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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2000

OR

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

Commission file number: 0-28104

JAKKS Pacific, Inc.
(Exact name of registrant as specified in its charter)

Delaware	95-4527222
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
22761 Pacific Coast Highway Malibu, California	90265
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period 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 17,981,982 (as of November 8, 2000).

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JAKKS PACIFIC, INC. AND SUBSIDIARIES
INDEX TO QUARTERLY REPORT ON FORM 10-Q
QUARTER ENDED SEPTEMBER 30, 2000

ITEMS IN FORM 10-Q

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

JAKKS PACIFIC, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

ASSETS

	December 31, 1999	September 30, 2000
	(*)	(unaudited)
Current assets		
Cash and cash equivalents	$ 57,546,406	$ 48,302,536
Marketable securities	39,333,944	7,004,289
Accounts receivable, net	38,024,903	78,763,437
Inventory, net	19,863,508	32,799,750
Advance royalty payments	1,137,238	1,931,059
Prepaid expenses and other current assets	1,617,692	3,363,905
Total current assets	157,523,691	172,164,976
Office furniture and equipment	1,233,068	3,494,759
Molds and tooling	15,283,211	22,487,132
Leasehold improvements	344,263	1,841,190
Total	16,860,542	27,823,081
Less accumulated depreciation and amortization	5,320,103	9,082,261
Property and equipment, net	11,540,439	18,740,820
Notes Receivable-Officers	--	2,606,706
Investment in joint venture	3,658,339	2,261,505
Goodwill, net	46,020,232	69,001,885
Trademarks, net	12,633,248	12,236,721
Intangibles and deposits, net	1,502,147	1,212,842
Total assets	$232,878,096	$278,225,455

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1999	September 30, 2000
Current liabilities		
Accounts payable and accrued expenses	$ 41,137,161	$ 60,504,331
Income taxes payable	3,211,926	7,844,707
Current portion of long term debt	4,967	400,000
Total current liabilities	44,354,054	68,749,038
Long term debt	8,713	1,100,000
Deferred income taxes	1,013,834	470,383
Total liabilities	45,376,601	70,319,421
Commitments		
Stockholders' equity		
Preferred stock, $.001 par value; 1,000,000 shares authorized, no shares issued	--	--
Common stock, $.001 par value; 25,000,000 shares authorized; 19,272,692 and 19,475,582 shares issued	19,273	19,476
Additional paid-in capital	155,172,781	156,292,384
Treasury stock, at cost, nil and 268,100 shares	--	(3,324,007)
Retained earnings	32,309,441	54,918,181
Total stockholders' equity	187,501,495	207,906,034
Total liabilities and stockholders' equity	$232,878,096	$278,225,455

See accompanying notes to condensed consolidated financial statements.

(*) Derived from audited financial statements

JAKKS PACIFIC, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations
For the Three and Nine Months Ended September 30, 1999 and 2000 (Unaudited)

	Three Months Ended September 30, 1999	Three Months Ended September 30, 2000	Nine Months Ended September 30, 1999	Nine Months Ended September 30, 2000
Net sales	$60,235,407	$91,838,086	$121,176,908	$193,197,882
Cost of sales	35,476,603	54,165,752	71,005,451	113,674,062
Gross profit	24,758,804	37,672,334	50,171,457	79,523,820
Selling, general and administrative expenses	14,866,324	26,470,917	33,310,912	57,602,848
Income from operations	9,892,480	11,201,417	16,860,545	21,920,972
Income from Joint Venture	--	(1,382,539)	--	(8,167,676)
Other (income) expense	--	(91,670)	--	980,705
Interest income	(535,646)	(1,112,255)	(1,066,497)	(3,272,543)
Interest expense	1,093	173,182	170,820	173,182
Income before provision for income taxes	10,427,033	13,614,699	17,756,222	32,207,304
Provision for income taxes	2,784,993	3,846,152	4,754,048	9,598,563
Net income	$ 7,642,040	$ 9,768,547	$ 13,002,174	$ 22,608,741
Net income per share - basic	$ 0.48	$ 0.50	$ 0.98	$ 1.17
Net income per share - diluted	$ 0.44	$ 0.48	$ 0.86	$ 1.11

