International Sales.** We believe that foreign markets, especially Europe, Australia, Canada, Latin America and Asia, offer us significant growth opportunities. In 2001, our sales generated outside the United States grew 78% to approximately \$40.0 million, or 14.1% of total sales. We intend to continue to expand our international sales by capitalizing on our experience and our relationships with foreign distributors and retailers. Our recent expansion efforts included entering into a distribution agreement with Funtastic Ltd., an Australia based toy distributor. In addition, in December 2001, we

## Table of Contents

acquired Kidz Biz for its distribution channels in the United Kingdom and surrounding territories. We expect both initiatives to contribute to our continued international growth in 2002.

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

## Industry Overview

According to the TIA, the leading toy industry trade group, the United States is the world's largest toy market, followed by Japan and Western Europe. Total retail sales of toys, excluding video games, in the United States, were approximately \$25.0 billion in 2001. Sales by domestic toy manufacturers to foreign customers exceeded \$5.0 billion in 2001. We believe the two largest United States toy companies, Mattel and Hasbro, collectively hold a dominant share of the domestic non-video toy market. In addition, hundreds of smaller companies compete in the design and development of new toys, the procurement of character and product licenses, and the improvement and expansion of previously introduced products and product lines. In the United States video game segment, total retail sales of video game software were approximately \$9.4 billion in 2001.

Over the past few years, the toy industry has experienced substantial consolidation among both toy companies and toy retailers. We believe that the ongoing consolidation of toy companies provides us with increased growth opportunities due to retailers' desire to not be entirely dependent on a few dominant toy companies. Retailer concentration also enables us to ship products, manage account relationships and track retail sales more effectively and efficiently.

## Products

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

### ***World Wrestling Federation Action Figures and Accessories***

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

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

Through our acquisition of Flying Colors Toys we entered into the toy activity category with compounds and plastic molded activity cases containing a broad range of activities, such as make and paint your own characters, jewelry making, art studios, posters, puzzles and other projects. The activity cases, with molded and painted likenesses of popular characters, such as Nickelodeon's *Rugrats* and *Blue's Clues*, *Powerpuff Girls*®, *Looney Tunes*®, *Hello Kitty* and *Scooby Doo*®, have immediate visual appeal. Using a related production technology, our lunch boxes complement this line with similarly-styled molded and painted likenesses featuring these and other popular characters. Through our acquisition of Pentech International in

## [Table of Contents](#)

2000, we expanded the other categories of products offered by Flying Colors, which now include stationery, back-to-school pens, pencils, markers and notebooks.

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

### ***Wheels Division Products***

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

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

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

In 1999, we launched our extreme sports category with a new line of die-cast bicycles called *BXS*®. These BMX-style bicycles feature removable and interchangeable parts for complete customization by users as well as working cranks. We have licensed the *Schwinn*®, *GT*® and *Haro*® brand names, among others, as well as the names of some of the top riders, such as Dave Mirra and Ryan Nyquist, for use in connection with this product line.

In 2000, we expanded our extreme sports offerings with the introduction of our *MXS*® line of motorcycles with riders featuring “click n grip” functionality which allows the user to release the rider from the motorcycle seat and perform the signature moves of the sport’s top riders. Other additions included off-road vehicles, personal watercraft, surfboards and skateboards, all sold individually and with playsets and accessories.

- *BattleBots*® and *Junkyard Wars*™

We introduced product lines featuring assembled and non-assembled vehicles and playsets, which create a do-it-yourself play pattern, based on the *BattleBots* and *Junkyard Wars* television shows.

- *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 that range in size from four and three-quarter inch to big-wheeled seventeen inch vehicles. The breadth of the line is extensive, with themes ranging from emergency, fire, farm and construction, to racing and jungle adventure.

We offer a variety of branded and non-branded role playsets 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 the World Wrestling Federation, we introduced a *World Wrestling Federation* role-play product, which will give children the opportunity to dress like and imagine being one of their favorite wrestling superstars.

### ***Child Guidance***

- *Infant and pre-school toys*

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

## [Table of Contents](#)

*Good Housekeeping Seal of Approval*®. In 2001, we introduced a line of musical toys in conjunction with Baby Genius, the marketer of a popular line of music-oriented CDs and home videos whose aim is to stimulate the development of young children through music.

In addition to creating products internally, we often acquire products and concepts from numerous toy inventors with whom we have ongoing relationships. 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.

- *Plush toys*

In 2000, we entered this category by licensing for reintroduction *Pound Puppies* and have since expanded our offerings with the internally developed *Limbo Legs*, a collection of 6 inch and 12 inch long-legged animals in a variety of colors and fabrics.

- *Foam puzzle mats and playsets*

The acquisition of Berk in 1999 added the foam toy category to our business. We incorporated this new toy category into our *Child Guidance* product line, based on the demographics and target market for foam toy products. This line further expanded the breadth of our *Child Guidance* brand. The foam toy products include puzzle mats featuring licensed characters, such as *Winnie the Pooh*, *Blue's Clues*, *Barney*, *Teletubbies*® and *Sesame Street*, among others, as well as letters of the alphabet and numbers. The inter-locking puzzle pieces can also be used to build houses and other play areas. Other products include foam puzzles of the United States, foam vehicles and outdoor foam products.

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

We produce various proprietary and licensed fashion and mini dolls and accessories for children between the ages of three and ten. The proprietary product lines include 11 1/2 inch fashion dolls customized with high-fashion designs that correspond with particular holidays, events or themes, and fashion dolls based on children's classic fairy tales and holidays. We also produce licensed 15 1/2 inch dolls based on the fashion magazine *Elle*®, and 11 1/2 inch dolls based on the feature films, *Charlie's Angels*™ and *Josie and the Pussycats*™. These dolls feature a new skeleton with more realistic features and movement. We also have an agreement with The Disney Store to manufacture a full line of dolls under a private label which features *Disney Princesses* and classic Disney characters.

For 2002, we created a new assortment of 6 inch dolls called the *Fresh Look Friends*™ and a line of 4 inch dolls consisting of puppies that have magnetic mechanisms that allow children to perform tricks and to create action with the toys. We also created playsets in the form of houses for these dolls, which are sold under the *Tiny Tots in Puppy Towne*™ label.

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

### ***World Wrestling 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 the WWF under which it acquired the exclusive worldwide right to publish *World Wrestling Federation* video games on all hardware platforms. The term of the license agreement expires on December 31, 2009, and the joint venture has a right to renew the license for an additional five years under various conditions.

The games are designed, developed, manufactured and distributed by THQ. THQ arranges for the manufacture of the CD-ROMs and game cartridges used in the various video game platforms, under non-

## [Table of Contents](#)

exclusive licenses held by Sony, Nintendo, Sega and Microsoft. No other licenses are required for the manufacture of the personal computer titles.

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

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

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

	New Game Titles		Profit from Joint Venture <sup>(1)</sup>
	Console Platforms	Hand-held Platforms	
			(\$ in millions)
1999	1	1	\$ 3.6
2000	4	1	15.9
2001	1	2	6.7
2002 (through March 31, 2002)	1	—	1.3

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

In the first quarter of 2002, we released one new game title for *Xbox*, and we anticipate releasing one new game title for *GameCube* during the second quarter of 2002, as well as several other titles during the second half of the year which include titles for *PlayStation 2*, personal computers and *Game Boy Advance*.

Wrestling video games have demonstrated consistent popularity, with five of our wrestling-theme video games each having sold in excess of 1 million units in 1999, 2000 and 2001, 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 have brand recognition and sustainable consumer appeal, which may allow the joint venture to use titles over an extended period of time through the release of sequels and extensions and to re-release such products at different price points in the future. In 2001, our *PlayStation* title *SmackDown*<sup>TM</sup> was re-released as a “greatest hit.”

The joint venture uses external software developers to conceptualize and develop titles. These developers 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 is extensively play-tested by us and THQ and sent to the manufacturer and licensor for their review and approval.



## Sales, Marketing and Distribution

We sell all of our products through our own in-house sales staff and independent sales representatives to toy and mass-market retail chain stores, department stores, office supply stores, drug and grocery store chains, club stores, toy specialty stores and wholesalers. The *Road Champs*, *Flying Colors* and *Pentech* product lines are also sold to smaller hobby shops, specialty retailers and corporate accounts, among others. Our five largest customers are Target, Kmart, Toys 'R' Us, Wal-Mart, and Kay Bee Toys, which accounted for approximately 63.2% of our net sales in 2000 and 54.7% of our net sales in 2001. Except for purchase orders relating to products on order, we do not have written agreements with our customers. Instead, we generally sell products to our customers pursuant to letters of credit or, in some cases, on open account with payment terms typically varying from 30 to 90 days. From time to time, we allow our customers credits against future purchases from us in order to facilitate their retail markdown and sales of slow-moving inventory. We also sell our products through e-commerce sites, including Toysrus.com.

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

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

Outside of the United States, we currently sell our products primarily in Europe, Australia, Canada, Latin America and Asia. Sales of our products abroad accounted for approximately \$22.5 million, or 8.9% of our net sales, in 2000 and approximately \$40.0 million, or 14.1% of our net sales, in 2001. We believe that foreign markets present an attractive opportunity, and we plan to intensify our marketing efforts and further expand our distribution channels abroad.

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

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

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

We advertise our products in trade and consumer magazines and other publications, market our products at international, national and regional toy trade shows, conventions and exhibitions and carry on cooperative advertising programs with toy retailers and other customers which include the use of in-store displays. We produce and broadcast television commercials for our *World Wrestling Federation* action figure line as well as for some of our *Flying Colors* and *Road Champs* extreme sports products. We may also advertise some of our other products on television, if we expect that the resulting increase in our net sales will justify the relatively high cost of television advertising.

## **Product Development**

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

We employ a staff of designers for all of our product lines. We occasionally acquire our other product concepts from unaffiliated third parties. If we accept and develop a third party's concept for new toys, we generally pay a royalty on the toys developed from this concept that are sold, and may, on an individual basis, guarantee a minimum royalty. Royalties payable to 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 all of these factors, as well as our recent success in developing and marketing products, make us more attractive to toy inventors and developers than some of our competitors.

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

## **Manufacturing and Supplies**

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

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

The principal raw materials used in the production and sale of our toy products are plastics, zinc alloy, plush, printed fabrics, paper products and electronic components, all of which are currently available at reasonable prices from a variety of sources. Although we do not manufacture our products, we own the tools, dies and molds used in the manufacturing process, and these are transferable among manufacturers if we choose to employ alternative manufacturers. Tools, dies and molds represent substantially all of our long-lived assets, and amounted to \$14.4 million in 2000 and \$10.7 million in 2001. Substantially all of these assets are located in China.

## Trademarks and Copyrights

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

## Competition

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

## Seasonality and Backlog

In 2001, approximately 54.3% of our net sales were made in the third and fourth quarters. Generally, the first quarter is the period of lowest shipments and sales in our business and the toy industry generally and therefore the least profitable due to various fixed costs. Seasonality factors may cause our operating results to fluctuate significantly from quarter to quarter. However, Pentech's writing instrument and activity products generally are counter-seasonal to the traditional toy industry seasonality due to the higher volume generally shipped for back-to-school beginning in the second quarter. In addition, Toymax's *Funnoodle* and *Go Fly a Kite* products are primarily sold in the spring and summer seasons. Our results of operations may also fluctuate as a result of factors such as the timing of new products (and related expenses) introduced by us or our competitors, the advertising activities of our competitors, delivery schedules set by our customers and the emergence of new market entrants. We believe, however, that the low retail price of most of our products may be less subject to seasonal fluctuations than higher priced toy products.

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

## **Government and Industry Regulation**

Our products are subject to the provisions of the Consumer Product Safety Act (CPSA), the Federal Hazardous Substances Act (FHSA), the Flammable Fabrics Act (FFA) and the regulations promulgated thereunder. The CPSA and the FHSA enable the Consumer Products Safety Commission (CPSC) to exclude from the market consumer products that fail to comply with applicable product safety regulations or otherwise create a substantial risk of injury, and articles that contain excessive amounts of a banned hazardous substance. The FFA enables the CPSC to regulate and enforce flammability standards for fabrics used in consumer products. The CPSC may also require the repurchase by the manufacturer of articles. Similar laws exist in some states and cities and in various international markets. We maintain a quality control program designed to ensure compliance with all applicable laws. In addition, many of our *Child Guidance* products are sold under the *Good Housekeeping Seal of Approval*. 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 May 1, 2002, we employed 314 persons, all of whom are full-time employees. We employ 227 people in the United States, 16 in the United Kingdom, 51 in Hong Kong and 20 in China. We believe that we have good relationships with our employees. None of our employees is represented by a union.

## **Environmental Issues**

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

## **Properties**

Our principal executive offices occupy approximately 17,000 square feet of space in Malibu, California under a lease expiring on February 28, 2008. In addition, we have a lease, expiring August 31, 2007, for approximately 11,000 square feet of space in Malibu, California which contains our design offices. We lease showroom and office space of approximately 8,000 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, 318,000 square feet of warehouse space in City of Industry, California, 10,000 square feet of office space in Surrey, England and approximately 100,000 square feet of warehouse space in New Brunswick, New Jersey. In connection with our acquisition of Toymax, we have assumed various leases for office, warehouse and showroom space. Relating to Toymax, we occupy approximately 27,000 square feet of office space in Plainview, New York under a lease expiring on April 30, 2004. We lease showroom and office space of approximately 14,500 square feet at the International Toy Center in New York City. We occupy approximately 25,000 square feet of office and warehouse space in Clinton, Connecticut under a lease expiring September 30, 2007 from which the operations of Toymax's *Go Fly a Kite* division are carried out. We also lease an additional 4,800 square feet of office space in Hong Kong. We believe that our facilities in the United States, Hong Kong and England are adequate for the reasonably foreseeable future.

## **Legal Matters**

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

**PRINCIPALS, SELLING STOCKHOLDERS AND RELATED INFORMATION**

The following table sets forth certain information as of May 1, 2002 with respect to the beneficial ownership of our common stock by (1) each person known by us to own beneficially more than 5% of the outstanding shares of our common stock, (2) each of our directors, (3) each executive officer named below, (4) all our directors and named executive officers as a group and (5) the selling stockholders. We believe that the persons named in this table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

Name and Address of Beneficial Owner(1)	Shares Beneficially Owned Prior to this Offering(2)		Number of Shares Offered	Shares Beneficially Owned After this Offering(2)	
	Number	Percent		Number	Percent
Kern Capital Management, LLC 114 W. 47th St., Suite 1926 New York, NY 10036	1,183,800	6.0%	—	1,183,000	4.6%
Jack Friedman(3)(4)(5)	592,545	2.9	300,000	292,545	1.3
Stephen G. Berman(3)(6)(7)	222,140	1.1	150,000	72,140	(*)
Joel M. Bennett(3)(8)(9)	38,698	(*)	—	27,780	(*)
Michael Bianco, Jr.(3)(10)(11)	52,806	(*)	—	47,119	(*)
David C. Blatte(3)(12)(13)	30,000	(*)	—	30,000	(*)
Robert E. Glick(3)(12)(14)	56,519	(*)	10,000	46,519	(*)
Michael G. Miller(3)(12)(15)	47,144	(*)	10,000	37,144	(*)
Murray L. Skala(3)(12)(16)	88,218	(*)	30,000	58,218	(*)
All directors and executive officers as a group (8 persons)(17)	1,115,123	5.4%	500,000	615,123	2.6%

(\*) Less than 1% of our outstanding shares.

