

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTER ENDED JUNE 30, 1997

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER - 0-28104

JAKKS PACIFIC, INC.
(EXACT NAME OF SMALL BUSINESS ISSUER AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)

95-4527222
(I.R.S. EMPLOYER IDENTIFICATION NO.)

24955 PACIFIC COAST HWY., B202
MALIBU, CALIFORNIA
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

90265
(ZIP CODE)

ISSUER'S TELEPHONE NUMBER, INCLUDING AREA CODE: (310) 456-7799

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No

The number of shares outstanding of the Issuer's common stock is 4,872,969 (as of August 11, 1997).

JAKKS PACIFIC, INC. AND SUBSIDIARIES
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FILED WITH THE SECURITIES AND EXCHANGE COMMISSION
QUARTER ENDED JUNE 30, 1997

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JAKKS PACIFIC, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheet
June 30, 1997 (Unaudited)

Assets

Current assets	
Cash	\$ 5,816,647
Accounts receivable	4,809,595
Inventory	1,981,031
Prepaid expenses and other	2,937,623

Total current assets	15,544,896

Property and equipment, at cost	2,849,427
Less accumulated depreciation and amortization	688,089

Net property and equipment	2,161,338

Goodwill, net	10,838,613
Trademarks, net	973,029
Other	652,809

Total assets	\$30,170,685
	=====
Liabilities and Stockholders' Equity	
Current liabilities	
Accounts payable and accrued expenses	\$ 3,310,258
Reserve for returns and allowances	369,815
Acquisition debt	3,292,637
Income taxes payable	340,605

Total current liabilities	7,313,315

Convertible Debentures	6,000,000

Total liabilities	13,313,315

Commitments	
Stockholders' equity	
Preferred stock, \$.001 par value; 5,000 shares authorized, no shares issued	--
Common stock, \$.001 par value; 25,000,000 shares authorized; 4,872,969 shares issued and outstanding	4,873
Additional paid-in capital	14,744,873
Retained earnings	2,276,175

Total stockholders' equity	17,025,921
Less unearned compensation from stock option grants	168,551

Net stockholders' equity	16,857,370

Total liabilities and stockholders' equity	\$30,170,685
	=====

See accompanying notes to condensed consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations
 For the Three and Six Months Ended June 30, 1997 and 1996 (Unaudited)

	Three Months Ended June 30, 1997	1996	Six Months Ended June 30, 1997	1996
Net sales	\$8,058,556	\$2,381,760	\$13,293,752	\$3,216,500
Cost of sales	4,855,911	1,573,983	8,179,866	2,017,888
	-----	-----	-----	-----
Gross profit	3,202,645	807,777	5,113,886	1,198,612
Selling, general and administrative expenses	2,481,839	634,713	4,220,086	1,038,569
	-----	-----	-----	-----
Income from operations	720,806	173,064	893,800	160,043
Other (income) and expense:				
Interest expense	181,402	24,433	334,122	53,924
Interest income	(64,777)	(46,756)	(168,293)	(47,139)
	-----	-----	-----	-----
Income before benefit from income taxes	604,181	195,387	727,971	153,258
(Provision for) Benefit from income taxes	(147,563)	6,149	(67,936)	68,090
	-----	-----	-----	-----
Net income	\$ 456,618	\$ 201,536	\$ 660,035	\$ 221,348
	=====	=====	=====	=====
Net income per share	\$ 0.10	\$ 0.06	\$ 0.15	\$ 0.08
	=====	=====	=====	=====
Weighted average number of common and common equivalent shares outstanding	4,752,000	3,376,000	4,539,000	2,791,000
	=====	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 1997 and 1996 (Unaudited)