See accompanying notes to condensed consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 1999 and 2000 (Unaudited)

	Nine Months Ended September 30, 1999	Nine Months Ended September 30, 2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$13,002,174	$22,608,741
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,363,609	5,830,026
Change in operating assets and liabilities		
Accounts receivable	(22,711,526)	(40,738,534)
Preferred return from joint venture	--	1,396,834
Inventory	(6,518,864)	(12,936,242)
Advanced royalty payments	(624,895)	(793,821)
Prepaid expenses and other	375,188	(1,746,213)
Accounts payable and accrued expenses	28,694,986	19,367,170
Income taxes payable	1,808,583	4,632,781
Deferred income taxes	179,082	(543,451)
Sale of marketable securities	--	32,329,655
Total adjustments	3,566,163	6,798,205
Net Cash provided by operating activities	16,568,337	29,406,946
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid in excess of fair value of toy business assets acquired (goodwill)	(4,365,209)	(24,327,997)
Purchase of Property and equipment	(5,899,949)	(10,962,538)
Other assets	173,071	(35,693)
Investment in joint venture	(9,144)	--
Repurchase of common stock	--	(3,324,007)
Net Cash used by investing activities	(10,101,231)	(38,650,235)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of common stock	51,898,066	--
Proceeds from stock options and warrants exercised	3,047,536	1,119,806
Dividends paid on convertible preferred stock	(437,500)	--
Notes Receivable - Officers	--	(2,606,706)
Acquired debt	--	1,500,000
Repayment of long term debt	--	(13,681)
Net Cash provided (used) by financing activities	54,508,102	(581)
Net increase in cash and cash equivalents	60,975,208	(9,243,870)
Cash and cash equivalents, beginning of period	12,452,201	57,546,406
Cash and cash equivalents, end of period	$73,427,409	$48,302,536
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	$ 2,945,465	$ 5,660,289
Interest	$ 170,820	$ 172,881

See note 4 for additional supplemental information to condensed consolidated financial statements.

See accompanying notes to condensed consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2000

Note 1 - Basis of presentation

The accompanying 1999 and 2000 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 10-K, which contains financial information for the years ended December 31, 1997, 1998 and 1999.

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.

Basic earnings per share has been computed using the weighted average number of common shares. Diluted earnings per share has been computed using the weighted average number of common shares and common share equivalents (which consist of warrants, options and convertible securities, to the extent they are dilutive). All common shares and common share equivalents have been adjusted retroactively to give effect to a three-for-two stock split paid on November 4, 1999.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)
September 30, 2000

Note 2 -- Earnings per share

In February 1997, the Financial Accounting Standards Board issued SFAS No. 128, "Earnings per Share." This statement establishes simplified standards for computing and presenting earnings per share (EPS). It requires dual presentation of basic and diluted EPS on the face of the income statement for entities with complex capital structures and disclosure of the calculation of each EPS amount.

	THREE MONTHS ENDED SEPTEMBER 30,					
	1999			2000		
	INCOME	WEIGHTED AVERAGE SHARES	PER-SHARE	INCOME	WEIGHTED AVERAGE SHARES	PER-SHARE
Net income per share - basic						
Net income available to common stockholders.........	$7,642,040	16,037,041	$0.48	$9,768,547	19,389,112	$0.50
Effect of dilutive securities						
Options and warrants.........	--	1,504,134		--	941,085	
Net income per share - diluted						
Income available to common stockholders plus assumed exercises and conversions...	$7,642,040	17,541,175	$0.44	$9,768,547	20,330,197	$0.48

