

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 28, 1997
FILE NO. 333-

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM SB-2
REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

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

DELAWARE
(STATE OR OTHER JURISDICTION
OF INCORPORATION)

3944
(PRIMARY STANDARD INDUSTRIAL
CODE NUMBER)

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

24955 PACIFIC COAST HIGHWAY, #B202, MALIBU, CALIFORNIA 90265 (310) 456-7799
(ADDRESS AND TELEPHONE NUMBER OF PRINCIPAL EXECUTIVE OFFICES)

24955 PACIFIC COAST HIGHWAY, #B202, MALIBU, CALIFORNIA 90265
(ADDRESS OF PRINCIPAL OR INTENDED PRINCIPAL PLACE OF BUSINESS)

JACK FRIEDMAN, CHAIRMAN, CHIEF EXECUTIVE OFFICER AND PRESIDENT
JAKKS PACIFIC, INC.

24955 PACIFIC COAST HIGHWAY, #B202, MALIBU, CALIFORNIA 90265 (310) 456-7799
(NAME, ADDRESS AND TELEPHONE NUMBER OF AGENT FOR SERVICE)

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APPROXIMATE DATE OF PROPOSED SALE TO THE PUBLIC:

As soon as practicable after the effective date of this Registration Statement.

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 OF SHARES TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER SHARE(1)	MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE
Common Stock par value \$.001.....	2,400,000	\$8.50	\$20,400,000	\$6,181.82
Common Stock par value \$.001 (2)...	360,000	\$8.50	\$3,060,000	\$927.27
Common Stock par value \$.001 (3)...	130,678	\$8.50	\$1,110,763	\$336.60
Total.....	2,890,678	\$8.50	\$24,570,763	\$7,445.69

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

(2) Represents 360,000 shares of Common Stock which the Underwriters have the

option to purchase from the Company and two of the Selling Stockholders to cover over-allotments, if any.
(3) Represents 130,678 shares of Common Stock being sold under an alternate Prospectus.

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 AN AMENDMENT THAT SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION (THE "COMMISSION"), ACTING PURSUANT TO SECTION 8(a), MAY DETERMINE.

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JAKKS PACIFIC, INC.
CROSS-REFERENCE SHEET

FORM SB-2 ITEM NUMBER AND CAPTION	CAPTION IN PROSPECTUS
1. Front of Registration Statement and Outside Front Cover of Prospectus.....	Outside Front Cover Page
2. Inside Front and Outside Back Cover Pages of Prospectus Cover Pages.....	Inside Front and Outside Back
3. Summary Information and Risk Factors.....	Prospectus Summary; Risk Factors
4. Use of Proceeds.....	Use of Proceeds
5. Determination of Offering Price.....	Outside Front Cover Page; Underwriting
7. Selling Security Holders.....	Principal and Selling Stockholders; Additional Registered Shares
8. Plan of Distribution.....	Outside Front and Outside Back Cover Pages; Inside Front Cover Page; Underwriting
9. Legal Proceedings.....	Business -- Legal Proceedings
10. Directors, Executive Officers, Promoters and Control Persons.....	Management; Certain Relationships and Related Transactions
11. Security Ownership of Certain Beneficial Owners and Management.....	Principal and Selling Stockholders
12. Description of the Securities.....	Prospectus Summary; Description of Securities
13. Interest of Named Experts and Counsel....	Legal Matters; Experts
14. Disclosure of Commission Position on Indemnification for Securities Act Liabilities.....	Underwriting; Management -- Indemnification of Officers and Directors
15. Organization within Last Five Years.....	Management; Principal and Selling Stockholders; Certain Relationships and Related Transactions
16. Description of Business.....	Prospectus Summary; Business
17. Management's Discussion and Analysis or Plan of Operations.....	Management's Discussion and Analysis of Financial Condition and Results of Operations
18. Description of Property.....	Business -- Properties
19. Certain Relationships and Related Transactions.....	Certain Relationships and Related Transactions
20. Market for Common Equity and Related Stockholder Matters.....	Prospectus Summary; Risk Factors; Capitalization; Description of Securities; Shares Eligible for Future Sale; Price Range of Common Stock and Dividend Policy
21. Executive Compensation.....	Management
22. Financial Statements.....	Prospectus Summary; Consolidated Financial Statements; Capitalization
23. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	Not Applicable

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION, DATED FEBRUARY 28, 1997

PROSPECTUS

2,400,000 SHARES

LOGO

COMMON STOCK

(TM)

Of the 2,400,000 shares of Common Stock offered hereby (the "Offering"), 2,000,000 shares are being sold by JAKKS Pacific, Inc., a Delaware corporation (the "Company" or "JAKKS"), and 400,000 shares are being sold by the Selling Stockholders named under "Principal and Selling Stockholders." The Company will not receive any of the proceeds from sales of Common Stock by the Selling Stockholders (the "Selling Stockholders"). The Common Stock of the Company is traded on the Nasdaq SmallCap Market under the symbol "JAKK." The Company has applied for listing on the Nasdaq National Market System. On February 27, 1997, the last reported sale price of the Common Stock was \$8.50.

THE SECURITIES OFFERED HEREBY ARE SPECULATIVE AND INVOLVE A HIGH DEGREE OF RISK AND SHOULD NOT BE PURCHASED BY INVESTORS WHO CANNOT AFFORD THE LOSS OF THEIR ENTIRE INVESTMENT. SEE "RISK FACTORS" BEGINNING ON PAGE 7.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS(1)	PROCEEDS TO COMPANY(2)	PROCEEDS TO SELLING STOCKHOLDERS(2)
Per Share.....	\$	\$	\$	\$
Total (3).....	\$	\$	\$	\$

- (1) The Company has also agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933. See "Underwriting."
- (2) Before deducting other expenses of this Offering payable by the Company, estimated to be \$500,000.
- (3) The Company and two of the Selling Stockholders have granted the Underwriters an option, exercisable within 45 days from the date of this Prospectus, to purchase up to an aggregate of 360,000 additional shares of Common Stock on the same terms as set forth above, solely for the purpose of covering over-allotments, if any. If the Underwriters' over-allotment option is exercised in full, the total Price to the Public, Underwriting Discounts and Commissions, and Proceeds to the Company and the Selling Stockholders will be \$, \$, \$ and \$ respectively. See "Underwriting."

The shares of Common Stock are being offered by the Underwriters, subject to prior sale, when, as and if delivered to and accepted by the Underwriters and subject to approval of certain legal matters by counsel and to certain other conditions. The Underwriters reserve the right to withdraw, cancel or modify the offering and to reject any offer in whole or in part. It is expected that delivery of the certificates representing the shares of Common Stock will be made against payment therefor at the offices of the Representative of the Underwriters, 18301 Von Karman, Suite 100, Irvine, California 92612, or through the facilities of Depository Trust Company, on or about , 1997.

CRUTTENDEN ROTH
INCORPORATED

The date of this Prospectus is , 1997

[PICTURES]

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and consolidated financial statements, including the notes thereto, appearing elsewhere in this Prospectus. Each prospective investor is urged to read this Prospectus in its entirety and should carefully consider the matters set forth in "Risk Factors."

THE COMPANY

JAKKS Pacific, Inc. (the "Company") develops, manufactures and markets toys and related products. The Company's principal products are (i) toys and action figures featuring licensed characters, including characters from the World Wrestling Federation ("WWF"), (ii) die cast collectible and toy vehicles marketed under the name Road Champs, (iii) fashion dolls with related accessories, (iv) electronic toys designed for children and (v) new lines of radio controlled and battery-operated vehicles.

The Company commenced operations in July 1995, having acquired the doll and electronic toy operations of Justin. In February 1997, the Company acquired the die cast collectible and toy vehicle operations of Road Champs. See "Business -- Acquisitions." Including Justin's operations in the first six months of 1995 and Road Champs operations in 1995 and 1996, the pro forma net sales of the businesses now operated by the Company have grown from \$25.1 million to \$27.6 million, respectively, and the pro forma net earnings of such businesses have grown from \$1.2 million to \$2.5 million, respectively.

The Company sells its products through its employees and independent sales representatives. Purchasers of the Company's products include retail chain stores, department stores, toy specialty stores and wholesalers. The Road Champs products are also sold to smaller hobby shops and specialty retailers. The Company's six largest customers are Toys "R" Us, Wal Mart, Kay-Bee Toys, Kmart, Target and Caldor.

Over the past few years, the toy industry has experienced substantial consolidation among both toy companies and toy retailers. The Company believes that this consolidation provides increased growth opportunity due to retailers' desires not to be entirely dependent on a few dominant toy companies. Retailer concentration also enables the Company to ship product, manage account relationships and track retail sales more effectively with a smaller staff. In addition, the Company believes that management's experience in the toy industry, its flexibility and its recent success in developing and marketing products make it more attractive to toy inventors and developers.

These industry trends and developments lead the Company to believe that it is well positioned for future growth. The Company's growth strategy consists of the following elements:

- - Develop Core Products. In 1997, the Company is expanding the number of items it offers as part of its core products. These core products include WWF action figures, the Road Champs product lines of die cast collectible and toy vehicles and fashion dolls.
- - Enter New Product Categories. The Company intends to enter into license agreements in new product categories. The Company recently entered the radio controlled vehicle category by acquiring the rights to manufacture and sell Turbo Touch Racer, Reactor and Mini Reactor product lines in North America. The Company intends to continue to use management's extensive experience in the toy industry to evaluate toys in new product categories.
- - Strategic Acquisitions. Since inception, the Company has acquired businesses with proven product lines, such as the Road Champs product lines that have been sold for over twenty years. Management seeks to continue to acquire proven product lines with an established history of sales and profitable operations.
- - Enhance Operating Margins. Management believes that the Company's current infrastructure can accommodate significant growth without a corresponding increase in administrative expenses and that such growth will increase operating margins.
- - Acquire Character and Product Licenses. The Company has licensing agreements with Titan Sports, Saban Entertainment, Time Warner, Sony and Fox. The Company intends to continue to pursue new licenses from these and other entertainment companies.

- - Develop International Sales. The Company intends to expand its international sales by capitalizing on management's experience and relations with foreign distributors and retailers.
- - Stability and Growth. The Company anticipates that its core products will continue to provide a consistent revenue source. The Company plans to utilize a portion of the profits from the sales of its core products to invest in new products.

The Company was incorporated under the laws of Delaware in January 1995. The Company's executive offices are located at 24955 Pacific Coast Highway, #B202, Malibu, California 90265 and its telephone number is (310) 456-7799.

THE OFFERING

Common Stock offered by the
Company and the Selling
Stockholders..... 2,400,000 shares

Common Stock to be
outstanding after the
Offering (1)..... 6,182,969 shares

Use of Proceeds..... The Company intends to use the net proceeds of this offering to repay short-term debt, to acquire additional character and product licenses, to acquire other toy businesses and product lines, for product development and tooling, for advertising and marketing and for working capital and other general corporate purposes. See "Use of Proceeds."

Risk Factors..... The shares offered hereby are speculative and involve a high degree of risk and should not be purchased by investors who cannot afford the loss of their entire investment. See "Risk Factors."

Nasdaq SmallCap Trading
Symbol..... "JAKK"
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(1) Unless otherwise indicated, all share and per share data and information contained in this Prospectus relating to the number of shares of Common Stock outstanding does not include: (i) the 360,000 shares of Common Stock that may be sold by the Company upon exercise of the Underwriters' over-allotment option; (ii) the 568,498 shares reserved for issuance upon the exercise of options outstanding and options available for grant; (iii) the 300,000 shares reserved for issuance upon the exercise of outstanding warrants; and (iv) the 705,882 shares reserved for issuance upon the exercise of convertible debentures.

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

	INCLUDING ROAD CHAMPS					
	ACTUAL YEAR ENDED DECEMBER 31, 1994(1)	ACTUAL (INCEPTION) TO DECEMBER 31, 1995(2)	PRO FORMA YEAR ENDED DECEMBER 31, 1995(3)	ACTUAL JANUARY 1, 1996 TO DECEMBER 31, 1996(4)	PRO FORMA YEAR ENDED DECEMBER 31, 1995(5)	PRO FORMA YEAR ENDED DECEMBER 31, 1996(6)
STATEMENT OF OPERATIONS:						
Net sales.....	\$ 4,470	\$ 6,077	\$ 7,931	\$ 12,052	\$25,072	\$ 27,563
Cost of sales.....	3,121	4,131	5,411	7,231	16,838	16,727
Gross profit.....	1,349	1,946	2,520	4,821	8,234	10,836
Selling, general and administrative expenses.....	1,290	1,400	1,901	3,611	6,658	7,754
Operating income....	59	546	619	1,210	1,576	3,082
Interest income and other, net.....	4	4	4	4	4	133
Income before income taxes.....	63	550	623	1,343	1,580	3,215
Provision for income taxes.....	--	114	126	163	426	725
Net income.....	\$ 63	\$ 436	\$ 497	\$ 1,180	\$ 1,154	\$ 2,490
Net income per share.....	\$ 0.03	\$ 0.20	\$ 0.23	\$ 0.34	\$ 0.48	\$ 0.67
Weighted average number of shares.....	2,191	2,191	2,191	3,504	2,390	3,702

	DECEMBER 31, 1996		
	ACTUAL	PRO FORMA(7)	AS ADJUSTED(8)
BALANCE SHEET DATA:			
Working capital.....	\$ 7,824	\$ 5,312	\$14,360
Total assets.....	14,200	28,231	37,255
Short-term debt.....	190	6,117	--
Long-term debt.....	--	6,000	6,000
Stockholders' equity.....	\$11,746	\$ 13,246	\$28,386

- (1) Reflects statement of operations data of Justin for the year ended December 31, 1994.
- (2) Reflects the actual consolidated statement of operations data of JAKKS for the period from April 1, 1995 (inception) to December 31, 1995. The acquisition of Justin is accounted for as of July 1, 1995.
- (3) Reflects pro forma statements of operations for the Company and Justin and certain adjustments for the year ended December 31, 1995, as if the acquisition of Justin occurred on January 1, 1995.
- (4) Reflects the actual consolidated statement of operations data of JAKKS for year ended December 31, 1996.
- (5) Reflects pro forma statements of operations for the Company and Road Champs and certain adjustments for the year ended December 31, 1995, as if the acquisition of Road Champs occurred on January 1, 1995.
- (6) Reflects pro forma statements of operations for the Company and Road Champs and certain adjustments for the year ended December 31, 1996, as if the acquisition of Road Champs occurred on January 1, 1996.
- (7) Reflects pro forma balance sheet data for the Company and Road Champs and certain adjustments as of December 31, 1996, as if the acquisition of Road Champs occurred on January 1, 1996 and reflects the issuance of the convertible debentures in the amount of \$6,000,000 in January 1997.
- (8) As adjusted to give effect to the sale of 2,000,000 shares of Common Stock offered by the Company at an assumed offering price of \$8.50 per share, after deducting underwriting discounts and estimated offering expenses payable by the Company and the application of the estimated net proceeds therefrom.

RISK FACTORS

The shares offered hereby are speculative and involve a high degree of risk. Before making an investment decision, prospective investors should carefully consider the following risk factors, in addition to other information in this Prospectus.

DEPENDENCE ON LIMITED NUMBER OF PRODUCT LINES

The Company derives a substantial portion of its revenue from a limited number of product lines. A decrease in the popularity of a particular product line or key products within a given product line during any year could have a material adverse effect on the Company's business, financial condition and results of operations. Sales of the Road Champs and WWF product lines represented most of the Company's revenue in 1996 on a pro forma basis. Although at the present time demand remains strong for the Road Champs and WWF product lines, there can be no assurance that any of these products will retain their current popularity. See "Business-Products" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

CONSUMER PREFERENCES AND NEW PRODUCT INTRODUCTIONS

Consumer preferences in the toy industry are continuously changing and difficult to predict. Products often have short life cycles and relatively few achieve market acceptance. There can be no assurance that (i) new products or product lines introduced by the Company will achieve any significant degree of market acceptance, (ii) acceptance, if achieved, will be sustained for any significant amount of time or (iii) such products' life cycles will be sufficient to permit the Company to recover licensing, manufacturing, marketing and other costs associated therewith. Failure of new product lines to achieve or sustain market acceptance could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, the success of many of the Company's character related products is dependent on the popularity of characters generated by movies, television programs and other media. There can be no assurance that these movies, television programs or other media will be produced as scheduled, that they will be successful or that such success will result in substantial promotional value to the Company's products. See "Business-Products."

DEPENDENCE ON LICENSING AGREEMENTS

Many of the Company's products are based on characters, designs, concepts and inventions licensed from third parties. Character licenses permit the Company to manufacture and market toys based on characters or properties from movies, television, cartoons, video games, books and magazines. Product licenses confer rights to exploit original designs, concepts and inventions developed by toy inventors and designers. The royalty expenses paid under character and product licenses totaled approximately \$762,000 for the fiscal year ended December 31, 1996. Such expenses were nominal in the fiscal period ended December 31, 1995.

Competition for desirable licenses is intense. As a result, the Company may have to pay higher royalties in the future to secure or renew character and product licenses. No assurance can be made that the Company will be able to secure or renew character and product licenses on acceptable terms.

Under certain character and product licenses, the Company guarantees minimum royalty payments for a number of years regardless of the actual sales of the related product. If the Company fails to sell a sufficient quantity of such products, the Company may incur losses and might not be able to retain such licenses. For the fiscal year ending December 31, 1997, the minimum guaranteed royalty payments under the Company's existing licenses will be approximately \$730,000. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

COMPETITION

Competition in the toy industry is intense. Many of the Company's competitors have greater financial resources, stronger name recognition, larger sales, marketing and product development departments and greater economies of scale that may cause their products to be more competitively priced. Competition

extends to the procurement of character and product licenses, as well as to the marketing and distribution of products, including obtaining adequate shelf space in retail stores. Such competition may result in price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. No assurance can be made that the Company will be able to compete successfully against current and future competitors. See "Business -- Competition."

ASSIMILATION OF ROAD CHAMPS

The Company acquired Road Champs in February 1997. The Road Champs Acquisition involves numerous risks, including difficulties in the integration and assimilation of distinct product lines, administrative staff and sales forces and differences in methods of operation. While the Company intends to move quickly to integrate its acquisition of Road Champs, such integration and consolidation may require considerable management time and effort and could result in the diversion of management resources from other important matters. No assurance can be made that the Road Champs operations will continue to be profitable on an operating basis. See "Business -- Acquisitions."

The Company's products are generally not manufactured prior to the placement of an order by a customer. However, a substantial portion of the customers of the Road Champs product lines are smaller domestic businesses, and as a result, the Company must carry inventory for and hold accounts receivable from such customers. Maintaining inventory in the toy industry requires the Company to warehouse products at significant costs without assurance of future sales.

LIMITED OPERATING HISTORY

The Company commenced operations in April 1995 and did not have any product lines or revenues until the Justin Acquisition, effective July 1995. Accordingly, the Company has limited relevant operating history upon which an evaluation of the Company's performance and prospects can be made. Although certain of the Company's product lines acquired from Justin and Road Champs have demonstrated profitability in the past, there can be no assurance that the Company can profitably market such product lines in the future. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Consolidated Financial Statements and "Business -- Acquisitions."

CONCENTRATION OF SALES

Sales of the Company's products to its six largest customers accounted for, in the aggregate, approximately 64.3% and 73.5% of revenue for the fiscal years ended December 31, 1996 and 1995, respectively, and approximately 51.4% and 53.7% of the Company's revenue on a pro forma basis when combined with Road Champs for the same periods. No other customer accounted for more than 3% of the Company's revenue for such periods. The Company does not have written contracts with or commitments from any of its customers. A substantial reduction in orders from any of its largest customers or a termination of any of such customer relationships could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, pressure by large customers to provide financial incentives to consumers, reduce prices, bear the risks and the cost of carrying inventory or change sales terms could also have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Marketing and Distribution."

DEPENDENCE ON KEY PERSONNEL

The Company's success is largely dependent upon the experience and continued services of Jack Friedman, the Company's President. In the event of the loss of Mr. Friedman's services, no assurance can be given that the Company will be able to obtain the services of an adequate replacement, and any such loss or interruption of his services could have a material adverse effect on the Company's business, financial condition and results of operations. The Company has entered into an employment agreement with Mr. Friedman, expiring on December 31, 2001, which includes, among other things, provisions restricting him from

competing with the Company during the term of his employment and, in certain circumstances, for a period of one year thereafter. The Company currently maintains a key man life insurance policy in the amount of \$2,000,000 on Mr. Friedman's life. See "Management."

DEPENDENCE UPON NON-AFFILIATED FOREIGN MANUFACTURERS

The toys sold by the Company are currently produced by nonaffiliated manufacturers located in the People's Republic of China ("China"). The Company does not have any long-term contracts with any of these manufacturers. Although the Company believes that alternate sources of manufacturing are available in China, Hong Kong, Taiwan and elsewhere if the need were to arise, there can be no assurance that the supply from such alternate sources would be sufficient to meet the needs of the Company in the event of a disruption of the Company's current manufacturing arrangements. See "Business -- Manufacturing and Supplies."

Since substantially all of the Company's products are manufactured in China, the Company's operations may be affected by economic, political, governmental and labor conditions in that country, by China's relationship with the United States and by fluctuations in the exchange rate of the dollar against such foreign currency. Furthermore, China currently enjoys "Most Favored Nation" ("MFN") status under U.S. tariff laws. As a result, products imported from China are subject to normal import duties. China's MFN status is reviewed annually by Congress, and the renewal of such status may be subject to significant political uncertainties, with the possibility of non-renewal. The loss of China's MFN status would result in a substantial increase in the duty on products imported into the United States from China. China also may be subject to retaliatory trade restrictions imposed by the United States under various provisions of the Trade Act of 1974. The United States has in the past threatened the imposition of punitive 100% tariffs on selected goods and withdrawn the threat of sanctions only days before sanctions were to take affect. The imposition by the United States of trade sanctions and subsequent actions by China could result in manufacturing and distribution disruptions or higher costs to the Company.

The Company maintains offices in Hong Kong to source manufacturing in China and to monitor production in that country. On July 1, 1997, sovereignty over Hong Kong will be transferred from the United Kingdom to China. If Hong Kong's business climate were to significantly change for the worse, such change could have a material adverse effect on the Company's business, financial condition and results of operations.

SEASONALITY AND QUARTERLY FLUCTUATIONS

Sales of toys are highly seasonal with a majority of retail sales occurring during the period of September through December. As a result, approximately 73% of the Company's 1996 shipments occurred in the third and fourth quarters. Such seasonality causes the Company's quarterly operating results to fluctuate and creates an uneven need for working capital. Other factors further contribute to the fluctuations of the Company's operating results, including new product line introductions and advertising by the Company and its competitors. See "Business -- Seasonality and Backlog" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

BROAD DISCRETION AS TO USE OF PROCEEDS

The Company plans to allocate the net proceeds it receives from this Offering to repay short-term debt, to acquire additional character and product licenses, to acquire product lines and other toy businesses, for product development and tooling, for advertising and marketing and for working capital and other general corporate purposes. Accordingly, management will have broad discretion with respect to the expenditure of the net proceeds of this Offering. Purchasers of the securities offered hereby will be entrusting their funds to the Company's management, upon whose judgment the investors must depend, with only limited information concerning management's specific intentions. Although the Company intends to use a portion of the proceeds from this Offering to acquire additional licenses and to acquire product lines and other toy businesses, there can be no assurance that suitable acquisitions can be located, that any such acquisitions can be consummated or that such acquisitions will be successfully integrated into the Company's operations. See "Use of Proceeds."

GOVERNMENT REGULATION

The Company's operations are subject to various laws, rules and regulations, including the Federal Hazardous Substances Act, the Consumer Product Safety Act, the Flammable Fabrics Act and the regulations promulgated under each such Act. Such laws empower the Consumer Product Safety Commission to protect children from hazardous toys and other articles. The Consumer Product Safety Commission has the authority to exclude from the market products that are found to be hazardous and to require a manufacturer to repurchase such products under certain circumstances. While the Company oversees a quality control program designed to ensure that its products comply in all material respects with such regulations, no assurance can be made that, despite testing, defects will not be found in the Company's products, resulting in product liability claims, loss of revenue, diversion of resources, damage to the Company's reputation or increased warranty costs, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Government and Industry Regulation."

PROPRIETARY RIGHTS

The Company relies on copyright and trade secret protection, nondisclosure agreements and licensing arrangements to establish, protect and enforce proprietary rights in its products. Despite the efforts of the Company and its licensors to safeguard and maintain their proprietary rights, there can be no assurance that the Company or its licensors will be successful in so doing. In addition, 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. Although the Company and its licensors continue to implement protective measures and intend to defend their proprietary rights vigorously, there can be no assurance that these efforts will be successful.

The Company is not a party to any present litigation regarding proprietary rights. However, there can be no assurance that third parties will not assert intellectual property claims against the Company in the future. Such claims, if proven, could have a material adverse effect on the Company's business, financial condition and results of operations. Although such claims may ultimately prove to be without merit, the necessary management attention to and legal costs associated with litigation or other resolution of such claims could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- License and Marketing Agreements."

POSSIBLE VOLATILITY OF MARKET PRICE OF COMMON STOCK

Market prices of the securities of toy companies are often volatile. Many factors may have an impact on the market price of the Company's securities, including fluctuations in the Company's financial results, the actions of the Company's customers and competitors (including new product line announcements and introductions), new regulations affecting foreign manufacturing, other factors affecting the toy industry generally and sales of the Common Stock into the public market. In addition, the stock market has, from time to time, experienced significant price and volume fluctuations that may be unrelated to the operating performance of particular companies.

SHARES ELIGIBLE FOR FUTURE SALE

Upon consummation of this Offering, the Company will have 6,182,969 shares of Common Stock outstanding, of which the 2,400,000 shares of Common Stock offered hereby is a part, and 4,457,454 shares will be freely tradeable without restriction or further registration under the Securities Act of 1933, as amended (the "Securities Act"). The remaining 1,725,515 shares of Common Stock are "restricted securities," as that term is defined under Rule 144 promulgated under the Securities Act. Such shares may only be sold pursuant to a registration statement under the Securities Act, in compliance with the exemption provisions of Rule 144 or pursuant to another exemption under the Securities Act. The holders of such restricted shares have agreed not to sell their shares for varying periods, expiring from May 1997 to February 1998. Including contractual restrictions of sale, such 1,725,515 restricted shares will become eligible for sale from time to time, at various times, commencing in October 1997, subject to the volume and other limitations of Rule 144.

No predictions can be made as to the effect, if any, that sales of shares of restricted Common Stock or even the availability of such shares for sale will have on the market prices prevailing from time to time. The possibility that substantial amounts of Common Stock may be sold in the public market may adversely affect prevailing market prices for the Common Stock and could impair the Company's ability to raise capital through the sale of its equity securities. In addition, the Company is authorized to issue preferred stock, without stockholder approval, with such rights, designations and preferences as are determined by the Board of Directors of the Company (the "Board"). See "Description of Securities," "Shares Eligible for Future Sale" and "Underwriting."

The Company has also reserved a total of 1,574,380 shares of Common Stock for future issuance upon exercise of options and warrants and conversion of debentures. These include: (i) an aggregate of 216,998 shares reserved for issuance to key employees, officers, directors and consultants upon the exercise of options under the Company's Amended and Restated 1995 Stock Option Plan (the "Stock Option Plan"), of which options for 191,750 shares of Common Stock have been previously granted; (ii) an aggregate of 276,500 shares of Common Stock for issuance upon exercise of options granted to certain employees prior to adoption of the Stock Option Plan; (iii) an aggregate of 75,000 shares of Common Stock for issuance upon exercise of options to a certain consultant outside of the Stock Option Plan; (iv) 150,000 shares for issuance upon exercise of warrants which were issued to the representatives of the underwriters in the Company's Initial Public Offering in May 1996 (the "Initial Public Offering"); (v) 150,000 shares reserved for issuance upon exercise of certain other outstanding warrants; and (vi) 705,882 shares reserved for issuance upon conversion of outstanding debentures (the "Convertible Debentures") (at an assumed conversion price of \$8.50 per share).

These options, warrants and debentures, as well as other rights that may be granted in the future, may hinder future equity financing by the Company. Further, such rights may be exercised at a time when the Company would otherwise be able to obtain additional equity capital on terms more favorable to the Company. See "Description of Securities."

CONTINUING CONTROL BY MANAGEMENT

After this Offering, all executive officers and directors of the Company as a group will beneficially own, in the aggregate, approximately 21.4% of the Company's outstanding Common Stock. Accordingly, such stockholders will be able to exert significant influence in the election of the Board. See "Principal and Selling Stockholders."

NO DIVIDENDS

The Company has never paid cash or other dividends on its Common Stock. The Company intends to retain its earnings, if any, to finance the operation and expansion of its business and, therefore, it does not expect to pay any cash dividends in the foreseeable future. See "Price Range of Common Stock and Dividend Policy."

FORWARD-LOOKING STATEMENTS

This Prospectus includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical fact, including those with respect to the Company's objectives, plans and strategy set forth under "Prospectus Summary" and "Business -- Business Strategy" and those preceded by or that include the words "believes," "expects," "anticipates," "intends," "plans," "is scheduled to" or similar expressions, are forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that those expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the Company's expectations ("Cautionary Statements") are disclosed in this Prospectus in conjunction with the forward-looking statements and under these "Risk Factors." All written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by those Cautionary Statements.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the 2,000,000 shares of Common Stock offered by the Company hereby are estimated to be approximately \$15.1 million (\$17.5 million if the Underwriters' over-allotment option is exercised in full) at an assumed offering price of \$8.50 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company. The Company will not receive any proceeds from the sale of Common Stock by the Selling Stockholders.

Of such net proceeds, the Company expects to use approximately \$6.1 million for the repayment of short-term debt, \$2.0 million to acquire additional character and product licenses, approximately \$4.0 million to acquire product lines and other toy businesses, approximately \$1.0 million for product development and tooling and approximately \$1.5 million for advertising and marketing. The remaining net proceeds will be used for working capital and general corporate purposes.

Proceeds not immediately required for the purposes noted above will be invested principally in short-term bank certificates of deposit, short-term investment grade securities, U.S. government obligations or money market instruments.

Management intends to use the estimated net proceeds as indicated above. In the event that the Company's plans change, or if the proceeds of this Offering or cash flow otherwise prove to be insufficient to fund operations, the Company may find it necessary or advisable to reallocate some of the proceeds within the categories above noted or may be required to seek additional financing or curtail its expansion activities.

PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

The Company's Common Stock trades on the Nasdaq SmallCap Market under the symbol "JAKK." The following table sets forth the high and low closing sales prices of the Company's Common Stock in each of the following quarters as reported by the Nasdaq SmallCap Market since inception of trading on May 1, 1996.

	HIGH -----	LOW -----
1996		
Second quarter (from May 1).....	9	6 1/2
Third quarter.....	8 3/4	6 1/4
Fourth quarter.....	9	7 1/4
1997		
First quarter (to February 27).....	8 1/2	7 1/8

The Company has not paid, and has no current plans to pay, dividends on its Common Stock. The Company intends to retain earnings, if any, for use in its business to finance the operation and expansion of its business.

CAPITALIZATION

The following table sets forth the short-term debt and capitalization of the Company; (i) as of December 31, 1996; (ii) on a pro forma basis to reflect the issuance of the Convertible Debentures in the principal amount of \$6.0 million in January 1997, the issuance of 198,020 shares of Common Stock and incurrence of obligations in connection with the Road Champs Acquisition in February 1997; and (iii) as adjusted to give effect to the sale of 2,000,000 shares of Common Stock offered by the Company hereby and the application of the estimated net proceeds therefrom. See "Use of Proceeds." This table should be read in conjunction with the Consolidated Financial Statements of the Company and the Notes thereto included elsewhere in this Prospectus.

	DECEMBER 31, 1996		
	ACTUAL	PRO FORMA	AS ADJUSTED
	(IN THOUSANDS)		
Short-term debt.....	\$ 190	\$ 6,117	\$ --
	=====	=====	=====
Long-term debt.....	\$ --	\$ 6,000	\$ 6,000
	-----	-----	-----
Stockholders' equity:			
Preferred stock, \$.001 par value; 5,000 shares authorized, no shares issued.....	\$ --	\$ --	\$ --
	-----	-----	-----
Common stock, \$.001 par value; 25,000,000 shares authorized: 3,984,949 issued and outstanding, actual; 4,182,969 issued and outstanding, pro forma; 6,182,969 issued and outstanding, as adjusted.....	4	4	6
Additional paid-in capital.....	10,321	11,821	26,959
Retained earnings.....	1,616	1,616	1,616
	-----	-----	-----
	11,941	13,441	28,581
Less unearned compensation from grant of options.....	(195)	(195)	(195)
	-----	-----	-----
Net stockholders' equity.....	11,746	13,246	28,386
	-----	-----	-----
Total capitalization.....	\$11,746	\$19,246	\$34,386
	=====	=====	=====

PRO FORMA FINANCIAL INFORMATION
(UNAUDITED)

The following unaudited pro forma consolidated balance sheet and statement of operations have been derived from the Company's audited consolidated balance sheet as of December 31, 1996 and its statement of operations for the year then ended. Adjustments have been made to such information to give effect to (i) the issuance of the Convertible Debentures as if such issuance had occurred as of December 31, 1996 and (ii) the acquisition of Road Champs as if such acquisition had occurred as of January 1, 1996. The pro forma adjustments are based upon currently available information and upon certain assumptions that management of the Company believes are reasonable.