	Six Months Ended June 30, 1997	1996
Cash flows from operating activities:		
Net income	\$ 660,035	\$ 221,348
	-----	-----
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	691,683	126,547
Change in accounts receivable	(2,389,125)	(1,384,135)
Change in inventory	(1,840,926)	71,892
Net change in other operating assets and liabilities	188,914	(588,236)
	-----	-----
Total adjustments	(3,349,454)	(1,773,932)
	-----	-----
Net cash used by operating activities	(2,689,419)	(1,552,584)
	-----	-----
Cash flows from investing activities:		
Purchase of property and equipment	(1,372,365)	(137,122)
Purchase of trademark	(1,000,000)	--
Excess of cost over toy business assets acquired (goodwill)	(6,962,974)	--
Increase in other assets	(35,721)	(22,681)
	-----	-----
Net cash used by investing activities	(9,371,060)	(159,803)
	-----	-----
Cash flows from financing activities:		
Payment of acquisition debt - Justin	(191,555)	(209,209)
Proceeds from issuance of convertible debentures	6,000,000	1,300,000
Offering costs - convertible debentures	(528,532)	(195,306)
Proceeds from sale of common stock	2,949,316	7,750,804
Payment of notes payable to officers	--	(304,846)
Proceeds from acquisition debt - Road Champs	6,098,939	--
Payment of acquisition debt - Road Champs	(2,806,302)	--
	-----	-----
Net cash provided by financing activities	11,521,866	8,341,443
	-----	-----
Net increase (decrease) in cash	(538,613)	6,629,056
Cash, beginning of period	6,355,260	81,752
	-----	-----
Cash, end of period	\$ 5,816,647	\$ 6,710,808
	=====	=====
Supplemental disclosure of cash flow information (Note 4):		
Cash paid during the period for:		
Income taxes	\$ --	\$ 9,100
	=====	=====
Interest	\$ 279,178	\$ 46,636
	=====	=====

See accompanying notes to condensed consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 1997

Note 1 - Basis of presentation

The accompanying 1997 and 1996 unaudited interim condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to prevent the information presented from being misleading. These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Form SB-2, which contains financial information for the year ended December 31, 1996 and the nine month period from April 1, 1995 (inception) through December 31, 1995, as declared effective by the SEC (file number 333-22583) on May 1, 1997.

The information provided in this report reflects all adjustments (consisting solely of normal recurring accruals) that are, in the opinion of management, necessary to present fairly the results of operations for this period. The results for this period are not necessarily indicative of the results to be expected for the full year.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, JAKKS Acquisition Corp., a Delaware corporation, J-X Enterprises, Inc., a New York corporation, Road Champs, Inc., a Pennsylvania corporation, and JP (HK) Limited, JAXXS (HK) Limited and Road Champs Limited, all of which are Hong Kong corporations. In consolidation, all significant intercompany balances and transactions are eliminated.

Earnings per share has been computed using the weighted average number of common shares and common share equivalents (which consists of Warrants and Options, to the extent they are dilutive). The difference between primary and fully diluted earnings per share is immaterial.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)
June 30, 1997

Note 2 -- Issuance of convertible debentures

On January 8, 1997, the Company issued two \$3,000,000 convertible debentures for a total of \$6,000,000. Interest on the principal amounts outstanding will accrue at 9.0% per annum with the first monthly installment payable on February 1, 1997. If not sooner redeemed or converted into common stock, the debentures shall mature on December 31, 2003. Commencing on December 31, 1999, and the first day of each successive month thereafter prior to maturity, mandatory principal redemption installments must be made, each of such installments to be in the amount of \$10 per \$1,000 of the then remaining principal amount of the debenture. Such debentures are convertible at \$5.75 per share into 1,043,478 shares of the Company's common stock, subject to reset and anti-dilution provisions. A stock pledge agreement has been entered into with the Company pledging as security all outstanding shares of the Company's wholly-owned subsidiaries. In addition, all marketing and manufacturing licenses acquired or to be acquired, and all machinery and equipment to the extent assignable by the Company have also been pledged as security. As compensation paid to an investment banker, 6% of the gross proceeds was paid in cash and warrants for the purchase of 150,000 shares of common stock, exercisable at \$8.00 per share, were sold for \$0.001 per share.