	NINE MONTHS ENDED SEPTEMBER 30,					
	1999			2000		
	INCOME	WEIGHTED AVERAGE SHARES	PER-SHARE	INCOME	WEIGHTED AVERAGE SHARES	PER-SHARE
Net income per share - basic						
Net Income...................	$13,002,174			$22,608,741		
Preferred Stock Dividends...	(437,500)			--		
Net income available to common stockholders.........	12,564,674	12,843,090	$0.98	22,608,741	19,352,851	$1.17
Effect of dilutive securities						
Options and warrants.........	--	1,238,493		--	1,008,160	
9% convertible debentures....	116,867	624,360		--	--	
7% convertible preferred stock.....................	437,500	542,842		--	--	
Net income per share - diluted						
Income available to common stockholders plus assumed exercises and conversions...	$13,119,041	15,248,785	$0.86	$22,608,741	20,361,011	$1.11

Note 3 -- Preferred stock and common stock

During 1999, the Company issued and sold 6,810,955 shares of its common stock in public offerings and received $117.8 million of net proceeds.

During the third quarter of 2000, the Company purchased 268,100 shares of its common stock at an average price of $12.40 per share pursuant to a buy-back program approved by the Board of Directors.

Note 4 -- Supplemental information to condensed consolidated statements of cash flows

In 1999, the holders of $6.0 million principal amount of the Company's 9% convertible debentures converted all such debentures into an aggregate of 1,565,218 shares of the Company's common stock. Additionally, all 1,000 outstanding shares of 7% cumulative convertible preferred stock with a total stockholders' equity value of $4,731,152 were converted into an aggregate of 837,987 shares of the Company's common stock.

Note 5 -- Acquisitions

In June 1999, the Company purchased all of the outstanding shares of Berk Corporation ("Berk"), a producer of educational toy foam puzzle mats and activity sets, for approximately $3.3 million in cash. In connection with this acquisition, the Company assumed liabilities of approximately $3.1 million and incurred acquisition costs of approximately $113,000.

In October 1999, the Company acquired all of the stock of Flying Colors Toys, Inc. ("Flying Colors") for approximately $52.9 million. Consideration paid at closing was in cash. Professional fees totaling $310,667 were incurred as part of the acquisition costs. Contingent consideration includes an earn-out in an amount of up to $4.5 million in each of the three 12-month periods following the closing, if gross profits of Flying Colors branded products achieve certain prescribed levels in each of such period.

On July 28, 2000, the Company acquired all of the outstanding capital stock of Pentech International, Inc. ("Pentech") for an aggregate purchase price of approximately $20.6 million, which was paid in cash on the closing of the transaction. In addition, the Company paid on the closing $10.0 million to pay down certain indebtedness of Pentech, assumed liabilities of approximately $25.5 million and incurred estimated legal and other acquisition costs of approximately $1.2 million. Pentech designs, produces and markets licensed pens, markers, pencils and other writing instruments, craft and activity kits, and related stationery products.

Note 6 -- Notes Receivable From Officers

As of September 30, 2000, there were two notes receivable from officers totaling $2,356,706 issued at interest rates of 6.5% each, with interest payable on each April 28 and October 28 of each year, and principal payable at a maturity date of April 28, 2003. Additionally, there is a third note receivable from an officer for $250,000 issued at an interest rate of 7.0%, with interest and principal payable at a maturity date of May 12, 2002.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

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

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

OVERVIEW

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

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

We acquired Road Champs in February 1997, and have included the results of operations of Road Champs from February 1, 1997, the effective date of the acquisition. We acquired the Child Guidance and Remco trademarks in October 1997, both of which contributed to operations nominally in 1997, but contributed more significantly to operations commencing in 1998. In June 1999, we acquired

Berk with its lines of educational toy foam puzzle mats and activity sets. Berk began to contribute modestly beginning in the third quarter of 1999. In October 1999, we acquired Flying Colors, whose product lines include licensed activity kits, play clay compound playsets and lunch boxes as well as other related products. Flying Colors product lines contributed to operations beginning in the fourth quarter of 1999. In July 2000, we acquired Pentech whose product lines include pens, markers, pencils, and other writing instruments, crafts and activity kits, and related stationery products. Pentech product lines contributed to operations beginning in August 2000.