(1) Unless otherwise indicated, the address is at our executive offices, 22619 Pacific Coast Highway, Malibu, California 90265.

(2) The number of shares of common stock beneficially owned by a person or entity is determined under rules promulgated by the United States Securities and Exchange Commission. Under such rules, beneficial ownership includes any shares as to which a person or entity has sole or shared voting power or investment power. Included among the shares owned by such person are any shares which such person or entity has the right to acquire within 60 days after May 1, 2002. The inclusion herein of any shares deemed beneficially owned does not constitute an admission of beneficial ownership of such shares. Except for information in our records and reports filed by him or her with us, if any, we have no knowledge of whether a selling stockholder owns any other shares of our common stock or options or warrants to purchase shares of our common stock.

(3) Exercises sole voting power and sole investment power with respect to such shares.

(4) Mr. Friedman is our chief executive officer and chairman of our board of directors.

(5) Includes 12,947 shares held in trusts for the benefit of children of Mr. Friedman. Also includes 429,676 shares which Mr. Friedman may purchase upon the exercise of certain stock options within 60 days, but does not include 302,578 shares which he may purchase upon exercise of certain stock options which vest later than 60 days from the date hereof, and for which Mr. Friedman has agreed to waive his right to exercise until such time as stockholder approval has been obtained for those matters to be voted upon at our scheduled June 14, 2002 Annual Meeting of Stockholders.

(6) Mr. Berman serves as our president, chief operating officer and secretary, and he is a member of our board of directors.

(7) Represents shares which Mr. Berman may purchase upon the exercise of certain stock options within 60 days, but does not include 378,898 shares which he may purchase upon exercise of certain stock options which vest later than 60 days from the date hereof, and for which Mr. Berman has agreed to waive his right to exercise until such time as stockholder approval has been obtained for those matters to be voted upon at our scheduled June 14, 2002 Annual Meeting of Stockholders.

## Table of Contents

- (8) Mr. Bennett is our chief financial officer.
- (9) Includes 11,448 shares which Mr. Bennett may purchase upon the exercise of certain stock options within 60 days, but does not include 93,755 shares which he may purchase upon exercise of certain stock options which vest later than 60 days from the date hereof.
- (10) Mr. Bianco is our chief merchandising officer.
- (11) Includes 12,756 shares which Mr. Bianco may purchase upon the exercise of certain stock options within 60 days, but does not include 209,523 shares which he may purchase upon exercise of certain stock options which vest later than 60 days from the date hereof.
- (12) Messrs. Blatte, Glick, Miller and Skala serve as members of our board of directors.
- (13) Represents shares which Mr. Blatte may purchase upon the exercise of certain stock options.
- (14) Represents shares which Mr. Glick may purchase upon the exercise of certain stock options.
- (15) Represents shares which Mr. Miller may purchase upon the exercise of certain stock options.
- (16) Includes 75,271 shares which Mr. Skala may purchase upon the exercise of certain stock options and 12,947 shares held by Mr. Skala as trustee under trusts for the benefit of children of Mr. Friedman.
- (17) Includes 12,947 shares held in trusts for the benefit of children of Mr. Friedman and an aggregate of 884,954 shares which the directors and executive officers may purchase upon the exercise of certain stock options.

## DESCRIPTION OF SECURITIES

### General

We are 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 May 1, 2002, 19,668,787 shares of our common stock were outstanding and owned of record by approximately 103 persons, and no shares of our preferred stock were outstanding. After the exercise of 350,078 options by the selling stockholders and after we issue an additional 3,000,000 shares in this offering, 23,018,865 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. We do not currently have any shares of preferred stock outstanding.

### Securities Act Registration

Except for 646,384 shares of our common stock that we issued in connection with our acquisition of a controlling interest in Toymax, all of the 2,755,213 shares of our common stock issued or issuable upon the exercise of our outstanding 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

Subject to the terms and conditions set forth in an underwriting agreement dated \_\_\_\_\_, 2002, each of the underwriters named below, through their representative Bear, Stearns & Co. Inc., has severally agreed to purchase from us and the selling stockholders the aggregate number of shares of common stock set forth opposite its name below at the public offering price less the underwriting discount set forth on the cover page of this prospectus.

Underwriter	Number of Shares
Bear, Stearns & Co. Inc.	
U.S. Bancorp Piper Jaffray Inc.	
Advest, Inc.	
Total	3,500,000

The underwriting agreement provides that the obligations of the underwriters thereunder are several and subject to approval of certain legal matters by their counsel and various other conditions. Under the underwriting agreement, the underwriters are obligated to purchase and pay for all of the above shares of common stock, other than those covered by the over-allotment option described below, if they purchase any of the shares.

The underwriters have advised us that they propose to initially offer some of the shares directly to the public at the offering price set forth on the cover page of this prospectus and some of the shares to dealers at this price less a concession not in excess of \$ \_\_\_\_\_ per share. The underwriters may allow, and dealers may re-allow, concessions not in excess of \$ \_\_\_\_\_ per share on sales to other dealers. After the initial offering of the shares to the public, the underwriters may change the offering price, concessions and other selling terms. The underwriters do not intend to confirm sales to discretionary accounts to exceed three percent of the total number of shares of common stock offered by them.

We and the selling stockholders have granted the underwriters an option exercisable for 30 days from the date of the underwriting agreement to purchase up to 525,000 additional shares, at the offering price less the underwriting discount. The underwriters may exercise this option solely to cover over-allotments, if any, made in connection with this offering. To the extent underwriters exercise this option in whole or in part, then each of the underwriters will become obligated, subject to conditions, to purchase a number of additional shares approximately proportionate to each underwriter's initial purchase commitment as indicated in the preceding table.

We and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the underwriters may be required to make in respect of those liabilities.

Our directors and executive officers, who collectively hold a total of 1,115,123 shares of common stock, have agreed, subject to limited exceptions, not to sell or offer to sell or otherwise dispose of any shares of common stock or securities convertible into or exercisable or exchangeable for our common stock, for a period of 90 days after the date of this prospectus, without the prior written consent of Bear, Stearns & Co. Inc., on behalf of the underwriters. In addition, we have agreed for a period of 90 days not to file any other registration statements, covering the offer or sale of securities by us or the resale of our securities by our stockholders, other than on Form S-8 for employee benefit plans or on Form S-4 in connection with our acquisition of the remaining shares of Toymax common stock.

In order to facilitate this offering, the underwriters may engage in transactions that stabilize, maintain, or otherwise affect the price of the common stock during and after this offering. Specifically, the underwriters may over-allot or otherwise create a short position in the common stock for their own account by selling more shares of common stock than we have actually sold to them. The underwriters may elect to cover any short position by purchasing shares of common stock in the open market or by exercising the over-allotment option granted to the underwriters. In addition, the underwriters may stabilize or maintain the price of the common



## [Table of Contents](#)

stock by bidding for or purchasing shares of common stock in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in this offering are reclaimed if shares of common stock previously distributed in this offering are repurchased in connection with stabilization transactions or otherwise. The effect of these transactions may be to stabilize or maintain the market price at a level above that which might otherwise prevail in the open market and these transactions may be discontinued at any time. The imposition of a penalty bid may also affect the price of the common stock to the extent that it discourages resales. No representation is made as to the magnitude or effect of these activities.

The underwriters may, from time to time, engage in transactions with, and perform services for, us in the ordinary course of their business.

The following table shows the underwriting discount to be paid to the underwriters by us and the selling stockholders in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares of common stock.

	Per Share	Total	
		Without Over-Allotment Option	With Over-Allotment Option
Offering price	\$	\$	\$
Underwriting discounts and commissions			
Proceeds, before expenses, to us			
Proceeds, before expenses, to selling stockholders			

Other expenses of this offering, including the registration fees and the fees of financial printers, legal counsel, and accountants, payable by us are expected to be approximately \$ .

### LEGAL MATTERS

The legality of the common stock offered hereby will be passed upon for us by Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine LLP, New York, New York. Murray L. Skala, a partner of that firm, is one of the selling stockholders. He is also one of our directors and holds of record options to purchase 75,271 shares of our common stock, all of which are currently exercisable. Manatt, Phelps & Phillips, LLP, Los Angeles, California, will pass upon certain legal matters for the underwriters in connection with this offering.

### EXPERTS

Our consolidated financial statements as of December 31, 2000 and 2001 and for each of the three years in the period ended December 31, 2001 incorporated by reference in this prospectus and elsewhere in this registration statement have been audited by PKF, Certified Public Accountants, A Professional Corporation, Los Angeles, California, independent auditors, as stated in their report incorporated by reference herein and are included in reliance upon the report of that firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of Toymax as of March 31, 2001 and 2000 and for each of the three years in the period ended March 31, 2001 incorporated by reference in this prospectus and elsewhere in the registration statement have been audited by BDO Seidman, LLP, New York, New York, independent auditors, as stated in their report incorporated by reference 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

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and in accordance with the Exchange Act we file reports, proxy statements and other information with the SEC. Our reports, proxy statements and most other information that we file with the SEC may be inspected and copied at the public reference facilities maintained by the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W. Washington, D.C. 20549. Copies of this material may be obtained by mail from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains our reports, proxy statements and other information as well as documents from other companies that file electronically with the SEC, and the address is <http://www.sec.gov>.

This prospectus is only a part of a registration statement we filed with the SEC under the Securities Act of 1933 and, therefore, it does not include all the information contained in the registration statement. We have also filed exhibits and schedules to the registration statement that are excluded from this prospectus and the accompanying supplement. Among such exhibits are a number of our material contracts, and you should refer to the applicable exhibit for the complete text of any such contract described in this prospectus. You may inspect or obtain a copy of the registration statement, including exhibits and schedules, as described in the previous paragraph.

Our Internet address is [www.jakkspace.com](http://www.jakkspace.com). The information contained on our website and on any websites linked by our website, however, is not part of this prospectus and you should not rely on such information in deciding whether to invest in our securities.

Our common stock is listed on the Nasdaq National Market under the symbol "JAKK."

## INFORMATION INCORPORATED BY REFERENCE

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.

- Our Annual Report on Form 10-K/A, for our fiscal year ended December 31, 2001;
- Our Quarterly Report on Form 10-Q for our fiscal quarter ended March 31, 2002; and
- Our Current Reports on Form 8-K filed with the SEC on March 5, 2002, March 22, 2002 and April 23, 2002.

Any documents we file pursuant to Section 13(a), 13(c), or 15(d) of the Exchange Act (File No. 0-28104) after the date of this prospectus and prior to the termination of the offering will automatically be deemed to be incorporated by reference in this prospectus and to be a part of this prospectus from the date of filing those documents (except that each time we file a new annual report on Form 10-K, any of such documents filed prior to such filing shall no longer be incorporated into this prospectus). Any statement contained in this prospectus or in a document incorporated by reference shall be deemed to be modified or superseded for all purposes to the extent that a statement contained in those documents modifies or supersedes that statement. Any statements so modified or superseded will not be deemed to constitute a part of this prospectus, except as so modified or superseded. In addition, any prospectus supplement filed in relation to this prospectus shall be deemed to supercede for all purposes any earlier prospectus supplement filed in relation to this prospectus.

We will provide without charge to each person to whom this prospectus is delivered, upon written or oral request, a copy of any or all of the documents referred to above which have been or may be incorporated by reference in this prospectus. Requests for these documents should be directed to Joel M. Bennett, Chief Financial Officer, JAKKS Pacific Inc., 22619 Pacific Coast Highway, Malibu, California 90265 (310) 456-7799.

You should rely only on the information contained in or incorporated by reference into this prospectus. Neither we nor any underwriter have authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The information in this prospectus is current as of its date.



**3,500,000 Shares**

**Common Stock**

**Bear, Stearns & Co. Inc. U.S. Bancorp Piper Jaffray**

**Advest, Inc.**

---

**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****Item 14. Other Expenses of Issuance and Distribution**

It is expected that the following expenses will be incurred in connection with the issuance and distribution of the common stock being registered. All such expenses are being paid by the Company.

SEC registration fee	\$ 7,388
Nasdaq listing fee	5,343
NASD application fee	8,530
*Printing and Edgarization	125,000
*Accountants' fees and expenses	50,000
*Attorneys' fees and expenses	250,000
*Miscellaneous	153,739
	<hr/>
*Total	\$600,000

---

\* 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 \$20 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 Company pursuant to the foregoing provisions, the Company has been

## [Table of Contents](#)

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*
4.1	Form of certificate evidencing shares of common stock(1)
5.1	Opinion of Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine LLP, counsel for the Registrant*
23.1	Consent of PKF, Certified Public Accountants, A Professional Corporation(2)
23.2	Consent of BDO Seidman, LLP(2)
23.3	Consent of Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine LLP (included in Exhibit 5.1)*
24.1	Power of Attorney(2)

\* Filed herewith.

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

(2) Previously filed.

### Item 17. Undertakings

1. The undersigned 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 undersigned 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 Securities Act and will be governed by the final adjudication of such issue.



**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
1.1	Form of Underwriting Agreement*
4.1	Form of certificate evidencing shares of common stock(1)
5.1	Opinion of Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine LLP, counsel for the Registrant*
23.1	Consent of PKF, Certified Public Accountants, A Professional Corporation(2)
23.2	Consent of BDO Seidman, LLP(2)
23.3	Consent of Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine LLP (included in Exhibit 5.1)*
24.1	Power of Attorney(2)

\* Filed herewith.

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

(2) Previously filed.



3,500,000 Shares of Common Stock

JAKKS PACIFIC, INC.