The following unaudited pro forma consolidated financial statements are not necessarily indicative of future results of operations of the Company or the results of operations that might have occurred if the acquisition had taken place as of January 1, 1996. The unaudited consolidated pro forma financial statements should be read in conjunction with the financial statements of the Company and Road Champs, including the Notes thereto, included elsewhere herein.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

PRO FORMA CONSOLIDATED BALANCE SHEET
 ADJUSTED FOR THE CONVERTIBLE DEBENTURES
 AND ACQUISITION OF ROAD CHAMPS, INC.
 AS OF DECEMBER 31, 1996

	JAKKS ACTUAL BALANCE SHEET	PRO FORMA ADJUSTMENTS	PRO FORMA BALANCE SHEET
	-----	-----	-----
ASSETS			
Current assets:			
Cash.....	\$ 6,355,260	\$ 1,872,400 (1)(2)	\$ 8,227,660
Accounts receivable.....	2,420,470	--	2,420,470
Inventory.....	140,105	1,987,941 (2)	2,128,046
Due from Officers.....	120,030	--	120,030
Prepaid expenses and other current assets.....	1,241,977	158,373 (2)	1,400,355
	-----	-----	-----
Total current assets.....	10,277,842	4,018,714	14,296,561
	-----	-----	-----
Property and equipment, net.....	1,199,797	603,171 (2)	1,802,968
Deferred offering costs.....	85,301	510,000 (1)	595,300
Trademarks.....		1,000,000 (2)	1,000,000
Goodwill, net.....	2,537,697	7,663,241 (2)	10,200,938
Intangibles and other assets.....	99,307	236,159 (2)	335,462
	-----	-----	-----
Total assets.....	\$ 14,199,944	\$14,031,285	\$28,231,229
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities.....	\$ 1,816,074	\$ 304,742 (2)	\$ 2,120,816
Reserve for returns and allowances.....	175,000	300,000 (2)	475,000
Current portion of acquisition debt.....	190,008	5,926,543 (2)	6,116,551
Income taxes payable.....	272,605	--	272,605
	-----	-----	-----
Total current liabilities.....	2,453,687	6,531,285	8,984,972
	-----	-----	-----
Convertible debentures.....	--	6,000,000 (1)	6,000,000
	-----	-----	-----
Total liabilities.....	2,453,687	12,531,285	14,984,972
Stockholders' equity:			
Preferred stock, \$.001 par value, 5,000 shares authorized; no shares issued.....	--	--	--
Common stock, \$.001 par value, 25,000,000 shares authorized; 3,984,949 issued and outstanding, actual; 4,182,969 issued and outstanding, pro forma.....	3,985	198 (2)	4,183
Additional paid-in capital.....	10,321,295	1,499,802 (2)	11,821,097
Retained earnings.....	1,616,140	--	1,616,140
	-----	-----	-----
	11,941,420	1,500,000	13,441,420
Less unearned compensation from grant of options.....	195,163	--	195,163
	-----	-----	-----
Net stockholders' equity.....	11,746,257	1,500,000	13,246,257
	-----	-----	-----
Total liabilities and stockholders' equity.....	\$ 14,199,944	\$14,031,285	\$28,231,229
	=====	=====	=====

(1) Reflects the net proceeds of Convertible Debentures, as though they were issued on December 31, 1996, as follows:

Total Convertible Debentures.....	\$ 6,000,000
Less: Placement agent and lender closing fees and expenses.....	510,000

Net proceeds.....	\$ 5,490,000
	=====

(2) Reflects the purchase of Road Champs as of January 31, 1997, consideration paid at closing, and deferred payments to Road Champs stockholders, as though the acquisition took place on December 31, 1996, as follows:

Purchase price.....	\$12,045,604
Less consideration paid at closing:	
Cash.....	4,619,061
Common stock of JAKKS.....	1,500,000

	6,119,061

Total deferred payments due within twelve months of closing.....	\$ 5,926,543
	=====

JAKKS PACIFIC, INC. AND SUBSIDIARIES

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
 ADJUSTED FOR THE ACQUISITION OF ROAD CHAMPS, INC.
 FOR THE YEAR ENDED DECEMBER 31, 1996

	ACTUAL JAKKS	ACTUAL ROAD CHAMPS	COMBINED	PRO FORMA ADJUSTMENTS	PRO FORMA RESULTS
Net sales.....	\$12,052,016	\$15,510,611	\$27,562,627	\$ --	\$27,562,627
Cost of sales.....	7,231,296	9,564,332	16,795,628	(68,532)(1)	16,727,096
Gross profit.....	4,820,720	5,946,279	10,766,999	68,532	10,835,531
Selling, general and administrative expenses.....	3,611,471	4,119,424	7,730,895	23,125(1)	7,754,020
Income from operations.....	1,209,249	1,826,855	3,036,104	45,407	3,081,511
Interest expense.....	63,171	45,359	108,530	(45,359)(1)	63,171
Interest income.....	196,966		196,966		196,966
Other income.....		2,733,020	2,733,020	(2,733,020)(2)	--
Other expenses.....		923,841	923,841	(923,841)(2)	--
Income before income taxes.....	1,343,044	3,590,675	4,933,719	(1,718,413)	3,215,306
Provision for income taxes.....	163,275	1,615,276	1,778,551	(1,053,597)(3)	724,954
Net income.....	\$ 1,179,769	\$ 1,975,399	\$ 3,155,168	\$ (664,816)	\$ 2,490,352
	=====	=====	=====	=====	=====

(1) Reflects the net result from the elimination of certain non-continuing costs incurred by Road Champs offset by increases in expenses that would have been incurred by JAKKS had the acquisition been effective as of January 1, 1996.

(2) Primarily reflects the elimination of other income and expense items not attributable to on-going operations.

(3) To provide for income taxes on Road Champs' adjusted net income.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto which appear elsewhere in this Prospectus.

OVERVIEW

The Company was founded in early 1995 to develop, manufacture and markets toys and related products for children. The Company commenced business operations as of July 1, 1995, when it assumed operating control over Justin and has included the results of Justin's operations in its consolidated financial statements from the effective date of such acquisition. The Justin product lines accounted for substantially all of the Company's sales for the period from April 1, 1995 (inception) to December 31, 1995.

In 1996, the Company expanded its product lines to include products based on licensed characters and properties such as WWF action figures and Power Rangers ZEO mini vehicles. Presently, the Company's products include (i) toys and action figures featuring licensed characters, including action figures based on characters from the WWF, (ii) die cast collectible and toy vehicles marketed under the name Road Champs, (iii) fashion dolls with related accessories, (iv) electronic toys designed for children and (v) new lines of radio controlled and battery-operated vehicles.

The toys sold by the Company are currently produced by non-affiliated manufacturers located in China on letter of credit basis or on open account and are shipped F.O.B. Hong Kong. These methods allow the Company to keep certain operating costs down and reduce working capital requirements. To date, substantially all of the Company's sales have been to domestic customers. The Company intends to expand distribution of its products internationally.

The Company's products are generally acquired from others or developed for the Company by non-affiliated third parties, thus minimizing operating costs. Royalties payable to such developers generally range from 1% to 5% of the wholesale sales price for each unit of a product sold by the Company.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain statement of operations data as a percentage of net sales. As indicated, the data is based on twelve month results for each year presented. The 1995 data reflects the pro forma combined results of Justin and the Company as though the Justin Acquisition was effective January 1, 1995, and the 1996 data relates exclusively to the Company's operations:

	YEARS ENDED DECEMBER 31,	
	PRO FORMA	ACTUAL
	1995	1996
	-----	-----
Net sales.....	100.0%	100.0%
Cost of sales.....	68.2	60.0
	-----	-----
Gross profit.....	31.8	40.0
Selling, general and administrative expenses.....	24.0	30.0
	-----	-----
Income from operations.....	7.8	10.0
Other income.....	0.2	--
Interest, net.....	(0.1)	1.1
	-----	-----
Income before income taxes.....	7.9	11.1
Provision for income taxes.....	1.6	1.3
	-----	-----
Net income.....	6.3%	9.8%
	=====	=====

YEARS ENDED DECEMBER 31, 1996 AND 1995

Net Sales. Net sales were \$12.1 million in 1996, an increase of \$4.2 million, or 52%, over \$7.9 million in 1995. The strong growth in net sales was due primarily to the introduction of new products including WWF action figures and Power Rangers ZEO mini vehicles, in addition to the continuing sales of the Company's other product lines, including fashion dolls and accessories.

Gross Profit. Gross profits were \$4.8 million or 40.0% of net sales in 1996. This represents an increase of approximately 148% over gross profits of \$1.9 million or 31.8% of net sales in 1995. This increase is due primarily to increasing sales of new products featuring licensed characters and properties with higher after-royalty margins.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were \$3.6 million in 1996 and \$1.9 million in 1995, constituting 30.0% and 24.0% of net sales, respectively. The increase as a percentage of net sales was due to the increase in such expenses in support of the Company's growth including staffing and infrastructure, as well as expenses incurred in connection with the placement of the Convertible Debentures and the Road Champs Acquisition. The Company expects that such fixed costs should decrease as a percentage of net sales as sales volume increases. The overall dollar increase in 1996 over 1995 was due mainly to the increase in variable selling expenses, staffing and infrastructure additions in support of the Company's growth, the placement of the Convertible Debentures and Road Champs Acquisition. The increase in variable selling expenses, such as freight and shipping related expenses, sales commissions and travel expenses, are attributable to significant increases in net sales. Major accounts are serviced internally, thereby minimizing sales commissions; however, this benefit is partially offset by increased travel required by the Company to cover those accounts. Selling expenses are expected to increase as net sales increase due to the variable nature of such expenses. From time to time, the Company may increase its advertising efforts, including the use of more expensive advertising media such as television if the Company deems it appropriate for particular products. Such advertising costs may be substantial, and there is no certainty as to the effectiveness of such advertising or whether any resultant sales would be sufficient to cover such costs.

Interest, Net. The Company maintained significantly higher average cash balances during 1996 than in 1995 resulting in significantly higher interest income, though offset by interest expense consisting mainly of the interest incurred on the bridge financing conducted by the Company prior to the Initial Public Offering and the discount amortization on the Justin Acquisition payable. See "Business -- Acquisitions."

Provision for Income Taxes. Provision for income taxes in 1996 included foreign income taxes offset by the tax benefit generated by operating losses for Federal and state tax purposes. In 1995, the provision included Federal, state and foreign income taxes. The Company's earnings have benefited from a favorable overall effective tax rate of 12.2% in 1996 and 20.3% in 1995 as a substantial portion of the Company's earnings were subject to the Hong Kong Corporation Tax, a flat 16.5%, on its income arising in, or derived from, Hong Kong. At December 31, 1996, the Company had Federal and state net operating loss carryforwards of \$360,000 and \$180,000, respectively, available to offset future taxable income. This carryforward generally begins to expire in 2011 and may be subject to annual limitations as a result of changes in the Company's ownership. There can be no assurance that changes in ownership in future periods or any future losses will not significantly limit the Company's use of the net operating loss carryforward. In addition, no valuation allowance for its deferred tax assets, amounting to approximately \$146,000 at December 31, 1996, has been provided for since, in the opinion of management, realization of the future benefit is probable. In making this determination, management considered all available evidence, both positive and negative, as well as the weight and importance given to such evidence.

QUARTERLY FLUCTUATIONS AND SEASONALITY

The Company has experienced significant quarterly fluctuations in operating results and anticipates such fluctuations in the future. The operating results for any quarter are not necessarily indicative of results for any future period. The first quarter for the Company is typically expected to be the least profitable as a result of lower net sales but substantially similar fixed operating expenses. The Company's first quarter performance is

thus expected to be consistent with the toy industry, in general, where many companies may experience only moderate profits and many others may even experience losses.

The following tables present the unaudited quarterly results for the Company and the Company pro forma with Justin for the years indicated. The seasonality of the business is reflected in this quarterly presentation.

	1995 PRO FORMA(1)				1996			
	1ST	2ND	3RD	4TH	1ST	2ND	3RD	4TH
(IN THOUSANDS, EXCEPT PER SHARE DATA)								
Net sales.....	\$ 219	\$1,634	\$3,769	\$2,309	\$ 835	\$2,382	\$4,458	\$4,377
Gross profit.....	72	501	989	958	418	839	1,804	1,760
Income (loss) before income taxes.....	(91)	163	436	115	(42)	195	730	460
Net income (loss).....	(76)	136	359	77	20	202	628	330
Net income (loss) per share.....	\$ (0.03)	\$ 0.06	\$ 0.16	\$ 0.04	\$ 0.01	\$ 0.06	\$ 0.15	\$ 0.08

	1995 PRO FORMA(1)				1996			
	1ST	2ND	3RD	4TH	1ST	2ND	3RD	4TH
(IN PERCENTAGES OF NET SALES)								
Net sales.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit.....	32.9	30.7	26.2	41.5	50.1	35.2	40.5	40.2
Income (loss) before income taxes.....	(41.6)	10.0	11.6	5.0	(5.0)	8.2	16.4	10.5
Net income (loss).....	(34.7)	8.3	9.5	3.3	2.4	8.5	14.1	7.5

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(1) Pro forma results include Justin's results as though the acquisition took place as of January 1, 1995.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 1996, the Company had working capital of \$7.8 million, as compared to a working capital deficit of \$0.6 million as of December 31, 1995. Such increase was primarily attributable to the receipt of net proceeds from the issuance of the Common Stock by the Company in its Initial Public Offering as well as the placement of the bridge financing in February 1996 and the subsequent conversion thereof to Common Stock.

Net cash used by operating activities was \$0.7 million for the year ended December 31, 1996. Net cash was used primarily by the increase in accounts receivable and other current assets, though offset by net earnings, depreciation and amortization, and increases in accounts payable and accrued expenses. At December 31, 1996, the Company had cash of \$6.4 million.

Net cash provided by operating activities was \$1.1 million for the period from April 1, 1995 (Inception) to December 31, 1995, excluding any effect of pre-acquisition results of Justin. Net cash was provided primarily from net earnings and depreciation and amortization as well as from increases in accounts payable and various other liabilities, offset in part by increases in accounts receivable and various other assets. As of December 31, 1995, the Company had cash of \$0.1 million.

The Company's investing activities have used net cash of \$1.1 million in 1996, consisting primarily of the purchase of molds and tooling used in the manufacture of the Company's products. As part of the Company's strategy to develop and market new products, the Company has entered into various character and product licenses with royalties of 1% to 10% payable on net sales of such products. As of January 1, 1997, these agreements require future aggregate minimum guarantees of \$2.4 million, exclusive of \$0.3 million in advances already paid.

The Company's financing activities have provided net cash of \$8.0 million in 1996, consisting primarily of the issuance of the Common Stock in connection with its Initial Public Offering, which provided \$7.7 million, net of offering costs, and the placement of the bridge financing in February 1996 and the subsequent

conversion thereof to Common Stock, which provided \$1.1 million, net of offering costs, less approximately \$0.7 million in debt repaid.

In January 1997, the Company received net proceeds of approximately \$5.5 million, net of issuance costs, from the issuance of \$6.0 million in convertible debentures which are convertible into 705,882 shares of Common Stock at an assumed conversion price of \$8.50 per share, subject to anti-dilution provisions. Such debentures bear interest at 9% per annum, payable monthly, and are due in January 2004.

In February 1997, the Company acquired Road Champs for approximately \$12.0 million. Consideration paid at closing was approximately \$4.6 million in cash plus the issuance of \$1.5 million (198,020 shares) of Common Stock. The balance of the cash consideration (\$5.9 million) is payable during the twelve-month period ending in February 1998. This acquisition provided the Company with immediate significant growth in the mini vehicle product category with Road Champs product line of die cast collectible and toy vehicles. Assets included in the purchase were molds and tooling, office and warehouse equipment and other operating assets, as well as license agreements, trade name and goodwill.

The Company believes that its cash flow from operations, cash on hand and the net proceeds from the issuance of the Convertible Debentures, together with the net proceeds to the Company from this Offering, will be sufficient to meet working capital and capital expenditure requirements and provide the Company with adequate liquidity to meet its anticipated operating needs 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. There can be no assurance that any necessary additional financing will be available to the Company on commercially reasonable terms, if at all.

EXCHANGE RATES

The Company sells substantially all of its products in U.S. dollars and pays for substantially all of the manufacturing costs in either U.S. or Hong Kong dollars. Operating expenses of the Hong Kong office are paid in Hong Kong dollars. The exchange rate of the Hong Kong dollar to the U.S. dollar has been fixed by the Hong Kong government since 1983 at HK\$7.80 to US\$1.00 and, accordingly, has not represented a currency exchange risk to the U.S. dollar. No assurance can be made that the exchange rate between the United States and Hong Kong currencies will continue to be fixed or that exchange rate fluctuations will not have a material adverse effect on the Company's business, financial condition or results of operations. See "Risk Factors -- Dependence Upon Non-Affiliated Foreign Manufacturers."

RECENT ACCOUNTING PRONOUNCEMENT

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 25, "Accounting for Stock Issued to Employees." Entities that continue to account for stock options using APB Opinion 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 believes that the Company's accounting treatment for such compensation is consistent with the new standard and, accordingly, will adopt it.

BUSINESS

COMPANY OVERVIEW

The Company develops, manufactures and markets toys and related products. The Company's principal products are (i) toys and action figures featuring licensed characters, including characters from the WWF, (ii) die cast collectible and toy vehicles marketed under the name Road Champs, (iii) fashion dolls with related accessories, (iv) electronic toys designed for children and (v) new lines of radio controlled and battery-operated vehicles.

The Company sells its products through its employees and independent sales representatives. Purchasers of the Company's products include retail chain stores, department stores, toy specialty stores and wholesalers. The Road Champs products are also sold to smaller hobby shops and specialty retailers. The Company's six largest customers are Toys "R" Us, Wal Mart, Kay-Bee Toys, Kmart, Target and Caldor.

Over the past few years, the toy industry has experienced substantial consolidation among both toy companies and toy retailers. The Company believes that this consolidation provides increased growth opportunity due to retailers' desires not to be entirely dependent on a few dominant toy companies. Retailer concentration also enables the Company to ship product, manage account relationships and track retail sales more effectively with a smaller staff. In addition, the Company believes that management's experience in the toy industry, its flexibility and its recent success in developing and marketing products make it more attractive to toy inventors and developers.

INDUSTRY OVERVIEW

According to the Toy Manufacturers of America, Inc. ("TMA"), an industry trade group, total domestic manufacturers' shipments of toys, excluding video games and accessories, were approximately \$13.9 billion in 1996. According to the TMA, the United States is the world's largest toy market, followed by Japan and Western Europe. The Company believes the two largest U.S. toy companies, Mattel and Hasbro, collectively hold a dominant share of the domestic non-video toy market. In addition, hundreds of smaller companies compete in the design and development of new toys, the procurement of character and product licenses, the improvement and expansion of previously introduced products and product lines and the marketing and distribution of toy products.

The Company's product lines principally fall into four categories within the toy industry. According to the TMA, for the calendar years ended December 31, 1996, 1995, 1994 and 1993, these categories had approximate domestic manufacturers' shipments as follows:

	1996	1995	1994	1993	4-YEAR COMPOUND ANNUAL GROWTH RATE
	-----	-----	-----	-----	-----
	(IN THOUSANDS)				
Male action figures and accessories.....	790,000	716,000	867,000	641,000	7.2%
Mini-vehicles.....	\$ 313,000	\$ 261,000	\$282,000	\$237,000	9.7%
Radio controlled vehicles.....	293,000	289,000	250,000	242,000	6.6%
Fashion/mini dolls(1).....	\$1,273,000	\$1,128,000	\$913,000	\$847,000	14.5%

(1) The Company believes that most of the sales in the fashion/mini dolls category were attributable to sales of Mattel's Barbie.

BUSINESS STRATEGY

The Company's growth strategy consists of the following elements:

- Develop Core Products. In 1997, the Company is expanding the number of items it offers as part of its core products. These core products include WWF action figures, the Road Champs product lines of die cast collectible and toy vehicles and fashion dolls.
- Enter New Product Categories. The Company intends to enter into license agreements in new product categories. The Company recently entered the radio controlled vehicle category by acquiring the rights to manufacture and sell Turbo Touch Racer, Reactor and Mini Reactor product lines in North America. The Company intends to continue to use management's extensive experience in the toy industry to evaluate toys in new product categories.
- Strategic Acquisitions. Since inception, the Company has acquired businesses with proven product lines, such as the Road Champs product lines that have been sold for over twenty years. The Company believes that this line should constitute a significant portion of the Company's 1997 sales and significantly expand the Company's position in the mini vehicle category. Management seeks to continue to acquire proven product lines with an established history of sales and profitable operations.
- Enhance Operating Margins. Management believes that the Company's current infrastructure can accommodate significant growth without a corresponding increase in administrative expenses and that such growth will increase operating margins.
- Acquire Character and Product Licenses. The Company has licensing agreements with Titan Sports, Saban Entertainment, Time Warner, Sony and Fox. The Company intends to continue to pursue new licenses from these and other entertainment companies. The Company also intends to continue to purchase additional products and product concepts through its existing network of product developers.
- Develop International Sales. Management believes that foreign markets, especially Europe and Canada, offer opportunity for growth. The Company intends to expand its international sales by capitalizing on management's experience and relations with foreign distributors and retailers.
- Stability and Growth. The Company anticipates that its core products will continue to provide a consistent revenue source. The Company plans to utilize a portion of the profits from the sales of its core products to invest in new products.

There can be no assurance that the Company will be able to implement all or any part of its growth strategy or, if the Company is able to implement such strategy, that it will be successful. For a discussion of important factors that could affect the Company's ability to successfully implement its strategy in the future, see "Risk Factors."

PRODUCTS

The following chart sets forth the Company's product lines for 1996 and proposed product lines for 1997:

CATEGORIES	PRODUCTS	
	1996	1997
Male Action Figures and Accessories	World Wrestling Federation (6" Assortments and Figures, Monster Ring, Superstar Series 1, 2 and 3, Microphone, Limited Edition Costumes)	World Wrestling Federation (6" and 7" Assortments and Figures, Monster Ring, Superstars Series 3, 4, 5 and 6, Manager Series, Tag Team Series, Microphone, Limited Edition Figures, 3" Figure Sets with Wrestling Ring) Starship Troopers (Themed wall rollers and pop-ups)
Mini Vehicles	Power Rangers ZEO (Vehicles with attached Figures, Power Launcher, Sound Blasters, Stunt Speedsters, Mini Jet Cycle Stunt Stadium, Mini Jet Cycle Play Set)	Power Rangers ZEO (Vehicles with attached Figures, Power Launcher, Sound Blasters, Stunt Speedsters, Mini Jet Cycle Stunt Stadium, Mini Jet Cycle Play Set) TURBO Power Rangers (Road Blasters, Micro Turbo Zords, Turbo Morpher Wrist Carrying Case) Road Champs Die Cast Vehicles (Vehicle, Collection, Playsets -- including Cars, Trucks, Motorcycles, Planes, Helicopters, Buses and Emergency Vehicles) Ford/Chevrolet (Road Blasters, Pocket Road Blasters, Playsets)
Radio Controlled Vehicles		Reactor Mini Reactor Turbo Touch Racer TURBO Power Rangers (Turbo Racers)
Electronic Toys	Sky Com (Base stations, walkie-talkies) Audio Kid (Sing-along radios & cassette players)	Sky Com (Base stations, walkie-talkies) Audio Kid (Sing-along radios and cassette players)
Fashion Dolls	Holiday Dolls; Themed Play Sets Starr Model Agency (Midnight Jewel, Fabulous Furs, Prized Pets, Mobile Playset, Carrying Case)	Holiday Dolls; Themed Play Sets Fairy Tale Favorites (Cinderella, Snow White, Rapunzel, Princess Mermaid, Sleeping Beauty) Starr Model Agency (Shimmer-N-Shine, Floral Sensation, Island Fantasy and Bath & Vanity Dolls; Sun & Surf, Fun & Fitness and Stylin' Salon Play Sets)

CURRENT PRODUCTS

MALE ACTION FIGURES AND ACCESSORIES

- World Wrestling Federation

The Company has a license with Titan Sports, Inc. ("Titan"), pursuant to which the Company has the exclusive right to develop and market 6" action figures of the popular WWF professional wrestlers in the United States and Canada. These 6" figures feature moveable body parts and real-life action sounds. A WWF microphone with action background sounds is available with these figures. This product line, which retails for approximately \$5.99 for the individual figures, was introduced by the Company in the second quarter of 1996. A second and third series of the action figures were released in the third and fourth quarters of 1996, respectively, along with a wrestling ring play set in the fourth quarter of 1996. The Company intends to expand its current WWF products in 1997, including seven new series of wrestler figure assortments. Furthermore, the Company is expanding its WWF product line by introducing lines of 7" figures, sets of 3" figures with a wrestling ring and a new amplified microphone.

MINI VEHICLES

- Die Cast Vehicles

Road Champs die cast collectible and toy vehicle products are expected by management to become the Company's largest product line. The Road Champs product line consists of die cast new and classic cars, trucks, motorcycles, emergency and service vehicles (including police cars, fire trucks and ambulances), buses and aircraft (including propeller planes, jets and helicopters). As a part of the Road Champs Acquisition, the Company acquired the right to produce the Road Champs line of collectible vehicle replicas from Ford, Chevrolet, Jeep, Kawasaki and Yamaha, as well as the right to use certain corporate names on the die cast vehicles, such as Pepsi, Goodyear and Hershey. Management believes that these licenses increase the perceived value of the products. These products are currently retailing individually from approximately \$2.99 to \$7.99 and in play sets from \$9.99 to \$24.99. See "Risk Factors -- Assimilation of Road Champs."

- Power Rangers ZEO

The Company has entered into a license agreement with Saban Merchandising, Inc. and Saban International N.V. (collectively, "Saban") pursuant to which the Company markets and produces Power Rangers ZEO vehicles with attached figures, a "Stunt Stadium" and mini vehicles known as "Sound Blasters" and "Stunt Speedsters." The retail prices for these products range from approximately \$4.99 to \$9.99.

FASHION DOLLS

- Fashion Dolls

The Company produces various lines of proprietary fashion dolls and accessories for children between the ages of three and ten. The product line includes 11 1/2" fashion dolls outfitted to correspond with particular holidays or events such as Christmas and birthdays and the Starr Model Agency line comprised of 6 1/2" fashion dolls which come in various themed outfits such as "Midnight Jewel" and "Prized Pets," as well as accessories which include mobile play sets, carrying cases and a sport utility vehicle. In 1997, the Company intends to add to its doll lines by producing additional Starr Model Agency Playsets, as well as dolls based on children's classic fairy tales and holidays and other theme-based play sets.

CHILDREN'S ELECTRONIC TOYS

- Sky Com and Audio Kid

The Company markets and sells a line of children's electronic toys, including Sky Com base stations and walkie-talkies and Audio Kid Sing-along radios and cassette players. These products are made of

durable plastic, with rounded corners to increase safety for children, and big colorful buttons. The retail prices of these products range from \$5.99 to \$24.99.

NEW PRODUCTS

- TURBO Power Ranger

In 1997, the Company, under agreement with Saban, will market and sell mini vehicles appearing in the anticipated March 1997 release of the TURBO Power Rangers feature film and related children's television program. These mini vehicles include TURBO Power Rangers "Road Blasters" and Micro TURBO Zords, as well as accessories such as a TURBO Morpher wrist carrying case and a power launcher. The Company also intends to introduce a radio controlled vehicle called TURBO Power Rangers "Turbo Racer." The retail price for these products will range from approximately \$5.99 to \$12.99.

- Turbo Touch Racer

The Company has entered into a license agreement with Wow Wee International ("Wow Wee") to market and distribute a radio controlled car known as Turbo Touch Racer. The car is controlled by a special glove worn by the user as opposed to the traditional hand-held transmitter. These toy vehicles are expected to be sold at retail prices ranging from \$29.95 to \$34.95. The Company anticipates that it will begin to sell these products in the spring of 1997.

- Reactor and Mini Reactor

The Company has entered into an agreement with Quantum Toy Concepts Pty, Ltd. to market and sell certain radio controlled vehicles, known as Reactor, and similar vehicles in smaller sizes, known as Mini Reactor. These products are expected to be sold at retail prices from \$59.99 to \$69.99 for Reactor and from \$19.99 to \$24.99 for Mini Reactor. Initial shipments of these products are expected to commence in March 1997.

- Other Products

The Company plans to market various other toys and products designed for children including: wall rollers and pop ups related to the Starship Troopers feature film, which is expected to be released in November 1997; battery-operated vehicles ("Road Blasters"), based on models from Ford, Chevrolet and Pontiac; foam mats with licensed cartoon characters, including Berenstain Bears, the Cartoon Network and Looney Tunes Lovables; and disposable cameras and photo albums with licensed characters, including Berenstain Bears, The Simpsons and WWF wrestlers.

LICENSE AND MARKETING AGREEMENTS

License Agreements. The Company has entered into a license with Titan for the use of certain WWF properties and characters of professional wrestlers who perform in WWF live events broadcast on free and cable television, including pay-per-view television specials. The Company has the exclusive right to market those action figures in 7", 6" and 3" sizes in the United States and Canada and recently acquired the exclusive right to market the same products in Europe, Africa and Australia. The line also includes related products and accessories. The Company has been selling WWF products since May 1996. These licenses both expire on December 31, 1999. The Company has agreed to pay Titan royalties with certain minimum guarantees.

The Company has entered into a license agreement with Saban for the use of the TURBO Power Rangers and Powers Rangers ZEO properties and names on a number of products. The agreement provides for the sale of such products in mass market retail stores, specialty stores and toy stores in the United States and Canada. The agreement terminates on July 31, 1998. The Company pays royalties to Saban on toys sold with certain minimum guarantees.

Turbo Touch Racer products are sold by the Company under an exclusive license agreement with Wow Wee. The Company has the rights to market and sell the Turbo Touch Racer toy vehicles and accessories in the United States. The agreement expires on June 30, 1998 unless renewed by the Company for additional twelve month terms. Under that agreement, the Company is obligated to buy specified amounts of the products from Wow Wee and also pay Wow Wee royalties with certain minimum guarantees. However, the Company may cancel the agreement by payment of the guaranteed royalties.

The Company's recent Road Champs Acquisition included numerous licenses for the use of certain well-known corporate names, marks and logos on its Road Champs product line. Under such licenses, the Company acquired the right to produce a line of collectible vehicle replicas of certain well-known vehicles from companies such as Ford, Chevrolet, Jeep, Kawasaki and Yamaha, as well as the right to use certain highly recognizable corporate names, such as Pepsi, Goodyear and Hershey on other of the die cast vehicles. Under the terms of such licenses, which expire on various dates ranging through May 10, 2001 (many of which include automatic annual extensions without affirmative action taken by either party), the Company pays the licensor a royalty based on the Company's sales of each product bearing such licensed name. While the Company is not required to pay any royalty on certain of the products, the royalties on a majority of such products generally range from 1% to 5% of sales.

Marketing Agreements. The radio controlled vehicles known as Reactor and Mini Reactor are sold by the Company in the United States and Canada pursuant to an exclusive agreement with Quantum Toy Concepts Pty, Ltd., the owner of these products. The agreement expires December 31, 1998.

MARKETING AND DISTRIBUTION

The Company sells all of its products through its employees and independent sales representatives. Purchasers of the Company's products include retail chain stores, department stores, toy specialty stores and wholesalers. The Road Champs products are also sold to smaller hobby shops and specialty retailers. The Company's six largest customers are Toys "R" Us, Wal Mart, Kay-Bee Toys, Kmart, Target and Caldor. For the year ended December 31, 1996, these customers, in the aggregate, accounted for approximately 64.3% of the Company's sales and 51.4% of the the Company's sales on a pro forma basis when combined with Road Champs. Other than purchase orders, the Company does not have written agreements with its customers but generally sells products pursuant to letters of credit or, in certain cases, on open account with payment terms typically varying from 30 to 90 days. The termination by one or more of the customers named above of its relationship with the Company could have a material adverse effect on the Company's business, financial condition and results of operations. Although the Company's policy is not to sell any of its products on consignment, in accordance with industry practice, the Company may sell, on a case-by-case negotiated basis, its products on a partial consignment basis. To date, there have been no consignment sales.

The Company directly, or through sales representatives, obtains orders for its products from its customers and arranges for the manufacture of its products as discussed below. Cancellations are generally made in writing, and the Company takes appropriate steps to notify its manufacturers of such cancellations. Based upon the sales of the Road Champs products in the past, the Company expects approximately half of the Road Champs products to be sold domestically through the Company's warehouse in New Jersey, which maintains an inventory for sale.

The Company maintains a full-time sales and marketing staff, many of whom make on-site visits to customers for the purpose of soliciting orders for products, and retains a number of independent sales representatives, many of which had previously been employed by Road Champs, to sell and promote its products, both domestically and internationally.

The Company generally budgets approximately 3% of its gross revenues for the advertising of its products, most of which is in conjunction with retailers in the form of cooperative advertising. The Company, together with retailers, sometimes tests the consumer acceptance of new products in selected markets before committing resources to production. In addition, the Company also advertises its products in trade and consumer magazines and other publications, as well as marketing its products at major and regional toy trade shows. The Company has recently engaged an advertising agency to begin producing television commercials

for its radio controlled vehicle line. If management concludes that sales of a particular product would support the high cost, it may use television commercials to advertise certain of its products.

PRODUCT DEVELOPMENT

The Company's products are generally acquired by the Company from others or developed for the Company by non-affiliated third-parties. If the Company accepts and develops a third-party's concept for a new toy, it generally pays a royalty on the toys developed from such concept that are sold, and may, on an individual basis, guarantee a minimum royalty. Royalties payable to such developers generally range from 1% to 5% of the wholesale sales price for each unit of a product sold by the Company. The Company believes that utilizing experienced third-party inventors gives it access to a wide range of development talent. The Company currently works with several toy inventors and designers for the development of new and existing products.