Our products currently include (1) action figures and accessories featuring licensed characters, principally from the World Wrestling Federation license, (2) Flying Colors molded plastic activity sets, clay compound playsets and lunch boxes, (3) Wheels division products, including Road Champs die-cast collectible and toy vehicles and Remco toy vehicles and role-play toys and accessories, (4) Child Guidance infant and pre-school electronic toys, educational toy foam puzzle mats and blocks, activity sets and outdoor products, (5) Pentech pens, markers, pencils, and other writing instruments, craft and activity kits, and related stationery products, and (6) fashion and mini dolls and related accessories.

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

In June 1998, we formed a joint venture with THQ Inc., a developer, publisher and distributor of interactive entertainment software, and the joint venture licensed the rights from World Wrestling Federation Entertainment to publish World Wrestling Federation electronic video game software on all platforms. The first games produced under this license were released in November 1999. We are entitled to receive a guaranteed preferred return based on the sales of the video games, and THQ is entitled to receive the balance of the profits generated by the joint venture.

Through the acquisition of Pentech in July 2000, we became a fifty percent member of a Chinese joint venture engaged in the manufacture of pencils, pens, and markers that are sold individually, in sets or are included in Pentech and Flying Colors activity kits.

We contract the manufacture of most of our products to unaffiliated manufacturers located in China. We sell the finished products on a letter of credit basis or on open account to our customers, who take title to the goods in Hong Kong. These methods allow us to reduce certain operating costs and working capital requirements. A portion of our sales, primarily sales of our Road Champs and Flying Colors products, originate in the United States, so we hold certain inventory in warehouse and fulfillment facilities operated by unaffiliated third parties. In addition, we hold inventory of other products from time to time in support of promotions or other domestic programs with retailers. To date, substantially all of our sales have been to domestic customers. We intend to expand distribution of our products into foreign territories and, accordingly, we have (1) engaged representatives to oversee sales in certain territories, (2) engaged distributors in certain territories, and (3) established direct relationships with retailers in certain territories.

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

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

Selling, general and administrative expenses include costs directly associated with the selling process, such as sales commissions, advertising and travel expenses, as well as general corporate expenses, goodwill and trademark amortization and product development. We have recorded goodwill of approximately $72.0 million and trademarks of approximately $13.9 million in connection with acquisitions made to date. Goodwill is being amortized over a 30-year period, while trademark acquisition costs are being amortized over periods ranging from 10 to 30 years.

RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1999	2000	1999	2000
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	58.9	59.0	58.6	58.8
Gross profit	41.1	41.0	41.4	41.2
Selling, general and administrative expenses	24.7	28.8	27.5	29.9
Income from operations	16.4	12.2	13.9	11.3
Income from joint venture	--	(1.5)	--	(4.2)
Interest, net	(0.9)	(1.0)	(0.7)	(1.6)
Other expenses	0.0	(0.1)	--	0.5
Income before income taxes	17.3	14.8	14.6	16.6
Provision for income taxes	4.6	4.2	3.9	5.0
Net income	12.7%	10.6%	10.7%	11.6%

THREE MONTHS ENDED SEPTEMBER 30, 2000 AND 1999

Net Sales. Net sales increased $31.6 million, or 52.5%, to $91.8 million in 2000 from $60.2 million in 1999. The significant growth in net sales was due primarily to the continuing growth in our Wheels division, consisting primarily of our Road Champs die-cast toy and collectible vehicles with its BXS die-cast bicycles and MXS die-cast motorcycles, fashion and holiday dolls, as well as the addition of Flying Colors products, which began contributing to operations beginning in the fourth quarter of 1999, and Pentech products, which began contributing to operations in August 2000, offset by a decrease in sales of our WWF wrestling products.