UNDERWRITING AGREEMENT

April\_\_\_\_, 2002

BEAR, STEARNS & CO. INC.  
as Representative of the  
several Underwriters named in  
Schedule I attached hereto  
c/o Bear, Stearns & Co. Inc.  
383 Madison Avenue  
New York, New York 10179

Ladies and Gentlemen:

JAKKS Pacific, Inc., a corporation organized and existing under the laws of Delaware (the "Company"), and the Selling Stockholders listed on Schedule II hereto (the "Selling Stockholders"), propose, subject to the terms and conditions stated herein, to sell to the several underwriters named in Schedule I hereto (the "Underwriters") an aggregate of 3,500,000 shares (the "Firm Shares") of the Company's voting common stock, par value \$0.001 per share (the "Common Stock"). The Company proposes to sell, for the sole purpose of covering over-allotments in connection with the sale of the Firm Shares, at the option of the Underwriters, up to an additional 525,000 shares (the "Additional Shares") of Common Stock. The Firm Shares and any Additional Shares purchased by the Underwriters are referred to herein as the "Shares." The Shares are more fully described in the Registration Statement referred to below.

1. Representations and Warranties of the Company. The Company represents and warrants to, and agrees with, each of the Underwriters as of the date hereof and as of each Closing Date and Additional Closing Date (as defined below) that:

(a) The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-3 (No. 333-86800), and amendments thereto, and related preliminary prospectuses for the registration under the Securities Act of 1933, as amended (the "Securities Act"), of the Shares which registration statement, as so amended (including post-effective amendments, if any), has been declared effective by the Commission and copies of which have heretofore been delivered to the Underwriters. The registration statement, as amended at the time it

became effective, including the exhibits and information (if any) deemed to be part of the registration statement at the time of effectiveness pursuant to Rule 430A or 434(d) under the Securities Act, is hereinafter referred to as the "Registration Statement." If the Company has filed or is required pursuant to the terms hereof to file a registration statement pursuant to Rule 462(b) under the Securities Act registering additional shares of Common Stock (a "Rule 462(b) Registration Statement"), then, unless otherwise specified, any reference herein to the term "Registration Statement" shall be deemed to include such Rule 462(b) Registration Statement. Other than a Rule 462(b) Registration Statement, which became effective upon filing, no other document with respect to the Registration Statement has heretofore been filed with the Commission. No stop order suspending the effectiveness of either the Registration Statement or the Rule 462(b) Registration Statement, if any, has been issued and no proceeding for that purpose has been initiated or threatened by the Commission. The Company, if required by the Securities Act and rules and regulations of the Commission (together, the "Rules and Regulations"), proposes to file the Prospectus with the Commission pursuant to Rule 424(b) of the Rules and Regulations. The Prospectus, in the form in which it is to be filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations, or, if the Prospectus is not to be filed with the Commission pursuant to Rule 424(b), the Prospectus in the form included as part of the Registration Statement at the time the Registration Statement became effective, is hereinafter referred to as the "Prospectus," except that if any revised prospectus or prospectus supplement shall be provided to the Underwriters by the Company for use in connection with the offering and sale of the Shares (the "Offering") which differs from the Prospectus (whether or not such revised prospectus or prospectus supplement is required to be filed by the Company pursuant to Rule 424(b) of the Rules and Regulations), the term "Prospectus" shall refer to such revised prospectus or prospectus supplement, as the case may be, from and after the time it is first provided to the Underwriters for such use. Any preliminary prospectus or prospectus subject to completion included in the Registration Statement, or filed with the Commission pursuant to Rule 424 under the Securities Act, is hereafter called a "Preliminary Prospectus." Any reference herein to the Registration Statement, any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 which were filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act") on or before the effective date of the Registration Statement, the date of such Preliminary Prospectus or the date of the Prospectus, as the case may be, and any reference herein to the terms "amend", "amendment" or "supplement" with respect to the Registration Statement, any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include (i) the filing of any document under the Exchange Act after the effective date of the Registration Statement, the date of such Preliminary Prospectus or the date of the Prospectus, as the case may be, which is incorporated therein by reference and (ii) any such document so filed. All references in this Agreement to the Registration Statement, the Rule 462(b) Registration Statement, the Preliminary Prospectus and the Prospectus, or any amendments or supplements to any of the foregoing, shall be deemed to include

any copy thereof filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval System ("EDGAR").

(b) At the time of the effectiveness of the Registration Statement or the effectiveness of any post-effective amendment to the Registration Statement, when the Prospectus is first filed with the Commission pursuant to Rule 424(b) or Rule 434 of the Rules and Regulations, when any supplement to or amendment of the Prospectus is filed with the Commission, when any document filed under the Exchange Act was or is filed and at the Closing Date and the Additional Closing Date, if any (as hereinafter respectively defined), the Registration Statement and the Prospectus and any amendments thereof and supplements thereto complied or will comply in all material respects with the applicable provisions of the Securities Act, the Exchange Act and the Rules and Regulations and did not and will not contain an untrue statement of a material fact and did not and will not omit to state any material fact required to be stated therein or necessary in order to make the statements therein (i) in the case of the Registration Statement, not misleading and (ii) in the case of the Prospectus or any related Preliminary Prospectus, in light of the circumstances under which they were made, not misleading. When any related preliminary prospectus was first filed with the Commission (whether filed as part of the registration statement for the registration of the Shares or any amendment thereto or pursuant to Rule 424(a) of the Rules and Regulations) and when any amendment thereof or supplement thereto was first filed with the Commission, such Preliminary Prospectus and any amendments thereof and supplements thereto complied in all material respects with the applicable provisions of the Securities Act and the Rules and Regulations and the Exchange Act and the respective rules and regulations thereunder and did not contain an untrue statement of a material fact and did not omit to state any material fact required to be stated therein or necessary in order to make the statements therein in light of the circumstances under which they were made not misleading. No representation and warranty is made in this subsection (b), however, with respect to any information contained in or omitted from the Registration Statement or the Prospectus or any related Preliminary Prospectus or any amendment thereof or supplement thereto in reliance upon and in conformity with information furnished in writing to the Company by or on behalf of any Underwriter through the Representative specifically for use therein ("Underwriters' Information") or any Selling Stockholder. The parties acknowledge and agree that the Underwriters' Information consists solely of the material included in the third paragraph under the caption "Underwriting" in the Prospectus. If Rule 434 is used, the Company will comply with the requirements of Rule 434 and the Prospectus shall not be "materially different," as such term is used in Rule 434, from the Prospectus included in the Registration Statement at the time it became effective.

(c) The Company is subject to the reporting requirements of either Section 13 or Section 15(d) of the Exchange Act and files reports with the Commission on the EDGAR system.

(d) Pannell Kerr Forster, Certified Public Accountants, A Professional Corporation ("PKF"), who have certified the financial statements and supporting schedules included or incorporated in the Registration Statement or underlying financial information included or incorporated in the Registration Statement, are independent public accountants as required by the Securities Act and the Rules and Regulations.

(e) Subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, except as set forth in the Registration Statement and the Prospectus, the Company has not paid any dividends on its capital stock and there has been no material adverse change or any development involving a prospective material adverse change on (i) the business, prospects, properties, operations, condition (financial or other), stockholders' equity or results of operations of the Company and each subsidiary of the Company listed on Exhibit 21 of the Company's Annual Report on Form 10-K as amended for the fiscal year ended December 31, 2001 (the "Subsidiaries"), individually or taken as a whole; (ii) the capital stock of the Company; (iii) the Company's ability to consummate the transactions contemplated by this Agreement and the Prospectus; or (iv) the validity or enforceability of the Company's obligations hereunder or under the Prospectus (a "Material Adverse Change" or "Material Adverse Effect"), whether or not arising from transactions in the ordinary course of business, and since the date of the latest balance sheet presented in the Registration Statement and the Prospectus, neither the Company nor any of the Subsidiaries has incurred or undertaken any liabilities or obligations, direct or contingent, or entered into any transactions that are material to the Company and the Subsidiaries taken as a whole, except for liabilities or obligations that are reflected in the Registration Statement and the Prospectus or other documents publicly filed by the Company with the Commission.

(f) This Agreement and the transactions contemplated herein have been duly and validly authorized by the Company and this Agreement has been duly and validly executed and delivered by the Company.

(g) The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby do not and will not (i) conflict with, require consent under or result in a breach of any of the terms and provisions of, or constitute a default (or an event which with notice or lapse of time, or both, would constitute a default) under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of the Subsidiaries pursuant to any indenture, mortgage, deed of trust, loan agreement or other agreement, instrument, franchise, license or permit to which the Company or any of the Subsidiaries is a party or by which the Company or any of the Subsidiaries or their respective properties or assets may be bound or (ii) violate or conflict with any provision of the certificate or articles of incorporation, by-laws, certificate of formation, limited liability company agreement, partnership agreement or other organizational documents of

the Company or any of the Subsidiaries, or any judgment, decree, order, statute, rule or regulation of any court or any public, governmental or regulatory agency or body, domestic or foreign, having jurisdiction over the Company or any of the Subsidiaries or any of their respective properties, operations or assets the violation of which would have a Material Adverse Effect. No consent, approval, authorization, order, registration, filing, qualification, license or permit of or with any court or any public, governmental or regulatory agency or body having jurisdiction over the Company or any of the Subsidiaries or any of their respective operations, properties or assets or from any third party is required for the execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby, by the Registration Statement and by the Prospectus, including the issuance, sale and delivery of the Shares to be issued, sold and delivered by the Company hereunder, except the registration under the Securities Act of the Shares, which has been obtained, and except for those the absence of which could have a Material Adverse Effect, and such consents, approvals, authorizations, orders, registrations, filings, qualifications, licenses and permits as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Shares by the Underwriters, which shall have been obtained on or prior to the Closing Date.

(h) The authorized, issued and outstanding capital stock of the Company is as set forth in the Prospectus in the column entitled "Actual" under the caption "Capitalization" and, after giving effect to the Offering and the other events (if any) specified under the caption "Capitalization", will be as set forth in the column entitled "As Adjusted" thereunder. All of the issued shares of capital stock of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and were not issued in violation of or subject to any preemptive or similar rights that entitle or will entitle any person to acquire any Shares from the Company upon issuance or sale of Shares in the Offering, except for such rights as may have been fully satisfied or waived prior to the effectiveness of the Registration Statement; the Shares to be delivered on the Closing Date and the Additional Closing Date, if any (as hereinafter respectively defined), have been duly and validly authorized and, when delivered in accordance with this Agreement, will be duly and validly issued, fully paid and non-assessable and will not have been issued in violation of or subject to any preemptive or similar rights that entitle or will entitle any person to acquire any Shares from the Company upon issuance or sale thereof in the Offering; and the Common Stock, the Firm Shares and the Additional Shares conform to the descriptions thereof contained in the Registration Statement and the Prospectus. Except as disclosed in or specifically contemplated by the Prospectus, the Company has no outstanding options to purchase, or any preemptive rights or other rights to subscribe for or to purchase, any shares of its capital stock or obligations convertible into, or any contracts or commitments to issue or sell, shares of its capital stock or any such options, rights convertible securities or obligations.

(i) The Subsidiaries are the only subsidiaries (as defined in Rule 405 of the Securities Act) of the Company. All of the issued shares of capital stock of each of its Subsidiaries, except for (i) those shares of common stock of Toymax International, Inc. ("Toymax") currently not owned by the Company, and (ii) those shares of common stock owned by the Company nominees in compliance with Hong Kong or equivalent law, has been duly and validly authorized and issued and are fully paid and non-assessable and are owned directly by the Company free and clear of all liens, encumbrances, equities or claims.

(j) Each of the Company and the Subsidiaries has been duly organized or formed and is validly existing as a corporation, partnership or limited liability company (or foreign equivalent of such entity forms) in good standing under the laws of its jurisdiction of incorporation or formation. Each of the Company and the Subsidiaries is duly qualified to do business and is in good standing as a foreign corporation, partnership or limited liability company in each jurisdiction in which the character or location of its properties (owned, leased or licensed) or the nature or conduct of its business makes such qualification necessary, except for those failures to be so qualified or in good standing that will not in the aggregate have a Material Adverse Effect. Each of the Company and the Subsidiaries has all requisite power and authority, and all necessary consents, approvals, authorizations, orders, registrations, qualifications, licenses and permits (collectively, the "Consents") of and from all public, regulatory or governmental agencies and bodies and third parties, to own, lease and operate its properties and conduct its business as now being conducted and as described in the Registration Statement and the Prospectus except for those the absence of which will not in the aggregate have a Material Adverse Effect. No Consent contains a materially burdensome restriction not adequately disclosed in the Registration Statement and the Prospectus.

(k) Except as described in the Prospectus, there is no legal or governmental proceeding, including routine litigation, to which the Company or any of the Subsidiaries is a party or of which any property of the Company or any of the Subsidiaries is the subject which, singularly or in the aggregate, if determined adversely to the Company or any of the Subsidiaries, is reasonably likely to have a Material Adverse Effect, and to the best of the Company's knowledge, no such proceeding is threatened or contemplated by governmental authorities or threatened or contemplated by others, and the defense of all such claims against the Company in the aggregate, including routine litigation, will not have a Material Adverse Effect.

(l) Neither the Company nor any of its Affiliates (as such term is defined under Rule 144 of the Securities Act) has taken, nor will any of them take, directly or indirectly, any action designed to cause or result in, or that constitutes or might reasonably be expected to constitute, the stabilization or manipulation of the price of the shares of Common Stock to facilitate the sale or resale of the Shares.

(m) Except for the Subsidiaries, and except for marketable securities reflected on the Company's balance sheet, the Company owns no capital stock or other beneficial interest, directly or indirectly, in any corporation, partnership, joint venture or other business entity, except for its interests in the joint venture with THQ, Inc., as described in the Prospectus.

(n) The financial statements, including the notes thereto, and supporting schedules included or incorporated by reference in the Registration Statement and the Prospectus present fairly the financial position of the Company and its consolidated subsidiaries and the other entities for which financial statements are included in the Registration Statement and the Prospectus as of the dates indicated and the condition and results of operations for the periods specified; except as otherwise stated in the Registration Statement, said financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods involved; and the supporting schedules included in the Registration Statement present fairly the information required to be stated therein. The other financial and statistical information and data included in the Registration Statement and the Prospectus present fairly the information included therein and have been prepared on a basis consistent with that of the financial statements included or incorporated by reference in the Registration Statement and the Prospectus and the books and records of the respective entities presented therein. The pro forma and as-adjusted financial information included in the Prospectus has been properly compiled, and prepared in accordance with the applicable requirements of the Securities Act and the Rules and Regulations and includes all adjustments necessary to present fairly the pro forma financial position of the respective entity or entities presented therein at the respective dates indicated and the results of their operations for the respective periods specified. There are no historical or pro forma financial statements which are required to be included in the Registration Statement and Prospectus in accordance with Regulation S-X that have not been included as so required.

(o) The assumptions used in preparing the pro forma and as adjusted financial information included in each of the Registration Statement and the Prospectus provide a reasonable basis for presenting the significant effects directly attributable to the transactions or events described therein, the related pro forma and as adjusted adjustments give appropriate effect to those assumptions, and the pro forma and as adjusted columns therein reflect the proper application of those adjustments to the corresponding historical financial statement amounts.