Safety testing of the Company's products is done at the manufacturers' facilities by engineers employed by the Company or independent third-party contractors engaged by the Company, and is designed to meet safety regulations imposed by federal and state governmental authorities. The Company also monitors quality assurance procedures for its products for safety purposes.

MANUFACTURING AND SUPPLIES

The Company's products are currently produced by manufacturers chosen by the Company on the basis of quality, reliability and price. Consistent with industry practice, the use of third-party manufacturers enables the Company to avoid incurring fixed manufacturing costs. All manufacturing services performed overseas for the Company are paid for by either letter of credit or open account with such manufacturers. To date, the Company has not experienced any material delays in the delivery of its products; however, delivery schedules are subject to various factors beyond the control of the Company and any delays in the future could adversely affect the Company's sales. The Company believes that alternative sources of supply are available, that adequate supplies of manufactured products can be obtained. See "Risk Factors -- Dependence upon Non-Affiliated Foreign Manufactures."

Although it does not conduct the day-to-day manufacturing of its products, the Company participates in the design of the prototype product and production tooling and molds for the products it develops or acquires. The Company seeks to insure quality control by actively reviewing the production process and testing the products produced by its manufacturers.

The principal raw materials used in the production and sale of the Company's toy products are plastics, plush, printed fabrics, zinc alloy, paper products and electronic components, all of which are currently available at reasonable prices from a variety of sources. Although the Company does not manufacture its products, it owns the molds and tooling used to manufacture such products. Such molds and tooling are transferable among manufacturers if the Company chooses to employ alternative manufacturers.

TRADEMARKS AND COPYRIGHTS

Most of the Company's products are produced and sold under trademarks owned by or licensed to the Company, many of which were acquired by the Company as part of the Justin Acquisition and the Road Champs Acquisition. See "Acquisitions." The Company typically registers its properties, and seeks protection under the trademark, copyright and patent laws of the United States and other countries where its products are produced or sold.

ACQUISITIONS

Road Champs Acquisition. In February 1997, the Company, through a wholly-owned subsidiary, purchased all of the shares of Road Champs, Inc. ("RC Inc."), a Pennsylvania corporation, which owns all of the shares of Road Champs Ltd. ("RC Ltd."), a Hong Kong corporation, and the operating assets of Die Cast Associates, Inc., a related Florida corporation (collectively, the "Road Champs Companies"). As part of such acquisition, the Company purchased, among other things, the Road Champs inventory, product lines, tools

and molds and trademarks. The net purchase price was approximately \$12.0 million. Payments of approximately \$4.6 million in cash and \$1.5 million through the issuance of 198,020 shares of Common Stock were made at the closing. Payment of approximately \$2.9 million was deferred and is payable in three installments in June and October 1997 and February 1998 with interest at the rate of 7% per annum. Payment of approximately \$2.0 million for the inventory will be made over the six-month period following the closing. Payment of approximately \$1.0 million is due on the earlier of the close of this Offering or May 6, 1997. All outstanding payments are secured by a pledge of the shares of stock of RC Inc. and RC Ltd. and a security interest in the Road Champs Companies' assets which is subordinate to the security interest given by the Company to Renaissance Capital Growth & Income Fund III, Inc., and Renaissance US Growth & Income Fund PLC (collectively, "Renaissance") to secure payment of the Convertible Debentures issued by the Company to Renaissance. See "Description of Securities -- Renaissance Debentures."

Justin Acquisition. In October 1995, the Company acquired substantially all of the operating assets constituting the toy business of Justin. As part of such acquisition, the Company purchased, among other things, Justin's inventory, product lines, tools and molds, and certain of Justin's trademarks. The Company paid cash consideration of \$1,210,435 to Justin, assumed certain of Justin's liabilities to its creditors in the amount of \$718,634, and issued 89,600 shares of the Common Stock to Justin. The Company further agreed to pay to Justin percentage payments amounting to 5% of net sales derived from the acquired product lines through December 31, 1997 and 2.5% of net sales derived from such products during 1998 and 1999, with minimum annual payments of \$250,000 required for 1995 and 1996. Such percentage payments based on sales in 1995 and 1996 amounted to \$264,917 and slightly less than the \$250,000 minimum required, respectively. The Company prepaid \$500,000 of such future royalty payments at the Closing which are to be applied against 100% of percentage payments from January 1 to June 30 of 1997, 1998 and 1999, and against 50% of percentage payments for July 1 to December 31 of 1997, 1998 and 1999. The business operations of Justin are accounted for as operations of the Company as of July 1, 1995, which is the date when the Company assumed operating control over Justin's business operations.

COMPETITION

Competition in the toy industry is intense. Competition is based on consumer preferences, quality and price. In recent years, the toy industry has experienced rapid consolidation driven, in part, by the desire of industry competitors to offer a range of products across a broader variety of categories. Many of the Company's competitors have greater financial resources, stronger name recognition, larger sales, marketing and product development departments and greater economics of scale that may cause their products to be more competitively priced. Competition extends to the procurement of character and product licenses, as well as to the marketing and distribution of products, including obtaining adequate shelf space in retail stores. See "Risk Factors -- Competition."

In the toy industry categories in which the Company primarily competes, the Company's largest competitors are as follows:

Male action figures and accessories...	Hasbro, Inc., Playmates, Inc. and Mattel, Inc.
Mini vehicles.....	Tyco, Inc. ("Matchbox") and Mattel, Inc. ("Hot Wheels"), both of which manufacture vehicles smaller in size than the Company's Road Champs product line, and Racing Champions, Inc., some of whose products are the same in size as the Company's Road Champs products.
Radio controlled vehicles.....	Tyco, Inc. (a division of Mattel, Inc.), Kenner, Inc. (a division of Hasbro, Inc.) and Nikko America, Inc.
Dolls and accessories.....	Mattel, Inc., the owner of "Barbie."

The Company also competes with smaller domestic and foreign toy manufacturers, importers and marketers in each of these categories.

SEASONALITY AND BACKLOG

Sales of toy products are seasonal, with a majority of retail sales occurring during the period from September through December. Approximately 73% of the Company's sales in 1996 were made in the third and fourth quarters. Generally, the first quarter is the period of lowest shipments and revenues in the toy industry and therefore the least profitable due to certain fixed costs. Seasonality factors may cause the Company's operating results to fluctuate significantly from quarter to quarter. Due to these fluctuations, the results of operations for any quarterly period may vary significantly. The Company's results of operations may also fluctuate as a result of factors such as the timing of new products (and expenses incurred in connection therewith) of the Company or its competitors, the advertising activities of its competitors and the emergence of new market entrants. The Company believes that most of the Company's products have low retail prices and, as a result, such products may be less subject to seasonal fluctuations.

The Company generally ships products to customers within three to six months of the date an order is received. The Company's backlog, exclusive of Road Champs, at February 14, 1997, was approximately \$5.0 million, compared to \$2.5 million at March 31, 1996. Because customer orders may be canceled at any time without penalty, the Company believes that backlog may not accurately indicate sales for any future period.

GOVERNMENT AND INDUSTRY REGULATION

The Company's 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 under each such Act. The CPSA and the FHSA enable the Consumer Product 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 which are banned. Similar laws exist in some states and cities and in various international markets. The Company maintains a quality control program designed to ensure compliance in all material respects with all applicable laws.

EMPLOYEES

As of February 27, 1997, the Company employed 55 persons, all of whom are full-time employees, including three executive officers. Twenty-eight of the Company's employees are located in the United States, while the remaining twenty-seven are located in Hong Kong. The Company believes that it has good relationships with its employees. None of the Company's employees are represented by a union.

PROPERTIES

The Company leases approximately 1,800 square feet of space at 24955 Pacific Coast Highway, #B202, Malibu, California, all of which is currently used for the Company's principal executive offices. The lease for such premises expires on August 31, 1997. The current base rent is \$4,730 per month. The Company also leases, pursuant to a lease expiring on April 20, 2003, approximately 2,100 square feet of showroom and office space at the Toy Center South, 200 Fifth Avenue, New York, New York, at a current rental of \$5,539 per month. The Company leases two additional locations in the United States acquired as a part of the Road Champs Acquisition. One such facility is approximately 2,000 square feet and is used as a showroom at the Toy Center North, 1107 Broadway, New York, New York, at a current rent of \$4,959 per month. Such lease expires on April 30, 2001. The other facility of approximately 51,000 square feet of warehouse and office space, is at 7 Patton Drive, West Caldwell, New Jersey, has a current monthly rent of \$21,235 and expires on May 31, 2000 or upon six-month prior notice by either party after July 1997.

The Company also leases two locations in Hong Kong. One such location, at the Chinachen Golden Plaza, 77 Mody Road, Tsimshatsui East, Kowloon, Hong Kong, consisting of approximately 1,210 square feet, is leased on a month to month basis and is used as office space for the Company's sourcing operations. The

base rent for such facility is the U.S. dollar equivalent of \$5,119 per month. The Company acquired the lease for the second Hong Kong location in connection with the Road Champs Acquisition. The property is located at the Peninsula Center, 67 Mody Road, Tsimshatsui East, Kowloon, Hong Kong. The lease provides for a monthly rent of the U.S. dollar equivalent of \$10,200, consists of approximately 3,200 square feet and is used for office space and expires on March 14, 1998. The Company will shortly combine all of its Hong Kong operations at the location previously occupied by Road Champs. The Company expects to lease a modestly larger space for its offices in California. With such increase, the Company believes that its facilities in the United States and Hong Kong will be adequate for its reasonably foreseeable future needs.

ENVIRONMENTAL ISSUES

The Company is subject to legal and financial obligations under environmental, health and safety laws in the United States and in other jurisdictions where the Company operates which have such laws. The Company is not currently aware of any material environmental liabilities associated with any of its operations. The Company does not believe that any environmental obligations will have a material adverse impact on the financial condition of the Company.

LEGAL PROCEEDINGS

The Company is not a party to any legal proceedings.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The Company's directors and executive officers are as follows:

NAME	AGE	POSITION WITH THE COMPANY
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Jack Friedman.....	57	Chairman, Chief Executive Officer and President
Stephen G. Berman.....	32	Chief Operating Officer, Executive Vice President, Secretary and Director
Joel M. Bennett.....	35	Chief Financial Officer
Michael G. Miller.....	49	Director
Murray L. Skala.....	50	Director
Robert E. Glick.....	51	Director

Jack Friedman has been Chairman, Chief Executive Officer and President of the Company since co-founding it in 1995. From January 1989 until January 1995, Mr. Friedman was Chief Executive, President, Officer and a director of T-HQ, Inc., a publicly-held company that develops and sells interactive games and software. From 1970 to 1989, Mr. Friedman was President and Chief Operating Officer of LJN Toys, Ltd. ("LJN"), a toy and software company. After LJN was acquired by MCA/Universal, Inc. ("MCA") in 1986, Mr. Friedman continued as President until MCA's sale of LJN in late 1989.

Stephen G. Berman has been Chief Operating Officer, Executive Vice President, Secretary and a director of the Company since co-founding it in 1995. From October 1991 to August 1995, Mr. Berman was a Vice President and Managing Director of T-HQ International, Inc., a subsidiary of T-HQ, Inc. From 1988 to 1991, he was President and an owner of Balanced Approach, Inc., a distributor of personal fitness products and services.

Joel M. Bennett joined the Company in September 1995 as Chief Financial Officer. From August 1993 to September 1995, he served in several financial management capacities at Time Warner Entertainment Company, L.P., including Controller of Warner Brothers Consumer Products Worldwide Merchandising and Interactive Entertainment. From June 1991 to August 1993, Mr. Bennett was Vice President and Chief Financial Officer of TTI Technologies, Inc., a direct-mail computer hardware and software distribution company. From 1986 to June 1991, Mr. Bennett held various financial management positions at the Walt Disney Company, including Senior Manager of Finance for the international television syndication and production division.

Michael G. Miller has been a director of the Company since February 1996. Since 1979, Mr. Miller has been President and a director of several privately-held affiliated companies: JAMI Marketing, a list brokerage and list management consulting firm, JAMI Data, a database management consulting firm, and JAMI Direct, a direct mail graphic and creative design firm. He is also a director of Quintel Entertainment, Inc., a publicly-held company in the telephone entertainment services business.

Murray L. Skala has been a director of the Company since October 1995. Since 1976, Mr. Skala has been a partner of the law firm Feder, Kaszovitz, Isaacson, Weber, Skala & Bass LLP, counsel to the Company. Mr. Skala is also a director of Quintel Entertainment, Inc. and Katz Digital Technologies, Inc., a publicly-held company in the business of producing digital printing and prepress services.

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

All directors hold office until the next annual meeting of stockholders and the election and qualification of their successors. Directors currently receive no cash compensation for serving on the Board other than reimbursement of reasonable expenses incurred in attending meetings. Directors who are not employees of the Company are entitled to receive options to purchase shares of Common Stock upon their election as a director and annually while they serve as directors. See "Amended and Restated 1995 Stock Option Plan." Officers are elected annually by the Board and serve at the discretion of the Board.

Until the Convertible Debentures are fully redeemed or converted, Renaissance has the right to designate one person for nomination by management as a director of the Company or as an advisor to the Board.

COMMITTEES OF THE BOARD OF DIRECTORS

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

Audit Committee. The functions of the Audit Committee are to recommend the appointment of the Company's independent certified public accountants and to review the scope and effect of such audits. Messrs. Miller, Glick and Skala are the current members of the Audit Committee.

Compensation Committee. The functions of the Compensation Committee are to make recommendations to the Board regarding compensation of management employees and to administer plans and programs relating to employee benefits, incentives and compensation, other than the Stock Option Plan. Messrs. Friedman, Miller and Skala are the current members of the Compensation Committee.

Stock Option Committee. The function of the Stock Option Committee is to determine the recipients of and the size of awards granted under the Company's Stock Option Plan. Messrs. Miller and Glick are the current members of the Stock Option Committee. Both Stock Option Committee members are non-employee directors.

INDEMNIFICATION OF OFFICERS AND DIRECTORS

Delaware law permits a corporation, through its Certificate of Incorporation, to exonerate its directors from certain personal liability to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, other than (a) for any breach of the director's duty of loyalty to the Company or its stockholders; (b) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (c) in connection with payment of any illegal dividend or an illegal stock repurchase or redemption; or (d) for any transaction from which the director derived an improper personal benefit. This provision does not apply to equitable remedies such as injunctive relief. The Company's Certificate of Incorporation includes a provision exonerating its directors to the fullest extent permitted by Delaware law.

The Company's Certificate of Incorporation authorizes the Company to indemnify its directors for certain breach of fiduciary duty to the Company and its stockholders, and other liabilities, subject to certain limitations. Such indemnification does not apply to acts or omissions which are knowingly fraudulent, deliberately dishonest or arise out of willful misconduct.

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 informed that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

EXECUTIVE COMPENSATION

The following table sets forth the compensation paid by the Company for the Company's fiscal years ending December 31, 1995 and 1996 to its Chief Executive Officer and to each of its executive officers whose compensation exceeded \$100,000 on an annual basis (collectively, the "Named Officers").

SUMMARY COMPENSATION TABLE

(A) NAME AND PRINCIPAL POSITION	(B) YEAR	ANNUAL COMPENSATION			LONG-TERM AWARDS		COMPENSATION PAYOUTS	
		(C) SALARY (\$)	(D) BONUS (\$)	(E) OTHER ANNUAL COMPENSATION (\$)	(F) RESTRICTED STOCK AWARDS (\$)	(G) OPTIONS (#)	(H) PLAN PAYOUTS (\$)	(I) ALL OTHER COMPENSATION (\$)
Jack Friedman.....	1996	226,000	53,722(3)	--	--	--	--	--
Chairman,	1995(1)	67,000	--	--	--	--	--	--
Chief Executive Officer and President								
Stephen G. Berman.....	1996	201,000	53,722(3)	--	--	--	--	--
Chief Operating Officer,	1995(2)	41,667	--	--	--	--	--	--
Executive Vice President and Secretary								

(1) Mr. Friedman's employment with the Company commenced on September 1, 1995. See "Employment Agreements."

(2) Mr. Berman's employment with the Company commenced on September 1, 1995. See "Employment Agreements."

(3) Bonuses were earned in 1996 but were paid during 1997.

The Company did not have any long-term incentive plans in 1995. Neither of the Named Officers were granted options under the Company's Stock Option Plan in 1996 or 1995.

EMPLOYMENT AGREEMENTS

The Company has entered into an employment agreement with Mr. Friedman expiring on December 31, 2001. Pursuant to this agreement, Mr. Friedman is employed as Chief Executive Officer and President. The employment agreement provides for employment on a full-time basis and contains a provision that Mr. Friedman will not compete or engage in a business competitive with the current or anticipated business of the Company during the term of the agreement and for a period of one year thereafter, if his employment is terminated prior to December 31, 1997 voluntarily or by the Company for cause, as such term is defined in the employment agreement. Pursuant to such agreement, the Company agreed to pay Mr. Friedman a base salary of \$296,000 per annum until December 31, 1997, with increases of \$25,000 per annum thereafter and an annual bonus equal to 4% of the Company's pre-tax earnings.

The Company has entered into an employment agreement with Mr. Berman expiring on December 31, 2001. Pursuant to this agreement, Mr. Berman is employed as Chief Operating Officer, Executive Vice President, and Secretary. The employment agreement provides for employment on a full-time basis and contains a provision that Mr. Berman will not compete or engage in a business competitive with the current or anticipated business of the Company during the term of the agreement and for a period of one year thereafter, if his employment is terminated prior to December 31, 1997 voluntarily or by the Company for cause, as such term is defined in the employment agreement. Pursuant to such agreement, the Company agreed to pay Mr. Berman a base salary of \$271,000 per annum until December 31, 1997, with increases of \$25,000 per annum thereafter and an annual bonus equal to 4% of the Company's pre-tax earnings.

The Company has obtained a key-man life insurance policy in the amount of \$2,000,000 on Mr. Friedman's life.

AMENDED AND RESTATED 1995 STOCK OPTION PLAN

The Company's Amended and Restated 1995 Stock Option Plan (the "Stock Option Plan") was adopted and approved by the stockholders in December 1995 and amended by the Board in November 1996. The Stock Option Plan provides for the grant of options to purchase up to 216,998 shares of the Company's Common Stock. Such options are intended to qualify either as incentive stock options ("Incentive Stock Options") within the meaning of Section 422 of the U. S. Internal Revenue Code or as options that are not intended to meet the requirements of such section ("Nonstatutory Stock Options"). Under the Stock Option Plan, Incentive Stock Options may be granted to employees (including officers) of the Company, and Nonstatutory Stock Options may be granted to employees (including officers), non-employee directors, consultants or advisors of the Company.

The Stock Option Plan may be administered by the Board or a committee chosen by the Board of non-employee directors. The administering body has discretionary authority to select the persons to whom, the number of shares for which, the times at which and the exercise price for which options will be granted.

Stock options granted to an employee expire immediately upon the termination of employment voluntarily by such employee or for cause by the Company. Employee stock options may be exercised up to one year after the termination of employment due to death or disability. Employee stock options may be exercised up to three months after termination for any other reason. Stock options granted to a non-employee director expire upon the termination of the director's services for cause. Non-employee director stock options may be exercised up to one year after such person is no longer serving as a director for any other reason.

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

The Stock Option Plan provides for certain grants to non-employee directors. Non-employee directors serving on the Board when the Stock Option Plan was adopted each received options to purchase an aggregate of 10,850 shares of Common Stock at the fair market value of the Common Stock on such date. Newly appointed non-employee directors receive an option to purchase 10,850 shares at their then-current fair market value on the date of the appointment. In addition, every January 1st, each non-employee director receives an option to purchase 5,425 shares at their then current fair market value.

As of the date of this Prospectus, the Company has granted options to purchase an aggregate of 191,750 shares of Common Stock under the plan to its employees and non-employee directors. Pursuant to the terms of the underwriting agreement with the representatives of the underwriters for the Initial Public Offering, the option holders at the time of the Initial Public Offering will not sell or otherwise dispose of shares underlying options until May 1, 1997 without the prior written consent of such representatives. After May 1, 1997, the Company intends to file a registration statement covering shares issuable upon exercise of stock options granted under the Stock Option Plan.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth information as of the date of this Prospectus regarding beneficial ownership of the Company's Common Stock, based upon information obtained from the persons named below, by (i) each person who is known by the Company to own beneficially more than 5% of the outstanding shares of its Common Stock, (ii) each of the Company's directors, (iii) each of the Named Officers, (iv) all executive officers and directors of the Company as a group and (v) each of the Selling Stockholders.

NAME AND ADDRESS OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING		SHARES BEING OFFERED -----	SHARES BENEFICIALLY OWNED AFTER OFFERING	
	NUMBER	PERCENT		NUMBER	PERCENT
-----	-----	-----		-----	-----
Jack Friedman 24955 Pacific Coast Highway, #B202, Malibu, California 90265	1,410,488(1)	33.7%	306,183(2)	1,104,305(3)	17.9%
Stephen Berman(4) 24955 Pacific Coast Highway, #B202, Malibu, California 90265	216,998	5.2	47,105	169,893	2.7
Michael G. Miller One Blue Hill Plaza Pearl River, NY 10965	16,275(5)	*	--	16,275(5)	*
Murray L. Skala 750 Lexington Avenue New York, NY 10022	238,696(1)(6)	5.7	47,104(2)	191,592(3)	3.1
Robert E. Glick 1400 Broadway New York, NY 10018	23,725(7)	*	--	23,725(7)	*
William Lee 200 Old Palisade Avenue Fort Lee, NJ 07024	90,416	2.1	19,627	70,789	1.1
Robert Johnson 5401 West Kennedy Blvd. Tampa, FL 33609	16,275	*	3,533	12,742	*
Natacha Friedman 19246 E. Country Club Drive Aventura, FL 33180	81,374	1.9	17,664	63,710	1.0
Trust for Brooke Friedman 750 Lexington Avenue New York, NY 10022	81,374	1.9	17,664	63,710	1.0
Trust for Tony Friedman 750 Lexington Avenue New York, NY 10022	81,374	1.9	17,664	63,710	1.0
Education Trust for Tony Friedman 750 Lexington Avenue New York, NY 10022	27,124	*	5,888	21,236	*
Renaissance Capital Growth & Income Fund III, Inc., and Renaissance US Growth & Income Fund PLC 8080 N. Central Expressway, Suite 310/LB59 Dallas, Texas 75206	705,882(8)	14.4	--	705,882(8)	10.2
All Officers and Directors as a Group (six persons) (1)(2)(3)(4)(5)(6)(7)(9)	1,734,485	40.8%	359,176	1,337,309	21.4%

* Less than 1% of the Company's outstanding shares.

- (1) Includes an aggregate of 189,872 shares held by Mr. Skala as trustee under trusts for the benefit of the children of Mr. Friedman, the Company's Chairman, Chief Executive Officer and President.
- (2) Includes 41,216 shares held by and being sold by Mr. Skala as trustee under trusts for the benefit of the children of Mr. Friedman.
- (3) Includes 148,656 shares which will be held after the Offering by Mr. Skala as trustee under trusts for the benefit of the children of Mr. Friedman.
- (4) Mr. Berman is the Company's Chief Operating Officer, Executive Vice President, Secretary and a director.
- (5) Represents 16,275 shares which Mr. Miller, a director of the Company, has the right to acquire pursuant to outstanding stock options.
- (6) Includes 27,124 shares owned by Mr. Skala, a director of the Company, 21,700 shares which Mr. Skala has the right to acquire pursuant to outstanding stock options and an aggregate of 189,872 shares held by Mr. Skala as trustee under trusts for the benefit of the children of Mr. Friedman.
- (7) Includes 16,275 shares which Mr. Glick, a director of the Company, has the right to acquire pursuant to outstanding stock options.
- (8) Consists of 705,882 shares in the aggregate which these two entities have the right to acquire upon the conversion of an aggregate of \$6,000,000 convertible debentures owned by them. Each of these entities owns \$3,000,000 of such convertible debentures. The Company believes that these two entities are under common control by a third-party.
- (9) Includes 2,000 shares beneficially owned by Joel M. Bennett, the Company's Chief Financial Officer, and 16,625 shares which Mr. Bennett has the right to acquire pursuant to outstanding stock options.

Messrs. Friedman and Berman may be deemed "founders" of the Company, as such term is defined under the federal securities laws.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company has made two loans to Joel M. Bennett, the Company's Chief Financial Officer, in the amounts of \$25,000 and \$40,000, respectively. The \$25,000 loan bears interest at the rate of 6.15% and is payable at the earlier of August 27, 1997 or the termination of Mr. Bennett's employment with the Company. The \$40,000 loan bears interest at the rate of 6.02% and is payable at the earlier of September 20, 1997 or the termination of Mr. Bennett's employment.

Mr. Skala, a director of the Company, is a partner in the law firm of Feder, Kaszovitz, Isaacson, Weber, Skala & Bass LLP, counsel to the Company. The Company paid legal fees to Feder, Kaszovitz, Isaacson, Weber, Skala & Bass, LLP in the amount of approximately \$270,000 in 1996 and \$75,000 in 1995.

DESCRIPTION OF SECURITIES

GENERAL

The Company is authorized to issue 25,000,000 shares of Common Stock, par value \$.001 per share, and 5,000 shares of Preferred Stock, par value \$.001 per share. As of the date of this Prospectus, 4,182,969 shares of Common Stock are outstanding which the Company believes are beneficially owned by approximately 1,400 persons. After an additional 2,000,000 shares of Common Stock are issued by the Company in this Offering, 6,182,969 shares will be outstanding.

COMMON STOCK

Holders of Common Stock are entitled to one vote for each share on all matters voted on by stockholders, including the election of directors. 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. The Certificate of Incorporation does not provide for cumulative voting of directors. Holders of Common Stock will be entitled to receive dividends ratably, if any, as may be declared from time to time by the Board out of funds legally available therefor. Holders of Common Stock will be entitled to receive, pro rata, all assets of the Company available for distribution to them upon liquidation. In addition, holders of Common Stock have no preemptive, subscription or redemption rights. All outstanding shares of Common Stock are, and the Common Stock offered hereby, upon issuance and sale, will be, fully paid and nonassessable.

PREFERRED STOCK

The Certificate of Incorporation provides that the Company is authorized to issue "blank check" preferred stock, which may be issued from time to time in one or more series upon authorization by the Board. The Board, without further approval of the stockholders, is authorized to fix any dividend rights, conversion rights, voting rights, redemption rights and terms, liquidation preferences and any other rights, preferences, privileges and restrictions applicable to each series of preferred stock. 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 the Company, discourage bids for the Company's Common Stock at a premium or otherwise adversely affect the market price of the Common Stock. To date, the Company has not issued any preferred stock.

RENAISSANCE DEBENTURES

In January 1997, the Company issued \$6,000,000 of its 9% seven-year convertible debentures to Renaissance. After payment of a 6% brokerage commission to Joseph Charles & Associates, Inc. and fees to Renaissance and its attorneys, net proceeds to the Company were \$5,450,000. The debentures are presently convertible into 705,882 shares of Common Stock assuming a conversion price of \$8.50 per share. The debentures are convertible at a lower of \$9.00 per share or the next sale price by the Company if the Company issues shares of its stock at a price less than \$9.00 per share and also subject to other adjustments. The indebtedness must be repaid in part each month beginning December 1999, in the amount of 1% of the then unpaid balance, and in full at December 31, 2003. The Company has the right to prepay all or part of such indebtedness in certain events at 120% of their original \$6,000,000 face value. Renaissance has certain demand and piggy-back registration rights for the shares into which its debentures are convertible and has the right to designate one person for nomination by management as a director of the Company or as an advisor to the Board.

WARRANTS AND OPTIONS

In connection with the Initial Public Offering, the Company issued to the representatives of the underwriters warrants to purchase an aggregate of 150,000 shares of Common Stock at an exercise price of \$9.375 per share. Such warrants expire on May 1, 2001.

For its assistance with the Renaissance financing, the Company issued to Joseph Charles & Associates, Inc. a warrant to purchase an aggregate of 150,000 shares of Common Stock at an exercise price of \$8.00 per share. Such warrant expires on January 8, 2002.

Pursuant to the Stock Option Plan, the Company has granted options to certain of its employees for the purchase of an aggregate of 137,500 shares of Common Stock, at prices ranging from \$6.75 to \$8.25 per share, and options to its non-employee directors to purchase an aggregate of 54,250 shares of Common Stock, at prices ranging from \$4.50 to \$8.25 per share. Options granted under the Stock Option Plan are exercisable for periods of up to ten years and may contain such other terms as the administering body may determine. The Company also granted options to certain employees for the purchase of an aggregate of 276,500 shares of Common Stock, at \$2.00 per share, prior to the adoption of the Stock Option Plan, as well as options to purchase 75,000 shares of Common Stock to a consultant outside of the Stock Option Plan, at prices ranging from \$7.50 to \$7.625.

TRANSFER AGENT

The transfer agent for the Common Stock is U.S. Stock Transfer Corporation, Glendale, California 91204.

SHARES ELIGIBLE FOR FUTURE SALE

Upon the consummation of this Offering, the Company will have 6,182,969 shares of Common Stock outstanding. Of such shares, 4,457,454 shares (including the 2,400,000 shares of Common Stock offered hereby) will be freely tradeable without restriction or further registration under the Securities Act. All such shares purchased by an affiliate of the Company (in general, a person who has a control relationship with the Company) will be subject to the resale limitations of Rule 144 under the Securities Act. Another 1,725,515 shares of Common Stock are "restricted securities," as the term is defined under Rule 144. Such shares were acquired by their owners prior to this Offering in transactions not involving a public offering. Such shares may only be sold pursuant to a registration statement under the Securities Act, in compliance with the exemption provisions of Rule 144, or pursuant to another exemption under the Securities Act. The holders of such 1,725,515 restricted shares have agreed not to sell their shares for varying periods, expiring from May 1997 to February 1998. Including the contractual restrictions of sale, such 1,725,515 restricted shares will become eligible for sale from time to time, at various times, commencing in October 1997, subject to the volume and other limitations of Rule 144. An additional 1,668,498 shares that are issuable upon exercise of outstanding warrants and options and the conversion of outstanding debentures will, under Rule 144, be eligible for sale into the public securities markets two or three years after the warrant or option is exercised or the debenture is converted.

In general, under Rule 144 as currently in effect, any person (or persons whose shares are aggregated) who has beneficially owned restricted shares of common stock for at least two years is entitled to sell, within any three-month period, a number of shares that does not exceed the greater of 1% of the then outstanding shares of the issuer's common stock or (if the issuer's common stock is listed on a national securities exchange or on Nasdaq) the average weekly trading volume during the four calendar weeks preceding the sale, provided that certain public information about the issuer is available and the seller complies with certain other requirements. A person who is not an affiliate of the issuer, has not been an affiliate of the issuer within three months prior to sale and has beneficially owned the restricted shares for at least three years is entitled to sell such shares under Rule 144 without regard to any of the limitations described above.

The Company has granted certain piggy-back and demand registration rights with respect to 198,020 shares outstanding and 1,080,882 shares issuable upon the exercise of outstanding warrants and options and the conversion of outstanding debentures.

UNDERWRITING

The Underwriters named below, for whom Cruttenden Roth Incorporated is acting as the representative (the "Representative"), have severally agreed, subject to the terms and conditions of the Underwriting Agreement, to purchase from the Company and the Selling Stockholders the number of shares of Common Stock set forth opposite their respective names below. The nature of the obligations of the Underwriters is such that if any of such shares are purchased, all must be purchased.

UNDERWRITERS	NUMBER OF SHARES TO BE PURCHASED
-----	-----
Cruttenden Roth Incorporated.....	
Total.....	2,400,000 =====

The Underwriters initially propose to offer the shares of Common Stock offered hereby to the public at the price set forth on the cover page of this Prospectus. The Underwriters may allow a concession to selected dealers who are members of the National Association of Securities Dealers, Inc. (the "NASD") not in excess of \$ per share, and the Underwriters may allow, and such dealers may reallocate, to members of the NASD a concession not in excess of \$ per share.

The Company and two of the Selling Shareholders have granted an option to the Underwriters, exercisable within 45 days after the date of this Prospectus, to purchase up to an additional 360,000 shares of Common Stock, less the underwriting discount set forth on the cover page of this Prospectus. The Underwriters may exercise the option only for the purpose of covering over-allotments. If such over-allotment option is exercised by the Underwriters in full, 300,000 of the over-allotment shares will be sold by the Company, 40,000 by Mr. Friedman and 20,000 by Mr. Berman. To the extent the Underwriters exercise such option, each Underwriter will be committed, subject to certain conditions, to purchase that number of additional shares of Common Stock which is proportionate to such Underwriter's initial commitment. If the over-allotment option is exercised by the Underwriters only in part, the Company, Mr. Friedman and Mr. Berman will sell the lesser number of the over-allotment shares in the same proportions. To the extent that the Underwriters exercise such option, each Underwriter will be committed, subject to certain conditions, to purchase that number of additional shares of Common Stock which is proportionate to such Underwriter's initial commitment.

Except in connection with acquisitions, strategic commercial transactions or pursuant to the exercise of options to purchase up to 216,998 shares of Common Stock that have been and may be granted under the Company's Stock Option Plan at an exercise price at least equal to fair market value of the shares of Common Stock, the Company has agreed, for a period of six months from the closing of this Offering, that it will not issue or sell any shares of Common Stock or other equity securities of the Company or purchase any shares of the Common Stock of the Company without the prior written consent of the Representative. In addition, the officers, directors and certain stockholders of the Company have agreed that they will not sell any additional shares of Common Stock of the Company owned by them, except for their shares offered in this Offering and the 7,000 registered shares owned by Mr. Glick, for a period of 180 days from the consummation of this Offering without the prior written consent of the Representative, provided that intra-family transfers or transfers to family trusts shall not be thus restricted.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act or to contribute to payments which the Underwriters may be required to make in respect thereof.