Gross Profit. Gross profit increased $12.9 million, or 52.2%, to $37.7 million in 2000, or 41.0% of net sales, from $24.8 million, or 41.1% of net sales, in 1999. The overall increase in gross profit was attributable to the significant increase in net sales. The decrease in gross profit margin of 0.1% of Net Sales is attributed to the increase in amortization expense of molds and tools used in the manufacture of our products and royalty expense as a percentage of net sales due to changes in the product mix and the launch of a larger number of products in 2000, which is partially offset by lower product costs associated with the BXS, MXS and wrestling products.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $26.5 million in 2000 and $14.9 million in 1999, constituting 28.8% and 24.7% of net sales, respectively. The overall significant increase of $11.6 million in such costs was due to costs incurred in support of the Company's development, marketing and distribution of products under its recently acquired Flying Colors and Pentech brands. The overall dollar increase was due to the significant increase in net sales with its proportionate impact on variable selling costs such as freight and shipping related expenses, sales commissions, cooperative advertising and travel expenses, among others. We produced television commercials in support of several of our products, including World Wrestling Federation action figures, in 1999 and 2000. From time to time, we may increase our advertising efforts, including the use of more expensive advertising media, such as television, if we deem it appropriate for particular products.

Income from Joint Venture. Beginning in the fourth quarter of 1999, we began to earn our preferred return on the sale of World Wrestling Federation video games by our joint venture with THQ.

Interest Net. We had higher average cash balances during 2000 than in 1999 due to the net proceeds from the sale of our common stock in December 1999. In addition, we assumed certain interest-bearing obligations in 2000 in conjunction with the Pentech acquisition and we had convertible debentures outstanding in 1999.

Other Income. Other income was nominal in 2000. No such income was incurred in 1999.

Provision for Income Taxes. Provision for income taxes included Federal, state and foreign income taxes in 1999 and 2000, at effective tax rates of 26.7% in 1999 and 28.2% in 2000, benefiting from a flat 16.5% Hong Kong Corporation Tax on our income arising in, or derived from, Hong Kong. As of September 30, 2000, we had deferred tax assets of approximately $1.8 million for which no allowance has been provided since, in the opinion of management, realization of the future benefit is probable. In making this determination, management considered all available evidence, both positive and negative, as well as the weight and importance given to such evidence.

NINE MONTHS ENDED SEPTEMBER 30, 2000 AND 1999

Net Sales. Net sales increased $72.0 million, or 59.4%, to $193.2 million in 2000 from $121.2 million in 1999. The significant growth in net sales was due primarily to the continuing growth in our Wheels division, consisting primarily of our Road Champs die-cast toy and collectible vehicles with the launch of the BXS die-cast bicycles, fashion and holiday dolls, as well as the addition of Flying Colors products, which began contributing to operations beginning in the fourth quarter of 1999, and Pentech products, which began contributing to operations in August 2000, offset by a decrease in sales of our WWF wrestling products.

Gross Profit. Gross profit increased $29.4 million, or 58.5%, to $79.5 million in 2000, or 41.2% of net sales, from $50.2 million, or 41.4% of net sales, in 1999. The overall increase in gross profit was attributable to the significant increase in net sales. Gross profit margin did not significantly change. However, the slight increase is mainly attributed to an increase in the amortization expense of molds and tools used in the manufacture of our products and royalty expense as a percentage of net sales due to changes in the product mix and the launch of a larger number of products in 2000.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $57.6 million in 2000 and $33.3 million in 1999, constituting 29.8% and 27.5% of net sales, respectively. The overall significant increase of $24.3 million in such costs was due to costs incurred in support of the Company's development, marketing and distribution of products under its recently acquired Flying Colors and Pentech brands. The overall dollar increase was due to the significant increase in net sales with its proportionate impact on variable selling costs such as freight and shipping related expenses, sales commissions, cooperative advertising and travel expenses, among others. We produced television commercials in support of several of our products, including World Wrestling Federation action figures, in 1999 and 2000. From time to time, we may increase our advertising efforts, including the use of more expensive advertising media, such as television, if we deem it appropriate for particular products.