(p) No holder of securities of the Company has any rights to the registration of securities of the Company because of the filing of the Registration Statement or otherwise in connection with the sale of the Shares contemplated hereby, and any such rights so disclosed have either been fully complied with by the Company or effectively waived by the holders thereof.

(q) The Company is not, and upon consummation of the transactions contemplated hereby, and at all times up to and including the application of net proceeds as described in the Prospectus, will not be, subject to registration as an "investment company" under the Investment Company Act of 1940.

(r) The Company and the Subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by them, respectively, in each case free and clear of all liens, encumbrances and defects except such as are described in the Registration Statement and the Prospectus, or as disclosed in the Company's public filings, or such as could not have a Material Adverse Effect; and any real property and buildings held under lease or sublease by the Company and the Subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as would not have a Material Adverse Effect. Neither the Company nor any of the Subsidiaries has received any notice of any claim adverse to its ownership of any real or personal property or of any claim against the continued possession of any real property, whether owned or held under lease or sublease by the Company or any of the Subsidiaries.

(s) The Company and each of the Subsidiaries has accurately prepared and timely filed all federal, state and other tax returns that are required to be filed by it and has paid or made provision for the payment of all taxes, assessments, governmental or other similar charges, including without limitation, all sales and use taxes and all taxes which the Company and each of the Subsidiaries is obligated to withhold from amounts owing to employees, creditors and third parties, with respect to the periods covered by such tax returns (whether or not such amounts are shown as due on any tax return). No deficiency assessment with respect to a proposed adjustment of the Company's or any of the Subsidiaries' Federal, state, or other taxes is pending or, to the best of the Company's knowledge, threatened. There is no tax lien, whether imposed by any federal, state, or other taxing authority, outstanding against the assets, properties or business of the Company or any of the Subsidiaries.

(t) The Common Stock is registered pursuant to Section 12(g) of the Exchange Act and the outstanding shares of Common Stock (including the Shares) are listed for quotation on the NASDAQ National Market ("NASDAQ"), and the Company has taken no action designed to, or likely to have the effect of, terminating the registration of the Common Stock under the Exchange Act or de-listing the Common Stock from the NASDAQ, nor has the Company received any notification that the Commission or the NASDAQ is contemplating terminating such registration or listing.

(u) The conditions for use of Form S-3, as set forth in the General Instructions thereto, have been satisfied.

(v) The documents incorporated or deemed to be incorporated by reference in the Prospectus, at the time they were or hereafter are filed with the Commission, complied and will comply in all respects with the requirements of the



Exchange Act and the rules and regulations of the Commission under the Exchange Act, and, when read together with the other information in the Prospectus, at the time the Registration Statement and any amendments thereto become effective and at the Closing Date and Additional Closing Date, if any, will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(w) There are no contracts or other documents (including, without limitation, any voting agreement), which are required to be described in the Prospectus or filed as exhibits to the Registration Statement or the Prospectus by the Securities Act or by the Rules and Regulations and which have not been so described or filed.

(x) The Company and its Subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(y) Neither the Company nor any of the Subsidiaries (i) is in violation of its charter or by-laws, partnership agreement, limited liability company agreement or other organizational documents, (ii) is in default under, and no event has occurred which, with notice or lapse of time or both, would constitute such a default or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of the Subsidiaries pursuant to, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which it is a party or by which it is bound or to which any of its property or assets is subject or (iii) is in violation in any respect of any statute or any judgment, decree, order, rule or regulation of any court or governmental or regulatory agency or body having jurisdiction over the Company or any of the Subsidiaries or any of their properties or assets, except any violation or default that would not have a Material Adverse Effect.

(z) The Company and each of the Subsidiaries owns or possesses adequate right to use all patents, patent applications, trademarks, service marks, trade names, trademark registrations, service mark registrations, copyrights, licenses, formulae, customer lists, and know-how and other intellectual property (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures) necessary for the conduct of their respective businesses as being conducted and as described in the Registration Statement and Prospectus and have no

reason to believe that the conduct of their respective businesses will conflict with, and have not received any notice of any claim of conflict with, any such right of others except for such violations that do not result in a Material Adverse Effect. To the best of the Company's knowledge, all material technical information developed by and belonging to the Company that has not been patented is subject to the provisions of enforceable confidentiality and non-disclosure agreements. Except as described in the Prospectus, neither the Company nor any of its subsidiaries has granted or assigned to any other person or entity any right to manufacture, have manufactured, assemble or sell the current products and services of the Company or those products and services described in the Registration Statement and Prospectus. There is no infringement by third parties of any such Intellectual Property; 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; and there is no pending or, to the Company's knowledge, threatened action, suit, proceeding or claim by others that the Company infringes or otherwise violates any patent, trademark, copyright, trade secret or other proprietary rights of others, and the Company is unaware of any other fact that would form a reasonable basis for any such claim that if adversely determined against the Company is likely to result in a Material Adverse Effect.

(aa) No labor disturbance by the employees of the Company or any of the Subsidiaries exists or, to the best of the Company's knowledge, is imminent and the Company is not aware of any existing or imminent labor disturbance by the employees of any of its or any Subsidiary's principal suppliers, manufacturers', customers or contractors, which might be expected to have a Material Adverse Effect.

(bb) No "prohibited transaction" (as defined in Section 406 of the Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder ("ERISA"), or Section 4975 of the Internal Revenue Code of 1986, as amended from time to time (the "Code"), or "accumulated funding deficiency" (as defined in Section 302 of ERISA) or any of the events set forth in Section 4043(b) of ERISA (other than events with respect to which the 30-day notice requirement under Section 4043 of ERISA has been waived) has occurred with respect to any employee benefit plan which could have a Material Adverse Effect; each employee benefit plan is in compliance in all material respects with applicable law including ERISA and the Code; the Company has not incurred and does not expect to incur liability under Title IV of ERISA with respect to the termination of, or withdrawal from any "pension plan;" and each "pension plan" (as defined in ERISA) for which the Company would have any liability that is intended to be qualified under Section 401(a) of the Code is so qualified in all material respects and nothing has occurred, whether by action or by failure to act, which could cause the loss of such qualification.

(cc) Neither the Company nor any of its subsidiaries has violated any provisions of the Foreign Corrupt Practices Act, or the rules and regulations

promulgated thereunder, except for such violations which, singly or in the aggregate, would not have a Material Adverse Effect.

(dd) There has been no storage, generation, transportation, handling, treatment, disposal, discharge, emission, or other release of any kind of toxic or other wastes or other hazardous substances by, due to, or caused by the Company (or, to the Company's knowledge, any other entity for whose acts or omissions the Company is or may be liable) upon any other property now or previously owned or leased by the Company or any of the Subsidiaries, or upon any other property, in violation of any statute or any ordinance, rule, regulation, order, judgment, decree or permit or which would, under any statute or any ordinance, rule (including rule of common law), regulation, order, judgment, decree or permit, give rise to any liability, except for any violation or liability which would not have, singularly or in the aggregate with all such violations and liabilities, a Material Adverse Effect; there has been no disposal discharge, emission or other release of any kind onto such property or into the environment surrounding such property of any toxic or other wastes or other hazardous substances with respect to which the Company or any of the Subsidiaries has knowledge. The Company has not agreed to assume, undertake or provide indemnification for any liability of any other person under any Environmental Law, including any obligation for cleanup or remedial action, except as would not reasonably be expected to have a Material Adverse Effect.

(ee) The Company has not prior to the date hereof offered or sold any securities which would be "integrated" with the offer and sale of the Shares pursuant to the Registration Statement.

(ff) No relationship, direct or indirect, exists between or among any of the Company or any affiliate of the Company, on the one hand, and any director, officer, stockholder, customer or supplier of any of them, on the other hand, which is required by the Securities Act or by the Rules and Regulations to be described in the Registration Statement or the Prospectus or incorporated therein by reference that is not so described or is not described as required.

(gg) The statistical and market-related data included in the Prospectus are based on or derived from sources that are reliable and accurate.

(hh) Neither the Company, any of the Subsidiaries nor, to the Company's knowledge, any of its employees or agents has at any time during the last five years (i) made any unlawful contribution to any candidate for foreign office, or failed to disclose fully any contribution in violation of law or (ii) made any payment to any federal or state governmental officer or official, or other person charged with similar public or quasi-public duties, other than payments required or permitted by the laws of the United States or any jurisdiction thereof.

Any certificate signed by or on behalf of the Company and delivered to the Representative or to counsel for the Underwriters' shall be deemed to be a representation and warranty by the Company to each Underwriter as to the matters covered thereby.

2. Representations and Warranties of the Selling Stockholders. Each Selling Stockholder severally and not jointly represents and warrants to, and agrees with, each of the Underwriters that:

(a) This Agreement has been duly and validly authorized, executed and delivered by or on behalf of each Selling Stockholder and is a valid and binding agreement of each of the Selling Stockholders.

(b) Each of the Custody Agreements and Powers of Attorney (each, a "Custody Agreement and Power of Attorney") signed by (i) each Selling Stockholder, (ii) U.S. Stock Transfer Corporation, as custodian (in such capacity, the "Custodian"), and (iii) Murray Skala as the Selling Stockholders' attorney-in-fact (in such capacity, the "Attorney-In-Fact"), has been duly and validly authorized, executed and delivered by each Selling Stockholder and is a valid and binding agreement of each Selling Stockholder, enforceable against such Selling Stockholder in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the rights and remedies of creditors or by general equitable principles. Each Selling Stockholder agrees that the Shares, to be sold by each Selling Stockholder on deposit with the Custodian are subject to the interests of the Underwriters, that the arrangements made for such custody are to that extent irrevocable, and that the obligations of each Selling Stockholder hereunder shall not be terminated, except as provided in this Agreement or in the Custody Agreement and Power of Attorney, by any act of the Selling Stockholder, by operation of law or by the occurrence of any other event. If any event should occur impacting the legal status or capacity of the Selling Stockholder, before the delivery of the Shares, if any, to be sold by a Selling Stockholder hereunder, the documents evidencing the Shares, if any, to be sold by such Selling Stockholder then on deposit with the Custodian shall be delivered by the Custodian in accordance with the terms and conditions of this Agreement as if such event had not occurred, regardless of whether or not the Custodian shall have received notice thereof.

(c) Each Selling Stockholder is the lawful owner of the Shares to be sold by such Selling Stockholder hereunder and upon sale and delivery of, and payment for, such Shares, as provided herein, each Selling Stockholder will convey to the Underwriters good and marketable title to such Shares, free and clear of all liens, encumbrances, equities, claims and security interests whatsoever.

(d) Each Selling Stockholder has, and on the Closing Date, will have, good and valid title to all of the Shares, which are to be sold by such Selling Stockholder pursuant to this Agreement on such date and the legal right and power, and

all authorizations and approvals required by law, to enter into this Agreement and the applicable Custody Agreement and Power of Attorney, to sell, transfer and deliver all of the Shares that may be sold by such Selling Stockholder pursuant to this Agreement and to comply with his other obligations hereunder and thereunder.

(e) No consent, approval, authorization or order of any court or governmental agency or body or any third party is required for the consummation by the Selling Stockholders of the transactions contemplated herein, except such as have been obtained under the Securities Act and such as may be required under the state securities laws or the blue sky laws of any jurisdiction in connection with the purchase and distribution of the Shares by the Underwriters.

(f) Neither the sale of the Shares, being sold by the Selling Stockholders nor the consummation of any of the other transactions contemplated herein by the Selling Stockholders or the fulfillment of the terms hereof by the Selling Stockholders will conflict with, result in a breach or violation of, or constitute a default under any law, statute, rule or regulation or the terms of any indenture or other agreement or instrument to which any Selling Stockholder is party or bound, or any judgment, order or decree applicable to any Selling Stockholder of any court or regulatory body, administrative agency, governmental body or arbitrator having jurisdiction over any Selling Stockholder.

(g) None of the Selling Stockholders has any registration or other similar rights to have any equity or debt securities registered for sale by the Company under the Registration Statement or included in the offering of the Shares, except for such rights as have been waived or which are described in the Prospectus.

(h) The Selling Stockholders do not have, or have waived prior to the date hereof, any preemptive right, co-sale right or right of first refusal or other similar right to purchase any of the Shares, if any, that are to be sold by the Company to the Underwriters pursuant to this Agreement; and the Selling Stockholders do not own any warrants, options or similar rights to acquire, and do not have any right or arrangement to acquire, any capital stock, right, warrants, options or other securities from the Company, other than those described in the Registration Statement and the Prospectus.

(i) All information furnished by or on behalf of the Selling Stockholders in writing for use in the Registration Statement and Prospectus, or any document incorporated by reference into the Registration Statement and Prospectus is, and on the Closing Date, will be, true, correct, and complete in all material respects, and does not, and on the Closing Date, will not, contain any untrue statement of a material fact or omit to state any material fact necessary to make such information not misleading. To the extent such information appears in the Prospectus, each Selling Stockholder confirms as accurate the number of shares of Common Stock set forth opposite such Selling Stockholder's name and the information described in the related footnote in the

Prospectus under the caption "Principal and Selling Stockholders" (both prior to and after giving effect to the sale of the Shares.

(j) The Selling Stockholders have not taken and will not take, directly or indirectly, any action designed to, or that might be reasonably expected to, cause or result in stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of the Shares.

(k) The Selling Stockholders have not distributed and will not distribute, prior to the Closing Date, and the completion of the Underwriters' distribution of the Shares, any offering material in connection with the offering and sale of the Shares, to be sold by the Selling Stockholders other than a Preliminary Prospectus, the Prospectus or the Registration Statement.

(l) Each Selling Stockholder has reviewed and is familiar with the Registration Statement and the Prospectus and (i) has no knowledge of any material adverse information with regard to the Company or the Subsidiaries that is not disclosed in the Registration Statement and the Prospectus, (ii) has no knowledge of any misstatement of a material fact or failure to state a material fact necessary to make the statements in the Prospectus, in light of the circumstances under which they were made, not misleading, and (iii) is not prompted to sell the Shares, if any, to be sold by the Selling Stockholders by any information concerning the Company or any of the Subsidiaries that is not set forth in the Registration Statement and the Prospectus.

(m) The representations and warranties of the Selling Stockholders in the respective Custody Agreements and Powers of Attorney are, and on the Closing Date, will be, true and correct.

Any certificate signed by or on behalf of the Selling Stockholders and delivered to the Representative or to counsel for the Underwriters' shall be deemed to be a representation and warranty by each such Selling Stockholder to each Underwriter as to the matters covered thereby.