The Representative has advised the Company that the Underwriters do not expect to confirm any sales by the Underwriters to accounts over which they exercise discretionary authority.

LEGAL MATTERS

The legality of the Common Stock offered hereby has been passed upon for the Company by Feder, Kaszovitz, Isaacson, Weber, Skala & Bass, LLP, New York, New York. Murray L. Skala, a director of the Company, the owner of 27,124 shares of Common Stock and one of the Selling Stockholders, is a partner of Feder, Kaszovitz, Isaacson, Weber, Skala & Bass, LLP. Gibson, Dunn & Crutcher LLP, Los Angeles, California, has passed upon legal matters for the Representative in connection with this Offering.

EXPERTS

The consolidated financial statements of the Company as of December 31, 1996 and 1995 and for the year ended December 31, 1996 and the period from April 1, 1995 (inception) to December 31, 1995 included in this Prospectus have been audited by Pannell Kerr Forster, Certified Public Accountants, A Professional Corporation, Los Angeles, California, independent auditors, as stated in their report appearing herein and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing. The combined financial statements of Road Champs, Inc. and Subsidiary and Die Cast Associates, Inc. as of December 31, 1996 and 1995 and for the years then ended included in this Prospectus have been audited by Pannell Kerr Forster PC, New York, New York, independent auditors, as stated in their report appearing herein and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing. Pannell Kerr Forster PC, New York, New York did not audit the 1995 financial statements of a subsidiary company. The financial statements of the subsidiary company (not included herein) were audited by Lui & Mack, Hong Kong, independent auditors, whose report was furnished to Pannell Kerr Forster PC, New York, New York, and they relied on such report as to amounts included in the financial statements for such subsidiary.

ADDITIONAL INFORMATION

Since May 1, 1996, the Company has been subject to the reporting requirements of the Exchange Act. In accordance with the Exchange Act, the Company has and will continue to file reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Reports and other information filed by the Company may be inspected and copied at the public reference facilities of the Commission in Washington, D.C. Copies of such materials can be obtained from the Public Reference Section of the Commission, Washington, D.C. 20549 at prescribed rates. In addition, the Commission maintains a web site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission. The Company's Common Stock is listed on the Nasdaq SmallCap Market and reports and information concerning the Company can be also inspected through such exchange. The Company intends to furnish its stockholders with annual reports containing audited financial statements and such other periodic reports as the Company deems appropriate or as may be required by law.

The Company will provide without charge to each person who receives the Prospectus, upon written or oral request of such person, a copy of any of the information that is incorporated by reference in this Prospectus (not including exhibits to the information that is incorporated by reference unless the exhibits are themselves specifically incorporated by reference). Such requests should be directed by mail to Joel M. Bennett, Chief Financial Officer, JAKKS Pacific, Inc., 24955 Pacific Coast Highway, Suite #B202, Malibu, California 90265 or by telephone at (310) 456-7799.

The Company has filed with the Commission a Registration Statement on Form SB-2 and all schedules and exhibits thereto under the Securities Act with respect to the Common Stock offered by this Prospectus. This Prospectus does not contain all of the information set forth in the Registration Statement, certain parts of which are omitted in accordance with the rules and regulations of the Commission. For further information with respect to the Company and this Offering, reference is made to such Registration Statement, including the exhibits filed therewith, which may be inspected without charge at the Commission's principal office at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the Registration Statement may be obtained from the Commission at its principal office upon payment of prescribed fees. Statements contained in this Prospectus as to the contents of any contract or other document are not necessarily complete and, where the content or other document has been filed as an exhibit to the Registration Statement, each such statement is qualified in all respects by reference to the applicable document filed with the Commission.

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Prospectus includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements other than statements of historical fact, including those with respect to the Company's objectives, plans and strategy set forth under "Business -- Business Strategy" and those preceded by or that include the words "believes," "expects," "anticipates," "intends," "plans," "is scheduled to" or similar expressions, are forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that those expectations will prove to be correct. Important factors that could cause actual results to differ materially from the Company's expectations ("Cautionary Statements") are disclosed in this Prospectus in conjunction with the forward-looking statements and under "Risk Factors." All written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by those Cautionary Statements.

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INDEPENDENT AUDITORS' REPORT

The Stockholders
JAKKS Pacific, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of JAKKS Pacific, Inc. and Subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity and cash flows for the year and nine months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of JAKKS Pacific, Inc. and Subsidiaries as of December 31, 1996 and 1995, and the results of their operations and cash flows for the year and nine months then ended, in conformity with generally accepted accounting principles.

/s/ PANNELL KERR FORSTER

PANNELL KERR FORSTER
Certified Public Accountants
A Professional Corporation

Los Angeles, California
January 23, 1997, except for note 15, for which
the date is February 6, 1997

JAKKS PACIFIC, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	DECEMBER 31,	
	1996	1995
Current assets:		
Cash.....	\$ 6,355,260	\$ 81,752
Accounts receivable.....	2,420,470	575,489
Inventory.....	140,105	86,128
Deferred product development costs.....	515,870	89,171
Prepaid expenses and other.....	450,107	129,735
Advanced royalty payments.....	276,000	50,000
Advances to officers.....	120,030	--
Total current assets.....	10,277,842	1,012,275
Property and equipment		
Office furniture and equipment.....	121,305	92,156
Molds and tooling.....	1,350,949	325,577
Leasehold improvements.....	4,808	675
Total.....	1,477,062	418,408
Less accumulated depreciation and amortization.....	277,265	55,448
Net property and equipment.....	1,199,797	362,960
Deferred offering and acquisition costs.....	85,301	74,915
Intangibles and deposits, net.....	91,776	51,977
Deferred income taxes.....	7,531	--
Goodwill, net.....	2,537,697	2,626,014
Total assets.....	\$14,199,944	\$4,128,141
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 1,610,987	\$ 711,058
Accrued expenses.....	205,087	178,038
Reserve for returns and allowances.....	175,000	460,513
Current portion of acquisition debt.....	190,008	202,485
Income taxes payable.....	272,605	80,983
Total current liabilities.....	2,453,687	1,633,077
Long-term portion of acquisition debt.....	--	229,889
Notes payable to officer.....	--	382,816
Deferred income taxes.....	--	32,655
Total liabilities.....	2,453,687	2,278,437
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.001 par value; 5,000 shares authorized, no shares issued.....	--	--
Common stock, \$.001 par value; 25,000,000 shares authorized, issued and outstanding 3,984,949 and 2,000,000 shares, respectively.....	3,985	2,000
Additional paid-in capital.....	10,321,295	1,624,238
Retained earnings.....	1,616,140	436,371
Unearned compensation from grant of options.....	11,941,420	2,062,609
	195,163	212,905
Net stockholders' equity.....	11,746,257	1,849,704
Total liabilities and stockholders' equity.....	\$14,199,944	\$4,128,141
	=====	=====

See notes to consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31, 1996 -----	APRIL 1, 1995 (INCEPTION) TO DECEMBER 31, 1995 -----
Net sales.....	\$12,052,016	\$6,077,763
Cost of sales.....	7,231,296	4,130,997
	-----	-----
Gross profit.....	4,820,720	1,946,766
Selling, general and administrative expenses.....	3,611,471	1,400,368
	-----	-----
Income from operations.....	1,209,249	546,398
Interest expense.....	63,171	8,971
Other income.....	196,966	13,382
	-----	-----
Income before provision for income taxes.....	1,343,044	550,809
Provision for income taxes.....	163,275	114,438
	-----	-----
Net income.....	\$ 1,179,769	\$ 436,371
	-----	-----
Net income per share.....	\$.34	\$.20
	-----	-----
Weighted average common shares outstanding and common equivalent shares.....	3,503,767 =====	2,191,423 =====

See notes to consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEAR ENDED DECEMBER 31, 1996 AND APRIL 1, 1995 (INCEPTION) TO DECEMBER 31, 1995

	COMMON SHARES OUTSTANDING	PAR VALUE PER SHARE	STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	UNEARNED COMPENSATION FROM GRANT OF OPTIONS	TOTAL STOCKHOLDERS' EQUITY
	-----	-----	-----	-----	-----	-----	-----
Balance, April 1, 1995 (Inception).....	--	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Issuance of common stock for cash.....	1,896,925	.001	1,897	843,103	--	--	845,000
Issuance of common stock in partial consideration for purchase of toy business assets.....	75,951	.001	76	559,924	--	--	560,000
Issuance of common stock for services.....	27,124	.001	27	8,306	--	--	8,333
Grant of compensatory stock options.....	--	--	--	212,905	--	(212,905)	--
Net income.....	--	--	--	--	436,371	--	436,371
	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 1995.....	2,000,000	.001	2,000	1,624,238	436,371	(212,905)	1,849,704
Issuance of common stock for cash.....	1,502,000	.001	1,502	7,652,761	--	--	7,654,263
Issuance of common stock from bridge financing conversion.....	469,300	.001	469	1,044,310	--	--	1,044,779
Issuance of common stock in partial consideration for purchase of toy business assets.....	13,649	.001	14	(14)	--	--	--
Earned compensation from grant of options.....	--	--	--	--	--	17,742	17,742
Net income.....	--	--	--	--	1,179,769	--	1,179,769
	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 1996.....	3,984,949	\$.001	\$3,985	\$10,321,295	\$1,616,140	\$(195,163)	\$11,746,257
	=====	=====	=====	=====	=====	=====	=====

See notes to consolidated financial statements.

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

	YEAR ENDED DECEMBER 31, 1996 -----	APRIL 1, 1995 (INCEPTION) TO DECEMBER 31, 1995 -----
Cash flows from operating activities:		
Net income.....	\$ 1,179,769	\$ 436,371
Adjustments to reconcile net income to net cash (used) provided by operating activities:		
Depreciation and amortization.....	338,032	101,203
Earned compensation from stock option grants.....	17,742	--
Changes in operating assets and liabilities:		
Accounts receivable.....	(1,844,981)	(575,489)
Inventory.....	(53,977)	(86,128)
Prepaid expenses and other.....	(973,076)	(268,906)
Advances to officers.....	(120,030)	--
Accounts payable.....	899,929	711,058
Accrued expenses.....	27,049	178,038
Income taxes payable.....	191,622	80,983
Reserve for returns and allowances.....	(285,513)	460,513
Deferred income taxes.....	(40,186)	32,655
Total adjustments.....	(1,843,389)	633,927
Net cash (used) provided by operating activities.....	(663,620)	1,070,298
Cash flows from investing activities		
Property and equipment.....	(1,058,653)	(418,408)
Intangibles and deposits.....	(49,129)	(45,143)
Excess of cost over toy business assets acquired (goodwill).....	--	(2,110,270)
Net cash (used) by investing activities.....	(1,107,782)	(2,573,821)
Cash flows from financing activities		
Deferred costs.....	(85,301)	(74,915)
Proceeds from sale of common stock.....	7,669,263	845,000
Proceeds from convertible notes payable.....	1,104,694	--
Proceeds from (repayments of) note payable to officer.....	(382,816)	382,816
Proceeds from (repayments of) acquisition debt.....	(260,930)	432,374
Net cash provided by financing activities.....	8,044,910	1,585,275
Net increase in cash.....	6,273,508	81,752
Cash, beginning of year and at inception.....	81,752	--
Cash, at end of year and at December 31, 1995.....	\$ 6,355,260	\$ 81,752
Cash paid during the period for:		
Interest.....	\$ 49,638	\$ 335
Income taxes.....	\$ 11,839	\$ 800

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

See notes to consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996 AND 1995

NOTE 1 -- PRINCIPAL INDUSTRY

JAKKS Pacific, Inc. (the "Company") is engaged in the development, manufacture and marketing of toys and children's electronics products, some of which are based on character and product licenses. The Company commenced operations in July 1995 through the purchase of substantially all of the assets of a Hong Kong toy company. The Company is marketing its product lines domestically and internationally.

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

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

Cash and cash equivalents

The Company considers all highly liquid assets, having an original maturity of less than three months, to be cash equivalents.

Use of estimates

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

Revenue recognition

Revenue of the Company's products is recognized upon shipment to its customers. The Company provides allowances for estimated returns at the time of sales.

Deferred product development costs

The Company defers certain costs related to the preliminary activities associated with the manufacture of its products, which the Company has determined have future economic benefit. These costs are then expensed in the period in which the initial shipment of the related product is made. Management periodically reviews and revises, when necessary, its estimate of the future benefit of these costs, and expenses them if it is deemed there no longer is a future benefit.

Deferred offering and acquisition costs

During 1996, costs incurred for an additional public offering, convertible debenture offering, and certain acquisition costs were deferred. The deferred costs will be offset against respective proceeds received and upon completion of an on-going acquisition to the costs of the new affiliate (note 15).

In 1995, offering costs incurred directly related to the issuance of convertible promissory notes pursuant to its private offering and costs incurred directly related to its public offering were capitalized. The Company

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1996 AND 1995

completed the private offering and public offering in February and May 1996, respectively, and offset these deferred offering costs against the respective proceeds received.

Inventory

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

Property and equipment

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

Personal computers.....	5 years
Office equipment.....	5 years
Furniture and fixtures.....	5 years
Molds and tooling.....	3 - 4 years
Leasehold improvements.....	Shorter of length of lease or 10 years

Advertising

Production costs of commercials and programming are charged to operations in the year during which the production is first aired. The costs of other advertising, promotion and marketing programs are charged to operations in the year incurred. Advertising expense for the year ended December 31, 1996 was approximately \$22,000.

Income taxes

The Company does not file a consolidated return with its foreign subsidiaries. The Company files Federal and state returns and its foreign subsidiaries file Hong Kong returns. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized as deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Translation of foreign currencies

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

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

Goodwill

Goodwill represents the excess purchase price paid over the fair market value of the assets acquired of a Hong Kong toy company. Goodwill is being amortized over 30 years on a straight-line basis. Accumulated amortization at December 31, 1996 totalled \$133,301.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1996 AND 1995

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

Intangible assets

Intangible assets consist of organizational costs, product technology rights and patents. Intangible assets are amortized on a straight-line basis, over five to six years, the estimated economic lives of the related assets. Accumulated amortization as of December 31, 1996 and 1995 was \$10,834 and \$1,500, respectively.

Reverse stock split

The Company effected a reverse split of its common stock of approximately one-for-1.843333. All common stock and common stock equivalent shares and per share amounts have been adjusted retroactively to give effect to the reverse stock split.

Net income per share

Net income per share is computed using the weighted average number of shares outstanding of common stock and common equivalent shares from stock options using the treasury stock method.

NOTE 3 -- ACQUISITION

Effective July 1, 1995, the Company acquired substantially all of the assets constituting the toy business of Justin Products Limited, a Hong Kong Corporation ("JPL"). Total consideration paid of \$2,965,353 consisted of cash, assumption of liabilities and the issuance of 89,600 shares of the Company's common stock.

Other consideration includes percentage payments equal to 5% of the net sales of the acquired product lines during each of the calendar years 1995, 1996, and 1997, with minimums of \$250,000 for each of 1995 and 1996, and 2.5% of the net sales of the acquired product lines during each of the calendar years 1998 and 1999. Such percentage payments are subject to offset against \$500,000 in cash consideration paid. The 1996 minimum percentage payment has been discounted at 10% and is presented at net as a long-term liability (note 8). Percentage payments for the year and period ended December 31, 1996 and 1995, respectively, amounted to \$250,000 and \$264,917, respectively.

The assets acquired from JPL were as follows:

Furniture and fixtures.....	\$ 47,500
Office equipment.....	12,500
Molds and tooling.....	250,000
Goodwill.....	2,655,353

Total assets acquired.....	\$2,965,353
	=====

NOTE 4 -- CONCENTRATION OF CREDIT RISK

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

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1996 AND 1995

The Company maintains cash balances at financial institutions located in California and Hong Kong. Accounts located in California institutions are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 1996, the Company's uninsured cash balance totaled \$6,476,475.

The Company performs on-going credit evaluations of its customers financial condition but does not require collateral to support customer receivables. Most goods are sold on irrevocable letter of credit basis.

Included in the Company's consolidated balance sheets at December 31, 1996 and 1995, are the Company's operating net assets, most of which are located in facilities in Hong Kong and China and which total approximately \$3,531,379 and \$1,019,077, for 1996 and 1995, respectively.

NOTE 5 -- ADVANCES TO OFFICERS

Advances to officers represent balances of \$65,000 and \$55,030 due from two of the Company's officers. The \$55,030 is due on demand and bears no interest. The amount of \$65,000 relates to two notes receivable, \$25,000 and \$40,000, that are due on the earlier of August 27 and September 20, 1997, respectively, or immediately upon the termination of the officer's employment with the Company for any reason; the notes receivable bear interest of approximately 6 percent. See note 18.

NOTE 6 -- ACCRUED EXPENSES

Accrued expenses consist of the following:

	1996	1995
	-----	-----
Bonuses.....	\$107,444	\$ --
Insurance.....	--	36,972
Hong Kong subsidiaries accruals.....	--	36,531
Reserve for vendor claims arising from the Justin acquisition.....	--	98,476
Royalties.....	78,060	--
Other.....	19,583	6,059
	-----	-----
	\$205,087	\$178,038
	=====	=====

NOTE 7 -- RESERVE FOR RETURNS AND ALLOWANCES

The Company provides allowances for estimated sales returns and allowances at the time of sales. In 1996, the balance of the reserve for returns and allowance was \$175,000. In 1995, the reserve for returns and allowances includes actual amounts due to customers for pre-acquisition obligations assumed by the Company of \$260,513, and an estimated reserve for returns and allowances of \$200,000.

NOTE 8 -- LONG-TERM DEBT

Long-term debt, entirely due in 1997, consists of the following:

	1996	1995
	-----	-----
Asset purchase obligation.....	\$191,555	\$452,485
Less amount representing interest.....	1,547	20,111
	-----	-----
Present value of asset purchase obligation.....	190,008	432,374
Less current portion.....	190,008	202,485
	-----	-----
Long-term portion of asset purchase obligation.....	\$ --	\$229,889
	=====	=====

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1996 AND 1995

NOTE 9 -- INCOME TAXES

The provision differs from the expense that would result from applying Federal statutory rates to income before taxes because of the inclusion of a provision for state income taxes, and the income of the Company's foreign subsidiaries is taxed at a rate of 16.5% applicable in Hong Kong. In addition, the provision includes deferred income taxes resulting from adjustments in the amount of temporary differences.

Temporary differences arise primarily from differences in timing in the deduction of state income taxes and the use of the straight-line method of depreciation for financial reporting purposes and accelerated methods of depreciation for tax purposes.

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

	1996	1995
	-----	-----
Federal.....	\$ --	\$ 3,030
State and local.....	1,350	2,870
Hong Kong.....	277,994	75,883
	-----	-----
	279,344	81,783
Deferred.....	(116,069)	32,655
	-----	-----
	\$ 163,275	\$114,438
	=====	=====

As of December 31, 1996, the Company has Federal and state net operating loss carryovers of approximately \$360,000 and \$180,000, respectively, available to offset future taxable income. The carryovers expire through 2011.

Deferred tax assets resulting from deductible temporary differences from loss carryforwards, noncurrent.....	\$ 145,692	\$ --
Deferred tax liabilities resulting from taxable temporary differences, noncurrent.....	(138,161)	(32,655)
	-----	-----
	\$ 7,531	\$(32,655)
	=====	=====

The Company's management concluded that a deferred tax asset valuation allowance as of December 31, 1996, was not necessary.

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

	1996	1995
	-----	-----
Statutory income tax rate.....	35%	35%
State and local income taxes, net of Federal income tax effect.....	1	1
Effect of net operating loss carryovers.....	(40)	--
Income taxes on foreign earnings at rates other than the United States Statutory rate not subject to United States income taxes.....	16	(15)
	---	---
	12%	21%
	===	===

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1996 AND 1995

The components of earnings before income taxes are as follows:

	1996	1995
	-----	-----
Domestic.....	\$ (360,040)	\$ 16,555
Foreign.....	1,703,084	534,254
	-----	-----
	\$1,343,044	\$550,809
	=====	=====

NOTE 10 -- NOTES PAYABLE -- OFFICER

Notes payable -- officer, is due to a Company officer and stockholder. The officer advanced monies to the Company totaling \$382,816 at an interest rate of approximately 6%. During 1996, additional advances of \$50,000 and \$25,000 had been made to the Company by two of its officers under the same terms disclosed above. All notes payable were repaid, including accrued interest, during 1996. See note 18.

NOTE 11 -- LEASES

The Company leases office facilities and certain equipment under operating leases. The following is a schedule of minimum lease payments. Rent expense for the year and period ended December 31, 1996 and 1995 totalled \$182,690 and \$89,737, respectively.

1997.....	\$111,342
1998.....	73,402
1999.....	70,682
2000.....	68,925
2001.....	66,467
Thereafter.....	132,934

	\$523,752
	=====

NOTE 12 -- COMMON STOCK AND PREFERRED STOCK

All references to the number of shares of the Company's common stock and per share amounts have been retroactively restated in the accompanying consolidated financial statements to reflect the effect of the approximately one-for-1.843333 reverse stock split.

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

During 1995, the Company issued JPL 75,951 shares of common stock, and an additional 13,649 shares in connection with the Company's public offering in May 1996, pursuant to the asset purchase agreement (note 3), and has also issued 27,124 shares, valued at \$8,333, to the Company's legal counsel for services rendered.

The Company has entered into a letter of intent with a certain underwriter relating to a contemplated additional public offering of its Common Stock.

NOTE 13 -- COMMITMENTS

The Company entered into various license agreements whereby the Company may use certain characters and properties in conjunction with its products. Such license agreements call for royalties to be paid at 5 to 10% of net sales with minimum guarantees and advance payments. Additionally, under one such license, the Company has committed to spend 12.5% of related net sales, not to exceed \$1,000,000, on advertising per year.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1996 AND 1995

Future minimum royalty guarantees are as follows:

1997.....	\$ 730,451
1998.....	714,166
1999.....	949,667

Total.....	\$2,394,284
	=====

NOTE 14 -- STOCK OPTION PLAN

Under the Company's 1995 Stock Option Plan, the Company has reserved 216,998 shares of the Company's Common Stock for issuance under the Plan. Under the 1995 Stock Option Plan, employees (including officers), nonemployee directors and independent consultants may be granted options to purchase shares of Common Stock. Prior to the adoption of the Plan in 1995, options for 276,500 shares have been granted at an exercise price of \$2.00 per share. The Company has recorded deferred compensation costs and a related increase in paid-in capital of \$212,905 for the difference between the grant price and the deemed fair market value of the Common Stock of \$2.77 per share at the date of grant. Such compensation costs will be recognized on a straight-line basis over the vesting period of the options, which is 25% per year commencing twelve months after the grant date of such options.

As of December 31, 1996, 91,523 shares remain available for future grant.

Stock option activity pursuant to the 1995 Plan is summarized as follows:

	1996	1995
	-----	-----
Options outstanding At January 1.....	10,850	--
Granted.....	114,625	10,850
Exercised.....	--	--
Canceled.....	--	--
	-----	-----
At December 31.....	125,475	10,850
	=====	=====
Options exercisable At December 31.....	37,975	10,850
	=====	=====
Option price per share Granted.....	\$4.50 - \$8.25	\$4.50

Stock option activity outside of the 1995 Plan is summarized as follows:

Options outstanding At January 1.....	276,500	--
Granted.....	75,000	276,500
Exercised.....	--	--
Canceled.....	--	--
	-----	-----
At December 31.....	351,500	276,500
	=====	=====
Options exercisable At December 31.....	144,125	--
	=====	=====
Option price per share Granted.....	\$7.50 - \$7.625	\$2.00

In addition, in 1996, 150,000 shares were reserved for issuance upon exercise of warrants granted to the representatives of the underwriters of the Company's Initial Public Offering exercisable at \$9.375 per share.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1996 AND 1995

NOTE 15 -- SUBSEQUENT EVENTS

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 January 2004. Commencing on December 31, 1999, and the first day of each successive month thereafter prior to maturity, mandatory principal redemption installments, each of such installment to be in the amount of \$10 per \$1,000 of the then remaining principal amount of the debenture. Such debentures are convertible at \$8.50 per share into 705,882 shares of the Company's common stock, subject to reset and anti-dilution provisions. A stock pledge agreement from the Company pledging as security all outstanding shares of a certain entity being acquired, upon acquisition thereof from use of loan proceeds, and all of the 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 are also to be pledged as security. As additional consideration paid, warrants for the purchase of 150,000 shares of common stock, exercisable at \$8.00 per share, were sold for \$0.001 per share.

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 \$12,045,000. Consideration paid at closing was approximately \$4,619,000 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 \$2,937,000 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 seven percent per annum. In addition, the payment for inventory of approximately \$1,988,000, without interest, is payable within 30 days of shipment to customers and the balance is payable no later than August 6, 1997, and a payment of \$1,001,000 is due seven days after the close of an additional public offering of the Company's common stock, but not later than May 6, 1997. Outstanding balances will be secured by all acquired shares and assets, however, they will be subordinated to the security interest for the convertible debentures noted above.

NOTE 16 -- MAJOR CUSTOMERS

Sales to major customers were as follows:

1996		1995	
AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE
\$3,398,059	28.2%	\$1,890,184	31.1%
1,679,281	13.9	729,332	12.0
1,007,590	8.4	686,787	11.3
847,392	7.0	577,387	9.5
508,941	4.2	571,310	9.4
\$7,441,263	61.7%	\$4,455,000	73.3%
=====	=====	=====	=====

NOTE 17 -- SUPPLEMENTAL INFORMATION TO STATEMENTS OF CASH FLOWS

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

Shares of common stock were issued for toy business assets acquired totalling \$560,000 in 1995. 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 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1996 AND 1995

27,124 shares of stock valued at \$8,333 were issued in consideration for legal services in connection with the Company's organizational start-up during 1995.

NOTE 18 -- RELATED PARTY TRANSACTIONS

A director of the Company is a partner in the law firm that acts as counsel to the Company. The company paid legal fees to the law firm in the amounts of approximately \$270,000 in 1996 and \$75,000 in 1995. Also see footnotes 5 and 10 for other related party transactions.

NOTE 19 -- RECENT ACCOUNTING PRONOUNCEMENT

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 25, "Accounting for Stock Issued to Employees." Entities that continue to account for stock options using APB Opinion 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 believes that the Company's accounting treatment for such compensation is consistent with the new standard and, accordingly, will adopt it.

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" ("Statement 121"). Statement 121 addresses the accounting for the impairment of long-lived assets, certain identifiable intangible 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. Statement 121 establishes guidance for recognizing and measuring impairment losses and requires that the carrying amount of impaired assets be reduced to fair value. Statement 121 was effective for fiscal years beginning after December 15, 1995. Management does not expect the impact of the adoption of Statement 121 to have a material adverse effect on the Company's financial condition or results of operations.

INDEPENDENT AUDITORS' REPORT

To the Stockholders of Road Champs, Inc.
and Subsidiary and Die Cast Associates, Inc.

We have audited the accompanying combined balance sheets of Road Champs, Inc. and Subsidiary and Die Cast Associates, Inc. as of December 31, 1996 and 1995 and the related combined statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these financial statements based on our audits. For 1995, we did not audit the financial statements for Road Champs Limited, a wholly-owned subsidiary, which statements reflect total assets of \$6,815,640 as of December 31, 1995 and net sales of \$12,051,301 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Road Champs Limited, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditor provides a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditor, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Road Champs, Inc. and Subsidiary and Die Cast Associates, Inc. as of December 31, 1996 and 1995, and the results of their combined operations and cash flows for the years then ended, in conformity with generally accepted accounting principles.

/s/ PANNELL KERR FORSTER PC

PANNELL KERR FORSTER PC

New York, New York
February 12, 1997

ROAD CHAMPS, INC. AND SUBSIDIARY
AND
DIE CAST ASSOCIATES, INC.

COMBINED BALANCE SHEETS

ASSETS

	DECEMBER 31	
	1996	1995
Current assets:		
Cash and cash equivalents.....	\$ 2,792,336	\$ 2,779,649
Investments (notes 1 and 4).....	6,032,816	3,591,664
Accounts receivable, net of allowance for doubtful accounts of \$65,266 and \$83,008 at December 31, 1996 and 1995, respectively.....	1,958,344	3,142,352
Loan receivable affiliated entity (notes 1 and 9).....	1,034,784	695,535
Inventory (note 3).....	1,961,068	2,401,014
Prepaid expenses and other.....	158,373	156,992
Deferred tax asset (note 6).....	72,615	--
Total current assets.....	14,010,336	12,767,206
Property and equipment		
Office furniture and equipment.....	463,067	712,258
Molds and tooling.....	4,749,085	4,771,572
Leasehold improvements.....	81,250	--
Total.....	5,293,402	5,483,830
Less accumulated depreciation and amortization.....	4,690,231	4,629,009
Net property and equipment.....	603,171	854,821
Deposits.....	138,322	156,755
Total assets.....	\$14,751,829	\$13,778,782
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 507,541	\$ 662,870
Accrued expenses (note 7).....	1,139,613	253,211
Notes payable -- stockholder (note 8).....	375,000	375,000
Income taxes payable.....	689,106	37,578
Deferred tax liability (note 6).....	--	415,725
Total current liabilities.....	2,711,260	1,744,384
Commitments (note 7)		
Stockholders' equity:		
Common stock (note 5).....	9,750	9,750
Additional paid-in capital.....	104,000	104,000
Unrealized holding gain on securities net of deferred taxes of \$3,719 and \$713,577 in 1996 and 1995, respectively (note 4).....	133,157	1,175,472
Retained earnings.....	11,793,662	10,745,176
Total stockholders' equity.....	12,040,569	12,034,398
Total liabilities and stockholders' equity.....	\$14,751,829	\$13,778,782
	=====	=====

See notes to combined financial statements

ROAD CHAMPS, INC. AND SUBSIDIARY
AND
DIE CAST ASSOCIATES, INC.

COMBINED STATEMENT OF OPERATIONS

	YEAR ENDED DECEMBER 31,	
	1996	1995
Net sales.....	\$15,510,611	\$17,141,445
Cost of sales.....	9,564,332	11,427,162
Gross profit.....	5,946,279	5,714,283
Selling, general and administrative expenses.....	4,119,424	5,022,977
Income from operations.....	1,826,855	691,306
Interest expense.....	45,359	48,072
Other income (note 4).....	2,733,020	125,456
Other expenses (note 7).....	923,841	--
Income before provision for income taxes.....	3,590,675	768,690
Provision for income taxes (note 6).....	1,615,276	246,417
Net income.....	\$ 1,975,399	\$ 522,273
	=====	=====

See notes to combined financial statements

ROAD CHAMPS, INC. AND SUBSIDIARY
AND
DIE CAST ASSOCIATES, INC.

COMBINED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995

	COMMON SHARES OUTSTANDING	PAR VALUE PER SHARE	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	UNREALIZED HOLDING GAIN ON SECURITIES NET OF TAXES	TOTAL STOCKHOLDERS' EQUITY
	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 1994.....	195	\$50	\$9,750	\$104,000	\$10,611,152	\$ 1,472,351	\$12,197,253
Net income.....	--	--	--	--	522,273	--	522,273
Dividends paid.....	--	--	--	--	(320,000)	--	(320,000)
Unrecoverable advances due from former subsidiary....	--	--	--	--	(68,249)	--	(68,249)
Net change in unrealized holding gain on securities, net of taxes of \$237,784.....	--	--	--	--	--	(296,879)	(296,879)
	---	---	---	---	---	---	---
Balance, December 31, 1995.....	195	50	9,750	104,000	10,745,176	1,175,472	12,034,398
Net income.....	--	--	--	--	1,975,399	--	1,975,399
Dividends paid.....	--	--	--	--	(817,598)	--	(817,598)
Unrecoverable advances due from former subsidiary....	--	--	--	--	(109,315)	--	(109,315)
Net change in unrealized holding gain on securities, net of taxes of \$709,858.....	--	--	--	--	--	(1,042,315)	(1,042,315)
	---	---	---	---	---	---	---
Balance, December 31, 1996.....	195	\$50	\$9,750	\$104,000	\$11,793,662	\$ 133,157	\$12,040,569
	===	===	=====	=====	=====	=====	=====

See notes to combined financial statements

ROAD CHAMPS, INC. AND SUBSIDIARY
AND
DIE CAST ASSOCIATES, INC.