Note 3 - Acquisition

On February 6, 1997, the Company acquired all of the stock of Road Champs, Inc. and all of the operating assets of an affiliated company for approximately \$12,496,000, as adjusted. Consideration paid at closing was approximately \$4,609,000 in cash plus the issuance of \$1,500,000 (198,020 shares) of the Company's common stock. The balance of the adjusted purchase price of approximately \$3,189,000 is to be paid in three equal installments, with the third installment payable one year after the closing of the transactions all of which will carry interest at a rate of 7.0% per annum. In addition, the payment for inventory of approximately \$2,189,000, without interest, is payable within 30 days of shipment to customers and the balance was paid on August 6, 1997, and a payment of \$1,009,000 which was made on May 8, 1997. Outstanding balances are secured by all acquired shares and assets, however, they are subordinate to the security interest for the convertible debentures noted above.

Note 4 -- Supplemental information to statements of cash flows

198,020 shares of common stock were issued as partial consideration for toy business assets acquired totalling \$1,500,000 in 1997. The excess of cost over toy business assets acquired (goodwill) is reflected in the consolidated statement of cash flows net of the stock issued.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)
June 30, 1997

Note 5 -- Recent accounting pronouncements

In February 1997, the FASB issued SFAS No. 128, "Earnings per Share" which is required to be implemented for fiscal years ending after December 15, 1997 and earlier application is not permitted. SFAS No. 128 replaces current "primary earnings per share" ("primary EPS") and "fully diluted earnings per share" ("fully diluted EPS") with "basic earnings per share" ("basic EPS") and "diluted earnings per share" ("diluted EPS"). Unlike the calculation of primary EPS which includes, in the denominator, the sum of (1) actual weighted shares outstanding and (2) "common stock equivalents" as that term is defined in the authoritative accounting literature, basic EPS is calculated using only the actual weighted average shares outstanding during the relevant periods. Diluted EPS is very similar to fully diluted EPS, differing only in technical ways which do not currently affect the Company.

The FASB issued a new standard, SFAS No. 123 "Accounting for Stock-Based Compensation," which contains a fair value-based method for valuing stock-based compensation that entities may use, which measures compensation cost at the grant date based on the fair value of the award. Compensation is then recognized over the service period, which is usually the vesting period. Alternatively, the standard permits entities to continue accounting for employee stock option and similar equity instruments under APB Opinion No. 25, "Accounting for Stock Issued to Employees." Entities that continue to account for stock options using APB Opinion No. 25 are required to make pro forma disclosures of net income and earnings per share, as if the fair value-based method of accounting defined in SFAS No. 123 had been applied. Management accounts for options under APB Opinion No. 25. If the alternative accounting-related provisions of SFAS No. 123 had been adopted as of the beginning of 1995, the effect on 1997 and 1996 net income and earnings per share would have been immaterial.

In March 1995, the FASB issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of". SFAS No. 121 addresses the accounting for the impairment of long-lived assets, certain identifiable intangible assets and goodwill related to those assets to be held and used. It also addresses the accounting for long-lived assets and certain identifiable intangibles to be disposed of. SFAS No. 121 establishes guidance for recognizing and measuring impairment losses and requires that the carrying amount of impaired assets be reduced to fair value. SFAS No. 121 was effective for fiscal years beginning after December 15, 1995. The impact of the adoption of SFAS No. 121 did not have a material adverse effect on the Company's financial condition or results of operations.

Note 6 - Common stock

On May 6, 1997 and June 18, 1997, the Company issued 600,000 shares and 90,000 shares, respectively, of its Common Stock at a price of \$5.75 per share in connection with its public offering.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 1997 AND 1996

The following discussion and analysis should be read together with the Company's Condensed Consolidated Financial Statements and Notes thereto which appear elsewhere herein.

Overview

The Company commenced operations July 1, 1995 through the acquisition of substantially all of the assets comprising the toy business of Justin Products Limited ("Justin"), a Hong Kong Corporation, and the Company has included the results of the operations acquired from Justin in its consolidated financial statements from the effective date of the acquisition, July 1, 1995.

In 1996, the Company expanded its product lines to include products based on licensed characters and properties such as World Wrestling Federation action figures and Power Rangers ZEO and Turbo mini vehicles.

Effective February 1, 1997, the Company acquired Road Champs, Inc., a developer, manufacturer and marketer of die cast toy and collectible vehicles.