Income from Joint Venture. Beginning in the fourth quarter of 1999, we began to earn our preferred return on the sale of World Wrestling Federation video games by our joint venture with THQ.

Interest Net. We had significantly higher average cash balances during 2000 than in 1999 due to the net proceeds from the sale of our common stock in December 1999. In addition, we assumed certain interest-bearing obligations in 2000 in conjunction with the Pentech acquisition and we had convertible debentures outstanding in 1999.

Other Expense Net. Other expense in 2000 consists mainly of expenses related to the lease termination of certain Flying Colors facilities and other related shut-down costs. No such expenses were incurred in 1999.

Provision for Income Taxes. Provision for income taxes included Federal, state and foreign income taxes in 1999 and 2000, at effective tax rates of 26.8% in 1999 and 29.8% in 2000, benefiting from a flat 16.5% Hong Kong Corporation Tax on our income arising in, or derived from, Hong Kong. As of September 30, 2000, we had deferred tax assets of approximately $1.8 million for which no allowance has been provided since, in the opinion of management, realization of the future benefit is probable. In making this determination, management considered all available evidence, both positive and negative, as well as the weight and importance given to such evidence.

SEASONALITY

The retail toy industry is inherently seasonal. Generally, in the past, the Company's sales have been highest during the third and fourth quarters, and collections for those sales have been highest during the succeeding fourth and first fiscal quarters. The Company's working capital needs have been highest during the third and fourth quarters.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2000, we had working capital of $103.4 million, as compared to $113.2 million as of December 31, 1999. This decrease was primarily attributable to our operating activities.

Operating activities provided net cash of $29.4 million in 2000, as compared to $16.6 million in 1999. Net cash was provided primarily by net income, non-cash charges, such as depreciation and amortization, and the sale of marketable securities, as well as a decrease in preferred return from THQ joint venture, and an increase in accounts payable and accrued expenses and income taxes payable, which were offset in part by increases in accounts receivable, inventory, advanced royalty payments and prepaid expenses and other and a decrease in deferred income taxes. Excluding the sale of marketable securities and inventory and accounts receivable acquired in the Pentech acquisition, cash flow from operations was $14.9 million in 2000. As of September 30, 2000, we had cash and cash equivalents of $48.3 million and marketable securities of $7.0 million.

Our investing activities used net cash of $38.7 million in 2000, as compared to $10.1 million in 1999, consisting primarily of the purchase of molds and tooling used in the manufacture of our products and goodwill in 2000 and 1999 and the repurchase of common shares in 2000. As part of our strategy to develop and market new products, we have entered into various character and product licenses with royalties ranging from 1% to 18% payable on net sales of such products. As of September 30, 2000, these agreements required future aggregate minimum guarantees of $14.4 million, exclusive of $1.9 million in advances already paid.

Our financing activities used net cash of $581 in 2000, consisting primarily of notes receivable from officers, offset by proceeds from the exercise of options and warrants and acquired debt. In 1999, financing activities provided net cash of $54.5 million, consisting primarily of proceeds from sales of common stock and the exercise of options and warrants.

In 1999, the holders of $6.0 million principal amount of our 9.0% convertible debentures converted all such debentures into 1,565,218 shares of our common stock.

In 1999, we received $117.8 million in net proceeds from the issuance of shares of our common stock in public offerings.

In June 1999, we purchased all the outstanding capital stock of Berk for approximately $3.3 million. We also agreed to pay an earn-out of up to $500,000 if sales of Berk products achieve certain prescribed levels over the 12-month period ending June 30, 2000. Berk is a leading producer of educational toy foam puzzle mats and blocks featuring popular licensed characters, including Mickey Mouse, Minnie Mouse, Winnie the Pooh, Blue's Clues, Barney, Teletubbies, Sesame Street, Looney Tunes and Toy Story II characters, and non-licensed activity sets and outdoor products.