COMBINED STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31,	
	1996	1995
Cash flows from operating activities:		
Net income.....	\$ 1,975,399	\$ 522,273
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization.....	510,316	656,210
Deferred taxes.....	221,518	224,003
Provision for doubtful accounts.....	(17,742)	(157,280)
Gain on sale of investments.....	(2,501,857)	--
Changes in certain assets and liabilities		
Accounts receivable.....	1,201,750	225,102
Inventory.....	438,946	967,451
Prepaid expenses and other.....	11,917	(11,532)
Deposits.....	18,433	159,272
Accounts payable.....	(155,329)	275,224
Accrued expenses.....	886,402	(23,311)
Income taxes payable.....	651,528	10,874
Net cash provided by operating activities.....	3,241,281	2,848,286
Cash flows from investing activities:		
Purchase of property and equipment.....	(270,963)	(412,997)
Sale of investments.....	8,401,624	150,000
Purchase of investments.....	(10,093,093)	(102,536)
Loan receivable affiliated entity.....	(339,249)	(340,530)
Unrecoverable advances due from former subsidiary.....	(109,315)	(68,249)
Net cash (used) by investing activities.....	(2,410,996)	(774,312)
Cash flows from financing activities:		
Notes payable -- bank.....	--	(975,000)
Dividends paid.....	(817,598)	(320,000)
Net cash (used) by financing activities.....	(817,598)	(1,295,000)
Net increase in cash and cash equivalents.....	12,687	778,974
Cash and cash equivalents -- beginning of year.....	2,779,649	2,000,675
Cash and cash equivalents -- end of year.....	\$ 2,792,336	\$ 2,779,649
Supplemental disclosure of cash flow information		
Cash paid for interest.....	\$ 45,359	\$ 59,020
Cash paid for income taxes.....	\$ 729,850	\$ 31,415

See notes to combined financial statements

ROAD CHAMPS, INC. AND SUBSIDIARY
AND
DIE CAST ASSOCIATES, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1996

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and description of business

The combined financial statements include the accounts of Road Champs, Inc. (Road Champs) and its wholly-owned subsidiary Road Champs, Ltd. (Limited) and Die Cast Associates, Inc. (Die Cast). Road Champs, located in New Jersey is a toy wholesaler principally in the United States. Limited, a Hong Kong corporation, is a toy wholesaler that sells worldwide principally on an F.O.B. Hong Kong basis against letters of credit. Die Cast, a Florida corporation, acts as the sales agent and product development consultant for Road Champs and Limited. Road Champs and Die Cast (collectively the Company) are owned and/or controlled by the same stockholder who, on January 21, 1997 agreed to sell the stock of Road Champs, Inc. and Subsidiary and certain operating assets of Die Cast for approximately \$12,045,000 plus the value of certain defined assets less defined liabilities. The sale closed on February 6, 1997.

The businesses under common control and which are being sold have been combined for financial statement purposes. All significant intercompany transactions and balances have been eliminated. Road Champs Die Casting Factory (Factory), a Hong Kong corporation, operates a die cast toy manufacturing facility in China and is the principal supplier of merchandise to Road Champs and Limited. Factory is under the same common ownership as the Company but was not part of the aforementioned sales transaction and, accordingly, is excluded from the combined financial statements. During 1996 and 1995, Road Champs had net advances of \$109,315 and \$68,249, respectively, due from Factory which were deemed unrecoverable and are reflected in stockholders' equity in the combined financial statements.

Cash and cash equivalents

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

Revenue recognition

Revenue from sales of the Company's products is recognized upon shipment to its customers.

Inventory

Inventory generally is valued at the moving average cost basis and is stated at the lower of cost or market.

Investments

Investments consists of equity securities and bonds. These investments are classified as available-for-sale and are stated at fair value. The Company computes gains/losses on sales of its investments using the specific identification method.

ROAD CHAMPS, INC. AND SUBSIDIARY
AND
DIE CAST ASSOCIATES, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1996

Property and equipment

Property and equipment are stated at cost and are being depreciated using accelerated methods over their estimated useful lives as follows:

Office furniture and equipment.....	5-7 years
Molds and tooling.....	3-4 years
Leasehold improvements.....	5 years

Income taxes

Road Champs accounts for income taxes using the liability method. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws expected to be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce the carrying amount of deferred tax assets to their net realizable value.

Die Cast has elected to be treated as an "S" Corporation for Federal and New Jersey income tax purposes. Consequently, it does not record income taxes (except for capital gains, certain passive investment income, and certain investment credit recapture). The stockholder is liable for the individual income taxes of Die Cast's taxable income (even though such income is not distributed) or include a share of Die Cast's net operating loss in the individual's income tax return. Die Cast records New Jersey income taxes at the reduced "S" Corporation rate.

Foreign Currency Translation

Foreign currency financial statements of the Road Champ's Hong Kong subsidiary are converted into United States dollars by translating balance sheet accounts at the current exchange rate at year end and statement of operations accounts at the average exchange rate for the year.

Use of estimates

The preparation of the combined financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair value of financial instruments

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

Split Dollar Insurance Plan

An insurance trust was created for the Road Champs majority stockholder in December 1993. The terms of the trust require that it pay premiums equal to the current term rate for the insured's age multiplied by the excess of the current death benefit over Road Champs current premium advance. This amount, also referred

ROAD CHAMPS, INC. AND SUBSIDIARY
AND
DIE CAST ASSOCIATES, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1996

to as the "economic value", is a fringe benefit expense of Road Champs. The remaining amount of the premium is recorded as a loan receivable from the insurance trust, an affiliated entity.

International operations

Limited operates in Hong Kong. As a result, a significant portion of Road Champs sales and operations are subject to certain risks, including adverse developments in the foreign political and economic environment, exchange rates, tariffs and other trade barriers, staffing and managing foreign operations and potentially adverse tax consequences. There can be no assurance that any of these factors will not have a material adverse effect on the Company's financial condition or results of operations in the future. Net sales of Limited totaled \$10,361,376 and \$12,051,301 for the years ended December 31, 1996 and 1995.

NOTE 2 -- RISK CONCENTRATIONS

Accounts receivable and sales

A significant amount of the accounts receivable and sales of Road Champs are from a limited number of customers. Four customers owed 37%, 17%, 12% and 10%, respectively, of the total accounts receivable at December 31, 1995, and two customers owed 22% and 21%, respectively, of the total accounts receivable at December 31, 1996. Two customers had 21% and 26%, respectively of total sales in 1995, and one customer had 15% of total sales in 1996.

NOTE 3 -- INVENTORY

Inventory consists of the following:

	1996	1995
	-----	-----
Packaging.....	\$ 117,817	\$ 182,688
Finished goods.....	1,843,251	2,218,326
	-----	-----
Total inventory.....	\$1,961,068	\$2,401,014
	=====	=====

NOTE 4 -- INVESTMENTS

The following is a summary of the Company's available-for-sale securities at December 31, 1996 and 1995.

DECEMBER 31, 1996

SECURITIES AVAILABLE-FOR-SALE	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED (LOSSES)	ESTIMATED FAIR VALUE
-----	-----	-----	-----	-----
Common Stock.....	\$2,362,922	\$ 137,505	\$ --	\$2,500,427
U.S. Government Obligations.....	179,201	320	--	179,521
Municipal Bonds.....	3,353,817	409	(1,358)	3,352,868
	-----	-----	-----	-----
Total.....	\$5,895,940	\$ 138,234	\$ (1,358)	\$6,032,816
	=====	=====	=====	=====

Proceeds from the sale of available for sale securities amounted to \$8,401,624 in 1996, while realized gains on the sale of available-for-sale securities amounted to \$2,501,857 during 1996. The change in unrealized holding gain on available-for-sale securities in 1996 amounted to \$1,752,173.

ROAD CHAMPS, INC. AND SUBSIDIARY
AND
DIE CAST ASSOCIATES, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1996

DECEMBER 31, 1995

SECURITIES AVAILABLE-FOR-SALE	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED (LOSSES)	ESTIMATED FAIR VALUE
Common Stock.....	\$1,600,079	\$1,893,745	\$ (6,015)	\$3,487,809
Municipal Bonds.....	102,536	1,319	--	103,855
Total.....	<u>\$1,702,615</u>	<u>\$1,895,064</u>	<u>\$ (6,015)</u>	<u>\$3,591,664</u>

Proceeds from the sale of available-for-sale securities amounted to \$150,000. Realized gain on the sale of available-for-sale securities were not significant during 1995. The change in unrealized holding gains on available-for-sale securities in 1995 amounted to \$534,663.

The amortized cost and estimated fair value of debt securities classified as available-for-sale at December 31, 1996 and 1995 by contractual maturity are as follows:

MATURITY	1996		1995	
	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIMATED FAIR VALUE
Less than one year.....	\$1,307,442	\$1,307,018	\$ --	\$ --
One to five years.....	25,576	25,371	102,536	103,855
Greater than ten years.....	2,200,000	2,200,000	--	--
	<u>\$3,533,018</u>	<u>\$3,532,389</u>	<u>\$102,536</u>	<u>\$103,855</u>

NOTE 5 -- COMMON STOCK

Common stock at December 31, 1996 and 1995 consists of:

	SHARES		
	PAR VALUE	AUTHORIZED	ISSUED AND OUTSTANDING
Road Champs, Inc.....	\$50	100	95
Die Cast Associates, Inc.	50	100	100
		200	195
		===	===

NOTE 6 -- INCOME TAXES

The provision for income taxes consists of:

	1996	1995
Current		
Federal.....	\$1,045,811	\$ 22,414
State.....	347,947	--
	<u>1,393,758</u>	<u>22,414</u>
Deferred.....	221,518	224,003
	<u>\$1,615,276</u>	<u>\$246,417</u>

ROAD CHAMPS, INC. AND SUBSIDIARY
AND
DIE CAST ASSOCIATES, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1996

The provision for income taxes generated for year end 1996 and 1995 differ from amounts which would result from applying the Federal statutory tax rate to pretax income as follows:

	1996	1995
	-----	-----
Income before provision for income taxes.....	\$3,590,675	\$ 768,690
Items not includible/deductible for tax purposes (income) losses of Die Cast Associates Inc. -- Sub "S" Corp.....	52,511	(147,715)
	-----	-----
Adjusted pretax income.....	3,643,186	620,975
Federal statutory tax rate.....	34%	34%
	-----	-----
Provision for income tax at statutory rate.....	1,238,683	211,131
State income taxes, net of Federal income tax benefit.....	229,645	36,886
Effects of foreign tax rate and other.....	146,948	(1,600)
	-----	-----
Provision for income taxes.....	\$1,615,276	\$ 246,417
	=====	=====

The components of the net deferred tax asset (liability) are as follows:

	1996	1995
	-----	-----
Deferred tax assets		
Net operating loss carryforwards.....	\$76,334	\$ 339,227
	-----	-----
Deferred tax liabilities		
Property and equipment.....	--	(41,375)
Unrealized holding gain on investments.....	(3,719)	(713,577)
	-----	-----
	(3,719)	(754,952)
	-----	-----
Net deferred tax asset (liability).....	\$72,615	\$(415,725)
	=====	=====

At December 31, 1996, Limited had available net operating loss carryforwards of approximately \$259,050 which have no expiration date.

NOTE 7 -- COMMITMENTS

a. Leases

Road Champs leases its New Jersey office and warehouse and its New York showroom under lease agreements which expire May 2000 and April 2001, respectively. The leases call for additional charges based upon utilities, real estate taxes and repairs, as defined. The New Jersey building is owned by a limited partnership controlled by the majority shareholder of Road Champs.

Limited leases its Hong Kong office space under a lease agreement which expires March 1998.

ROAD CHAMPS, INC. AND SUBSIDIARY
AND
DIE CAST ASSOCIATES, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1996

The following is a schedule by year of the future minimum rent, exclusive of escalations, required by the leases:

1997.....	\$ 484,922
1998.....	395,169
1999.....	371,550
2000.....	195,150
2001.....	23,050

	\$1,469,841
	=====

Rent expense for the years ended December 31, 1996 and 1995 amounted to \$304,871 and \$446,229, respectively.

b. Stock Appreciation Plan

Road Champs had a nonqualified Stock Appreciation Plan (Plan) with two of its key employees which vest upon the death or retirement of a participant, or the change in control of Road Champs, as defined.

In contemplation of the sale of the Company, Road Champs and the two key employees reached a cash settlement to terminate the Plan totalling approximately \$917,000, which was accrued at December 31, 1996 and included in other expenses in the accompanying combined statement of operations.

c. Line-of-credit

Road Champs has established a line-of-credit with a commercial bank in the amount of \$3,000,000 expiring September 1997. Borrowings against the line-of-credit bear interest at LIBOR plus 150 basis points and are collateralized by accounts receivable and inventory and guaranteed by Limited and Die Cast.

NOTE 8 -- NOTES PAYABLE -- STOCKHOLDER

The notes payable -- stockholder are unsecured, payable on demand, and bears interest at 10% per annum. Interest paid during each of the years 1996 and 1995 amounted to \$37,500.

NOTE 9 -- SPLIT DOLLAR INSURANCE PLAN

The total premiums required to be paid annually under the Plan, (see note 1) aggregate \$366,129. The fringe benefit expense to Road Champs included in the total was \$26,879 and \$25,599 for 1996 and 1995, respectively. Premiums in excess of the fringe benefit expense are recorded as a loan receivable from the insurance trust, an affiliated entity.

=====

NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITY OTHER THAN THE COMMON STOCK OFFERED BY THIS PROSPECTUS, OR AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITY, BY ANY PERSON IN ANY JURISDICTION IN WHICH SUCH AN OFFER OR SOLICITATION WOULD BE UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, IMPLY THAT THE INFORMATION IN THIS PROSPECTUS IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE OF THIS PROSPECTUS.

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UNTIL , 1997 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE SHARES OF COMMON STOCK OFFERED HEREBY, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

=====

2,400,000 SHARES

'JAKKS LOGO'
(TM)

COMMON STOCK

PROSPECTUS

CRUTTENDEN ROTH
INCORPORATED
, 1997

=====

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Company's Certificate of Incorporation provides that the personal liability of the directors of the Company 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 Company 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 (i) any breach of the director's duty of loyalty to the Company or its stockholders; (ii) acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law; (iii) acts or omissions in respect of certain unlawful dividend payments or stock redemptions or repurchases; or (iv) any transaction from which such director derives improper personal benefit. The effect of this provision is to eliminate the rights of the Company 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 (i) through (iv) above. The limitations summarized above, however, do not affect the ability of the Company 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 Company 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. Section 145 of the DGCL permits a company to indemnify an officer or director who was or is a party or is threatened to be made a party to any proceeding because of his or her position, if the officer or director acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

The Company 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 Company, including the indemnification paid to any director or officers. This policy provides for \$1 million in maximum aggregate coverage including defense costs. The entire premium for such insurance is paid by the Company.

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 informed that in the opinion of the Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Reference is hereby made to Section ____ of the Underwriting Agreement, filed as Exhibit 1.1, to this Registration Statement, pursuant to which the Underwriters have agreed to indemnify and hold harmless the Company and its directors, officers and controlling persons against certain liabilities.

ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

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

SEC Registration fee.....	\$ 7,445.69
NASD filing fee.....	2,957.08
*Blue sky fee and expenses (including legal fees).....	50,000.00
*Nasdaq National Market System listing fee.....	17,500.00
*Printing expenses.....	75,000.00
*Accountants' fees and expenses.....	25,000.00
*Attorneys' fees and expenses.....	150,000.00
*Underwriters' legal fees.....	150,000.00
*Miscellaneous.....	22,097.23
*TOTAL.....	\$500,000.00
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* Estimated

ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES

The following sets forth information relating to the sale of all unregistered securities of the Company since its inception in January 1995:

NAME OR CLASS OF PURCHASERS	APPROXIMATE DATE OF ISSUANCE	NUMBER OF SHARES OF COMMON STOCK OR PRINCIPAL AMOUNT OF DEBT SECURITIES(1)	CONSIDERATION
Jack Friedman	Apr.-Oct. 1995	1,627,486	\$500,000
Stephen G. Berman	May 1, 1995	162,748	\$50,000
Murray L. Skala	Apr. 1, 1995	27,124	Issued in consideration for services, in the amount of \$8,333
Justin Products Limited	Oct. 19, 1995	75,951	Issued in partial consideration for the Company's acquisition of certain product lines, in the amount of \$560,000(2)
William Lee	Oct. 30, 1995	90,416	\$250,000
Robert Johnson	Nov. 15, 1995	16,275	\$45,000
Justin Products Limited	May 1, 1996	13,649	Adjustment to reflect the offering price in the Initial Public Offering for the partial consideration for the acquisition of certain product lines
Shareholders of Road Champs, Inc.	Feb. 6, 1997	198,020	\$1,500,000

- -----

(1) Number of shares issued prior to December 29, 1995 reflects a 1.843333-for-1 reverse stock split effected on that date.

(2) The fair market value of stock given in partial consideration for assets acquired.

On February 14, 1996, the Company conducted a private placement bridge financing in which 39 investors invested an aggregate of \$1,300,000 for Unsecured Subordinated Promissory Notes (convertible into 469,300 shares of the Company's Common Stock). Of such 469,300 shares, 223,000 shares were sold as part of the Initial Public Offering, and the remaining 246,300 shares were listed as additional registered shares in the Prospectus relating thereto.

Effective January 8, 1997 the Company issued \$6,000,000 in aggregate, of 9% seven-year convertible debentures to Renaissance Capital Growth Income Fund III, Inc. and Renaissance US Growth & Income Trust PLC (together "Renaissance"). Net proceeds to the Company after payment of a 6% brokerage commission to Joseph Charles & Associates, Inc. and fees to Renaissance and its attorneys were \$5,450,000. The debentures are convertible into 705,882 shares of the Company's Common Stock assuming a conversion price of \$8.50 per share. The debentures are convertible at the lower of \$9.00 per share or the next sale price by the Company, subject to further adjustment if the Company issues shares of its stock at price less than such conversion price. The indebtedness must be repaid in part each month beginning December 1999, in the amount of 1% of the then unpaid balance and in full at December 31, 2003. The Company has the right to prepay all or part of such indebtedness in certain events at 120% of their original \$6,000,000 face value.

Exemption from registration under the Securities Act is claimed for the sale of all of the securities set forth above in reliance upon the exemption afforded by Section 4(2) of the Securities Act and, in the case of Promissory Notes sold on February 14, 1996, Regulation D under the Securities Act, for transactions not involving a public offering. Each certificate evidencing such shares of Common Stock, Promissory Notes and Convertible Debentures originally bore, and some continue to bear, bears an appropriate restrictive legend, and "stop transfer" orders were originally (and some shares still are) maintained on the Company's stock transfer records for such shares of Common Stock.

ITEM 27. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(A) EXHIBITS

EXHIBIT NUMBER

- - - - -

- 1.1 Form of Underwriting Agreement (1)
- 3.1 Restated Certificate of Incorporation of the Company (2)
- 3.2.1 By-Laws of the Company (2)
- 3.2.2 Amendment to By-Laws of the Company (3)
- 4.1 Form of certificate evidencing shares of Common Stock (2)
- 4.2 JAKKS Pacific, Inc. 9.00% Convertible Debenture issued to Renaissance Capital Growth & Income Fund III, Inc. dated December 31, 1996 (3)
- 4.3 JAKKS Pacific, Inc. 9.00% Convertible Debenture issued to Renaissance US Growth & Income Trust PLC dated December 31, 1996 (3)
- 5.1 Opinion, with consent, of Feder, Kaszovitz, Isaacson, Weber, Skala & Bass LLP, counsel for the Registrant (2)
- 10.1 Amended and Restated 1995 Stock Option Plan (3)
- 10.2 Employment Agreement by and between the Company and Jack Friedman dated January 1, 1997 (3)
- 10.3 Employment Agreement by and between the Company and Stephen G. Berman dated January 1, 1997 (3)
- 10.4 Asset Purchase Agreement dated October 19, 1995 (as of July 1, 1995) between the Company, JP (HK) Limited and Justin (2)
- 10.5 Convertible Loan Agreement by and between the Company and Renaissance Capital Growth & Income Fund III, Inc. and Renaissance US Growth & Income Trust PLC dated December 31, 1996 (3)
- 10.6 Purchase Agreement among JAKKS Pacific, Inc. and JAKKS Acquisition Corp. and Road Champs, Inc., Road Champs Ltd. and Die Cast Associates, Inc. and the shareholders of Road Champs, Inc. for the purchase of all of the shares of stock of Road Champs, Inc. and Road Champs Ltd. and the operating assets of Die Cast Associates, Inc. dated January 21, 1997 (4)
- 10.7.1 Lease of the Company's offices at 24955 Pacific Coast Highway, Malibu, California (2)

EXHIBIT
NUMBER

- 10.7.2 Amendment to Lease of Company's offices at 24955 Pacific Coast Highway, Malibu, California (1)
- 10.8 Lease of the Company's warehouse space at 7 Patton Drive, West Caldwell, New Jersey and amendment thereto(4)
- 10.9 Lease of the Company's showroom at the Toy Center South, 200 Fifth Avenue, New York, New York (2)
- 10.10 Lease of the Company's showroom at the Toy Center North, 1107 Broadway, New York, New York (1)
- 10.11 Lease of the Company's office space at the Peninsula Center, 67 Mody Road, Tsimshatsui East, Kowloon, Hong Kong (1)
- 10.12.1 License Agreement with Titan Sports, Inc. dated October 24, 1995 (2)
- 10.12.2 Amendments to License Agreement with Titan Sports, Inc. dated April 22, 1996 and January 21, 1997 (1)(5)
- 10.12.3 International License Agreement with Titan Sports, Inc. dated February 24, 1997(1)(5)
- 10.13 License Agreement with Saban Merchandising, Inc. and Saban International N.V. with amendment dated (1)(5)
- 10.14 License Agreement with Wow Wee International dated June 1, 1996 (1)(5)
- 10.15 Agreement with Quantum Toy Concepts Pty, Ltd. dated July 1996 (1)(5)
- 21 Subsidiaries of the Company (3)
- 23.1 Consent of Pannell Kerr Forster, Certified Public Accountants, A Professional Corporation, Los Angeles, California (3)
- 23.2 Consent of Pannell Kerr Forster PC, New York, New York (3)
- 23.3 Consent of Lui & Mack, Hong Kong (1)
- 23.4 Consent of Feder, Kaszovitz, Isaacson, Weber, Skala & Bass LLP (included in Exhibit 5.1) (1)
- 24 Power of Attorney (included in Part II to this Registration Statement) (1)
- 27 Financial Data Schedule (3)

(1) To be filed by amendment.

(2) 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 in its entirety.

(3) Filed herewith.

(4) Filed previously as an exhibit to the Company's Current Report on Form 8-K, filed February 21, 1997 or as schedule 4.2(iii) thereto.

(5) Confidential treatment will be requested for a portion of these agreements.

(B) FINANCIAL STATEMENT SCHEDULES

All schedules have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

ITEM 28. UNDERTAKINGS

The Registrant hereby undertakes:

(1) That for purposes of determining any liability under the Securities Act of 1933, as amended (the "Securities Act"), 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.

(2) That for the purpose of determining any liability under the Securities Act, 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) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(a) To include any prospectus required by Section 10(a)(3) of the Securities Act;

(b) To reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information set forth in the Registration Statement. Notwithstanding the foregoing, any increase or decrease in the volume of securities offered (or if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in "Calculation of Registration Fee," table in the effective registration statement; and

(c) To include any additional or changed material information on the plan of distribution.

(4) To file a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

(5) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provision, 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.

POWER OF ATTORNEY

The Registrant and each person whose signature appears below hereby appoints Joel M. Bennett as attorney-in-fact with full power of substitution, to execute in the name and on behalf of the Registrant and each such person, individually and in each capacity stated below, one or more amendments (including post-effective amendments) to this Registration Statement as the attorney-in-fact acting in the premises deems appropriate and to file any such amendment to this Registration Statement with the Commission.

SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and authorized this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Malibu, California, on the 28th day of February, 1997.

JAKKS PACIFIC, INC.

By: /s/ JACK FRIEDMAN

Jack Friedman
President

In accordance with the requirements of the Securities Act of 1933, this Registration Statement was signed by the following persons in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
----- /s/ JACK FRIEDMAN ----- Jack Friedman	Chairman, Chief Executive Officer (Principal Executive Officer) and President	February 28, 1997
----- /s/ STEPHEN G. BERMAN ----- Stephen G. Berman	Chief Operating Officer, Executive Vice President, Secretary and Director	February 28, 1997
----- /s/ JOEL M. BENNETT ----- Joel M. Bennett	Chief Financial Officer (Principal Financial and Accounting Officer)	February 28, 1997
----- /s/ MICHAEL G. MILLER ----- Michael G. Miller	Director	February 28, 1997
----- /s/ MURRAY L. SKALA ----- Murray L. Skala	Director	February 28, 1997
----- /s/ ROBERT E. GLICK ----- Robert E. Glick	Director	February 28, 1997

EXHIBIT INDEX

EXHIBIT
NUMBER

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5.1	Opinion, with consent, of Feder, Kaszovitz, Isaacson, Weber, Skala & Bass LLP, counsel for the Registrant (2)
10.1	Amended and Restated 1995 Stock Option Plan (3)
10.2	Employment Agreement by and between the Company and Jack Friedman dated January 1, 1997 (3)
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10.10	Lease of the Company's showroom at the Toy Center North, 1107 Broadway, New York, New York (1)
10.11	Lease of the Company's office space at the Peninsula Center, 67 Mody Road, Tsimshatsui East, Kowloon, Hong Kong (1)
10.12.1	License Agreement with Titan Sports, Inc. dated October 24, 1995 (2)
10.12.2	Amendments to License Agreement with Titan Sports, Inc. dated April 22, 1996 and January 21, 1997 (1)(5)
10.12.3	International License Agreement with Titan Sports, Inc. dated February 24, 1997(1)(5)
10.13	License Agreement with Saban Merchandising, Inc. and Saban International N.V. with amendment dated (1)(5)
10.14	License Agreement with Wow Wee International dated June 1, 1996 (1)(5)

EXHIBIT
NUMBER

10.15	Agreement with Quantum Toy Concepts Pty, Ltd. dated July 1996 (1)(5)
21	Subsidiaries of the Company (3)
23.1	Consent of Pannell Kerr Forster, Certified Public Accountants, A Professional Corporation, Los Angeles, California (3)
23.2	Consent of Pannell Kerr Forster PC, New York, New York (3)
23.3	Consent of Pannell Kerr Forster, Hong Kong (1)
23.4	Consent of Lui & Mack, Hong Kong (1)
23.5	Consent of Feder, Kaszovitz, Isaacson, Weber, Skala & Bass LLP (included in Exhibit 5.1) (1)
24	Power of Attorney (included in Part II to this Registration Statement) (1)
27	Financial Data Schedule (3)

- (1) To be filed by amendment.
- (2) 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 in its entirety.
- (3) Filed herewith.
- (4) Filed previously as an exhibit to the Company's Current Report on Form 8-K, filed February 21 1997 or as schedule 4.2(iii) thereto.
- (5) Confidential treatment will be requested for a portion of these agreements.

JAKKS PACIFIC, INC.

COMMON STOCK

Concurrently herewith, 2,000,000 shares of Common Stock are being sold by the Company and 400,000 shares of Common Stock by other Selling Stockholders, pursuant to an underwritten public offering (the "Underwritten Offering"). In connection with such offering, the Company will receive gross proceeds of \$17,000,000, before deducting costs and expenses, payable by the Company.

SEE "RISK FACTORS" ON PAGE FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PROSPECTIVE PURCHASERS OF THE SECURITIES OFFERED HEREBY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is _____, 1997

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth information as of the date of this Prospectus regarding beneficial ownership of the Company's Common Stock, based upon information obtained from the persons named below, by (i) each person who is known by the Company to own beneficially more than 5% of the outstanding shares of its Common Stock, (ii) each of the Company's directors, (iii) each of the Named Officers, (iv) all executive officers and directors of the Company as a group and (v) each of the other Selling Stockholders.

NAME OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED PRIOR TO UNDERWRITTEN OFFERING		SHARES BEING OFFERED IN UNDERWRITTEN OFFERING	SHARES BENEFICIALLY OWNED AFTER UNDERWRITTEN OFFERING	
	NUMBER	PERCENT		NUMBER	PERCENT
Jack Friedman	1,410,488(1)	33.7	306,183(2)	1,104,305(3)	17.9
Stephen G. Berman(4)	216,998	5.2	47,105	169,893	2.7
Michael G. Miller	16,275(5)	*	--	16,275(5)	*
Murray L. Skala	238,696(1)(6)	5.7	47,104(2)	191,592(3)	3.1
Robert E. Glick	23,725(7)	*	--	23,725(7)	*
William Lee	90,416	2.1	19,627	70,789	1.1
Robert Johnson	16,275	*	3,533	12,742	*
Natacha Friedman	81,374	1.9	17,664	63,710	1.0
Trust for Brooke Friedman	81,374	1.9	17,664	63,710	1.0
Trust for Tony Friedman	81,374	1.9	17,664	63,710	1.0
Education Trust for Tony Friedman	27,124	*	5,888	21,236	*
Renaissance Capital Growth and Income Fund III, Inc., and Renaissance US Growth and Income Fund PLC	705,882(8)	14.4	--	705,882(8)	10.3
All Officers and Directors as a Group (six persons)	1,734,485	40.8	359,176	1,337,309	21.4
(1)(2)(3)(4)(5)(6)(7)(9)					

* Less than 1% of the Company's outstanding shares.

- (1) Includes an aggregate of 189,872 shares held by Mr. Skala as trustee under trusts for the benefit of the children of Mr. Friedman, the Company's Chairman, Chief Executive Officer and President.
- (2) Includes 41,216 shares held by and being sold by Mr. Skala as trustee under trusts for the benefit of the children of Mr. Friedman.
- (3) Includes 148,656 shares which will be held after the Offering by Mr. Skala as trustee under trusts for the benefit of the children of Mr. Friedman.
- (4) Mr. Berman is the Company's Chief Operating Officer, Executive Vice President, Secretary and a director.
- (5) Represents 16,275 shares which Mr. Miller, a director of the Company, has the right to acquire pursuant to outstanding stock options.
- (6) Includes 27,124 shares owned by Mr. Skala, a director of the Company, 21,700 shares which Mr. Skala has the right to acquire pursuant to outstanding stock options and an aggregate of 189,872 shares held by Mr. Skala as trustee under trusts for the benefit of the children of Mr. Friedman.
- (7) Includes 16,275 shares which Mr. Glick, a director of the Company, has the right to acquire pursuant to outstanding stock options.
- (8) Consists of 705,882 shares in the aggregate which these two entities have the right to acquire upon the conversion of an aggregate of \$6,000,000 convertible debentures owned by them. Each of these entities owns \$3,000,000 of such convertible debentures. The Company believes that these two entities are under common control by a third-party.
- (9) Includes 2,000 shares beneficially owned by Joel M. Bennett, the Company's Chief Financial Officer, and 16,625 shares which Mr. Bennett has the right to acquire pursuant to outstanding stock options.

Messrs. Friedman and Berman may be deemed "founders" of the Company, as such term is defined under the federal securities laws.

The following table sets forth, as of the date of this Prospectus, the names of each person whose shares of Common Stock are offered hereby and the number of such shares offered by each person:

NAME	SHARES BEING OFFERED
-----	-----
Caribou Bridge Fund, LLC.....	14,210
Frank A. Cosentino.....	4,737
Jim Guistolisi.....	2,368
James M. & Jennifer L. Hall.....	4,737
Robert D. Hall.....	9,472
Kiawah Capital Partners.....	4,737
Bipin Thakkar.....	1,895
Fred & Hillary Vecchione.....	2,368
Justin Products Limited.....	86,154

Total.....	130,678
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PLAN OF DISTRIBUTION

The 130,678 shares of Common Stock offered pursuant to this Prospectus are being offered by the holders thereof ("Selling Stockholders"), and, therefore, the Company will not receive any proceeds resulting from the sale of any of such shares.

The shares of Common Stock included herein may be sold from time to time to purchasers directly by such Selling Stockholders. Alternatively, such Selling Stockholders may from time to time offer the shares of Common Stock through underwriters, brokers, dealers or agents who may receive compensation in the form of underwriting discounts, concessions or commissions from the Selling Stockholders and/or the purchasers of the shares of Common Stock for whom they may act as agent. The Selling Stockholders and any underwriters, brokers, dealers or agents who participate in the distribution of such shares may be deemed to be "underwriters" under the Securities Act, and any discounts, commissions or concessions received by any such persons might be deemed to be underwriting discounts and commissions under the Securities Act.

At the time a particular offer of any such shares of Common Stock is made, if required, a Prospectus Supplement will be distributed that will set forth the number of shares being offered and the terms of the offering, including the name or names of any underwriters, dealers, or agents, the purchase price paid by any underwriter for securities purchased from, any discounts, commissions and other items constituting compensation and any discounts, commissions or concessions allowed or re-allowed or paid to dealers, and the proposed selling price to the public. The shares of Common Stock may be sold from time to time in one or more transactions at a fixed offering price, which may be changed, or at varying prices determined at the time of sale or at negotiated prices. Such prices will be determined by the Selling Stockholders or by agreement between the Selling Stockholders and underwriters, brokers or dealers.

LEGAL MATTERS

The legality of the Common Stock offered hereby will be passed upon for the Company by Feder, Kaszovitz, Isaacson, Weber, Skala & Bass, LLP, New York, New York. Murray L. Skala, a director of the Company, the owner of 27,124 shares of Common Stock and one of the other Selling Stockholders, is a partner of Feder, Kaszovitz, Isaacson, Weber, Skala & Bass, LLP.

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NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITY OTHER THAN THE COMMON STOCK OFFERED BY THIS PROSPECTUS, OR AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITY, BY ANY PERSON IN ANY JURISDICTION IN WHICH SUCH AN OFFER OR SOLICITATION WOULD BE UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, IMPLY THAT THE INFORMATION IN THIS PROSPECTUS IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE OF THIS PROSPECTUS.

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JAKKS PACIFIC, INC.

130,678 SHARES
OF COMMON STOCK

ALTERNATE
PROSPECTUS

, 1997

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Amendments to By-Laws of JAXXS, Inc.

Pursuant to Resolutions of the Directors of JAKKS Pacific, Inc.

of November 14, 1996

1. The name of the Company By-Laws be amended to reflect the name of the Company as "JAKKS Pacific, Inc."
2. The first paragraph of Section 7 of Article I of the By-Laws, entitled "Stockholder Meetings," be amended as follows:

"- TIME. The first annual meeting shall be held in April, 1997 or on such other subsequent date as set by the directors. Following such initial meeting, there shall be an annual meeting of the stockholders on the date and at the time fixed, from time to time, by the directors within thirteen months after the date of the preceding annual meeting. A special meeting shall be held on the date and at the time fixed by the directors."