### 3. Purchase, Sale and Delivery of the Shares.

(a) On the basis of the representations, warranties, covenants and agreements herein contained, but subject to the terms and conditions herein set forth, the Company and the Selling Stockholders agree to sell to each Underwriter and each Underwriter, severally and not jointly, agrees to purchase from the Company and the Selling Stockholders, at a purchase price per share of \$\_\_\_\_\_, that proportion of the number of Firm Shares set forth in Schedule II opposite the name of the Company or such Selling Stockholder, as the case may be, which the number of Firm Shares set forth opposite the name of such Underwriter in Schedule I hereto plus any additional number of Shares which such Underwriter may become obligated to purchase pursuant to the provisions of Section 10 hereof, bears to the total number of Firm Shares.

(b) Payment of the purchase price for, and delivery of certificates for, the Shares shall be made at the office of Manatt, Phelps & Phillip, LLP, 11355 W. Olympic Boulevard, Los Angeles, California 90064 ("Underwriters' Counsel") or at such other place as shall be agreed upon by the Representative and the Company, at 9:00 A.M., New York City time, on the third or fourth business day (as permitted under Rule 15c6-1 under the Exchange Act) (unless postponed in accordance with the provisions of Section 10 hereof) following the date of the effectiveness of the Registration Statement (or, if the Company has elected to rely upon Rule 430A of the Rules and Regulations, the third or fourth business day (as permitted under Rule 15c6-1 under the Exchange Act) after the determination of the public offering price of the Shares), or such other time not later than ten business days after the date on which the offering price is determined shall be agreed upon by the Representative and the Company (such time and date of payment and delivery being herein called the "Closing Date").

(c) Payment for the Shares shall be made to or upon the order of the Company and the Selling Stockholders by wire transfer in U.S. Federal (same day) funds to bank accounts designated by the Company and the Custodian (pursuant to each Selling Stockholder's Power of Attorney and Custody Agreement, as the case may be), upon delivery of certificates for the Shares to the Representative through the facilities of The Depository Trust Company for the respective accounts of the several Underwriters against receipt therefor signed by the Representative. Certificates for the Shares to be delivered to the Representative shall be registered in such name or names and shall be in such denominations as the Representative may request at least one business day before the Closing Date. The Company will permit the Representative to examine and package such certificates for delivery at least one full business day prior to the Closing Date.

(d) In addition, the Company hereby grants to the Underwriters, acting severally and not jointly, the option to purchase up to 525,000 Additional Shares at the same purchase price per share to be paid by the Underwriters to the Company and the Selling Stockholders for the Firm Shares as set forth in Section 3(a), for the sole purpose of covering over-allotments in the sale of Firm Shares by the Underwriters. This option may be exercised at any time and from time to time, in whole or in part on one or more occasions, on or before the thirtieth day following the date of the Prospectus, by written notice from the Representative to the Company. Such notice shall set forth the aggregate number of Additional Shares as to which the option is being exercised and the date and time, as reasonably determined by the Representative, when the Additional Shares are to be delivered (any such date and time being herein sometimes referred to as the "Additional Closing Date"); provided, however, that the Additional Closing Date shall not be earlier than the Closing Date (in which case the option may be exercised on any day preceding the Closing Date) or earlier than the business day after the date on which the option shall have been exercised nor later than the eighth full business day after the date on which the option shall have been exercised (unless such time and date are postponed in accordance with the provisions of Section 9 hereof). Certificates for the Additional Shares shall be registered in such name or names and in

such authorized denominations as the Representative may request in writing at least one full business day prior to the Additional Closing Date. The Company will permit the Representative to examine and package such certificates for delivery at least one full business day prior to the Additional Closing Date.

If the option is exercised as to all or any portion of the Additional Shares, each Underwriter, acting severally and not jointly, will purchase from the Company that proportion of the total number of Additional Shares then being purchased which the number of Firm Shares set forth opposite the name of such Underwriter in Schedule I hereto (or such number increased as set forth in Section 10 hereof) bears to the total number of Firm Shares, subject, however, to such adjustments to eliminate any fractional shares as the Representative in its sole discretion shall make.

Payment for the Additional Shares to be sold by the Company shall be made to the Company, by wire transfer in U.S. Federal (same day) funds to bank accounts designated by the Company, at the offices of Underwriters' Counsel, as may be mutually acceptable upon delivery of the certificates for the Additional Shares to the Representative for the respective accounts of the Underwriters.

(e) Each Selling Stockholder hereby agrees that (i) it will pay all stock transfer taxes, stamp duties and other similar taxes, if any, payable upon the sale or delivery of the Shares to be sold by the Selling Stockholders to the several Underwriters, or otherwise in connection with the performance of the Selling Stockholders' obligations hereunder and (ii) the Custodian is authorized to deduct for such payment any such amounts from the proceeds to the Selling Stockholders hereunder and to hold such amounts for the account of the Selling Stockholders with the Custodian under the Custody Agreement and Power of Attorney.

4. Offering. The Underwriters propose to offer the Shares for sale to the public upon the terms and conditions set forth in the Prospectus.



5. Covenants of the Company; Covenants of the Selling Stockholders.

A. The Company covenants and agrees with each of the Underwriters that:

(a) The Registration Statement and any amendments thereto have become effective, and if Rule 430A is used or the filing of the Prospectus is otherwise required under Rule 424(b), or Rule 434, the Company will file the Prospectus (properly completed if Rule 430A has been used) pursuant to Rule 424(b) within the prescribed time period and will provide evidence reasonably satisfactory to the Representative of such timely filing. If the Company elects to rely on Rule 434, the Company will prepare and file a Term Sheet that complies with requirements of Rule 434 and provide the Underwriters with copies of such filings prior to their use.

The Company will notify the Representative immediately (and, if requested by the Representative, will confirm such notice in writing) (i) when the Registration Statement and any amendments thereto become effective, (ii) of any request by the Commission for any amendment of or supplement to the Registration Statement or the Prospectus or for any additional information, (iii) of the Company's intention to file or prepare any amendments to the Registration Statement (including pursuant to rule 462(b)), the Term Sheet or any supplement, revision or amendment to the Registration Statement or the Prospectus, (iv) of the mailing or the delivery to the Commission for filing of any amendment of or supplement to the Registration Statement or the Prospectus, (v) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or any post-effective amendment thereto or of the initiation, or the threatening, of any proceedings therefor, it being understood that the Company shall use reasonable best efforts to avoid the issuance of any such stop order, (v) of the receipt of any comments from the Commission, and (vi) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Shares for sale in any jurisdiction or the initiation or threatening of any proceeding for that purpose. If the Commission shall propose or enter a stop order at any time, the Company shall make every reasonable effort to prevent the issuance of any such stop order and, if issued, to obtain the lifting of such order as soon as possible. The Company will not file any amendment to the Registration Statement or any amendment of or supplement to the Prospectus (including the prospectus required to be filed pursuant to Rule 424(b) or Rule 434) that differs from the prospectus on file at the time of the effectiveness of the Registration Statement before or after the effective date of the Registration Statement, or file any document under the Exchange Act if such document would be deemed to be incorporated by reference into the Prospectus, to which the Representative shall object in writing after being timely furnished in advance a copy thereof.

(b) The Company shall comply with the Securities Act and the Exchange Act to permit completion of the distribution as contemplated in this Agreement, the Registration Statement and the Prospectus. If at any time when a prospectus relating to the Shares is required to be delivered under the Securities Act or the Exchange Act in connection with the sales of Shares, any event shall have occurred as a result of which the Prospectus as then amended or supplemented would, in the judgment of the Underwriters or the Company, include an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances existing at the time of delivery to the purchaser, not misleading, or if it shall be necessary at any time to amend or supplement the Prospectus or Registration Statement to comply with the Securities Act or the Rules and Regulations, or to file under the Exchange Act so as to comply therewith any document incorporated by reference in the Registration Statement or the Prospectus or in any amendment thereof or supplement thereto, the Company will notify the Representative promptly and prepare and file with the Commission, subject to the second paragraph of Section 5(A)(a) hereof, an appropriate amendment or supplement (in form and substance reasonably satisfactory to the Representative) which will correct such statement or omission or which will effect such compliance and will use its best efforts to have any amendment to the Registration Statement declared effective as soon as possible.

(c) The Company will promptly deliver to each of the Underwriters and Underwriters' Counsel a signed copy of the Registration Statement, including all consents and exhibits filed therewith and all documents incorporated by reference therein and all amendments thereto, and the Company will promptly deliver to each of the Underwriters such number of copies of any Preliminary Prospectus, the Prospectus, the Registration Statement, and all amendments of and supplements to such documents, if any, all documents incorporated by reference in the Registration Statement and Prospectus or any amendment thereof or supplement thereto, as the Representative may reasonably request. Prior to 10:00 A.M., New York time, on the business day next succeeding the date of this Agreement and from time to time thereafter, the Company will furnish the Underwriters with copies of the Prospectus in New York City at such address(es) as the Representative specifies, and in such quantities as the Representative may reasonably request.

(d) The Company shall promptly deliver to each of the Underwriters and to Underwriters' Counsel copies of the Preliminary Prospectus, and the Company consents to the use and delivery of the Preliminary Prospectus by the Underwriters in accordance with Rule 430 and Section 5(b) of the Securities Act. The Company shall also furnish to each of the Underwriters copies of the Final Prospectus as requested by any of the Underwriters.

(e) The Company will use its best efforts, in cooperation with the Representative, at or prior to the time of effectiveness of the Registration Statement, to qualify the Shares for offering and sale under the securities laws relating to the

offering or sale of the Shares of such jurisdictions as the Representative may designate and to maintain such qualification in effect for so long as required for the distribution thereof; except that in no event shall the Company be obligated in connection therewith to qualify as a foreign corporation or to execute a general consent to service of process.

(f) The Company will make generally available to its security holders and to the Underwriters as soon as practicable, but in any event not later than twelve months after the effective date of the Registration Statement (as defined in Rule 158(c) under the Securities Act), an earnings statement of the Company and the Subsidiaries (which need not be audited) complying with Section 11(a) of the Securities Act and the rules and regulations of the Commission thereunder (including, at the option of the Company, Rule 158).

(g) During the period of 90 days from the date of the Prospectus, the Company will not, directly or indirectly, without prior written consent of the Representative, issue, sell, offer or agree to sell, grant any option for the sale of, pledge, make any short sale or maintain any short position, establish or maintain a "put equivalent position" (within the meaning of Rule 16-a-1(h) under the Exchange Act), enter into any swap, derivative transaction or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Stock (whether any such transaction is to be settled by delivery of Common Stock, other securities, cash or other consideration) or otherwise dispose of, any Common Stock (or any securities convertible into, exercisable for or exchangeable for Common Stock) or interest therein of the Company or of any of the Subsidiaries, and, other than for the Registration Statement, the Company will not file a registration statement under the Securities Act in connection with any of the foregoing by the Company or for any shareholder, except for registration statements on Form S-8 relating to employee benefit plans or Form S-4 relating to corporate reorganizations or other transactions under Rule 145, and the Company will obtain the undertaking of each of its officers and directors, and each of the Selling Stockholders not to engage in any of the aforementioned transactions on their own behalf for a period of ninety [90] days, other than the Company's and the Selling Stockholders' sale of Shares hereunder and the Company's issuance of (a) Common Stock upon (i) the conversion or exchange of convertible or exchangeable securities outstanding on the date hereof; (ii) the exercise of currently outstanding options; (iii) the grant and exercise of options under, or the issuance and sale of shares pursuant to, employee stock option and equivalent employee benefit plans in effect on the date hereof; and (iv) the issuance of Common Stock to the shareholders of Toymax pursuant to the Merger Agreement dated February 10, 2002, among the Company, its wholly-owned subsidiary and Toymax.

(h) During the period of five years from the effective date of the Registration Statement, the Company will furnish to the Representative copies of all reports or other communications (financial or other) furnished to security holders, and will deliver to the Representative (i) to the extent not publicly filed with the Commission,

as soon as they are available, copies of any reports and financial statements furnished to or filed with the Commission or any national securities exchange on which any class of securities of the Company is listed; and (ii) such additional information concerning the business and financial condition of the Company as the Representative may from time to time reasonably request (such financial statements to be on a consolidated basis to the extent the accounts of the Company and the Subsidiaries are consolidated in reports furnished to its security holders generally or to the Commission).

(i) The Company will apply the net proceeds it receives from the sale of the Shares as set forth under the caption "Use of Proceeds" in the Prospectus.

(j) The Company will use its best efforts to maintain the listing of the Shares on NASDAQ.

(k) The Company, during the period when the Prospectus is required to be delivered under the Securities Act or the Exchange Act, will file all documents required to be filed with the Commission pursuant to Section 13, 14 or 15 of the Exchange Act within the time periods required by the Exchange Act and the rules and regulations thereunder.

B. Each Selling Stockholder, severally and not jointly, covenants and agrees with each Underwriter:

(a) To deliver to the Representative prior to the Closing Date, a properly completed and executed United States Treasury Department Form W-8 (if the Selling Stockholder is a non-United States Person) or Form W-9 (if the Selling Stockholder is a United States Person)

(b) If, at any time prior to the date on which the distribution of the Shares as contemplated herein and in the Prospectus has been completed, as determined by the Representative, such Selling Stockholder has knowledge of the occurrence of any event as a result of which the Prospectus or the Registration Statement, in each case as then amended or supplemented, would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, such Selling Stockholder will promptly notify the Company and the Representative.

(c) To cooperate to the extent reasonably necessary to cause the Registration Statement or any post-effective amendment thereto to become effective at the earliest possible time and to do and perform all things to be done and performed prior to the Closing Date under this Agreement and to satisfy all conditions precedent to the delivery of the Shares pursuant to this Agreement.

(d) To pay or to cause to be paid all transfer taxes with respect to the Shares to be sold by such Selling Stockholder.

(e) To deliver to the Representative on or prior to the date of this Agreement such Selling Stockholders' lock-up agreement referenced in Section 7(h) hereof.