Results of Operations

Three Months Ended June 30, 1997 and 1996

Net income for the three months ended June 30, 1997 totaled \$456,618, or \$0.10 per share, compared to net income of \$201,536, or \$0.06 per share, for the comparable period in 1996. This variance is attributable to the following:

Net Sales. Net sales were \$8,058,556 in 1997 and \$2,381,760 in 1996, an increase of \$5,676,796 or 238.3%. This increase in net sales was primarily the result of continued sales of the World Wrestling Federation action figures and the sales of the recently acquired Road Champs product line from February 1, 1997. Other products contributing to the results were the Company's holiday doll line, Power Rangers Turbo vehicles and the Reactor line of radio controlled vehicles which was launched this quarter.

Gross Profit. Gross profit increased as a percentage of net sales to 39.7% in 1997 from 33.9% in 1996. This increase as a percentage of net sales was due to increasing sales of products featuring licensed characters and properties with higher after-royalty margins, as well as due to the semi-fixed nature of amortization of molds and tools which decrease as a percentage of net sales as net sales increase.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were \$2,481,839 in 1997 and \$634,713 in 1996, constituting 30.8% and 26.6% of net sales, respectively. The overall dollar increase of \$1,847,126 and increase as a percentage of net sales were due to the increase in variable selling

expenses, including freight, sales commission and travel expenses, which is attributable to the significant increase in net sales, as well as to staffing and infrastructure additions for the Company and expenses related to the operations of Road Champs.

Interest, Net. The Company had various interest-bearing instruments outstanding during 1997 and 1996. Such instruments included those issued pursuant to private offerings and the Road Champs acquisition in 1997. In 1997, the total principal and average outstanding balance of such instruments were significantly higher than in 1996 resulting in an increase in interest expense of \$156,969, or 642%, which was partially offset by increased interest income of \$18,021, or 39%, received on the Company's average cash balance. The average cash balance in 1997 was significantly higher than in 1996 due to the receipt of net proceeds from certain convertible debentures issued in January 1997 in connection with financing provided to the Company, resulting in a significant increase in interest income.

Income Taxes. In 1996, the Company experienced a tax benefit related to its U.S. operations while the earnings arising in, or derived from, Hong Kong benefited from a favorable effective tax rate of 16.5% compared to approximately 45% combined U.S. effective tax rate. In 1997, the Company recorded a provision for taxes based on its estimated effective tax rate which resulted in an increase in income taxes from 1996 in the amount of \$153,712.

Six Months Ended June 30, 1997 and 1996

Net income for the six months ended June 30, 1997 totaled \$660,035 or \$0.15 per share compared to net income of \$221,348 or \$0.08 per share, for the comparable period in 1996. This variance is attributable to the following:

Net Sale. Net sales were \$13,293,752 in 1997 and \$3,216,500 in 1996, an increase of \$10,077,252 or 313%. This increase in net sales was primarily the result of continued sales of the World Wrestling Federation action figures, fashion dolls, Power Rangers Turbo vehicles, the recently acquired Road Champs product line of die cast toys and vehicles and the launch of the Reactor radio controlled vehicle.

Gross Profit. Gross profit increased as a percentage of net sales to 38.5% in 1997 from 37.3% in 1996. The increase as a percentage of net sales was due to a change in the product mix which consisted more of higher margin lines such as dolls, action figures and vehicles in 1997. Another contributing factor is that amortization of molds and tools is semi-fixed and, accordingly, decreases as a percentage of net sales as net sales increase.

Selling, General and Administrative Expense. Selling, general and administrative expense were \$4,220,086 in 1997 and \$1,038,569 in 1996 constituting 31.7% and 32.3% of net sales, respectively. The decrease as a percentage of net sales was primarily due to the significant increase in net sales. The overall dollar increase of \$3,181,517 was due to the increase in variable selling expenses including freight, sales commissions and travel expenses, which is attributable to the significant increase in net sales, as well as to staffing and infrastructure additions for the Company and expenses related to the operations of Road Champs.