On October 5, 1999, we completed the acquisition of the Flying Colors product line through the purchase of all the outstanding capital stock of Flying Colors, a privately-held company based in Dexter, Michigan. At or shortly after the closing we paid approximately $34.7 million for the stock and paid off approximately $17.6 million of indebtedness. We also agreed to pay an earn-out of up to $13.5 million over the 36-month period following the closing if net sales of Flying Colors products achieve certain targeted levels during this period. Two of Flying Colors' senior executives and most of its creative design and product development staff have remained with Flying Colors Toys. Flying Colors' principal products include molded plastic activity kits, clay compound playsets and lunch boxes featuring licensed characters, including Barbie, Rugrats, Blue's Clues and Looney Tunes characters. The kits cover a broad range of products and activities, such as make and paint your own characters, jewelry making, art studios, posters, puzzles and other projects.

On July 28, 2000, the Company acquired all of the outstanding capital stock of Pentech for an aggregate purchase price of approximately $20.6 million, which was paid in cash on the closing of the transaction. In addition, the Company paid on the closing $10.0 million to pay down certain indebtedness of Pentech, assumed liabilities of approximately $25.5 million and incurred estimated legal and other acquisition costs of approximately $1.2 million. In December 1999, Pentech renewed a three-year $25,000,000 Revolving Credit Agreement with Bank America Business Credit, Inc. now known as Bank of America, N.A. ("BABC") (the "Credit Agreement"). Borrowings under the Credit Agreement are subject to limitations based upon eligible inventory and accounts receivable as defined in the Credit Agreement. Amounts borrowed under the Credit Agreement accrue interest, at Pentech's option, at either prime plus 0.5% or libor plus 2.5%. Pentech designs, produces and markets licensed pens, markers, pencils, and other writing instruments, craft and activity kits, and related stationery products.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial and commodity market prices and rates. We are exposed to market risk in the areas of changes in United States and international borrowing rates and changes in foreign currency exchange rates. In addition, we are exposed to market risk in certain geographic areas that have experienced or remain vulnerable to an economic downturn, such as China. We purchase substantially all of our inventory from companies in China, and, therefore, we are subject to the risk that such suppliers will be unable to provide inventory at competitive prices. While we believe that, if such an event were to occur we would be able to find alternative sources of inventory at competitive prices, we cannot assure you that we would be able to do so. These exposures are directly related to our normal operating and funding activities. Historically and as of September 30, 2000, we have not used derivative instruments or engaged in hedging activities to minimize our market risk.

INTEREST RATE RISK

We have financial instruments that are subject to interest rate risk including both debt and investment instruments. Due to the conservative nature of our investments and relatively short duration, we believe interest rate risk is mitigated.

We assumed a three-year $25,000,000 revolving credit line with BABC in conjunction with the Pentech acquisition. Amounts borrowed under the Credit Agreement accrue interest at Pentech's option, at either prime plus 0.5% or libor plus 2.5%. Based on our current working capital levels and our cash flow from operations, we do not expect to utilize our credit line. Accordingly, we believe that our exposure to interest rate risk is not material.

FOREIGN CURRENCY RISK

We have wholly-owned subsidiaries in Hong Kong. Sales from these operations are denominated in U.S. dollars. However, purchases of inventory and operating expenses are typically denominated in Hong Kong dollars, thereby creating exposure to changes in exchange rates. Changes in the Hong Kong dollar/U.S. dollar exchange rate may positively or negatively affect our gross margins, operating income and retained earnings. The exchange rate of the Hong Kong dollar to the U.S. dollar has been fixed by the Hong Kong government since 1983 at HK$7.80 to US$1.00 and, accordingly, has not represented a currency exchange risk to the U.S. dollar. We do not believe that near-term changes in exchange rates, if any, will result in a material effect on our future earnings, fair values or cash flows, and therefore, we have chosen not to enter into foreign currency hedging transactions. We cannot assure you that this approach will be successful, especially in the event of a significant and sudden change in the value of the Hong Kong dollar.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