6. Payment of Expenses. Whether or not the transactions contemplated in this Agreement are consummated or this Agreement is terminated, the Company hereby agrees to pay all costs and expenses incident to the performance of the obligations of the Company hereunder, including the following: (i) the fees, disbursements and expenses of the Company's counsel and accountants in connection with the registration of the Shares under the Securities Act and all other expenses in connection with the preparation, printing and filing of the Registration Statement, any Preliminary Prospectus and the Prospectus and amendments and supplements thereto and the mailing and delivering of copies thereof to the Underwriters and dealers; (ii) the cost of printing any Agreement among Underwriters, this Agreement, the blue sky memoranda, closing documents (including any compilations thereof) and any other documents in connection with the offering, purchase, sale and delivery of the Shares; (iii) all expenses in connection with the qualification of the Shares for offering and sale under state securities laws as provided in Section 5(A)(e) hereof, including the fees and disbursements of counsel for the Underwriters in connection with such qualification and in connection with the blue sky survey; (iv) all fees and expenses in connection with listing the Shares on the NASDAQ; (v) all travel expenses of the Company's officers and employees and any other expense of the Company incurred in connection with attending or hosting meetings with prospective purchasers of the Shares; (vi) any stock transfer taxes incurred in connection with this Agreement or the Offering; (vii) the filing fees incident to, and the fees and disbursements of counsel for the Underwriters in connection with, securing any required review by the National Association of Securities Dealers, Inc. of the terms of the sale of the Shares; and (viii) fees of the Custodian in connection with the offering of the Shares by the Selling Stockholders. The Company also will pay or cause to be paid: (A) the cost of preparing stock certificates; (B) the cost and charges of any transfer agent or registrar; and (C) all other costs and expenses incident to the performance of its obligations hereunder which are not otherwise specifically provided for in this Section 6. It is understood, however, that except as provided in this Section, and Sections 8 and 12 hereof, the Underwriters will pay all of their own costs and expenses, including the fees of their counsel and stock transfer taxes on resale of any of the Shares by them. Notwithstanding anything to the contrary in this Section 6, in the event that this Agreement is terminated pursuant to Section 7 or 12(b) hereof, or subsequent to a Material Adverse Change, in each case other than as a result of a breach by the Underwriters of their obligations under Section 3(a) hereof, the Company will pay all out-of-pocket expenses of the Underwriters incurred in connection herewith.

The Selling Stockholders will pay all fees and expenses related to the offering of the Shares to be sold by them, including (i) the fees and disbursements of their counsel, if any, and (ii) any applicable stock transfer or other taxes related to the offering

of their Shares. Notwithstanding the foregoing, nothing herein shall affect any agreement that the Company and the Selling Stockholders may make for the sharing or allocation of such costs and expenses set forth in this Section 6.

7. Conditions of Underwriters' Obligations. The obligations of the Underwriters to purchase and pay for the Firm Shares and the Additional Shares, as provided herein, shall be subject to the accuracy of the representations and warranties of the Company and the Selling Stockholders herein contained, as of the date hereof and as of the Closing Date (for purposes of this Section 7 "Closing Date" shall refer to the Closing Date for the Firm Shares and any Additional Closing Date, if different, for the Additional Shares), to the absence from any certificates, opinions, written statements or letters furnished to the Representative or to Underwriters' Counsel pursuant to this Section 7 of any misstatement or omission, to the performance by the Company and the Selling Stockholders of their respective obligations hereunder, and to each of the following additional terms and conditions:

(a) The Registration Statement shall have become effective and all necessary approvals from the NASDAQ shall have been received not later than, if pricing pursuant to Rule 430A, 5:30 P.M., New York time, on the date of this Agreement or at such later time and date as shall have been consented to in writing by the Representative; if the Company shall have elected to rely upon Rule 430A or Rule 434 of the Rules and Regulations, the Prospectus shall have been filed with the Commission in a timely fashion in accordance with Section 5(A)(a) hereof and a form of the Prospectus containing information relating to the description of the Shares and the method of distribution and similar matters shall have been filed with the Commission pursuant to Rule 424(b) within the applicable time period; and, at or prior to the Closing Date, no stop order suspending the effectiveness of the Registration Statement or any post-effective amendment thereof shall have been issued and no proceedings therefor shall have been initiated or threatened by the Commission.

(b) At the Closing Date, the Representative shall have received the favorable written opinion of Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine LLP, counsel for the Company, dated the Closing Date, addressed to the Underwriters in the form attached hereto as Annex I.

(c) At the Closing Date, the Representative shall have received the favorable written opinion of, Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine LLP, counsel for each of the Selling Stockholders, dated the Closing Date, addressed to the Underwriters in the form attached hereto as Annex II.

(d) All proceedings taken in connection with the sale of the Firm Shares and the Additional Shares as herein contemplated shall be reasonably satisfactory in form and substance to the Representative and to Underwriters' Counsel, and the Underwriters shall have received from said Underwriters' Counsel a favorable opinion, dated as of the Closing Date with respect to the issuance and sale of the Shares,

the Registration Statement and the Prospectus and such other related matters as the Representative may require, and the Company shall have furnished to Underwriters' Counsel such documents as they reasonably request for the purpose of enabling them to pass upon such matters.

(e) At the Closing Date, the Representative shall have received a certificate of the Chief Executive Officer and Chief Financial Officer of the Company, dated the Closing Date, to the effect that (i) the condition set forth in subsection (a) of this Section 7 has been satisfied, (ii) as of the date hereof and as of the Closing Date the representations and warranties of the Company set forth in Section 1 hereof are accurate, (iii) as of the Closing Date all agreements, conditions and obligations of the Company to be performed or complied with hereunder on or prior thereto have been duly performed or complied with, (iv) the Company and the Subsidiaries have not sustained any material loss or interference with their respective businesses or properties from fire, flood, hurricane, accident or other calamity, whether or not covered by insurance, or from any labor dispute or any legal or governmental proceeding, and (v) subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus there has not been any Material Adverse Change in the capital stock or long-term debt, if any, of the Company or any of the Subsidiaries or any change, or any development involving a prospective change, in the business, prospects, properties, operations, condition (financial or otherwise) or results of operations of the Company and the Subsidiaries when taken as a whole, would result in a Material Adverse Change except in each case as described in or contemplated by the Prospectus.

(f) At the time this Agreement is executed and at the Closing Date, the Representative shall have received a comfort letter, from PKF dated, respectively, as of the date of this Agreement and as of the Closing Date addressed to the Underwriters and in form and substance reasonably satisfactory to the Underwriters and Underwriters' Counsel.

(g) The Representative shall have also received from PKF, a letter stating that the Company's system of internal accounting controls taken as a whole is sufficient to meet the broad objectives of internal accounting control insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial statements of the Company and its subsidiaries.

(h) Subsequent to the execution and delivery of this Agreement 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 any change in the capital stock or long-term debt, if any, of the Company or any of the Subsidiaries or any change, or any development involving a prospective change, in or affecting the condition (financial or otherwise), results of operations, business, properties or prospects of the Company and the

Subsidiaries taken as a whole, including, without limitation, the occurrence of a fire, flood, explosion or other calamity at any of the properties owned or leased by the Company or any of its Subsidiaries, the effect of which, in any such case described above, is, in the judgment of the Underwriters, so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares on the terms and in the manner contemplated in the Prospectus (exclusive of any supplement).

(i) The Representative shall have received a lock-up agreement from each person who is a director or an executive officer of the Company, each Selling Stockholder and each other person listed on Schedule III hereto substantially in the form attached hereto as Annex III.

(j) At the Closing Date, the Shares shall have been approved for listing on the NASDAQ.

(k) At the Closing Date, the NASD shall have confirmed that it has not raised any objection with respect to the fairness and reasonableness of the underwriting terms and arrangements.

(l) At the Closing Date, the Representative shall have received a certificate of an authorized representative of the Selling Stockholders, dated the Closing Date, to the effect that the representations and warranties of the Selling Stockholders set forth in Section 2 hereof are accurate and that each of the Selling Stockholders has complied with all agreements and satisfied all conditions on its part to be performed or satisfied hereunder at or prior to the Closing Date.

(m) On or prior to the Closing Date, the Representative shall have received a properly completed and executed United States Treasury Department Form W-8 (if the Selling Stockholder is a non-United States Person) or Form W-9 (if the Selling Stockholder is a United States Person) (or other applicable form or statement specified by Treasury Department regulations in lieu thereof) from each Selling Stockholder.

(n) The Company shall have complied with the provisions of Section 5(c) hereof with respect to the furnishing of prospectuses.

(o) The Company shall have furnished the Underwriters and Underwriters' Counsel with such other certificates, opinions or other documents as they may have reasonably requested.

In the event the Underwriters exercise their option to purchase the Additional Shares, all of the conditions in this Section 7 must be satisfied in connection with such Additional Shares on or prior to the Additional Closing Date.



If any of the conditions specified in this Section 7 shall not have been fulfilled when and as required by this Agreement, or if any of the certificates, opinions, written statements or letters furnished to the Representative or to Underwriters' Counsel pursuant to this Section 7 shall not be reasonably satisfactory in form and substance to the Representative and to Underwriters' Counsel, all obligations of the Underwriters hereunder may be cancelled by the Representative at, or at any time prior to, the Closing Date and the obligations of the Underwriters to purchase the Additional Shares may be cancelled by the Representative at, or at any time prior to, the Additional Closing Date. Notice of such cancellation shall be given to the Company in writing or by telephone. Any such telephone notice shall be confirmed promptly thereafter in writing.

#### 8. Indemnification.

(a) The Company shall indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Securities Act or Section 20(a) of the Exchange Act against any and all losses, liabilities, claims, damages and expenses whatsoever as incurred (including but not limited to reasonable attorneys' fees and any and all expenses whatsoever incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any claim whatsoever, and any and all amounts paid in settlement of any claim or litigation), joint or several, to which they or any of them may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such losses, liabilities, claims, damages or expenses (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 Shares, as originally filed or any amendment thereof, or any related Preliminary Prospectus or the Prospectus, or in any supplement thereto or amendment thereof, 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; provided, however, that the Company will not be liable in any such case to the extent but only to the extent that any such loss, liability, claim, damage or expense 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 by or on behalf of any Underwriter through the Representative expressly for use therein (which the Company and the Underwriters agree is limited to the "Underwriter's Information" as defined in Section 1(b) hereof). This indemnity agreement will be in addition to any liability that the Company may otherwise have including under this Agreement.

(b) Each Selling Stockholder, jointly and not severally, agrees to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Securities Act or Section 20(a) of the Exchange Act against any and all losses, liabilities, claims, damages and expenses whatsoever as incurred (including but not limited to reasonable attorneys' fees and any

and all expenses whatsoever incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any claim whatsoever and any and all amounts paid in settlement of any claim or litigation), joint or several, to which they or any of them may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such losses, liabilities, claims, damages or expenses (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact that was provided by such Selling Stockholder and contained in the Registration Statement for the registration of the Shares, as originally filed or any amendment thereof, or any related Preliminary Prospectus or the Prospectus, or in any supplement thereto or amendment thereof, or arise out of or are based upon the omission or alleged omission to state therein a material fact relating to such Selling Stockholder required to be stated therein or necessary to make the statements therein not misleading; provided, however, that in no such case shall any Selling Stockholder be liable or responsible for any amount in excess of the proceeds (net of the underwriting discount but before deducting other expenses) applicable to the Shares sold by such Selling Stockholder pursuant to the transactions contemplated hereby. This indemnity agreement will be in addition to any liability that the Selling Stockholders may otherwise have including under this Agreement.

(c) Each Underwriter severally, and not jointly, shall indemnify and hold harmless the Company and each Selling Shareholder, each of the directors of the Company, each of the officers of the Company who shall have signed the Registration Statement, and each other person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20(a) of the Exchange Act, against any losses, liabilities, claims, damages and expenses whatsoever as incurred (including but not limited to reasonable attorneys' fees and any and all expenses whatsoever incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any claim, and any and all amounts paid in settlement of any claim or litigation), jointly or severally, to which they or any of them may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such losses, liabilities, claims, damages or expenses (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 Shares, as originally filed or any amendment thereof, or any related 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, in each case to the extent, but only to the extent, that any such loss, liability, claim, damage or expense 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 by or on behalf of any Underwriter through the Representative expressly for use therein (which the Company and the Underwriters agree is limited to the "Underwriter's Information" as defined in Section 1(b) hereof); provided, however, that in no case shall any Underwriter be liable or responsible for any

amount in excess of the underwriting discount applicable to the Shares purchased by such Underwriter hereunder. This indemnity will be in addition to any liability that any Underwriter may otherwise have including under this Agreement.

(d) Promptly after receipt by an indemnified party under subsection (a), (b) or (c) above of notice of any claims or the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify each party against whom indemnification is to be sought in writing of the claim or the commencement thereof (but the failure so to notify an indemnifying party shall not relieve the indemnifying party from any liability which it may have under this Section 8 to the extent that it is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability that such indemnifying party may have otherwise than on account of the indemnity agreement hereunder). In case any such claim or action is brought against any indemnified party, and it notifies an indemnifying party of the commencement thereof, an indemnifying party may participate, at its own expense in the defense of such action, and to the extent it may elect by written notice delivered to the indemnified party promptly after receiving the aforesaid notice from such indemnified party, to assume the defense thereof with counsel reasonably satisfactory to such indemnified party; provided however, that counsel to the indemnifying party shall not (except with the written consent of the indemnified party) also be counsel to the indemnified party. Notwithstanding the foregoing, the indemnified party or parties shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such indemnified party or parties unless (i) the employment of such counsel shall have been authorized in writing by one of the indemnifying parties in connection with the defense of such action, (ii) the indemnifying parties shall not have employed counsel to have charge of the defense of such action within a reasonable time after notice of commencement of the action, (iii) the indemnifying party does not diligently defend the action after assumption of the defense, or (iv) such indemnified party or parties shall have reasonably concluded that there may be defenses available to it or them which are different from or additional to those available to one or all of the indemnifying parties (in which case the indemnifying parties shall not have the right to direct the defense of such action on behalf of the indemnified party or parties), in any of which events such fees and expenses shall be borne by the indemnifying parties. No indemnifying party shall, without the prior written consent of the indemnified parties, effect any settlement or compromise of, or consent to the entry of judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could have been sought under Section 8 or 9 hereof (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (i) includes an unconditional release of the indemnified party from all liability arising out of such litigation, investigation, proceeding or claim, (ii) does not include a statement as to, or an admission of, fault, culpability or a failure to act, by or on behalf of

the indemnified party and (iii) the indemnifying party reaffirms its indemnification obligations pursuant to this Agreement.

9. Contribution. In order to provide for contribution in circumstances in which the indemnification provided for in Section 8 hereof is for any reason held to be unavailable from any indemnifying party or is insufficient to hold harmless a party indemnified thereunder, the Company, the Selling Stockholders and the Underwriters shall contribute to the aggregate losses, claims, damages, liabilities and expenses of the nature contemplated by such indemnification provision (including any investigation, legal and other expenses incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claims asserted, but after deducting in the case of losses, claims, damages, liabilities and expenses suffered by the Company and each Selling Stockholder, any contribution received by the Company and/or the Selling Stockholder from persons, other than the Underwriters, who may also be liable for contribution, including persons who control the Company within the meaning of Section 15 of the Securities Act or Section 20(a) of the Exchange Act, officers of the Company who signed the Registration Statement and directors of the Company) as incurred to which the Company, each Selling Stockholder and one or more of the Underwriters may be subject, in such proportions as are appropriate to reflect the relative benefits received by the Company and the Selling Stockholders, on the one hand, and the Underwriters, on the other hand, from the offering of the Shares or, if such allocation is not permitted by applicable law or indemnification is not available as a result of the indemnifying party not having received notice as provided in Section 8 hereof, in such proportions as are appropriate to reflect not only the relative benefits referred to above but also the relative fault of the Company and the Selling Stockholders on the one hand and the Underwriters on the other hand in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations.