Interest, Net. The company had various interest-bearing instruments outstanding during 1997 and 1996. Such instruments included those issued pursuant to private offerings and the Road Champs acquisition in 1997. In 1997, the total principal and average outstanding balance of such instruments were significantly higher than in 1996 resulting in an increase in interest expense of \$280,198, or 520%, which was partially offset by increased interest income of \$121,154, or 257% received on the Company's cash balances.

Income Taxes. In 1996, the Company experienced a tax benefit related to its U.S. operations while the earnings arising in, or derived from, Hong Kong benefitted from a favorable effective tax rate of 16.5% compared to approximately 45% combined U.S. effective tax rate. In 1997, the Company recorded a provision for taxes based on its estimated effective tax rate which resulted in an increase in income taxes from 1996 in the amount of \$136,026.

Liquidity and Capital Resources

As of June 30, 1997 the Company had working capital of \$8,231,581 as compared to \$7,824,155 at December 31, 1996. The change was due to proceeds received from the issuance of the convertible debentures pursuant to a private offering and the secondary offering of the Company's common stock and offset by the purchase of Road Champs, the consideration of which consisted of cash, common stock and debt. During the six months ended June 30, 1997, operating activities of the Company used cash of \$2,689,419, which resulted from an increase of \$2,389,125 in accounts receivable due to higher sales at the end of the second quarter of 1997 as compared to the end of fourth quarter of 1996 as well as from the increase in inventory of \$1,840,926 acquired primarily in connection with the Road Champs acquisition, offset by net income and non-cash charges to income of \$660,035 and \$691,683, respectively.

Financing activities for the six month period ended June 30, 1997 provided cash of \$11,521,866, due primarily to the issuance of convertible debentures in the principal amount of \$6,000,000, the issuance of debt in the amount of \$6,098,939 as part of the purchase price for the Company's acquisition of Road Champs and proceeds from the sale of common stock of \$2,949,316. Offsetting the proceeds of these issuances were offering costs related to the debentures as well as a public offering of the Company's common stock and the payment of acquisition debt related to the Justin and Road Champs acquisitions.

The Company's investing activities for the six month period ended June 30, 1997 were primarily related to the purchase of molds and tooling (\$1,372,365) and goodwill (\$6,962,974 net of \$1,500,000 in common stock issued), and trademarks (\$1,000,000) in connection with the acquisition of Road Champs. The Company, in keeping with its strategy to develop and market new products using entertainment properties and characters, is continually pursuing licenses for such usage and expects to continue to invest in this area.

Management believes that the existing cash resources and working capital and cash expected to be provided from operations will be sufficient to meet the cash needs of the Company for the foreseeable future. Although operating activities are expected to provide cash, to the extent the Company grows significantly in the future, its operating and investing activities may use cash and, consequently, such growth may require the Company to obtain additional sources of financing. The foregoing forward-looking statements and information relating to the Company are based on the beliefs of Management, as well as assumptions made by and information currently available to the Company. When used in this paragraph, or elsewhere in this document, the words "anticipate," "believe," "estimate," and "expect" and similar expressions, as they relate to the Company, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. The Company does not intend to update these forward-looking statements.

PART II. OTHER INFORMATION

ITEM 6.

EXHIBITS AND REPORTS ON FORM 8-K

(a)	Exhibit No.	
	3.1	Restated Certificate of Incorporation of the Company(1)
	3.2.1	By-Laws of the Company(1)
	3.2.2	Amendment to By-Laws of the Company(2)
	*27	Financial Data Schedule

* Filed herewith.

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

(2) Filed previously as an exhibit to the Company's Registration Statement on Form SB-2 (File No. 333-22583) which became effective on April 24, 1997, and incorporated herein by reference.

(b) Report on Form 8-K

No Current Reports on Form 8-K were filed during the second quarter of 1997.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

Registrant:

JAKKS PACIFIC, INC.

Date: August 11, 1997

By: /s/ Jack Friedman

President
(Principal Executive Officer)

Date: August 11, 1997

By: /s/ Joel M. Bennett

Chief Financial Officer
(Principal Financial and
Accounting Officer)

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