 The Securities represented by this Debenture have not been registered under the Securities Act of 1933, as amended ("Act"), or applicable state securities laws ("State Acts") and shall not be sold, hypothecated, donated or otherwise transferred unless the Company shall have received an opinion of Legal Counsel for the Company, or such other evidence as may be satisfactory to Legal Counsel for the Company, to the effect that any such transfer shall not require registration under the Act and the State Acts.

JAKKS PACIFIC, INC.

9.00% CONVERTIBLE DEBENTURE

\$3,000,000

NO: 1

Date of Issue: DECEMBER 31, 1996

JAKKS PACIFIC, INC. (a Delaware corporation hereinafter referred to as the "Company" or "Borrower") is indebted to and, for value received, herewith promises to pay to:

River Oaks Trust Company, FBO
 RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

or to its order, (together with any assignee, jointly or severally, the "Holder" or "Lender") on or before December 31, 2003 (the "Due Date") (unless this Debenture shall have been sooner called for redemption or presented for conversion as herein provided), the sum of THREE MILLION DOLLARS (\$3,000,000) (the "Principal Amount") and to pay interest on the Principal Amount at the rate of Nine percent (9.00%) per annum as provided herein. In furtherance thereof, and in consideration of the premises, the Borrower covenants, promises and agrees as follows:

1. INTEREST: Interest on the Principal Amount outstanding from time to time shall accrue at the rate of 9.00% per annum and be payable in monthly installments commencing February 1, 1997, and subsequent payments shall be made on the first day of each month thereafter until the Principal Amount and all accrued and unpaid interest shall have been paid in full. Overdue principal and interest on the Debenture shall, to the extent permitted by applicable law, bear interest at the rate of 9.00% per annum. All payments of both principal and interest shall be made at the address of the Holder hereof as it appears in the books and records of the Borrower, or at such other place as may be designated by the Holder hereof.

2. MATURITY: If not sooner redeemed or converted, this Debenture shall mature on December 31, 2003 at which time all then remaining unpaid principal, interest and any other charges then due under the Loan Agreement shall be due and payable in full.

3. MANDATORY PRINCIPAL INSTALLMENTS: If this Debenture is not sooner redeemed or converted as provided hereunder, Borrower shall pay to Holder, commencing on December 31, 1999, and the first day of each successive month thereafter prior to maturity, mandatory principal redemption installments, each of such installments to be in the amount of Ten Dollars (\$10) per Thousand Dollars (\$1,000) of the then remaining principal amount of the Debenture and further, at maturity, shall make a final installment of all of the remaining unpaid Principal Amount balance due plus the amount of any unpaid interest and other charges then due. Each of such installments shall be applied in partial redemption of the Debenture when received by Holder.

4. MANDATORY REDEMPTION IN THE EVENT OF CERTAIN CHANGES: If at any time after the date hereof (i) the Common Stock is not listed for exchange on the NASDAQ National Market ("National Market"), the New York Stock Exchange ("NYSE"), the American Stock Exchange ("AMEX"), or quoted on the NASDAQ Small Cap System ("Small Cap

System"), or (ii) any Person acquires more than a majority of the Common Stock, the Debenture shall, at the option of the Holder upon thirty (30) days notice to the Borrower, be redeemed at the greater of market value or a value equal to an aggregated 20% return each year over the term of the Debenture.

5. MANDATORY REDEMPTION IN THE EVENT OF THE DEATH OR DISABILITY OF JACK FRIEDMAN: If at any time after the date hereof Jack Friedman becomes deceased, the Holder shall have the option, upon thirty (30) days notice, to have the Borrower redeem part or all of the outstanding Debentures at par value using the key employee insurance policy proceeds as described in the Loan Agreement section 3.01(ix).

6. REDEMPTION: (a) On any interest payment date, and after prior irrevocable notice as provided for below, the outstanding principal amount of this Debenture is redeemable, as provided (b) below, if the following conditions are satisfied as of such date: (i) the average closing bid price during the preceding 20 trading days is supported by a minimum of 30 times fully diluted net earnings per share of Common Stock in the aggregate for the last four consecutive fiscal quarters preceding the date of irrevocable notice, excluding any extraordinary gains of the Borrower; (ii) the average (20 trading days) daily trading volume shall be no less than 75,000 shares; and (iii) the Borrower shall have registered the shares of Common Stock issuable upon conversion of the Debentures. The foregoing earnings per share and bid price tests shall be duly adjusted for share splits, stock dividends, mergers, consolidations, and other recapitalizations.

(b) If the closing bid price for the Borrower's Common Stock averages no less than \$24.00 per share for a period of 20 consecutive trading days, then the Borrower shall have the right to redeem the Debenture at 120% of face value. If the closing bid price for the Borrower's Common Stock averages no less than \$16.00 per share for a period of 20 consecutive trading days, then the Borrower shall have the right to redeem 1/2 of the Debenture at 120% of face value at any time after the date which is twelve months after the closing date. If the closing bid price for the Borrower's Common Stock averages no less than \$20.00 per share for a period of 20 consecutive trading days, then the Borrower shall have the right to redeem 1/2 of the Debenture at 120% of face value at any time after the date which is twenty four months after the closing date

(b) The Borrower may exercise this right to redeem prior to maturity by giving notice (the "Redemption Notice") thereof to the holder of this Debenture as such name appears on the books of the Borrower, which notice shall specify the terms of redemption (including the place at which the holder may obtain payment), the total principal amount to be redeemed (such principal amount plus the premium thereon herein called the "Redemption Amount") and the date for redemption (the "Redemption Date"), which date shall not be less than 90 days nor more than 120 days after the date of the notice. On the Redemption Date, the Borrower shall pay all accrued unpaid interest on the Debenture up to and including the Redemption Date, and shall pay to the holder a dollar amount equal to the Redemption Amount. In the case of Debentures called for redemption, the conversion rights will expire at the close of business on three days immediately prior to the Redemption Date.

7. CONVERSION RIGHT: The holder of this Debenture shall have the right, at holder's option, at any time, to convert all, or, in multiples of \$10,000, any part of this Debenture into such number of fully paid and nonassessable shares of common stock, \$0.001 par value, of Jakks Pacific, Inc. (the "Common Stock") as shall be provided herein. The holder of this Debenture may exercise the conversion right by giving written notice (the "Conversion Notice") to Borrower of the exercise of such right and stating the name or names in which the stock certificate or stock certificates for the shares of Common Stock are to be issued and the address to which such certificates shall be delivered. The Conversion Notice shall be accompanied by the Debenture. The number of shares of Common Stock that shall be issuable upon conversion of the Debenture shall equal the face amount of the Debenture divided by the Conversion Price as defined below and in effect on the date the Conversion Notice is given; provided, however, that in the event that this Debenture shall have been partially redeemed, shares of Common Stock shall be issued pro rata, rounded to the nearest whole share. Conversion shall be deemed to have been effected on the date the Conversion Notice is received (the "Conversion Date"). Within 20 business days after receipt of the Conversion Notice, Borrower shall issue and deliver by hand against a signed receipt therefor or by United States registered mail, return receipt requested, to the address designated in the Conversion Notice, a stock certificate or stock certificates of Borrower representing the number of shares of Common Stock to which Holder is entitled and a

check or cash in payment of all interest accrued and unpaid on the Debenture up to and including the Conversion Date. The conversion rights will be governed by the following provisions:

(a) Conversion Price: On the issue date hereof and until such time as an adjustment shall occur, the Conversion price shall be \$8.50 PER SHARE; provided, however, that the Conversion Price shall be subject to adjustment at the times, and in accordance with the following provisions:

(i) Adjustment for Issuance of Shares at less than the Conversion Price: If and whenever any Additional Common Stock shares shall be issued by Borrower (the "Stock Issue Date") for a consideration per share less than the Conversion Price, then in each such case the initial Conversion Price shall be reduced to a new Conversion Price in an amount equal to the consideration per share received by Borrower for the additional shares of Common Stock then issued and the number of shares issuable to Holder upon conversion shall be proportionately increased; and, in the case of shares issued without consideration, the initial Conversion Price shall be reduced in amount and the number of shares issued upon conversion shall be increased in an amount so as to maintain for the Holder the right to convert the Debenture into shares equal in amount to the same percentage interest in the Common Stock of Jakks Pacific, Inc. as existed for the Holder immediately preceding the Stock Issue Date; provided however that prior to such issuance, the Company may request Holder to waive the right to an adjustment of the Conversion Price and in the event such waiver is not granted by the Holder, the Company shall have the right, prior to the issuance of such additional shares, to redeem the Debenture at 120% of face value.

(ii) Sale of Shares: In case of the issuance of Additional Common Stock for a consideration part or all of which shall be cash, the amount of the cash consideration therefor shall be deemed to be the amount of the cash received by Borrower for such shares, after any compensation or discount in the sale, underwriting or purchase thereof by underwriters or dealers or others performing similar services or for any expenses incurred in connection therewith. In case of the issuance of any shares of Additional Common Stock for a consideration part or all of which shall be other than cash, the amount of the consideration therefor, other than cash, shall be deemed to be the then fair market value of the property received.

(iii) Reclassification of Shares: In case of the reclassification of securities into shares of Common Stock, the shares of Common Stock issued in such reclassification shall be deemed to have been issued for a consideration other than cash. Shares of Additional Common Stock issued by way of dividend or other distribution on any class of stock of Borrower shall be deemed to have been issued without consideration.

(iv) Split up or Combination of Shares: In case issued and outstanding shares of Common Stock shall be subdivided or split up into a greater number of shares of the Common Stock, the Conversion Price shall be proportionately decreased, and in case issued and outstanding shares of Common Stock shall be combined into a smaller number of shares of Common Stock, the Conversion Price shall be proportionately increased, such increase or decrease, as the case may be, becoming effective at the time of record of the split-up or combination, as the case may be.

(v) Exceptions: The term "Additional Common Stock" herein shall mean all shares of Common Stock hereafter issued by Borrower (including Common Stock held in the treasury of Borrower), except (A) Common Stock issued upon the conversion of any of the Debentures; (B) Common Stock issued upon exercise of any warrants or stock purchase options issued and outstanding as of the date of this Debenture; (C) Common Stock issued pursuant to exercise of authorized or outstanding options under any qualified employee incentive stock option plan for the officers, directors, and certain other key personnel as defined in said stock option plans of Borrower; (D) Common Stock issued pursuant to the conversion of Preferred Stock currently outstanding at its current conversion price.

(b) Adjustment for Mergers, Consolidations, Etc.:

(i) In the event of distribution to all Common Stock holders of any stock, indebtedness of Borrower or assets (excluding cash dividends or distributions from retained earnings) or other rights to purchase securities or assets, then, after such event, the Debentures will be convertible into the kind and amount of securities, cash and other property which the holder of the Debentures would have been entitled to receive if the holder owned the Common Stock issuable upon conversion of the Debentures immediately prior to the occurrence of such event.

(ii) In case of any capital reorganization, reclassification of the stock of Borrower (other than a change in par value or as a result of a stock dividend, subdivision, split up or combination of shares), this Debenture shall be convertible into the kind and number of shares of stock or other securities or property of Borrower to which the holder of the Debenture would have been entitled to receive if the holder owned the Common Stock issuable upon conversion of the Debenture immediately prior to the occurrence of such event. The provisions of the immediately

foregoing sentence shall similarly apply to successive reorganizations, reclassifications, consolidations, exchanges, leases, transfers or other dispositions or other share exchanges.

(iii) The term "Fair Market Value", as used herein, is the value ascribed to consideration other than cash as determined by the Board of Directors of Borrower in good faith, which determination shall be final, conclusive and binding. If the Board of Directors shall be unable to agree as to such fair market value, then, as provided in the Loan Agreement, the issue of fair market value shall be submitted to arbitration under and pursuant to the rules and regulations of the American Arbitration Association, and the decision of the arbitrators shall be final, conclusive and binding, and a final judgment may be entered thereon; provided, however, that such arbitration shall be limited to determination of the fair market value of assets tendered in consideration for the issue of Common Stock.

(iv) Notice of Adjustment. (A) In the event Borrower shall propose to take any action which shall result in an adjustment in the Conversion Price, Borrower shall give notice to the Holder of this Debenture, which notice shall specify the record date, if any, with respect to such action and the date on which such action is to take place. Such notice shall be given on or before the earlier of 10 days before the record date or the date which such action shall be taken. Such notice shall also set forth all facts (to the extent known) material to the effect of such action on the Conversion Price and the number, kind or class of shares or other securities or property which shall be deliverable or purchasable upon the occurrence of such action or deliverable upon conversion of this Debenture. (B) Following completion of an event wherein the Conversion Price shall be adjusted, Borrower shall furnish to the holder of this Debenture a statement, signed by the Chief Executive Officer and the Secretary of the Borrower, of the facts creating such adjustment and specifying the resultant adjusted Conversion Price then in effect which statement shall constitute and amendment to this Debenture.

8. ONE TIME ADJUSTMENT TO CONVERSION PRICE. If the Borrower has failed to achieve minimum projections as provided in the business plan, which minimum projections are a proforma 1996 before tax income of \$2,928,500 (excluding extraordinary gains or losses, noncontinuing income from operations and the interest on the Debentures), then the Conversion Price shall be adjusted downward to an amount equal to seventy-five percent (75%) of the average closing bid price of the Common Stock for the 21 consecutive trading days following Borrower's public press release of the 1996 fiscal year end financial results (such average closing bid price herein referred to as the "1996 Conversion Price Adjustment Bid Price"). However, the initial conversion price shall be adjusted to \$9.00 per share if the Borrower has achieved no less than a proforma 1996 before tax income of \$2,928,500 (excluding extraordinary gains or losses, noncontinuing income from operations and the interest on the Debentures). The adjustment shall only be utilized to adjust the Conversion Price to a lesser amount than the prior existing Conversion Price. If an adjustment is required pursuant to Section 7, then the Borrower shall furnish to the holder of this Debenture a statement, signed by the Chief Executive Officer and the Secretary of Borrower, of the facts creating such adjustment and specifying the resultant adjusted Conversion Price then in effect, which statement shall constitute an amendment to The Debenture. In determining proforma 1996 before tax income, affect shall be given to the acquisition of the Road Champs Companies as if it occurred on January 1, 1996.

9. RESERVATION OF SHARES: Borrower warrants and agrees that it shall at all times reserve and keep available, free from preemptive rights, sufficient authorized and unissued shares of Common Stock or treasury shares of common stock necessary to effect conversion of this Debenture.

10. REGISTRATION RIGHTS: Shares issued upon conversion of this Debenture shall be restricted from transfer by the holder except if and unless the shares are duly registered for sale pursuant to the Securities Act of 1933, as amended, or the transfer is duly exempt from registration.

The Holder has certain rights with respect to the registration of shares of Common Stock issued upon the conversion of this Debenture pursuant to the terms of the Loan Agreement. Borrower agrees that a copy of the Loan Agreement with all amendments, additions or substitutions therefor shall be available to the Holder at the offices of Borrower.

11. TAXES: The Borrower shall pay any documentary or other transactional taxes attributable to the issuance or delivery of this Debenture or the shares of Common Stock issued upon conversion by the Holder (excluding any

federal, state or local income taxes and any franchise taxes or taxes imposed upon the Holder by the jurisdiction, or any political subdivision thereof, under which such Holder is organized or is qualified to do business.)

12. DEFAULT:

(a) Event of Default: An "Event of Default" shall exist if any one or more of the following events (herein collectively called "Events of Default") shall occur and be continuing:

(i) Borrower shall fail to pay (or shall state in writing an intention not to pay or its inability to pay), not later than 10 days after the due date, any installment of interest on or principal of, any Debenture or any fee, expense or other payment required hereunder;

(ii) Any representation or warranty made under the Loan Agreement, or any of the other Loan Documents, or in any certificate or statement furnished or made to Lender pursuant hereto or in connection herewith or with the Loans hereunder, shall prove to be untrue or inaccurate in any material respect as of the date on which such representation or warranty is made;

(iii) Default in the performance of any of the covenants or agreements of Borrower or its Subsidiaries, if any, contained under the Loan Agreement, Security Agreement, Pledge Agreement, or in any of the other Loan Documents, which default is not remedied within thirty (30) days after written notice thereof to Borrower from Lender, provided that such 30 day grace period shall not apply to default of any payment requirement or notice covenant made by Borrower;

(iv) Default shall occur in the payment when due of any Material Indebtedness (other than the Obligation) of the Borrower or its Subsidiaries, if any, or default shall occur in respect of any note, loan agreement or credit agreement relating to any such Indebtedness, and such default shall continue for more than the period of grace, if any, specified therein and any such Indebtedness shall become due before its stated maturity by acceleration of the maturity thereof or shall become due by its terms and shall not be promptly paid or extended;

(v) Any of the Loan Documents shall cease to be legal, valid and binding agreements enforceable against the Borrower in accordance with the respective terms thereof or shall in any way be terminated or become or be declared ineffective or inoperative or shall in any way whatsoever cease to give or provide the respective rights, titles, interests, remedies, powers or privileges intended to be created thereby;

(vi) Borrower or its Subsidiaries, if any, shall (A) apply for or consent to the appointment of a receiver, trustee, custodian, intervenor or liquidator of itself, or of all or substantially all of such Person's assets, (B) file a voluntary petition in bankruptcy, admit in writing that such Person is unable to pay such Person's debts as they become due or generally not pay such Person's debts as they become due, (C) make a general assignment for the benefit of creditors, (D) file a petition or answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy or insolvency laws, (E) file an answer admitting the material allegations of, or consent to, or default in answering, a petition filed against such Person in any bankruptcy, reorganization or insolvency proceeding, or (F) take corporate action for the purpose of effecting any of the foregoing;

(vii) An involuntary petition or complaint shall be filed against Borrower or any of its Subsidiaries seeking bankruptcy or reorganization of such Person or the appointment of a receiver, custodian, trustee, intervenor or liquidator of such Person, or all or substantially all of such Person's assets, and such petition or complaint shall not have been dismissed within sixty (60) days of the filing thereof or an order, order for relief, judgment or decree shall be entered by any court of competent jurisdiction or other competent authority approving a petition or complaint seeking reorganization of Borrower or its Subsidiary, if any, or appointing a receiver, custodian, trustee, intervenor or liquidator of such Person, or of all or substantially all of such Person's assets;

(viii) Any final judgment(s) not subject to appeal for the payment of money in excess of the sum of \$250,000 in the aggregate shall be rendered against Borrower or any Subsidiary and such judgment or judgments shall not be satisfied or discharged at least ten (10) days prior to the date on which any of its assets could be lawfully sold to satisfy such judgment;

(ix) The failure of Borrower to issue and deliver shares of Common Stock as provided herein upon conversion of the Debenture; or

(x) The failure to submit to its stockholders Lender's nominee, if any, for election to the Board of Directors of Borrower for any reason other than good cause.

(b) Remedies Upon Event of Default: If an Event of Default shall have occurred and be continuing, then Lender may exercise any one or more of the following rights and remedies, and any other remedies provided in any of the Loan Documents, as Lender in its sole discretion, may deem necessary or appropriate:

(i) declare the unpaid Principal Amount (after application of any payments or installments received by Lender) of, and all interest then accrued but unpaid on, the Debentures and any other liabilities hereunder to be forthwith due and payable, whereupon the same shall forthwith become due and payable without presentment, demand, protest, notice of default, notice of acceleration or of intention to accelerate or other notice of any kind, all of which Borrower hereby expressly waives;

(ii) reduce any claim to judgment; and/or

(iii) without notice of default or demand, pursue and enforce any of Lender's rights and remedies under the Loan Documents, or otherwise provided under or pursuant to any applicable law or agreement, all of which rights may be specifically enforced.

(c) Remedies Nonexclusive: Each right, power or remedy of the holder hereof upon the occurrence of any Event of Default as provided for in this Debenture or now or hereafter existing at law or in equity or by statute shall be cumulative and concurrent and shall be in addition to every other right, power or remedy provided for in this Debenture or now or hereafter existing at law or in equity or by statute, and the exercise or beginning of the exercise by the holder or transferee hereof of any one or more of such rights, powers or remedies shall not preclude the simultaneous or later exercise by the holder of any or all such other rights, powers or remedies.

(d) Expenses: Upon the occurrence of a Default or an Event of Default, which occurrence is not cured within the notice provisions, if any provided therefore, Borrower agrees to pay and shall pay all costs and expenses (including Lender's reasonable attorney's fees and expenses) reasonably incurred by Lender in connection with the preservation and enforcement of Lender's rights under the Loan Agreement, the Debentures, or any other Loan Document.

13. FAILURE TO ACT AND WAIVER: No failure or delay by the holder hereof to require the performance of any term or terms of this Debenture or not to exercise any right or any remedy shall constitute a waiver of any such term or of any right or of any default, nor shall such delay or failure preclude the holder hereof from exercising any such right, power or remedy at any later time or times. By accepting payment after the due date of any amount payable under this Debenture, the holder hereof shall not be deemed to waive the right either to require payment when due of all other amounts payable, or to later declare a default for failure to effect such payment of any such other amount. The failure of the holder of this Debenture to give notice of any failure or breach of the Borrower under this Debenture shall not constitute a waiver of any right or remedy in respect of such continuing failure or breach or any subsequent failure or breach.

14. CONSENT TO JURISDICTION: The Borrower hereby agrees and consents that any action, suit or proceeding arising out of this Debenture may be brought in any appropriate court in the State of Texas including the United States District Court for the Northern District of Texas, or in any other court having jurisdiction over the subject matter, all at the sole election of the Holder hereof, and by the issuance and execution of this Debenture the Borrower irrevocably consents to the jurisdiction of each such court. The Borrower hereby irrevocably appoints CT Corporation, Dallas, Texas, as agent for the Borrower to accept service of process for and on behalf of the Borrower in any action, suit or proceeding arising out of this Debenture. Except for default in payment of interest or principal when and as they become due, and except as otherwise specifically set forth herein or otherwise agreed to in writing by the parties, any action dispute, claim or controversy (all such herein called "Dispute") between or among the parties as to the facts or the interpretation of the Debenture shall be resolved by arbitration as set forth in Section 12.05 of the Loan Agreement.

15. HOLDERS RIGHT TO REQUEST MULTIPLE DEBENTURES: The Holder shall, upon written request and presentation of the Debenture, have the right, at any interest payment date, to request division of this Debenture into two or more units, each of such to be in such amounts as shall be requested; provided however that no Debentures shall be issued in denominations of face amount less than \$10,000.00.

16. TRANSFER: This Debenture may be transferred on the books of the Borrower by the registered Holder hereof, or by Holder's attorney duly authorized in writing, only upon (i) delivery to the Borrower of a duly executed assignment of the Debenture, or part thereof, to the proposed new Holder, along with a current notation of the amount of payments received and net Principal Amount yet unfunded, and presentment of such Debenture to the Borrower for issue of a replacement Debenture, or Debentures, in the name of the new Holder, (ii) the designation by the new Holder of the Lender's agent for notice, such agent to be the sole party to whom Borrower shall be required to provide notice when notice to Lender is required hereunder and who shall be the sole party authorized to represent Lender in regard to modification or waivers under the Debenture, the Loan Agreement, or other Loan Documents; and any action, consent or waiver, (other than a compromise of principal and interest), when given or taken by Lender's agent for notice, shall be deemed to be the action of the holders of a majority in amount of the Principal Amount of the Debentures, as such holders are recorded on the books of the Borrower, and (iii) in compliance with the legend to read "The Securities represented by this Debenture have not been registered under the Securities Act of 1933, as amended ("Act"), or applicable state securities laws ("State Acts") and shall not be sold, hypothecated, donated or otherwise transferred unless the Company shall have received an opinion of Legal Counsel for the Company, or such other evidence as may be satisfactory to Legal Counsel for the Company, to the effect that any such transfer shall not require registration under the Act and the State Acts."

The Borrower shall be entitled to treat any holder of record of the Debenture as the Holder in fact thereof and of the Debenture and shall not be bound to recognize any equitable or other claim to or interest in this Debenture in the name of any other person, whether or not it shall have express or other notice thereof, save as expressly provided by the laws of Texas.

17. NOTICES: All notices and communications under this Debenture shall be in writing and shall be either delivered in person or by overnight service such as FedEx and accompanied by a signed receipt therefor; or mailed first-class United States certified mail, return receipt requested, postage prepaid, and addressed as follows: (i) if to the Borrower at its address for notice as stated in the Loan Agreement; and, (ii) if to the Holder of this Debenture, to the address (a) of such Holder as it appears on the books of the Borrower, or (b) in the case of a partial assignment to one or more Holders, to the Lender's agent for notice, as the case may be. Any notice of communication shall be deemed given and received as of the date of such delivery if delivered; or if mailed, then three days after the date of mailing.

18. MAXIMUM INTEREST RATE: Regardless of any provision contained in this Debenture, Lender shall never be entitled to receive, collect or apply as interest on the Debenture any amount in excess of interest calculated at the Maximum Rate, and, in the event that Lender ever receives, collects or applies as interest any such excess, the amount which would be excessive interest shall be deemed to be a partial prepayment of principal and treated hereunder as such; and, if the principal amount of the Debenture is paid in full, any remaining excess shall forthwith be paid to Borrower. In determining whether or not the interest paid or payable under any specific contingency exceeds interest calculated at the Maximum Rate, Borrower and Lender shall, to the maximum extent permitted under applicable law, (i) characterize any non principal payment as an expense, fee or premium rather than as interest; (ii) exclude voluntary prepayments and the effects thereof, and (iii) amortize, pro rate, allocate and spread, in equal parts, the total amount of interest throughout the entire contemplated term of the Debenture; provided that, if the Debenture is paid and performed in full prior to the end of the full contemplated term thereof, and if the interest received for the actual period of existence thereof exceeds interest calculated at the Maximum Rate, Lender shall refund to Borrower the amount of such excess or credit the amount of such excess against the principal amount of the Debenture and, in such event, Lender shall not be subject to any penalties provided by any laws for contracting for, charging, taking, reserving or receiving interest in excess of interest calculated at the Maximum Rate.

(b) "Maximum Rate" shall mean, on any day, the highest nonusurious rate of interest (if any) permitted by applicable law on such day that at any time, or from time to time, may be contracted for, taken, reserved, charged or received on the Indebtedness evidenced by the Debenture under the laws which are presently in effect of the United States of America and the State of Texas or by the laws of any other jurisdiction which are or may be applicable to the holders of the Debenture and such Indebtedness or, to the extent permitted by law, under such applicable laws of the United States of America and the State of Texas or by the laws of any other jurisdiction which are or may be

applicable to the holder of the Debenture and which may hereafter be in effect and which allow a higher maximum nonusurious interest rate than applicable laws now allow.

19. RIGHTS UNDER LOAN AGREEMENT: This Debenture is issued pursuant to that certain Convertible Debenture Loan Agreement dated December 31, 1996 by and between Jakks Pacific, Inc., and Renaissance Capital Growth & Income Fund III, Inc. and Renaissance US Growth & Income Trust PLC as Lenders, (the "Loan Agreement"), and the holders hereof are entitled to all the rights and benefits, and are subject to all the obligations of Lender under said agreement, including the maximum interest rates limitations as specified in Section 11.07 thereof. Both Borrower, Guarantor and Lenders have participated in the negotiation and preparation of the Loan Agreement and of this Debenture. Borrower agrees that a copy of the Loan Agreement with all amendments, additions and substitutions therefor shall be available to the Holders at the offices of Borrower.

20. DEFINED TERMS: Capitalized Terms used but not defined herein shall have the meaning given them in the Loan Agreement.

21. GOVERNING LAW: THIS DEBENTURE SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, OR, WHERE APPLICABLE, THE LAWS OF THE UNITED STATES.

IN WITNESS WHEREOF, the undersigned Borrowers have caused this Debenture to be duly issued and executed on the Date above stated.

BORROWER

JAKKS PACIFIC, INC.

By:

Jack Friedman, President

Attest by:

Secretary

 The Securities represented by this Debenture have not been registered under the Securities Act of 1933, as amended ("Act"), or applicable state securities laws ("State Acts") and shall not be sold, hypothecated, donated or otherwise transferred unless the Company shall have received an opinion of Legal Counsel for the Company, or such other evidence as may be satisfactory to Legal Counsel for the Company, to the effect that any such transfer shall not require registration under the Act and the State Acts.

JAKKS PACIFIC, INC.

9.00% CONVERTIBLE DEBENTURE

\$3,000,000

NO: 2

Date of Issue: DECEMBER 31, 1996

JAKKS PACIFIC, INC. (a Delaware corporation hereinafter referred to as the "Company" or "Borrower") is indebted to and, for value received, herewith promises to pay to:

River Oaks Trust Company, FBO
 RENAISSANCE US GROWTH & INCOME TRUST PLC

or to its order, (together with any assignee, jointly or severally, the "Holder" or "Lender") on or before December 31, 2003 (the "Due Date") (unless this Debenture shall have been sooner called for redemption or presented for conversion as herein provided), the sum of THREE MILLION DOLLARS (\$3,000,000) (the "Principal Amount") and to pay interest on the Principal Amount at the rate of Nine percent (9.00%) per annum as provided herein. In furtherance thereof, and in consideration of the premises, the Borrower covenants, promises and agrees as follows:

1. INTEREST: Interest on the Principal Amount outstanding from time to time shall accrue at the rate of 9.00% per annum and be payable in monthly installments commencing February 1, 1997, and subsequent payments shall be made on the first day of each month thereafter until the Principal Amount and all accrued and unpaid interest shall have been paid in full. Overdue principal and interest on the Debenture shall, to the extent permitted by applicable law, bear interest at the rate of 9.00% per annum. All payments of both principal and interest shall be made at the address of the Holder hereof as it appears in the books and records of the Borrower, or at such other place as may be designated by the Holder hereof.

2. MATURITY: If not sooner redeemed or converted, this Debenture shall mature on December 31, 2003 at which time all then remaining unpaid principal, interest and any other charges then due under the Loan Agreement shall be due and payable in full.

3. MANDATORY PRINCIPAL INSTALLMENTS: If this Debenture is not sooner redeemed or converted as provided hereunder, Borrower shall pay to Holder, commencing on December 31, 1999, and the first day of each successive month thereafter prior to maturity, mandatory principal redemption installments, each of such installments to be in the amount of Ten Dollars (\$10) per Thousand Dollars (\$1,000) of the then remaining principal amount of the Debenture and further, at maturity, shall make a final installment of all of the remaining unpaid Principal Amount balance due plus the amount of any unpaid interest and other charges then due. Each of such installments shall be applied in partial redemption of the Debenture when received by Holder.

4. MANDATORY REDEMPTION IN THE EVENT OF CERTAIN CHANGES: If at any time after the date hereof (i) the Common Stock is not listed for exchange on the NASDAQ National Market ("National Market"), the New York Stock Exchange ("NYSE"), the American Stock Exchange ("AMEX"), or quoted on the NASDAQ Small Cap System ("Small Cap

System"), or (ii) any Person acquires more than a majority of the Common Stock, the Debenture shall, at the option of the Holder upon thirty (30) days notice to the Borrower, be redeemed at the greater of market value or a value equal to an aggregated 20% return each year over the term of the Debenture.

5. MANDATORY REDEMPTION IN THE EVENT OF THE DEATH OR DISABILITY OF JACK FRIEDMAN: If at any time after the date hereof Jack Friedman becomes deceased, the Holder shall have the option, upon thirty (30) days notice, to have the Borrower redeem part or all of the outstanding Debentures at par value using the key employee insurance policy proceeds as described in the Loan Agreement section 3.01(ix).

6. REDEMPTION: (a) On any interest payment date, and after prior irrevocable notice as provided for below, the outstanding principal amount of this Debenture is redeemable, as provided (b) below, if the following conditions are satisfied as of such date: (i) the average closing bid price during the preceding 20 trading days is supported by a minimum of 30 times fully diluted net earnings per share of Common Stock in the aggregate for the last four consecutive fiscal quarters preceding the date of irrevocable notice, excluding any extraordinary gains of the Borrower; (ii) the average (20 trading days) daily trading volume shall be no less than 75,000 shares; and (iii) the Borrower shall have registered the shares of Common Stock issuable upon conversion of the Debentures. The foregoing earnings per share and bid price tests shall be duly adjusted for share splits, stock dividends, mergers, consolidations, and other recapitalizations.

(b) If the closing bid price for the Borrower's Common Stock averages no less than \$24.00 per share for a period of 20 consecutive trading days, then the Borrower shall have the right to redeem the Debenture at 120% of face value. If the closing bid price for the Borrower's Common Stock averages no less than \$16.00 per share for a period of 20 consecutive trading days, then the Borrower shall have the right to redeem 1/2 of the Debenture at 120% of face value at any time after the date which is twelve months after the closing date. If the closing bid price for the Borrower's Common Stock averages no less than \$20.00 per share for a period of 20 consecutive trading days, then the Borrower shall have the right to redeem 1/2 of the Debenture at 120% of face value at any time after the date which is twenty four months after the closing date

(b) The Borrower may exercise this right to redeem prior to maturity by giving notice (the "Redemption Notice") thereof to the holder of this Debenture as such name appears on the books of the Borrower, which notice shall specify the terms of redemption (including the place at which the holder may obtain payment), the total principal amount to be redeemed (such principal amount plus the premium thereon herein called the "Redemption Amount") and the date for redemption (the "Redemption Date"), which date shall not be less than 90 days nor more than 120 days after the date of the notice. On the Redemption Date, the Borrower shall pay all accrued unpaid interest on the Debenture up to and including the Redemption Date, and shall pay to the holder a dollar amount equal to the Redemption Amount. In the case of Debentures called for redemption, the conversion rights will expire at the close of business on three days immediately prior to the Redemption Date.