NUMBER	DESCRIPTION
2.1	Agreement of Merger dated as of May 22, 2000 among the Company, JAKKS Acquisition II, Inc. and Pentech International Inc.(1)
2.2	First Amendment dated as of July 13, 2000 to Agreement of Merger(2)
2.3	Voting and Lock-Up Agreement dated May 22, 2000 among the Company and certain stockholders of Pentech International Inc.(3)
3.1	Restated Certificate of Incorporation of the Company(4)
3.1.1	Certificate of Designation and Preferences of Series A Cumulative Convertible Preferred Stock of the Company(5)
3.1.2	Certificate of Elimination of All Shares of 4% Redeemable Convertible Preferred Stock of the Company(5)
3.1.3	Certificate of Amendment of Restated Certificate of Incorporation of the Company(6)
3.2.1	By-Laws of the Company(4)
3.2.2	Amendment to By-Laws of the Company(7)
10.1	Loan and Security Agreement dated as of January 13, 1997 among Pentech International Inc., certain subsidiaries thereof and Bank of America, N.A. (formerly BankAmerica Business Credit, Inc.)(8)
10.2	Waiver and First Amendment dated as of January 11, 1999 to Loan and Security Agreement(9)
10.3	Waiver, Consent and Second Amendment dated as of December 20, 1999 to Loan and Security Agreement(10)
10.4	Consent, Waiver and Third Amendment dated as of July 27, 2000 to Loan and Security Agreement(11)
10.5	Lease dated February 1993 between Edison Equities and Pentech International Inc.(12)
10.6	Agreement of Lease dated August 28, 1995 between 1101 CR NB, L.L.C. (successor in interest to Pensud Company Limited Partnership) and Pentech International Inc.(13)
10.7	First Amendment to Lease dated April 19, 2000 between 1101 CR NB, L.L.C. and Pentech International Inc.(14)
27	Financial Data Schedule(15)

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(1) Incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K, filed August 11, 2000.

(2) Incorporated by reference to Exhibit 2.2 of the Company's Current Report on Form 8-K, filed August 11, 2000.

(3) Incorporated by reference to Exhibit 2.3 of the Company's Current Report on Form 8-K, filed August 11, 2000.

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

(5) Filed previously as an exhibit to the Company's Current Report on Form

8-K, filed April 7, 1998, and incorporated herein by reference.

(6) Filed previously as exhibit 4.1.2 of the Company's Registration Statement on Form S-3 (Reg. No. 333-74717), filed on March 9, 1999, and incorporated herein by reference.

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

(8) Incorporated by reference to exhibit 10.7 of the Annual Report on Form 10-K of Pentech International Inc. for its fiscal year ended September 30, 1996.

(9) Incorporated by reference to exhibit 10.5 of the Annual Report on Form 10-K of Pentech International Inc. for its fiscal year ended September 30, 1998.

(10) Incorporated by reference to exhibit 10.6 of the Annual Report on Form 10-K of Pentech International Inc. for its fiscal year ended September 30, 1999.

(11) Incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K, filed August 11, 2000.

(12) Incorporated by reference to Exhibit 10.10 of the Annual Report on Form 10-K of Pentech International Inc. for its fiscal year ended September 30, 1993.

(13) Incorporated by reference to Exhibit 10.7 of the Annual Report on Form 10-K of Pentech International Inc. for its fiscal year ended September 30, 1995.

(14) Incorporated by reference to Exhibit 10.15 of the Company's Quarterly Report on Form 10-Q for its quarter ended June 30, 2000, filed on August 14, 2000.

(15) Filed herewith.

(b) Reports on Form 8-K

A Current Report on Form 8-K relating to the Company's acquisition of Pentech International was filed on August 11, 2000 and an amendment thereto on Form 8-K/A was filed on October 11, 2000, which amendment included financial statements of Pentech International for its fiscal year ended September 30, 1999 and its three and nine month periods ended June 30, 2000 and pro forma financial information relating to the Company's acquisition of Pentech International.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Registrant:

JAKKS PACIFIC, INC.

Date: November 8, 2000

By: /s/ Joel M. Bennett

Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

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