The relative benefits received by the Company and the Selling Stockholders, on the one hand, and the Underwriters, on the other hand, shall be deemed to be in the same proportion as (x) the total proceeds from the offering (net of underwriting discounts and commissions but before deducting expenses) received by the Company and the Selling Stockholders bear to (y) the underwriting discount received by the respective Underwriters, respectively, in each case as set forth in the table on the cover page of the Prospectus. The relative fault of each of the Company, any Selling Stockholder and of the Underwriters shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company, the Selling Stockholder or the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company, the Selling Stockholders and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 9 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by

any other method of allocation which does not take account of the equitable considerations referred to above in this Section 9. The aggregate amount of losses, liabilities, claims, damages and expenses incurred by an indemnified party and referred to above in this Section 9 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission. Notwithstanding the provisions of this Section 9, (i) no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission and (ii) no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 9, each person, if any, who controls an Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act shall have the same rights to contribution as such Underwriter, and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of 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 clauses (i) and (ii) of this Section 9. Any party entitled to contribution will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim for contribution may be made against another party or parties, notify each party or parties from whom contribution may be sought, but the omission to so notify such party or parties shall not relieve the party or parties from whom contribution may be sought from any obligation it or they may have under this Section 9 or otherwise. The obligations of the Underwriters to contribute pursuant to this Section 9 are several in proportion to the respective number of Shares purchased by each of the Underwriters hereunder and not joint.

10. Default by an Underwriter.

(a) If any Underwriter or Underwriters shall default in its or their obligation to purchase Firm Shares or Additional Shares hereunder, and if the Firm Shares or Additional Shares with respect to which such default relates do not (after giving effect to arrangements, if any, made by the Representative pursuant to subsection (b) below) exceed in the aggregate 10% of the number of Firm Shares or Additional Shares, the Firm Shares or Additional Shares to which the default relates shall be purchased by the non-defaulting Underwriters in proportion to the respective proportions which the numbers of Firm Shares set forth opposite their respective names in Schedule I hereto bear to the aggregate number of Firm Shares set forth opposite the names of the non-defaulting Underwriters.

(b) In the event that such default relates to more than 10% of the Firm Shares or Additional Shares, as the case may be, the Representative may in its sole discretion arrange for itself or for another party or parties (including any non-defaulting Underwriter or Underwriters who so agree) to purchase such Firm Shares or Additional Shares, as the case may be, to which such default relates on the terms contained herein. In the event that within five calendar days after such a default the Representative does not arrange for the purchase of the Firm Shares or Additional Shares, as the case may be, to which such default relates as provided in this Section 10, this Agreement or, in the case of a default with respect to the Additional Shares, the obligations of the Underwriters to purchase and of the Company to sell the Additional Shares shall thereupon terminate, without liability on the part of the Company or the Selling Stockholders with respect thereto (except in each case as provided in Sections 6, [except for the last sentence thereof] 8(a) and 9 hereof with respect to the Company and Sections 8(b) and 9 hereof with respect to the Selling Stockholders) or the Underwriters, but nothing in this Agreement shall relieve a defaulting Underwriter or Underwriters of its or their liability, if any, to the other Underwriters and the Company and the Selling Stockholders for damages occasioned by its or their default hereunder.

(c) In the event that the Firm Shares or Additional Shares to which the default relates are to be purchased by the non-defaulting Underwriters, or are to be purchased by another party or parties as aforesaid, the Representative or the Company shall have the right to postpone the Closing Date or Additional Closing Date, as the case may be for a period, not exceeding five business days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus or in any other documents and arrangements, and the Company agrees to file promptly any amendment or supplement to the Registration Statement or the Prospectus, which, in the opinion of Underwriters' Counsel, may thereby be made necessary or advisable. The term "Underwriter" as used in this Agreement shall include any party substituted under this Section 10 with like effect as if it had originally been a party to this Agreement with respect to such Firm Shares and Additional Shares.

11. Survival of Representations and Agreements. All representations and warranties, covenants and agreements of the Underwriters, the Company and the Selling Stockholders contained in this Agreement or in certificates of officers of the Company or any Subsidiary or of the Selling Stockholders submitted hereto or thereto, including the agreements contained in Section 6, the indemnity agreements contained in Section 8 and the contribution agreements contained in Section 9, shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any Underwriter or any controlling person thereof or by or on behalf of the Company or the Selling Stockholders, any of their officers and directors or any controlling person thereof, and shall survive delivery of and payment for the Shares to and by the Underwriters. The representations contained in Sections 1 and 2 and the agreements contained in Sections 6, 8, 9 11 and 12(d) hereof shall survive the termination of this Agreement, including termination pursuant to Section 10 or 12 hereof.

12. Effective Date of Agreement; Termination.

(a) This Agreement shall become effective, upon the later of (i) when the Representative and the Company shall have received notification of the effectiveness of the Registration Statement or (ii) the execution of this Agreement. If either the public offering price or the purchase price per Share has not been agreed upon prior to 5:00 P.M., New York City time, on the fifth full business day after the Registration Statement shall have become effective, this Agreement shall thereupon terminate without liability to the Company, the Selling Stockholders or the Underwriters except as herein expressly provided. Until this Agreement becomes effective as aforesaid, it may be terminated by the Company by notifying the Representative or by the Representative notifying the Company. Notwithstanding the foregoing, the provisions of this Section 12 and of Sections 1, 2, 6, 8 and 9 hereof shall at all times be in full force and effect.

(b) The Representative shall have the right to terminate this Agreement at any time prior to the Closing Date or to terminate the obligations of the Underwriters to purchase the Additional Shares at any time prior to the Additional Closing Date, as the case may be, if (A) any domestic or international event or act or occurrence has materially disrupted, or in the opinion of the Representative will in the immediate future materially disrupt, the market for the Company's securities or securities in general; or (B) if trading on the New York Stock Exchange, the NASDAQ or the American Stock Exchange shall have been suspended, or minimum or maximum prices for trading shall have been fixed, or maximum ranges for prices for securities shall have been required, on the New York Stock Exchange, the NASDAQ or the American Stock Exchange by the New York Stock Exchange, the NASDAQ or the American Stock Exchange or by order of the Commission or any other governmental authority having jurisdiction; or (C) if a banking moratorium has been declared by any state or federal authority or if any material disruption in commercial banking or securities settlement or clearance services shall have occurred; or (D) any downgrading shall have occurred in

the Company's corporate credit rating or the rating accorded the Company's debt securities, if any, by any "nationally recognized statistical rating organization" as that term is defined by the Commission for purposes of Rule 436(g)(2) under the Securities Act or if any such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of any of the Company's debt securities; or (E) (i) if there shall have occurred any outbreak or escalation of hostilities or acts of terrorism involving the United States or there is a declaration of a national emergency or war by the United States or (ii) if there shall have been any other calamity or crisis or any change in political, financial or economic conditions if the effect of any such event in (i) or (ii) in the judgment of the Representative makes it impracticable or inadvisable to proceed with the offering, sale and delivery of the Firm Shares or the Additional Shares, as the case may be, on the terms and in the manner contemplated by the Prospectus.

(c) Any notice of termination pursuant to this Section 12 shall be in writing.

(d) If this Agreement shall be terminated pursuant to any of the provisions hereof (otherwise than pursuant to (i) notification by the Representative as provided in Section 12(a) hereof or (ii) Section 10(b)), or if the sale of the Shares provided for herein is not consummated because any condition to the obligations of the Underwriters set forth herein is not satisfied or because of any refusal, inability or failure on the part of the Company to perform any agreement herein or comply with any provision hereof, the Company will, subject to demand by the Representative, reimburse the Underwriters for all out-of-pocket expenses (including the fees and expenses of their counsel), incurred by the Underwriters in connection herewith as provided in Section 6.

13. Notices. All communications hereunder, except as may be otherwise specifically provided herein, shall be in writing, and:

(a) if sent to any Underwriter, shall be mailed, delivered, or faxed and confirmed in writing, to such Underwriter c/o Bear, Stearns & Co. Inc., 383 Madison Avenue, New York, New York 10179, Attention: Equity Capital Markets, with a copy to Manatt, Phelps & Phillips, LLP, 11355 W. Olympic Boulevard, Los Angeles, California 90064, Attention: Gordon M. Bava, Esq.

(b) if sent to the Company, shall be mailed, delivered, or faxed and confirmed in writing to the Company and its counsel at the addresses set forth in the Registration Statement, Attention: Joel M. Bennett, Chief Financial Officer, with a copy to Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine, LLP, Attn: Saul Kaszovitz;

(c) if sent to the Selling Stockholders, shall be mailed, delivered, or faxed and confirmed in writing to the Custodian c/o the Company.



provided, however, that any notice to an Underwriter pursuant to Section 8 shall be delivered or sent by mail or facsimile transmission to such Underwriter at its address set forth in its acceptance facsimile to the Representative, which address will be supplied to any other party hereto by the Representative upon request. Any such statements, requests, notices or agreements shall take effect at the time of receipt thereof.

14. Parties. This Agreement shall insure solely to the benefit of, and shall be binding upon, the Underwriters, and the Company and the Selling Stockholders the controlling persons, directors, officers, employees and agents referred to in Sections 8 and 9 hereof, and their respective successors and assigns, and no other person shall have or be construed to have any legal or equitable right, remedy or claim under or in respect of or by virtue of this Agreement or any provision herein contained. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the parties hereto and their respective successors, and said controlling persons, and officers and directors and their heirs and legal representatives, and it is not for the benefit of any other person, firm or corporation. The term "successors and assigns" shall not include a purchaser, in its capacity as such, of Shares from any of the Underwriters.

15. Governing Law. This Agreement shall be governed by and construed in accordance with the substantive laws and not the conflict laws of the State of New York. Each of the parties hereto irrevocably consents to the exclusive jurisdiction of the federal district court for the Southern District of New York in connection with any matter based upon or arising out of this Agreement or the matters contemplated herein, agrees that process may be served upon them in any manner authorized by the laws of the State of New York for such persons and waives and covenants not to assert or plead any objection that they might otherwise have to such jurisdiction and such process.

16. Counterparts. This Agreement may be executed in any number of counterparts, each of which may be delivered by facsimile and shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

17. Headings. The headings herein are inserted for convenience of reference only and are not intended to be part of, or to affect the meaning or interpretation of, this Agreement.

18. Time is of the Essence. Time shall be of the essence of this Agreement. As used herein, the term "business day" shall mean any day when the Commission's office in Washington, D.C. is open for business.

[signature page follows]

If the foregoing correctly sets forth the understanding among the Representative, the Company and the Selling Stockholders, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement among the parties. It is understood that acceptance of this letter by the Representative on behalf of each of the Underwriters is pursuant to the authority set forth in a form of Agreement among Underwriters, the form of which shall be submitted to the Company for examination, upon request, but without warranty on the part of the Representative as to the authority of the signers thereof.

Very truly yours,

JAKKS PACIFIC, INC.

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

Selling Stockholders  
Listed in Schedule II

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

Name: Murray L. Skala  
Title: as Attorney-in-Fact for the Selling  
Stockholders

Accepted as of the date first above written

BEAR, STEARNS & CO. INC.

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

Name:  
Title:

On behalf of themselves and the other  
Underwriters named in Schedule I hereto.

SCHEDULE I

NAME OF UNDERWRITER	NUMBER OF FIRM SHARES TO BE PURCHASED
-----	-----
Bear, Stearns & Co. Inc.....	
U.S. Bancorp Piper Jaffray, Inc. ....	
Advest, Inc. ....	
Total:.....	=====

SCHEDULE II

NAME - - - - -	NUMBER OF FIRM SHARES TO BE SOLD TO THE UNDERWRITERS -----	MAXIMUM NUMBER OF ADDITIONAL SHARES TO BE SOLD TO THE UNDERWRITERS -----
JAKKS Pacific, Inc.		
Jack Friedman	300,000	0
Stephen G. Berman	150,000	0
Robert E. Glick	10,000	0
Michael G. Miller	10,000	0
Murray L. Skala	30,000	0

ANNEX I

Form of Opinion of  
Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine LLP

(i) Each of the Company and the Subsidiaries has been duly organized or formed and is validly existing as a corporation, partnership or limited liability company in good standing under the laws of its jurisdiction of incorporation or formation with full power and corporate and all other necessary authority to own its properties and conduct its business as described in the Prospectus.

(ii) Each of the Company and the Subsidiaries is duly qualified and in good standing as a foreign corporation in each jurisdiction in which the character or location of its properties (owned, leased or licensed) or the nature or conduct of its business makes such qualification necessary, except for those failures to be so qualified or in good standing which will not in the aggregate have a Material Adverse Effect.

(iii) The Company has full right, power and authority to execute and deliver the Underwriting Agreement and to issue and sell the Shares being sold by it and to perform its obligations under the Underwriting Agreement, and all corporate action required to be taken for the due and proper authorization, execution and delivery of the Underwriting Agreement and the issuance and sale of the Shares and the consummation of the transactions contemplated by the Underwriting Agreement and as described in the Prospectus have been duly and validly taken.

(iv) The Underwriting Agreement has been duly and validly authorized, executed and delivered by the Company.

(v) The Company has an authorized capitalization as set forth in the Registration Statement and the Prospectus. All of the issued shares of capital stock of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and are not now in violation of or subject to any preemptive or, to the best of such counsel's knowledge, similar rights that entitle or will entitle any person to acquire any Shares from the Company upon issuance thereof by the Company; and the Common Stock, the Firm Shares and the Additional Shares conform to the descriptions thereof contained in the Registration Statement and the Prospectus. All of the issued shares of capital stock of each subsidiary of the Company have been duly and validly authorized and issued and are fully paid and non-assessable and (except for directors' qualifying shares) are owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equities or claims.

(vi) The Shares to be delivered on the Closing Date have been duly and validly authorized and, when delivered by the Company against payment therefor in accordance with the Underwriting Agreement, will be duly and validly issued, fully paid and non-assessable and will not have been issued in violation of or subject to preemptive

or similar rights that entitle or will entitle any person to acquire any Shares from the Company upon issuance thereof by the Company.

(vii) All of the issued shares of capital stock of each subsidiary of the Company have been duly and validly authorized and issued and are fully paid and non-assessable and (except for directors' qualifying shares) are owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equities or claims.

(viii) The Common Stock currently outstanding is listed on the NASDAQ National Market, and the Shares to be sold under the Underwriting Agreement to the Underwriters are duly authorized for listing on the NASDAQ National Market.