7. CONVERSION RIGHT: The holder of this Debenture shall have the right, at holder's option, at any time, to convert all, or, in multiples of \$10,000, any part of this Debenture into such number of fully paid and nonassessable shares of common stock, \$0.001 par value, of Jakks Pacific, Inc. (the "Common Stock") as shall be provided herein. The holder of this Debenture may exercise the conversion right by giving written notice (the "Conversion Notice") to Borrower of the exercise of such right and stating the name or names in which the stock certificate or stock certificates for the shares of Common Stock are to be issued and the address to which such certificates shall be delivered. The Conversion Notice shall be accompanied by the Debenture. The number of shares of Common Stock that shall be issuable upon conversion of the Debenture shall equal the face amount of the Debenture divided by the Conversion Price as defined below and in effect on the date the Conversion Notice is given; provided, however, that in the event that this Debenture shall have been partially redeemed, shares of Common Stock shall be issued pro rata, rounded to the nearest whole share. Conversion shall be deemed to have been effected on the date the Conversion Notice is received (the "Conversion Date"). Within 20 business days after receipt of the Conversion Notice, Borrower shall issue and deliver by hand against a signed receipt therefor or by United States registered mail, return receipt requested, to the address designated in the Conversion Notice, a stock certificate or stock certificates of Borrower representing the number of shares of Common Stock to which Holder is entitled and a

check or cash in payment of all interest accrued and unpaid on the Debenture up to and including the Conversion Date. The conversion rights will be governed by the following provisions:

(a) Conversion Price: On the issue date hereof and until such time as an adjustment shall occur, the Conversion price shall be \$8.50 PER SHARE; provided, however, that the Conversion Price shall be subject to adjustment at the times, and in accordance with the following provisions:

(i) Adjustment for Issuance of Shares at less than the Conversion Price: If and whenever any Additional Common Stock shares shall be issued by Borrower (the "Stock Issue Date") for a consideration per share less than the Conversion Price, then in each such case the initial Conversion Price shall be reduced to a new Conversion Price in an amount equal to the consideration per share received by Borrower for the additional shares of Common Stock then issued and the number of shares issuable to Holder upon conversion shall be proportionately increased; and, in the case of shares issued without consideration, the initial Conversion Price shall be reduced in amount and the number of shares issued upon conversion shall be increased in an amount so as to maintain for the Holder the right to convert the Debenture into shares equal in amount to the same percentage interest in the Common Stock of Jakks Pacific, Inc. as existed for the Holder immediately preceding the Stock Issue Date; provided however that prior to such issuance, the Company may request Holder to waive the right to an adjustment of the Conversion Price and in the event such waiver is not granted by the Holder, the Company shall have the right, prior to the issuance of such additional shares, to redeem the Debenture at 120% of face value.

(ii) Sale of Shares: In case of the issuance of Additional Common Stock for a consideration part or all of which shall be cash, the amount of the cash consideration therefor shall be deemed to be the amount of the cash received by Borrower for such shares, after any compensation or discount in the sale, underwriting or purchase thereof by underwriters or dealers or others performing similar services or for any expenses incurred in connection therewith. In case of the issuance of any shares of Additional Common Stock for a consideration part or all of which shall be other than cash, the amount of the consideration therefor, other than cash, shall be deemed to be the then fair market value of the property received.

(iii) Reclassification of Shares: In case of the reclassification of securities into shares of Common Stock, the shares of Common Stock issued in such reclassification shall be deemed to have been issued for a consideration other than cash. Shares of Additional Common Stock issued by way of dividend or other distribution on any class of stock of Borrower shall be deemed to have been issued without consideration.

(iv) Split up or Combination of Shares: In case issued and outstanding shares of Common Stock shall be subdivided or split up into a greater number of shares of the Common Stock, the Conversion Price shall be proportionately decreased, and in case issued and outstanding shares of Common Stock shall be combined into a smaller number of shares of Common Stock, the Conversion Price shall be proportionately increased, such increase or decrease, as the case may be, becoming effective at the time of record of the split-up or combination, as the case may be.

(v) Exceptions: The term "Additional Common Stock" herein shall mean all shares of Common Stock hereafter issued by Borrower (including Common Stock held in the treasury of Borrower), except (A) Common Stock issued upon the conversion of any of the Debentures; (B) Common Stock issued upon exercise of any warrants or stock purchase options issued and outstanding as of the date of this Debenture; (C) Common Stock issued pursuant to exercise of authorized or outstanding options under any qualified employee incentive stock option plan for the officers, directors, and certain other key personnel as defined in said stock option plans of Borrower; (D) Common Stock issued pursuant to the conversion of Preferred Stock currently outstanding at its current conversion price.

(b) Adjustment for Mergers, Consolidations, Etc.:

(i) In the event of distribution to all Common Stock holders of any stock, indebtedness of Borrower or assets (excluding cash dividends or distributions from retained earnings) or other rights to purchase securities or assets, then, after such event, the Debentures will be convertible into the kind and amount of securities, cash and other property which the holder of the Debentures would have been entitled to receive if the holder owned the Common Stock issuable upon conversion of the Debentures immediately prior to the occurrence of such event.

(ii) In case of any capital reorganization, reclassification of the stock of Borrower (other than a change in par value or as a result of a stock dividend, subdivision, split up or combination of shares), this Debenture shall be convertible into the kind and number of shares of stock or other securities or property of Borrower to which the holder of the Debenture would have been entitled to receive if the holder owned the Common Stock issuable upon conversion of the Debenture immediately prior to the occurrence of such event. The provisions of the immediately

foregoing sentence shall similarly apply to successive reorganizations, reclassifications, consolidations, exchanges, leases, transfers or other dispositions or other share exchanges.

(iii) The term "Fair Market Value", as used herein, is the value ascribed to consideration other than cash as determined by the Board of Directors of Borrower in good faith, which determination shall be final, conclusive and binding. If the Board of Directors shall be unable to agree as to such fair market value, then, as provided in the Loan Agreement, the issue of fair market value shall be submitted to arbitration under and pursuant to the rules and regulations of the American Arbitration Association, and the decision of the arbitrators shall be final, conclusive and binding, and a final judgment may be entered thereon; provided, however, that such arbitration shall be limited to determination of the fair market value of assets tendered in consideration for the issue of Common Stock.

(iv) Notice of Adjustment. (A) In the event Borrower shall propose to take any action which shall result in an adjustment in the Conversion Price, Borrower shall give notice to the Holder of this Debenture, which notice shall specify the record date, if any, with respect to such action and the date on which such action is to take place. Such notice shall be given on or before the earlier of 10 days before the record date or the date which such action shall be taken. Such notice shall also set forth all facts (to the extent known) material to the effect of such action on the Conversion Price and the number, kind or class of shares or other securities or property which shall be deliverable or purchasable upon the occurrence of such action or deliverable upon conversion of this Debenture. (B) Following completion of an event wherein the Conversion Price shall be adjusted, Borrower shall furnish to the holder of this Debenture a statement, signed by the Chief Executive Officer and the Secretary of the Borrower, of the facts creating such adjustment and specifying the resultant adjusted Conversion Price then in effect which statement shall constitute and amendment to this Debenture.

8. ONE TIME ADJUSTMENT TO CONVERSION PRICE. If the Borrower has failed to achieve minimum projections as provided in the business plan, which minimum projections are a proforma 1996 before tax income of \$2,928,500 (excluding extraordinary gains or losses, noncontinuing income from operations and the interest on the Debentures), then the Conversion Price shall be adjusted downward to an amount equal to seventy-five percent (75%) of the average closing bid price of the Common Stock for the 21 consecutive trading days following Borrower's public press release of the 1996 fiscal year end financial results (such average closing bid price herein referred to as the "1996 Conversion Price Adjustment Bid Price"). However, the initial conversion price shall be adjusted to \$9.00 per share if the Borrower has achieved no less than a proforma 1996 before tax income of \$2,928,500 (excluding extraordinary gains or losses, noncontinuing income from operations and the interest on the Debentures). The adjustment shall only be utilized to adjust the Conversion Price to a lesser amount than the prior existing Conversion Price. If an adjustment is required pursuant to Section 7, then the Borrower shall furnish to the holder of this Debenture a statement, signed by the Chief Executive Officer and the Secretary of Borrower, of the facts creating such adjustment and specifying the resultant adjusted Conversion Price then in effect, which statement shall constitute an amendment to The Debenture. In determining proforma 1996 before tax income, affect shall be given to the acquisition of the Road Champs Companies as if it occurred on January 1, 1996.

9. RESERVATION OF SHARES: Borrower warrants and agrees that it shall at all times reserve and keep available, free from preemptive rights, sufficient authorized and unissued shares of Common Stock or treasury shares of common stock necessary to effect conversion of this Debenture.

10. REGISTRATION RIGHTS: Shares issued upon conversion of this Debenture shall be restricted from transfer by the holder except if and unless the shares are duly registered for sale pursuant to the Securities Act of 1933, as amended, or the transfer is duly exempt from registration.

The Holder has certain rights with respect to the registration of shares of Common Stock issued upon the conversion of this Debenture pursuant to the terms of the Loan Agreement. Borrower agrees that a copy of the Loan Agreement with all amendments, additions or substitutions therefor shall be available to the Holder at the offices of Borrower.

11. TAXES: The Borrower shall pay any documentary or other transactional taxes attributable to the issuance or delivery of this Debenture or the shares of Common Stock issued upon conversion by the Holder (excluding any

federal, state or local income taxes and any franchise taxes or taxes imposed upon the Holder by the jurisdiction, or any political subdivision thereof, under which such Holder is organized or is qualified to do business.)

12. DEFAULT:

(a) Event of Default: An "Event of Default" shall exist if any one or more of the following events (herein collectively called "Events of Default") shall occur and be continuing:

(i) Borrower shall fail to pay (or shall state in writing an intention not to pay or its inability to pay), not later than 10 days after the due date, any installment of interest on or principal of, any Debenture or any fee, expense or other payment required hereunder;

(ii) Any representation or warranty made under the Loan Agreement, or any of the other Loan Documents, or in any certificate or statement furnished or made to Lender pursuant hereto or in connection herewith or with the Loans hereunder, shall prove to be untrue or inaccurate in any material respect as of the date on which such representation or warranty is made;

(iii) Default in the performance of any of the covenants or agreements of Borrower or its Subsidiaries, if any, contained under the Loan Agreement, Security Agreement, Pledge Agreement, or in any of the other Loan Documents, which default is not remedied within thirty (30) days after written notice thereof to Borrower from Lender, provided that such 30 day grace period shall not apply to default of any payment requirement or notice covenant made by Borrower;

(iv) Default shall occur in the payment when due of any Material Indebtedness (other than the Obligation) of the Borrower or its Subsidiaries, if any, or default shall occur in respect of any note, loan agreement or credit agreement relating to any such Indebtedness, and such default shall continue for more than the period of grace, if any, specified therein and any such Indebtedness shall become due before its stated maturity by acceleration of the maturity thereof or shall become due by its terms and shall not be promptly paid or extended;

(v) Any of the Loan Documents shall cease to be legal, valid and binding agreements enforceable against the Borrower in accordance with the respective terms thereof or shall in any way be terminated or become or be declared ineffective or inoperative or shall in any way whatsoever cease to give or provide the respective rights, titles, interests, remedies, powers or privileges intended to be created thereby;

(vi) Borrower or its Subsidiaries, if any, shall (A) apply for or consent to the appointment of a receiver, trustee, custodian, intervenor or liquidator of itself, or of all or substantially all of such Person's assets, (B) file a voluntary petition in bankruptcy, admit in writing that such Person is unable to pay such Person's debts as they become due or generally not pay such Person's debts as they become due, (C) make a general assignment for the benefit of creditors, (D) file a petition or answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy or insolvency laws, (E) file an answer admitting the material allegations of, or consent to, or default in answering, a petition filed against such Person in any bankruptcy, reorganization or insolvency proceeding, or (F) take corporate action for the purpose of effecting any of the foregoing;

(vii) An involuntary petition or complaint shall be filed against Borrower or any of its Subsidiaries seeking bankruptcy or reorganization of such Person or the appointment of a receiver, custodian, trustee, intervenor or liquidator of such Person, or all or substantially all of such Person's assets, and such petition or complaint shall not have been dismissed within sixty (60) days of the filing thereof or an order, order for relief, judgment or decree shall be entered by any court of competent jurisdiction or other competent authority approving a petition or complaint seeking reorganization of Borrower or its Subsidiary, if any, or appointing a receiver, custodian, trustee, intervenor or liquidator of such Person, or of all or substantially all of such Person's assets;

(viii) Any final judgment(s) not subject to appeal for the payment of money in excess of the sum of \$250,000 in the aggregate shall be rendered against Borrower or any Subsidiary and such judgment or judgments shall not be satisfied or discharged at least ten (10) days prior to the date on which any of its assets could be lawfully sold to satisfy such judgment;

(ix) The failure of Borrower to issue and deliver shares of Common Stock as provided herein upon conversion of the Debenture; or

(x) The failure to submit to its stockholders Lender's nominee, if any, for election to the Board of Directors of Borrower for any reason other than good cause.

(b) Remedies Upon Event of Default: If an Event of Default shall have occurred and be continuing, then Lender may exercise any one or more of the following rights and remedies, and any other remedies provided in any of the Loan Documents, as Lender in its sole discretion, may deem necessary or appropriate:

(i) declare the unpaid Principal Amount (after application of any payments or installments received by Lender) of, and all interest then accrued but unpaid on, the Debentures and any other liabilities hereunder to be forthwith due and payable, whereupon the same shall forthwith become due and payable without presentment, demand, protest, notice of default, notice of acceleration or of intention to accelerate or other notice of any kind, all of which Borrower hereby expressly waives;

(ii) reduce any claim to judgment; and/or

(iii) without notice of default or demand, pursue and enforce any of Lender's rights and remedies under the Loan Documents, or otherwise provided under or pursuant to any applicable law or agreement, all of which rights may be specifically enforced.

(c) Remedies Nonexclusive: Each right, power or remedy of the holder hereof upon the occurrence of any Event of Default as provided for in this Debenture or now or hereafter existing at law or in equity or by statute shall be cumulative and concurrent and shall be in addition to every other right, power or remedy provided for in this Debenture or now or hereafter existing at law or in equity or by statute, and the exercise or beginning of the exercise by the holder or transferee hereof of any one or more of such rights, powers or remedies shall not preclude the simultaneous or later exercise by the holder of any or all such other rights, powers or remedies.

(d) Expenses: Upon the occurrence of a Default or an Event of Default, which occurrence is not cured within the notice provisions, if any provided therefore, Borrower agrees to pay and shall pay all costs and expenses (including Lender's reasonable attorney's fees and expenses) reasonably incurred by Lender in connection with the preservation and enforcement of Lender's rights under the Loan Agreement, the Debentures, or any other Loan Document.

13. FAILURE TO ACT AND WAIVER: No failure or delay by the holder hereof to require the performance of any term or terms of this Debenture or not to exercise any right or any remedy shall constitute a waiver of any such term or of any right or of any default, nor shall such delay or failure preclude the holder hereof from exercising any such right, power or remedy at any later time or times. By accepting payment after the due date of any amount payable under this Debenture, the holder hereof shall not be deemed to waive the right either to require payment when due of all other amounts payable, or to later declare a default for failure to effect such payment of any such other amount. The failure of the holder of this Debenture to give notice of any failure or breach of the Borrower under this Debenture shall not constitute a waiver of any right or remedy in respect of such continuing failure or breach or any subsequent failure or breach.

14. CONSENT TO JURISDICTION: The Borrower hereby agrees and consents that any action, suit or proceeding arising out of this Debenture may be brought in any appropriate court in the State of Texas including the United States District Court for the Northern District of Texas, or in any other court having jurisdiction over the subject matter, all at the sole election of the Holder hereof, and by the issuance and execution of this Debenture the Borrower irrevocably consents to the jurisdiction of each such court. The Borrower hereby irrevocably appoints CT Corporation, Dallas, Texas, as agent for the Borrower to accept service of process for and on behalf of the Borrower in any action, suit or proceeding arising out of this Debenture. Except for default in payment of interest or principal when and as they become due, and except as otherwise specifically set forth herein or otherwise agreed to in writing by the parties, any action dispute, claim or controversy (all such herein called "Dispute") between or among the parties as to the facts or the interpretation of the Debenture shall be resolved by arbitration as set forth in Section 12.05 of the Loan Agreement.

15. HOLDERS RIGHT TO REQUEST MULTIPLE DEBENTURES: The Holder shall, upon written request and presentation of the Debenture, have the right, at any interest payment date, to request division of this Debenture into two or more units, each of such to be in such amounts as shall be requested; provided however that no Debentures shall be issued in denominations of face amount less than \$10,000.00.

16. TRANSFER: This Debenture may be transferred on the books of the Borrower by the registered Holder hereof, or by Holder's attorney duly authorized in writing, only upon (i) delivery to the Borrower of a duly executed assignment of the Debenture, or part thereof, to the proposed new Holder, along with a current notation of the amount of payments received and net Principal Amount yet unfunded, and presentment of such Debenture to the Borrower for issue of a replacement Debenture, or Debentures, in the name of the new Holder, (ii) the designation by the new Holder of the Lender's agent for notice, such agent to be the sole party to whom Borrower shall be required to provide notice when notice to Lender is required hereunder and who shall be the sole party authorized to represent Lender in regard to modification or waivers under the Debenture, the Loan Agreement, or other Loan Documents; and any action, consent or waiver, (other than a compromise of principal and interest), when given or taken by Lender's agent for notice, shall be deemed to be the action of the holders of a majority in amount of the Principal Amount of the Debentures, as such holders are recorded on the books of the Borrower, and (iii) in compliance with the legend to read "The Securities represented by this Debenture have not been registered under the Securities Act of 1933, as amended ("Act"), or applicable state securities laws ("State Acts") and shall not be sold, hypothecated, donated or otherwise transferred unless the Company shall have received an opinion of Legal Counsel for the Company, or such other evidence as may be satisfactory to Legal Counsel for the Company, to the effect that any such transfer shall not require registration under the Act and the State Acts."

The Borrower shall be entitled to treat any holder of record of the Debenture as the Holder in fact thereof and of the Debenture and shall not be bound to recognize any equitable or other claim to or interest in this Debenture in the name of any other person, whether or not it shall have express or other notice thereof, save as expressly provided by the laws of Texas.

17. NOTICES: All notices and communications under this Debenture shall be in writing and shall be either delivered in person or by overnight service such as FedEx and accompanied by a signed receipt therefor; or mailed first-class United States certified mail, return receipt requested, postage prepaid, and addressed as follows: (i) if to the Borrower at its address for notice as stated in the Loan Agreement; and, (ii) if to the Holder of this Debenture, to the address (a) of such Holder as it appears on the books of the Borrower, or (b) in the case of a partial assignment to one or more Holders, to the Lender's agent for notice, as the case may be. Any notice of communication shall be deemed given and received as of the date of such delivery if delivered; or if mailed, then three days after the date of mailing.

18. MAXIMUM INTEREST RATE: Regardless of any provision contained in this Debenture, Lender shall never be entitled to receive, collect or apply as interest on the Debenture any amount in excess of interest calculated at the Maximum Rate, and, in the event that Lender ever receives, collects or applies as interest any such excess, the amount which would be excessive interest shall be deemed to be a partial prepayment of principal and treated hereunder as such; and, if the principal amount of the Debenture is paid in full, any remaining excess shall forthwith be paid to Borrower. In determining whether or not the interest paid or payable under any specific contingency exceeds interest calculated at the Maximum Rate, Borrower and Lender shall, to the maximum extent permitted under applicable law, (i) characterize any non principal payment as an expense, fee or premium rather than as interest; (ii) exclude voluntary prepayments and the effects thereof, and (iii) amortize, pro rate, allocate and spread, in equal parts, the total amount of interest throughout the entire contemplated term of the Debenture; provided that, if the Debenture is paid and performed in full prior to the end of the full contemplated term thereof, and if the interest received for the actual period of existence thereof exceeds interest calculated at the Maximum Rate, Lender shall refund to Borrower the amount of such excess or credit the amount of such excess against the principal amount of the Debenture and, in such event, Lender shall not be subject to any penalties provided by any laws for contracting for, charging, taking, reserving or receiving interest in excess of interest calculated at the Maximum Rate.

(b) "Maximum Rate" shall mean, on any day, the highest nonusurious rate of interest (if any) permitted by applicable law on such day that at any time, or from time to time, may be contracted for, taken, reserved, charged or received on the Indebtedness evidenced by the Debenture under the laws which are presently in effect of the United States of America and the State of Texas or by the laws of any other jurisdiction which are or may be applicable to the holders of the Debenture and such Indebtedness or, to the extent permitted by law, under such applicable laws of the United States of America and the State of Texas or by the laws of any other jurisdiction which are or may be

applicable to the holder of the Debenture and which may hereafter be in effect and which allow a higher maximum nonusurious interest rate than applicable laws now allow.

19. RIGHTS UNDER LOAN AGREEMENT: This Debenture is issued pursuant to that certain Convertible Debenture Loan Agreement dated December 31, 1996 by and between Jakks Pacific, Inc., and Renaissance Capital Growth & Income Fund III, Inc. and Renaissance US Growth & Income Trust PLC as Lenders, (the "Loan Agreement"), and the holders hereof are entitled to all the rights and benefits, and are subject to all the obligations of Lender under said agreement, including the maximum interest rates limitations as specified in Section 11.07 thereof. Both Borrower, Guarantor and Lenders have participated in the negotiation and preparation of the Loan Agreement and of this Debenture. Borrower agrees that a copy of the Loan Agreement with all amendments, additions and substitutions therefor shall be available to the Holders at the offices of Borrower.

20. DEFINED TERMS: Capitalized Terms used but not defined herein shall have the meaning given them in the Loan Agreement.

21. GOVERNING LAW: THIS DEBENTURE SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, OR, WHERE APPLICABLE, THE LAWS OF THE UNITED STATES.

IN WITNESS WHEREOF, the undersigned Borrowers have caused this Debenture to be duly issued and executed on the Date above stated.

BORROWER

JAKKS PACIFIC, INC.

By:

Jack Friedman, President

Attest by:

Secretary

JAKKS PACIFIC, INC.

AMENDED AND RESTATED 1995 STOCK OPTION PLAN

1. PURPOSE OF THE PLAN. THE JAKKS PACIFIC, INC. AMENDED AND RESTATED 1995 STOCK OPTION PLAN (THE "AMENDED PLAN") RESTATES THE JAKKS PACIFIC, INC. 1995 STOCK OPTION PLAN (THE "PLAN") AND IS INTENDED TO ADVANCE THE INTERESTS OF JAKKS PACIFIC, INC. (THE "COMPANY") BY INDUCING PERSONS OF OUTSTANDING ABILITY AND POTENTIAL TO JOIN AND REMAIN WITH THE COMPANY, BY ENCOURAGING AND ENABLING EMPLOYEES TO ACQUIRE PROPRIETARY INTERESTS IN THE COMPANY, AND BY PROVIDING THE PARTICIPATING EMPLOYEES WITH AN ADDITIONAL INCENTIVE TO PROMOTE THE SUCCESS OF THE COMPANY. THIS IS ACCOMPLISHED BY PROVIDING FOR THE GRANTING OF "OPTIONS" (WHICH TERM AS USED HEREIN INCLUDES BOTH "INCENTIVE STOCK OPTIONS" AND "NONSTATUTORY STOCK OPTIONS," AS LATER DEFINED, TO QUALIFIED EMPLOYEES. IN ADDITION, THE AMENDED PLAN ALSO PROVIDES FOR THE GRANTING OF "NONSTATUTORY STOCK OPTIONS" TO ALL DIRECTORS WHO ARE NOT EMPLOYEES OF THE COMPANY, AS CONSIDERATION FOR THEIR SERVICES AND FOR ATTENDING MEETINGS OF THE BOARD OF DIRECTORS, AND ALSO PROVIDES FOR THE GRANTING OF "NONSTATUTORY STOCK OPTIONS" TO CONSULTANTS AND ADVISORS WHO PROVIDE SERVICES TO THE COMPANY.

2. Administration. The Amended Plan shall be administered by the Board of Directors (the "Board"), or by a committee (the "Committee") consisting of at least two (2) Directors chosen by the Board, each of which is a "Non-Employee Director," as such term is defined in Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Except as herein specifically provided, the interpretation and construction by the Board or Committee of any provision of the Amended Plan or of any Option granted under it shall be final and conclusive. The receipt of Options by Directors, or any members of the Committee, shall not preclude their vote on any matters in connection with the administration or interpretation of the Amended Plan, except as otherwise provided by law.

3. Shares subject to the Amended Plan. The stock subject to grant under the Amended Plan shall be shares of the Company's common stock, \$.001 par value (the "Common Stock"), whether authorized but unissued or held in the Company's treasury or shares purchased from stockholders expressly for use under the Amended Plan. The maximum number of shares of Common Stock which may be issued pursuant to Options granted under the Amended Plan shall not exceed two hundred sixteen thousand, nine hundred ninety-eight (216,998) shares, subject to adjustment in

accordance with the provisions of Section 13 hereof. The Company shall at all times while the Amended Plan is in force reserve such number of shares of Common Stock as will be sufficient to satisfy the requirements of all outstanding Options granted under the Amended Plan. In the event any Option granted under the Amended Plan shall expire or terminate for any reason without having been exercised in full or shall cease for any reason to be exercisable in whole or in part, the unpurchased shares subject thereto shall again be available for Options under this Amended Plan.

4. Stock Option Agreement. Each Option granted under the Amended Plan shall be authorized by the Board or Committee and shall be evidenced by a Certificate of Stock Option Agreement which shall be executed by the Company. The Certificate of Stock Option Agreement shall specify the number of shares of Common Stock as to which any Option is granted, the period during which the Option is exercisable and the option price per share thereof.

5. Discretionary Grant Participation. The class of persons which shall be eligible to receive discretionary grants of Options under the Amended Plan shall be all key employees (including officers) of either the Company or any subsidiary corporation of the Company and consultants and advisors who provide services to the Company or any subsidiary of the Company, other than in connection with the offer or sale of securities in a capital raising transaction. Employees shall be entitled to receive (i) Incentive Stock Options, as described in Section 7 hereafter and (ii) Nonstatutory Stock Options, as described in Section 8 hereafter. Consultants and advisors shall be entitled only to receive Nonstatutory Stock Options. The Board or Committee, in its sole discretion, but subject to the provisions of the Amended Plan, shall determine the employees, consultants or advisors to whom Options shall be granted and the number of shares to be covered by each Option taking into account the nature of the employment or services rendered by the individuals being considered, their annual compensation, their present and potential contributions to the success of the Company and such other factors as the Board or Committee may deem relevant.

6. Participation of Directors Who Are Not Employees of the Company

(a) As of November 14, 1996, the date of the restatement of the Amended Plan by the Company's Board of Directors, on the date any person who is not an employee of the Company first becomes a Director, such person shall automatically be granted, without further action by the Board or Committee, an option to purchase 10,850 shares of the Company's Common Stock.

(b) On each January 1st during the term of the Amended Plan, Directors of the Company who are not employees of the Company then serving in such capacity, shall each be granted an Option to purchase 5,425 shares of the Company's Common Stock.

(c) The option price of the shares subject to the Options set forth in Sections 6(a) and 6(b) hereof shall be the fair market value (as defined in Section 7(f) hereafter) of the Company's Common Stock on the date such Options are granted. All of such options shall be Nonstatutory Stock Options, as described in Section 8 hereafter. The Options granted pursuant to this Section 6 shall vest entirely on the date they are granted and shall be exercisable for a period of ten (10) years.

(d) Directors who are not employees of the Company include attorneys, accountants, consultants and advisors of the Company who, in addition to providing services in such capacity, serve as Directors of the Company.

7. Incentive Stock Options. The Board or Committee may grant Options under the Amended Plan which are intended to meet the requirements of Section 422 of the Internal Revenue Code of 1986 (the "Code") (such an Option referred to herein as an "Incentive Stock Option"), and which are subject to the following terms and conditions and any other terms and conditions as may at any time be required by Section 422 of the Code:

(a) No Incentive Stock Option shall be granted to individuals other than key employees of the Company or of a subsidiary corporation of the Company.

(b) Each Incentive Stock Option under the Amended Plan must be granted prior to December 1, 2005, which is within ten (10) years from the date the Amended Plan was adopted by the Board of Directors and shareholders of the Company.

(c) The option price of the shares subject to any Incentive Stock Option shall not be less than the fair market value of the Common Stock at the time such Incentive Stock Option is granted; provided, however, if an Incentive Stock Option is granted to an individual who owns, at the time the Incentive Stock Option is granted, more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of a subsidiary corporation of the Company, the option price of the shares subject to the Incentive Stock Option shall be at least one hundred ten percent (110%) of the fair market value of the Common Stock at the time the Incentive Stock Option is granted.

(d) No Incentive Stock Option granted under the Amended Plan shall be exercisable after the expiration of ten (10) years from

the date of its grant. However, if an Incentive Stock Option is granted to an individual who owns, at the time the Incentive Stock Option is granted, more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of a subsidiary corporation, of the Company, such Incentive Stock Option shall not be exercisable after the expiration of five (5) years from the date of its grant. Every Incentive Stock Option granted under the Amended Plan shall be subject to earlier termination as expressly provided in Section 11 hereof.

(e) For purposes of determining stock ownership under this Section 7, the attribution rules of Section 425(d) of the Code shall apply.

(f) For purposes of the Amended Plan, fair market value shall be determined by the Board or Committee and, if the Common Stock is listed on a national securities exchange or traded on the Over-the-Counter market, the fair market value shall be the closing price of the Common Stock on such exchange, or on the Over-the-Counter market as reported by the National Quotation Bureau, Incorporated, as the case may be, on the day on which the Option is granted or on the day on which a determination of fair market value is required under the Amended Plan, or, if there is no trading or closing price on that day, the closing price on the most recent day preceding the day for which such prices are available.

8. Nonstatutory Stock Options. The Board or Committee may grant Options under the Amended Plan which are not intended to meet the requirements of Section 422 of the Code, as well as Options which are intended to meet the requirements of Section 422 of the Code, but the terms of which provide that they will not be treated as Incentive Stock Options (referred to herein as a "Nonstatutory Stock Option"). Nonstatutory Stock Options which are not intended to meet these requirements shall be subject to the following terms and conditions:

(a) A Nonstatutory Stock Option may be granted to any person eligible to receive an Option under the Amended Plan pursuant to Section 5 hereof.

(b) Persons eligible to receive Nonstatutory Stock Options pursuant to Section 6 hereof are granted Options automatically under the Amended Plan, without any determination by the Board or Committee.

(c) Subject to the price provisions of Section 6 hereof, the option price of the shares subject to a Nonstatutory Stock Option shall be determined by the Board or Committee, in its absolute discretion, at the time of the grant of the Nonstatutory Stock Option.

(d) Subject to the provisions of Section 6 hereof, a Nonstatutory Stock Option granted under the Amended Plan may be of such duration as shall be determined by the Board or Committee (not to exceed 10 years), and shall be subject to earlier termination as expressly provided in Section 11 hereof.

9. Rights of Option Holders. The holder of any Option granted under the Amended Plan shall have none of the rights of a stockholder with respect to the shares covered by his Option until such shares shall be issued to him upon the exercise of his Option.

10. Transferability. No Option granted under the Amended Plan shall be transferable by the individual to whom it was granted otherwise than by Will or the laws of decent and distribution, or pursuant to a domestic relations order as defined by the Internal Revenue Code of 1986, as amended, or Title I of the Employee Retirement Income Securities Act, or the rules thereunder and, during the lifetime of such individual, shall not be exercisable by any other person, but only by him.

11. Termination of Employment or Death.

(a) If the employment of an employee by the Company or any subsidiary of the Company shall be terminated voluntarily by the employee or for cause, then his Options shall expire forthwith. Except as provided in subsections (b) and (c) of this Section 11, if such employment or services shall, terminate for any other reason, then such Options may be exercised at any time within three (3) months after such termination, subject to the provisions of subparagraph (f) of this Section 11. For purposes of the Amended Plan, the retirement of an individual either pursuant to a pension or retirement plan adopted by the Company or at the normal retirement date prescribed from time to time by the Company shall be deemed to be termination of such individual's employment other than voluntarily or for cause. For purposes of this subparagraph, an employee who leaves the employ of the Company to become an employee of a subsidiary corporation of the Company or a corporation (or subsidiary or parent corporation of the corporation) which has assumed the Option of the Company as a result of a corporate reorganization, etc., shall not be considered to have terminated his employment.

(b) If the holder of any Options under the Amended Plan dies (i) while employed by the Company or a subsidiary of the Company, or (ii) within three (3) months after the termination of his employment or services other than voluntarily by the employee or for cause, then such Options may, subject to the provisions of subparagraph (f) of this Section 11, be exercised by the estate

of the employee or by a person who acquired the right to exercise such Options by bequest or inheritance or by reason of the death of such employee at any time within one (1) year after such death.

(c) If the holder of any Options under the Amended Plan ceases employment because of permanent and total disability (within the meaning of Section 22(e)(3) of the Code) while employed by the Company or a subsidiary of the Company, then such Options may, subject to the provision of subparagraph (f) of this Section 11, be exercised at any time within one (1) year after his termination of employment due to this disability.

(d) If the services of a Director who is not an employee of the Company shall be terminated by the Company for cause, then his Options shall expire forthwith. If such services shall terminate for any other reason (including the death or disability of such Director), he shall resign as a director of the Company or his term shall expire, then such Options may be exercised at any time within one (1) year after such termination, subject to the provisions of subparagraph (f) of this Section 11. In the event of the death of a Director who is not an employee of the Company, his Options may be exercised by his estate or by a person who acquired the right to exercise such Options by bequest or inheritance or by reason of the death of such Director at any time within one (1) year after such death.