(ix) The Company has not granted any registration rights with respect to any of its securities that will be triggered by the consummation of the Offering or the transactions contemplated by the Underwriting Agreement other than such rights that have been duly waived.

(x) No consent, approval, authorization, order, registration, filing, qualification, license or permit of or with any court or any public, governmental, or regulatory agency or body having jurisdiction over the Company or any of the Subsidiaries or any of their respective properties or assets is required for the issuance, sale and delivery of the Shares, the execution, delivery and performance of the Underwriting Agreement or the consummation of the transactions contemplated thereby, except for (1) such as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Shares by the Underwriters (as to which such counsel need express no opinion), (2) such as have been made or obtained under the Securities Act and (3) such as are required by the National Association of Securities Dealers, Inc.

(xi) Other than as set forth in the Prospectus, there are no legal or governmental proceedings pending to which the Company or any of the Subsidiaries is a party or of which any property of the Company or any of the Subsidiaries is the subject which, if determined adversely to the Company or any of the Subsidiaries, would individually or in the aggregate have a Material Adverse Effect; and, to the best of such counsel's knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others.

(xii) Neither the Company nor any of the Subsidiaries is in violation of its respective charter or by-laws and neither the Company nor any of the Subsidiaries is in default in the performance of any obligation, agreement, covenant or condition contained in any indenture, loan agreement, mortgage, lease or other agreement or instrument that is material to the Company and the Subsidiaries, taken as a whole, to which the Company or any of the Subsidiaries is a party or by which the Company or any of the Subsidiaries or their respective properties may be bound.

(xiii) Each of the Company and the Subsidiaries has such authorizations of, and has made all filings with and notices to, all governmental or regulatory authorities

and self-regulatory organizations and all courts and other tribunals, including, without limitation, under any applicable environmental laws, as are necessary to own, lease, license and operate its respective properties and to conduct its business, except where the failure to have any such authorization or to make any such filing or notice would not, singly or in the aggregate, have a Material Adverse Effect; each such authorization is valid and in full force and effect and each of the Company and the Subsidiaries is in compliance with all the terms and conditions thereof and with the rules and regulations of the authorities and governing bodies having jurisdiction with respect thereto; and no event has occurred (including, without limitation, the receipt of any notice from any authority or governing body) which allows or, after notice or lapse of time or both, would allow, revocation, suspension or termination of any such authorization or results or, after notice or lapse of time or both, would result in any other impairment of the rights of the holder of any such authorization; and such authorizations contain no restrictions that are burdensome to the Company or any of the Subsidiaries; except where such failure to be valid and in full force and effect or to be in compliance, the occurrence of any such event or the presence of any such restriction would not, singly or in the aggregate, have a Material Adverse Effect.

(xiv) The Registration Statement and the Prospectus and any amendments thereof or supplements thereto (other than the financial statements and schedules and other financial data included or incorporated by reference therein, as to which no opinion need be rendered) comply as to form in all material respects with the requirements of the Securities Act and the Rules and Regulations. There are no known amendments to the Registration Statement and there are no documents required by the Rules and Regulations to be filed in connection with, incorporated by reference, or described in the Registration Statement that have not been so filed, incorporated by reference or described.

(xv) The statements under the captions "Prospectus Summary", "Risk Factors", "Business", "Certain Relationships and Related Transactions", "Description of Securities", and "Underwriting" in the Prospectus, Item 15 of Part II of the Registration Statement and the statements under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Legal Proceedings" and "Management" in the Form 10-K, insofar as such statements constitute a summary of the legal matters, documents or proceedings referred to therein, fairly present the information called for with respect to such legal matters, documents and proceedings.

(xvi) No contract or agreement is required to be filed as an exhibit to the Registration Statement or to a document incorporated by reference into the Registration Statement that is not so filed, and no contract or agreement is required to be described in the Registration Statement or a document incorporated by reference into the Registration Statement that is not described as required.

(xvii) The documents filed under the Exchange Act and incorporated by reference in the Registration Statement and the Prospectus or any amendment thereof or supplement thereto (other than the financial statements and schedules and other financial data included or incorporated by reference therein, as to which no opinion need be

rendered) when they became effective or were filed with the Commission, complied as to form in all material respects with the Exchange Act and the rules and regulations of the Commission thereunder; and such counsel has no reason to believe that any of such documents, when such documents were so filed, contained, an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such documents were so filed, not misleading.

(xviii) The Registration Statement is effective under the Securities Act, and, to the best knowledge of such counsel, no stop order suspending the effectiveness of the Registration Statement or any post-effective amendment thereof has been issued and no proceedings therefore have been initiated or threatened by the Commission and all filings required by Rule 424(b) and Rule 430A of the Rules and Regulations have been made in the manner and within the time period required.

(xix) The issuance and sale of the Shares by the Company, the execution, delivery, and performance of the Underwriting Agreement, compliance by the Company with all provisions of the Underwriting Agreement and the consummation of the transactions contemplated thereby do not and will not (A) conflict with or result in a breach of any of the terms or provisions of, or constitute a default (or an event which with notice or lapse of time, or both, would constitute a default) under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of the Subsidiaries pursuant to, any indenture, mortgage, deed of trust, loan agreement or any other agreement, instrument, franchise, license or permit known to such counsel to which the Company or any of the Subsidiaries is a party or by which any of the Company or any of the Subsidiaries or their respective properties or assets is subject or may be bound or (B) violate or conflict with any provision of the certificate of incorporation, by-laws, certificate of formation, partnership agreement, limited liability agreement or other organizational documents of the Company or any of the Subsidiaries, or, to the best knowledge of such counsel, any judgment, decree, order, statute, rule or regulation of any court or any public, governmental or regulatory agency or body having jurisdiction over the Company or any of the Subsidiaries or any of their respective properties or assets.

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

In addition, such opinion shall also contain a statement that such counsel has participated in conferences with officers and representatives of the Company, representatives of the independent public accountants for the Company and the Underwriters at which the contents of the Registration Statement and the Prospectus and related matters were discussed, and no facts have come to the attention of such counsel that would lead such counsel to believe that either the Registration Statement, at the time it became effective (including the information deemed to be part of the Registration Statement at the time of effectiveness pursuant to Rule 430A(b) or Rule 434, if



applicable), or any amendment thereof made prior to the Closing Date, as of the date of such amendment, contained or incorporated by reference any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus (including the documents incorporated by reference therein), as of its date (or any amendment thereof or supplement thereto made prior to the Closing Date as of the date of such amendment or supplement) and as of the Closing Date, contained or contains an 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, in light of the circumstances under which they were made, not misleading (it being understood that such counsel need express no belief or opinion with respect to the financial statements and schedules and other financial data included or incorporated by reference therein).

ANNEX II

Form of Opinions of Selling Stockholders' Counsel

(i) Each of the Selling Stockholders has full legal right, power and authority, and any approval required by law (other than any approval imposed by the applicable state securities and Blue Sky laws), to enter into the Underwriting Agreement, the Custody Agreement and the Power of Attorney executed by each of them and to sell, assign, transfer and deliver the Shares and the Additional Shares to be sold by such Selling Stockholder in the manner provided in the Underwriting Agreement.

(ii) Each of the Selling Stockholders has good and valid title to the certificates for the Shares and the Additional Shares to be sold by such Selling Stockholder, and upon delivery thereof pursuant hereto and payment therefor, good and clear title will pass to the Underwriters, severally, free and clear of all restrictions on transfer, liens, encumbrances, security interests and claims whatsoever.

(iii) The Underwriting Agreement has been duly and validly authorized, executed and delivered by each of the Selling Stockholders.

(iv) The Custody Agreement and Power of Attorney appointing \_\_\_\_\_ as the Custodian and \_\_\_\_\_ as the Selling Stockholders' Attorney-In-Fact, with regard to the transactions contemplated hereby and by the Registration Statement, have been duly authorized, executed and delivered by or on behalf of each Selling Stockholder and are the valid and binding agreements of each Selling Stockholder, enforceable in accordance with their terms, and pursuant to such power of attorney, each Selling Stockholder has authorized such Attorney-In-Fact to execute and deliver on each such Selling Stockholder's behalf the Underwriting Agreement and any other document necessary or desirable in connection with the transactions contemplated thereby and to deliver the Shares and the Additional Shares to be sold by such Selling Stockholder pursuant to the Underwriting Agreement.

(v) The execution, delivery and performance of the Underwriting Agreement by each of the Selling Stockholders, compliance by each of the Selling Stockholders with all the provisions hereof and the consummation of the transactions contemplated hereby will not require any consent, approval, authorization or other order of any court, regulatory body, administrative agency or other governmental body (except such as may be required under the Securities Act, state securities laws or Blue Sky laws) and will not conflict with or constitute a breach of any of the terms or provisions of, or a default under, any agreement, indenture or other instrument to which any Selling Stockholder is a party or by which any Selling Stockholder or property of such Selling Stockholder is bound, will not violate the charter, bylaws, certificate of formation, partnership agreement, limited liability agreement or other organizational documents of such Selling Stockholder and will not violate or conflict with any law, statute, administrative regulation or ruling, or judgment, order or decree

of any court or government instrumentality or agency applicable to any Selling Stockholder or property of any Selling Stockholder.

In rendering such opinion, such counsel may rely (A) as to matters involving the application of laws other than the laws of the United States and jurisdictions in which they are admitted, to the extent such counsel deems proper and to the extent specified in such opinion, if at all, upon an opinion or opinions (in form and substance reasonably satisfactory to Underwriters' Counsel) of other counsel reasonably acceptable to Underwriters' Counsel, familiar with the applicable laws; and (B) as to matters of fact, to the extent they deem proper, on certificates of the Selling Stockholders provided that copies of any such statements or certificates shall be delivered, in advance, to Underwriters' Counsel. The opinion of such counsel shall state that the opinion of any such other counsel is in form satisfactory to such counsel and, in their opinion, you and they are justified in relying thereon.

ANNEX III

\_\_\_\_\_, 2002

BEAR, STEARNS & CO. INC.  
as Representatives of the  
several Underwriters

c/o Bear, Stearns & Co. Inc.  
383 Madison Avenue  
New York, New York 10179

Attention: Equity Capital Markets

JAKKS Pacific, Inc. Lock-Up Agreement

Ladies and Gentlemen:

The undersigned refers to the proposed Underwriting Agreement (the "Underwriting Agreement") between JAKKS Pacific, Inc., a Delaware corporation (the "Company"), and you as the representative of the Underwriters named therein (the "Underwriters") relating to an underwritten public offering (the "Offering") of common stock, \$0.001 par value (the "Common Stock"), of the Company.

In order to induce you and the other Underwriters to enter into the Underwriting Agreement, the undersigned hereby agrees that, without the prior written consent of Bear, Stearns & Co. Inc., the undersigned will not, directly or indirectly, during the period from the date hereof until ninety (90) days from the date of the final prospectus for the Offering (the "Lock-Up Period"), (i) offer, sell, agree to offer or sell, solicit offers to purchase, grant any call option or purchase any put option with respect to, pledge, loan or otherwise dispose of any Relevant Security, (ii) establish or increase a "put equivalent position" or liquidate or decrease a "call equivalent position" with respect to any Relevant Security (in each case within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder), or otherwise enter into any swap, derivative or other transaction or arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Relevant Security, whether or not such transaction is to be settled by delivery of Relevant Securities, other securities, cash or other consideration or (iii) announce publicly an intention to do any of the same.

As used in this letter agreement, "Relevant Security" means the Common Stock, any other equity security of the Company or any of its subsidiaries, any options or warrants to purchase any shares of Common Stock, and any security convertible into, or exercisable or exchangeable for, any Common Stock or other such equity security, in each case whether now owned or hereafter acquired.

The undersigned hereby further agrees that, during the Lock-up Period, the undersigned (x) will not file or participate in the filing with the Securities and Exchange Commission of any registration statement, or circulate or participate in the circulation of any preliminary or final prospectus or other disclosure document with respect to any proposed offering or sale of a Relevant Security and (y) will not exercise any rights the undersigned may have to require registration with the Securities and Exchange Commission of any proposed offering or sale of a Relevant Security.

The undersigned hereby represents and warrants that the undersigned has full power and authority to enter into this letter agreement and that this letter agreement constitutes the legal, valid and binding obligation of the undersigned, enforceable in accordance with its terms. Upon request, the undersigned will execute any additional documents necessary in connection with enforcement hereof. Any obligations of the undersigned shall be binding upon the successors and assigns of the undersigned from the date first above written.

This letter agreement shall be governed by and construed in accordance with the laws of the State of New York. Delivery of a signed copy of this letter by telecopier or facsimile transmission shall be effective as delivery of the original hereof.

Very truly yours,

By:

-----

Print Name:

-----

[FEDER, KASZOVITZ, ISAACSON, WEBER,  
SKALA, BASS & RHINE LLP LETTERHEAD]

May 6, 2002

JAKKS Pacific, Inc.  
22761 Pacific Coast Highway  
Malibu, CA 90265

Gentlemen:

We have acted as counsel for JAKKS Pacific, Inc., a Delaware corporation (the "Company"), in connection with the preparation and filing by the Company of a registration statement on Form S-3 (the "Registration Statement"), under the Securities Act of 1933, as amended (the "Securities Act"), relating to the public offering of 3,000,000 shares of the Company's common stock, par value \$.001 per share (the "Common Stock"), being offered by the Company, 500,000 shares of Common Stock being offered by certain selling stockholders (the "Selling Stockholders") and up to 525,000 shares of Common Stock to be sold by the Company solely to cover over-allotments, if any (the "Shares").

We have examined the Registration Statement, the form of Underwriting Agreement included as an exhibit thereto (the "Underwriting Agreement"), originals or copies, certified or otherwise identified to our satisfaction, of the Company's certificate of incorporation and by-laws, records of corporate proceedings, including minutes of meetings and written consents of the Board of Directors and stockholders, certificates of public officials and officers and other authorized representatives of the Company, and such other certificates, instruments and documents, and we have made such examination of law, as we have deemed necessary to form the basis of the opinion expressed below. In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to authentic originals of all documents submitted to us as copies thereof.

Based on the foregoing, we are of the opinion that:

(a) The currently outstanding Shares offered by the Selling Stockholders are duly authorized, validly issued, fully paid and non-assessable.

(b) The Shares offered by the Company have been duly authorized and, when issued and sold in accordance with the terms of the Underwriting Agreement, will be validly issued, fully paid and non-assessable.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement, to the incorporation by reference of this opinion in any abbreviated registration statement in connection with the Shares pursuant to Rule 462(b) under the Securities Act and to the reference to this firm under the caption "Legal Matters" in the Registration Statement.

Very truly yours,

/s/ FEDER, KASZOVITZ, ISAACSON, WEBER,  
SKALA, BASS & RHINE LLP