(e) Upon the death of any consultant or advisor to the Company or any of its subsidiaries, who is granted any Options hereunder, such Options may, subject to the provisions of subparagraph (f) of this Section 11, be exercised by the estate of such person or by a person who acquired the right to exercise such Options by bequest or inheritance or by reason of the death of such person at any time within one (1) year after such death.

(f) An Option may not be exercised pursuant to this Section 11 except to the extent that the holder was entitled to exercise the Option at the time of termination of employment, termination of Directorship, or death, and in any event may not be exercised after the expiration of the Option.

(g) For purposes of this Section 11, the employment relationship of an employee of the Company or of a subsidiary corporation of the Company will be treated as continuing intact while he is on military or sick leave or other bona fide leave of absence (such as temporary employment by the Government) if such leave does not exceed ninety (90) days, or, if longer, so long as his right to reemployment is guaranteed either by status or by contract.

11. EXERCISE OF OPTIONS.

(a) Unless otherwise provided in the Certificate of Stock Option Agreement, any Option granted under the Amended Plan shall be exercisable in whole at any time, or in part from time to time, prior to expiration. The Board or Committee, in its absolute discretion, may provide in any Certificate of Stock Option Agreement that the exercise of any Option granted under the Amended Plan shall be subject (i) to such condition or conditions as it may impose, including but not limited to, a condition that the holder thereof remain in the employ or service of the Company or a subsidiary corporation of the Company for such period or periods of time from the date of grant of the Option, as the Board or Committee, in its absolute discretion, shall determine; and (ii) to such limitations as it may impose, including, but not limited to, a limitation that the aggregate fair market value of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any employee during any calendar year (under all plans of the Company and its parent and subsidiary corporations) shall not exceed One Hundred Thousand Dollars (\$100,000). In addition, in the event that under any Certificate of Stock Option Agreement the aggregate fair market value of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any employee during any calendar year (under all plans of the Company and its parent and subsidiary corporations) exceeds One Hundred Thousand Dollars (\$100,000), the Board or Committee may, when shares are transferred upon exercise of such Options, designate those shares which shall be treated as transferred upon exercise of an Incentive Stock Option and those shares which shall be treated as transferred upon exercise of a Nonstatutory Stock Option.

(b) An Option granted under the Amended Plan shall be exercised by the delivery by the holder thereof to the Company at its principal office (attention of the Secretary) of written notice of the number of shares with respect to which the Option is being exercised. Such notice shall be accompanied by payment of the full option price of such shares, and payment of such option price shall be made by the holder's delivery of his check payable to the order of the Company; provided, however, that notwithstanding the foregoing provisions of this Section 12 or any other terms, provisions or conditions of the Amended Plan, at the written request of the optionee and upon approval by the Board of Directors or the Committee, shares acquired pursuant to the exercise of any Option may be paid for in full at the time of exercise by the surrender of shares of Common Stock of the Company held by or for the account of the optionee at the time of exercise to the extent permitted by subsection (c)(5) of Section 422 of the Code and, with respect to any person who is subject to

the reporting requirements of Section 16(a) of the Exchange Act, to the extent permitted by Section 16(b) of the Exchange Act and the Rules of the Securities and Exchange Commission, without liability to the Company. In such case, the fair market value of the surrendered shares shall be determined by the Board or Committee as of the date of exercise in the same manner as such value is determined upon the grant of an Incentive Stock Option.

13. Anti-Dilution.

13.1 Adjustments. In the event that the Company shall have effected one or more stock splits, reverse splits, or readjustments, stock dividends, or other increases or reductions of the number of outstanding shares of Common Stock of the Company, or issued as dividends on the outstanding shares of Common Stock of the Company other securities convertible into shares of Common Stock of the Company, without receiving compensation therefor in money, services or property (any such event being hereinafter referred to as a "Dilutive Event"), the optionee shall be entitled to receive for the aggregate payments to be made by him for the Stock, the number of shares of Common Stock or other securities the optionee would have been entitled to receive as a result of any such Dilutive Event if optionee had immediately prior to such Dilutive Event exercised this Option and paid for and received the Stock. If fractional shares would result from any such adjustment, the adjustment shall be revised to the next lower whole number of shares.

13.2 Merger, Consolidation or Recapitalization. In the event of the recapitalization, merger or consolidation of the Company with or into another corporation the optionee shall be entitled to receive upon payment of the option price, such securities of such other corporation with or into which the Company shall have been merged or consolidated as the optionee would have received if optionee had immediately prior to such recapitalization, merger or consolidation exercised this Option and paid for and received the Stock.

14. Further Conditions of Exercise.

(a) Unless prior to the exercise of the Option the shares issuable upon such exercise have been registered with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended (the "Securities Act"), the notice of exercise shall be accompanied by a representation or agreement of the individual exercising the Option to the Company to the effect that such shares are being acquired for investment and not with a view to the resale of distribution thereof or such other documentation as may be required by the Company unless in the opinion of counsel to the Company such representation, agreement

or documentation is not necessary to comply with the Securities Act.

(b) The Company shall not be obligated to deliver any Common Stock until it has been listed on each securities exchange on which the Common Stock may then be listed or until there has been qualification under or compliance with such state or federal laws, rules or regulations as the Company may deem applicable. The Company shall use reasonable efforts to obtain such listing, qualifications and compliance.

15. Effectiveness of the Plan. The Plan was originally adopted by the Board of Directors on December 1, 1995. The Plan was approved by the affirmative vote of a majority of the outstanding shares of capital stock of the Company by written consent dated December 1, 1995. The Amended Plan was restated by the Board of Directors on November 14, 1996.

16. Termination, Modification and Amendment.

(a) The Amended Plan (but not Options previously granted under the Amended Plan) shall terminate on December 1, 2005, which is within ten (10) years from the date of the adoption of the Plan by the Board of Directors, or sooner as hereinafter provided, and no Option shall be granted after termination of the Amended Plan.

(b) The Amended Plan may from time to time be terminated, modified or amended by the affirmative vote of the holders of a majority of the outstanding shares of capital stock of the Company present in person or by proxy at a meeting of stockholders of the Company convened for such purpose.

(c) The Board of Directors may at any time, on or before the termination date referred to in Section 16(a) hereof, terminate the Amended Plan, or from time to time make such modifications or amendments to the Amended Plan as it may deem advisable; provided, however, that the Board of Directors shall not, without approval by the affirmative vote of the holders of a majority of the outstanding shares of capital stock of the Company present in person or by proxy at a meeting of stockholders of the Company convened for such purpose, increase (except as provided by Section 13 hereof) the maximum number of shares as to which Incentive Stock Options may be granted, or change the designation of the employees or class of employees eligible to receive Options or make any other change which would prevent any Incentive Stock Option granted hereunder which is intended to be an "incentive stock option" from disqualifying as such under the

then existing provisions of the Code or any law amendatory thereof or supplemental thereto.

(d) No termination, modification or amendment of the Amended Plan, may without the consent of the individual to whom an Option shall have been previously granted, adversely affect the rights conferred by such Option.

17. Not a Contract of Employment. Nothing contained in the Amended Plan or in any Certificate of Stock Option Agreement executed pursuant hereto shall be deemed to confer upon any individual to whom an Option is or may be granted hereunder any right to remain in the employ or service of the Company or a subsidiary corporation of the Company.

18. Use of Proceeds. The proceeds from the sale of shares pursuant to Options granted under the Amended Plan shall constitute general funds of the Company.

19. Indemnification of Board of Directors or Committee. In addition to such other rights of indemnification as they may have, the members of the Board of Directors or the Committee, as the case may be, shall be indemnified by the Company to the extent permitted under applicable law against all costs and expenses reasonably incurred by them in connection with any action, suit or proceeding to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Amended Plan or any rights granted thereunder and against all amounts paid by them in settlement thereof or paid by them in satisfaction of a judgment of any such action, suit or proceeding, except a judgment based upon a finding of bad faith. Upon the institution of any such action, suit or proceeding, the member or members of the Board of Directors or the Committee, as the case may be, shall notify the Company in writing, giving the Company an opportunity at its own cost to defend the same before such member or members undertake to defend the same on their own behalf.

20. Definitions. For purposes of the Amended Plan, the terms "parent corporation" and "subsidiary corporation" shall have the same meanings as set forth in Sections 425(e) and 425(f) of the

Code, respectively, and the masculine shall include the feminine and the neuter as the context requires.

21. Governing Law. The Amended Plan shall be governed by, and all questions arising hereunder shall be determined in accordance with, the law of the State of Delaware.

EMPLOYMENT AGREEMENT dated January 1, 1997 by and between JAKKS PACIFIC, INC., a Delaware corporation (the "Company"), and JACK FRIEDMAN (the "Employee").

The parties hereto desire to provide for the Employee's continued employment by the Company in accordance with the terms and provisions set forth below:

NOW, THEREFORE, the parties agree as follows:

A. EMPLOYMENT; TERM.

The Company will continue to employ the Employee, and the Employee will continue to work for the Company, as its President and Chief Executive Officer, for a term commencing on the date hereof and terminating on December 31, 2001 unless sooner terminated in accordance with Section 9 hereof. Such period, together with the period of any extension or renewal of such employment, is referred to herein as the "Employment Period."

B. DUTIES.

During the Employment Period, the Employee shall serve as the President and Chief Executive Officer of the Company and of its subsidiaries and affiliated companies, and perform such further duties as shall, from time to time, be reasonably assigned to the Employee by the Board of Directors of the Company consistent with his position and abilities.

C. DEVOTION OF TIME.

During the Employment Period, the Employee shall: (i) expend substantially all of his working time for the Company; (ii) devote his best efforts, energy and skill to the services of the Company and the promotion of its interests; and (iii) not take part in activities known by Employee to be detrimental to the best interests of the Company.

D. COMPENSATION.

In consideration for the services to be performed by the Employee during the Employment Period hereunder, the Company shall compensate the Employee at an annual base salary from the date hereof at the annual rate of \$296,000.00 per annum until December 31, 1997, and thereafter at the annual rate of \$321,000.00 per annum until December 31, 1998, and thereafter at the annual rate of \$346,000.00 per annum until December 31, 1999, and thereafter at the annual rate of \$371,000.00 per annum until December 31, 2000, and thereafter at the annual rate of \$396,000.00 per annum until December 31, 2001, payable in accordance with the Company's customary payroll practices. The Employee shall also be entitled to receive an annual bonus in respect of each fiscal year of the Company equal to four (4%) per cent of the Company's earnings before taxes for each such year, as determined by the Company's firm of independent certified public accountants in accordance with generally accepted accounting principles consistently applied. In the event this Agreement terminates prior to the end of a fiscal year, the bonus for such year shall be calculated based upon the Company's earnings before taxes during the period up to the end of the month in which the Agreement terminates annualized for such year.

F. USE OF AUTOMOBILE; REIMBURSEMENT OF EXPENSES;
ADDITIONAL BENEFITS.

5.1 Employee shall receive an automobile allowance for the use of any automobile owned or leased by him in accordance with the Company's then prevalent practices for executive employees.

5.2 The Company shall pay directly, or reimburse the Employee for, all other reasonable and necessary expenses and disbursements incurred by him for and on behalf of the Company in the performance of his duties under this Agreement. For such purposes, the Employee shall submit to the Company itemized reports of such expenses in accordance with the Company's policies.

5.3 Employee shall be entitled to paid vacations during the Employment Period in accordance with the Company's then prevalent practices for executive employees; provided, however, that Employee shall be entitled to such paid vacations for not less than four (4) weeks per annum.

5.4 Employee shall be entitled to participate in, and to receive benefits under, any employee benefit plans of the Company (including, without limitation, pension, profit sharing, group life insurance and group medical insurance plans) as may exist from time to time for its executive employees.

F. EMPLOYEE KNOWLEDGE.

6.1 Employee hereby agrees to communicate and make known to the Company all knowledge possessed by him relating to any methods, developments, inventions and/or improvements, whether patented, patentable or unpatentable, which relate to the business of the Company; whether acquired by him before or during the Employment Period; provided, however, that nothing herein shall be construed as requiring any such communication where the method, development, invention and/or improvement is lawfully protected from disclosure as the trade secret of a third party or by any other lawful bar to such communications existing prior to the commencement of employment hereunder; and provided, further, that pursuant to Section 2871 of the California Labor Code, any such disclosures shall be held in confidence by the Company.

6.2 Employee hereby agrees to keep all such records in connection with the Employee's employment as the Company may from time to time reasonably direct, and all such records shall be the sole and exclusive property of the Company.

6.3 It is expressly agreed between the Employee and the Company that any invention the Employee developed entirely on his own time without using the Company's equipment, supplies, facilities or trade secret information belong to the Employee except for those inventions that either: (a) relate at the time of conception or reduction to practice of the invention to the Company's business or actual or demonstrably anticipated research or development of the Company; or (b) result from any work performed by the Employee for the Company.

G. RESTRICTIVE COVENANT.

7.1 The services of the Employee are unique, extraordinary and essential to the business of the Company, particularly in view of the Employee's access to the Company's confidential information. Accordingly, the Employee agrees that if his employment hereunder shall at any time be terminated by the Employee prior to December 31, 1997 voluntarily or by the Company for cause (as defined in Section 8.3), the Employee will not at any time within twelve months of such termination, without the prior written approval of the Board of Directors of the Company, directly or indirectly, engage in any business activity competitive with the business of the Company. Furthermore, the Employee agrees that, during such twelve month period, he shall not solicit, directly or indirectly, or affect to the Company's detriment any relationship of the Company with any customer, supplier or employee of the Company or cause any customer or supplier to refrain from entrusting additional business to the Company. If the employment of Employee hereunder is terminated by the Company prior to December 31, 1997 other than for cause, the restraints on the Employee set forth in the preceding two sentences shall be inapplicable. In the event that any of the provisions of this Section 7.1 shall be adjudicated to exceed the time, geographic or other limitations permitted by applicable law in any jurisdiction, then such provision shall be deemed reformed in any

such jurisdiction to the maximum time, geographic or other limitations permitted by applicable law.

7.2 As used in this Section 7, the term "Company" shall mean and include any and all corporations affiliated with the Company, which either now exist or which may hereafter be organized.

EARLIER TERMINATION.

8.1 Employee's employment hereunder shall automatically be terminated upon the death of the Employee or Employee's voluntarily leaving the employ of the Company and, in addition, may be terminated, at the sole discretion of the Company, as follows:

(a) upon thirty (30) days' prior written notice by the Company, in the event of the Employee's disability as set forth in Section 8.2 below; or

(b) upon thirty (30) days' prior written notice by the Company, in the event that the Company terminates the Employee's employment hereunder for cause as set forth in Section 8.3 below.

8.2 Employee shall be deemed disabled hereunder, if in the opinion of the Board of Directors of the Company, as confirmed by competent medical advice, he shall become physically or mentally unable to perform his duties for the Company hereunder and such incapacity shall have continued for any period of six (6) consecutive months.

8.3 For purposes hereof, "cause" shall include, but not be limited to, the following: (a) Employee's willful malfeasance or gross negligence; or (b) the material breach of any covenant made by Employee hereunder, and the Employee's failure to cure such conduct or event constituting "cause" within 30 days after written notice thereof.

8.4 In the event that this Agreement shall be terminated due to the Employee's death or disability, then the Company shall pay to the Employee or his personal representatives, as the case may be, severance pay in a lump sum amount equal to base annual salary for a period of twelve months as set forth in Section 4 hereof. If, however, this Agreement shall be terminated for any other reason whatsoever, then the Company shall not be obligated to made any severance payments whatsoever to the Employee hereunder, except for the compensation set forth in Section 4 hereof which shall have accrued but be unpaid at the effective time of termination.

I. INJUNCTIVE RELIEF

Employee hereby acknowledges and agrees that, in the event he shall violate any provisions of Sections 6, 7, and 8 hereof, the Company will be without an adequate remedy at law and accordingly, will be entitled to enforce such restrictions by temporary or permanent injunctive or mandatory relief obtained in any action or proceeding instituted in any court of competent jurisdiction without the necessity of proving damages and without prejudice to any other remedies which it may have at law or in equity.

J. NO REQUIREMENT OF RELOCATION.

The Company expressly agrees that the Employee, as a condition of his employment, need not relocate his residence from the community in which he presently resides. Any demand or requirement by the Company that the Employee principally perform his duties at a location or office that requires more than an additional hour of one-way commutation time than the Employee currently experiences shall, in the absence of the Employee's consent (which may be withheld for any reason), constitute a termination without cause by the Company of the Employee's employment hereunder.

K. SERVICE AS DIRECTOR.

During the Employment Period, the Employee shall, if elected or appointed, serve as a Director of the Company and/or any subsidiary of the Company upon such terms as shall be mutually agreed upon by the Employee and the Company.

L. ASSIGNMENT.

This Agreement, as it relates to the employment of the Employee, is a personal contract and the rights and interests of the Employee hereunder may not be sold, transferred, assigned, pledged or hypothecated, except as otherwise set forth herein. This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns, including without limitation, any corporation or other entity into which the Company is merged or which acquires all of the outstanding shares of the Company's capital stock, or all or substantially all of the assets of the Company.

M. RIGHT TO PAYMENTS.

Employee shall not under any circumstances have any option or right to require payments hereunder otherwise than in accordance with the terms hereof. To the extent permitted by law, the Employee shall not have any power of anticipation, alienation

or assignment of payments contemplated hereunder, and all rights and benefits of the Employee shall be for the sole personal benefit of the Employee, and no other person shall acquire any right, title or interest hereunder by reason of any sale, assignment, transfer, claim or judgment or bankruptcy proceedings against the Employee.

N. NOTICES.

Any notice required or permitted to be given pursuant to this Agreement shall be deemed given three (3) business days after such notice is mailed by certified mail, return receipt requested, addressed as follows: (i) if to Employee, at 6331 Ramirez Mesa, Malibu, CA 90265; and (ii) if to the Company, at 24955 Pacific Coast Highway, Suite B202, Malibu, CA 90265, or at such other address as any such party shall designate by written notice to the other party.

O. WAIVER.

The waiver by either party of a breach of any provision of this Agreement shall not operate or be construed as a Agreement shall be held to be invalid or unenforceable, such invalidity or unenforceability shall attach only to such provision and not in any way affect or render invalid or unenforceable any other provisions of this Agreement, and this Agreement shall be carried out as if such invalid or unenforceable provisions were not embodied therein.

P. ENTIRE AGREEMENT.

This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and there are no representations, warranties or commitments except as set forth herein. This Agreement supersedes all prior and contemporaneous agreements, understandings, negotiations and discussions, whether written or oral, of the parties hereto relating to the transactions contemplated by this Agreement; provided, however, that it is the intention of the parties that this Agreement shall be interpreted and applied in conjunction with the terms of any option, warrant or other right now in existence or hereinafter granted to the Employee to acquire shares of capital stock of the Company. In the event of any conflict, however, the terms of this Agreement shall govern and prevail. This Agreement may be amended only in writing executed by the parties hereto affected by such amendment.

17. DIRECTORS' APPROVAL.

This Agreement, even if executed on behalf of the Company, is subject to approval and ratification of the terms hereof by the Company's Board of Directors.

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

JAKKS PACIFIC, INC.

By: /s/ STEPHEN G. BERMAN

Stephen G. Berman, Chief
Operating Officer

Jack Friedman, Employee

EMPLOYMENT AGREEMENT dated January 1, 1997 by and between JAKKS PACIFIC, INC., a Delaware corporation (the "Company"), and STEPHEN G. BERMAN (the "Employee").

The parties hereto desire to provide for the Employee's continued employment by the Company in accordance with the terms and provisions set forth below:

NOW, THEREFORE, the parties agree as follows:

A. EMPLOYMENT; TERM.

The Company will continue to employ the Employee, and the Employee will continue to work for the Company, as its Executive Vice President, Chief Operating Officer and Secretary, for a term commencing on the date hereof and terminating on December 31, 2001 unless sooner terminated in accordance with Section 9 hereof. Such period, together with the period of any extension or renewal of such employment, is referred to herein as the "Employment Period."

B. DUTIES.

During the Employment Period, the Employee shall serve as the Executive Vice President, Chief Operating Officer and Secretary of the Company and of its subsidiaries and affiliated companies, and perform such further duties as shall, from time to time, be reasonably assigned to the Employee by the Board of Directors of the Company consistent with his position and abilities.

C. DEVOTION OF TIME.

During the Employment Period, the Employee shall: (i) expend substantially all of his working time for the Company; (ii) devote his best efforts, energy and skill to the services of the Company and the promotion of its interests; and (iii) not take part in activities known by Employee to be detrimental to the best interests of the Company.

D. COMPENSATION.

In consideration for the services to be performed by the Employee during the Employment Period hereunder, the Company shall compensate the Employee at an annual base salary from the date hereof at the annual rate of \$271,000.00 per annum until December 31, 1997, and thereafter at the annual rate of \$296,000.00 per annum until December 31, 1998, and thereafter at the annual rate of \$321,000.00 per annum until December 31, 1999, and thereafter at the annual rate of \$346,000.00 per annum until December 31, 2000, and thereafter at the annual rate of \$371,000.00 per annum until December 31, 2001, payable in accordance with the Company's customary payroll practices. The Employee shall also be entitled to receive an annual bonus in respect of each fiscal year of the Company equal to four (4%) per cent of the Company's earnings before taxes for each such year, as determined by the Company's firm of independent certified public accountants in accordance with generally accepted accounting principles consistently applied. In the event this Agreement terminates prior to the end of a fiscal year, the bonus for such year shall be calculated based upon the Company's earnings before taxes during the period up to the end of the month in which the Agreement terminates annualized for such year.

E. USE OF AUTOMOBILE; REIMBURSEMENT OF EXPENSES;
ADDITIONAL BENEFITS.

5.1 Employee shall receive an automobile allowance for the use of any automobile owned or leased by him in accordance with the Company's then prevalent practices for executive employees.

5.2 The Company shall pay directly, or reimburse the Employee for, all other reasonable and necessary expenses and disbursements incurred by him for and on behalf of the Company in the performance of his duties under this Agreement. For such purposes, the Employee shall submit to the Company itemized reports of such expenses in accordance with the Company's policies.

5.3 Employee shall be entitled to paid vacations during the Employment Period in accordance with the Company's then prevalent practices for executive employees; provided, however, that Employee shall be entitled to such paid vacations for not less than four (4) weeks per annum.

5.4 Employee shall be entitled to participate in, and to receive benefits under, any employee benefit plans of the Company (including, without limitation, pension, profit sharing, group life insurance and group medical insurance plans) as may exist from time to time for its executive employees.

F. EMPLOYEE KNOWLEDGE.

6.1 Employee hereby agrees to communicate and make known to the Company all knowledge possessed by him relating to any methods, developments, inventions and/or improvements, whether patented, patentable or unpatentable, which relate to the business of the Company; whether acquired by him before or during the Employment Period; provided, however, that nothing herein shall be construed as requiring any such communication where the method, development, invention and/or improvement is lawfully protected from disclosure as the trade secret of a third party or by any other lawful bar to such communications existing prior to the commencement of employment hereunder; and provided, further, that pursuant to Section 2871 of the California Labor Code, any such disclosures shall be held in confidence by the Company.

6.2 Employee hereby agrees to keep all such records in connection with the Employee's employment as the Company may from time to time reasonably direct, and all such records shall be the sole and exclusive property of the Company.

6.3 It is expressly agreed between the Employee and the Company that any invention the Employee developed entirely on his own time without using the Company's equipment, supplies, facilities or trade secret information belong to the Employee except for those inventions that either: (a) relate at the time of conception or reduction to practice of the invention to the Company's business or actual or demonstrably anticipated research or development of the Company; or (b) result from any work performed by the Employee for the Company.

G. RESTRICTIVE COVENANT.

7.1 The services of the Employee are unique, extraordinary and essential to the business of the Company, particularly in view of the Employee's access to the Company's confidential information. Accordingly, the Employee agrees that if his employment hereunder shall at any time be terminated by the Employee prior to December 31, 1997 voluntarily or by the Company for cause (as defined in Section 8.3), the Employee will not at any time within twelve months of such termination, without the prior written approval of the Board of Directors of the Company, directly or indirectly, engage in any business activity competitive with the business of the Company. Furthermore, the Employee agrees that, during such twelve month period, he shall not solicit, directly or indirectly, or affect to the Company's detriment any relationship of the Company with any customer, supplier or employee of the Company or cause any customer or supplier to refrain from entrusting additional business to the Company. If the employment of Employee hereunder is terminated by the Company prior to December 31, 1997 other than for cause, the restraints on the Employee set forth in the preceding two sentences shall be inapplicable. In the event that any of the provisions of this Section 7.1 shall be adjudicated to exceed the time, geographic or other limitations permitted by applicable law in any jurisdiction, then such provision shall be deemed reformed in any

such jurisdiction to the maximum time, geographic or other limitations permitted by applicable law.

7.2 As used in this Section 7, the term "Company" shall mean and include any and all corporations affiliated with the Company, which either now exist or which may hereafter be organized.

H. EARLIER TERMINATION.

8.1 Employee's employment hereunder shall automatically be terminated upon the death of the Employee or Employee's voluntarily leaving the employ of the Company and, in addition, may be terminated, at the sole discretion of the Company, as follows:

(a) upon thirty (30) days' prior written notice by the Company, in the event of the Employee's disability as set forth in Section 8.2 below; or

(b) upon thirty (30) days' prior written notice by the Company, in the event that the Company terminates the Employee's employment hereunder for cause as set forth in Section 8.3 below.

8.2 Employee shall be deemed disabled hereunder, if in the opinion of the Board of Directors of the Company, as confirmed by competent medical advice, he shall become physically or mentally unable to perform his duties for the Company hereunder and such incapacity shall have continued for any period of six (6) consecutive months.

8.3 For purposes hereof, "cause" shall include, but not be limited to, the following: (a) Employee's willful malfeasance or gross negligence; or (b) the material breach of any covenant made by Employee hereunder, and the Employee's failure to cure such conduct or event constituting "cause" within 30 days after written notice thereof.

8.4 In the event that this Agreement shall be terminated due to the Employee's death or disability, then the Company shall pay to the Employee or his personal representatives, as the case may be, severance pay in a lump sum amount equal to base annual salary for a period of twelve months as set forth in Section 4 hereof. If, however, this Agreement shall be terminated for any other reason whatsoever, then the Company shall not be obligated to made any severance payments whatsoever to the Employee hereunder, except for the compensation set forth in Section 4 hereof which shall have accrued but be unpaid at the effective time of termination.

I. INJUNCTIVE RELIEF

Employee hereby acknowledges and agrees that, in the event he shall violate any provisions of Sections 6, 7, and 8 hereof, the Company will be without an adequate remedy at law and accordingly, will be entitled to enforce such restrictions by temporary or permanent injunctive or mandatory relief obtained in any action or proceeding instituted in any court of competent jurisdiction without the necessity of proving damages and without prejudice to any other remedies which it may have at law or in equity.

J. NO REQUIREMENT OF RELOCATION.

The Company expressly agrees that the Employee, as a condition of his employment, need not relocate his residence from the community in which he presently resides. Any demand or requirement by the Company that the Employee principally perform his duties at a location or office that requires more than an additional hour of one-way commutation time than the Employee currently experiences shall, in the absence of the Employee's consent (which may be withheld for any reason), constitute a termination without cause by the Company of the Employee's employment hereunder.

K. SERVICE AS DIRECTOR.

During the Employment Period, the Employee shall, if elected or appointed, serve as a Director of the Company and/or any subsidiary of the Company upon such terms as shall be mutually agreed upon by the Employee and the Company.

L. ASSIGNMENT.

This Agreement, as it relates to the employment of the Employee, is a personal contract and the rights and interests of the Employee hereunder may not be sold, transferred, assigned, pledged or hypothecated, except as otherwise set forth herein. This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns, including without limitation, any corporation or other entity into which the Company is merged or which acquires all of the outstanding shares of the Company's capital stock, or all or substantially all of the assets of the Company.

M. RIGHT TO PAYMENTS.

Employee shall not under any circumstances have any option or right to require payments hereunder otherwise than in accordance with the terms hereof. To the extent permitted by law, the Employee shall not have any power of anticipation, alienation

or assignment of payments contemplated hereunder, and all rights and benefits of the Employee shall be for the sole personal benefit of the Employee, and no other person shall acquire any right, title or interest hereunder by reason of any sale, assignment, transfer, claim or judgment or bankruptcy proceedings against the Employee.

N. NOTICES.

Any notice required or permitted to be given pursuant to this Agreement shall be deemed given three (3) business days after such notice is mailed by certified mail, return receipt requested, addressed as follows: (i) if to Employee, at P.O. Box 4325, Malibu, CA 90264; and (ii) if to the Company, at 24955 Pacific Coast Highway, Suite B202, Malibu, CA 90265, or at such other address as any such party shall designate by written notice to the other party.

O. WAIVER.

The waiver by either party of a breach of any provision of this Agreement shall not operate or be construed as a Agreement shall be held to be invalid or unenforceable, such invalidity or unenforceability shall attach only to such provision and not in any way affect or render invalid or unenforceable any other provisions of this Agreement, and this Agreement shall be carried out as if such invalid or unenforceable provisions were not embodied therein.

P. ENTIRE AGREEMENT.

This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and there are no representations, warranties or commitments except as set forth herein. This Agreement supersedes all prior and contemporaneous agreements, understandings, negotiations and discussions, whether written or oral, of the parties hereto relating to the transactions contemplated by this Agreement; provided, however, that it is the intention of the parties that this Agreement shall be interpreted and applied in conjunction with the terms of any option, warrant or other right now in existence or hereinafter granted to the Employee to acquire shares of capital stock of the Company. In the event of any conflict, however, the terms of this Agreement shall govern and prevail. This Agreement may be amended only in writing executed by the parties hereto affected by such amendment.

17. DIRECTORS' APPROVAL.

This Agreement, even if executed on behalf of the Company, is subject to approval and ratification of the terms hereof by the Company's Board of Directors.

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

JAKKS PACIFIC, INC.

By: /s/ JACK FREIDMAN

Jack Friedman, President

Steven G. Berman, Employee

CONVERTIBLE LOAN AGREEMENT

BY AND BETWEEN
JAKKS PACIFIC, INC.

AS BORROWER

AND

RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC.

AND

RENAISSANCE US GROWTH & INCOME TRUST PLC

AS LENDERS

This Convertible Loan Agreement (the "Agreement") is entered into as of DECEMBER 31, 1996, by and between, JAKKS PACIFIC, INC. (a Delaware corporation) as borrower (hereinafter referred to as "BORROWER") from RENAISSANCE CAPITAL GROWTH & INCOME FUND III, INC. (a Texas corporation) and RENAISSANCE US GROWTH & INCOME TRUST PLC (a public limited company registered in England and Wales) (individually referred to as Renaissance III and Renaissance PLC, respectively, together with any assignees or successors in interest individually and collectively referred to as "LENDER").

WITNESSETH:

WHEREAS, Borrower seeks to obtain up to SIX MILLION DOLLARS (\$6,000,000) in financing through issuance of Convertible Debentures in the amount of SIX MILLION DOLLARS (\$6,000,000), such funds to be used for the purpose of acquisitions, corporate and working capital and the payment of expenses incurred in regard to such purposes; and

WHEREAS, Borrower has requested that Lender provide such as herein provided, and Lender is willing to furnish such to Borrower upon the terms and subject to the conditions and for the considerations hereinafter set forth;

NOW, THEREFORE, in consideration of the mutual promises herein contained and for other valuable consideration, receipt and sufficiency of which is acknowledged, the parties hereto agree as follows:

ARTICLE I - DEFINITION OF TERMS

SECTION 1.01. DEFINITIONS.

(a) For the purposes of this Agreement, unless the context otherwise requires, the following terms shall have the respective meanings assigned to them in this Article I or in the section or recital referred to below:

"Affiliate" with respect to any Person shall mean (i) any person directly or indirectly owning, controlling or holding power to vote 10% or more of the outstanding voting securities of any Person; (ii) any person, 10% or more of whose outstanding voting securities are directly or indirectly owned,

controlled or held with power to vote by any Person; (iii) any person directly or indirectly controlling, controlled by or under common control with any Person; (iv) any officer, director or partner of any Person; and (v) if a Person is an officer, director or partner, any company for which any Person acts in such capacity. For purposes of this Agreement, any partnership of which any Person is a general partner, or any joint venture in which any Person is a joint venturer, is an Affiliate of each Person.

"Capital Expenditure" shall mean an expenditure for assets that will be used in years subsequent to the year in which the purchase is made and which asset is properly classifiable in financial statements as equipment, real property or improvements, or similar type of capitalized asset.

"Capital Lease" shall mean any lease of property, real or personal, which is in substance a financing lease and which would be capitalized on a balance sheet of the lessee, including without limitation, any lease under which (i) such lessee will have an obligation to purchase the property for a fixed sum, (ii) an option to purchase the property at an amount less than a reasonable estimate of the fair market value of such property as of the date such lease is executed, or (iii) the term of the lease approximates or exceeds the expected useful life of the property leased thereunder.

"Consolidated Subsidiaries" shall mean those corporations of which 50% or more of the voting stock is owned by Borrower and their financial statements are consolidated with those of the Borrower.

"Conversion " or "Conversion Rights" shall mean exchange of, or the rights to exchange, the Principal Amount of the loan, or any part thereof, for Borrower's fully paid and non assessable common stock on the terms and conditions as provided in the Debenture.

"Common Stock" shall mean JAKKS Pacific, Inc. common stock, \$0.001 par value.

"Debentures" shall mean the Debentures executed by Borrower and delivered pursuant to the terms of this Agreement, together with any renewals, extensions or modifications thereof.

"Debtor Laws" shall mean all applicable liquidation, conservatorship, bankruptcy, moratorium, arrangement, receivership, insolvency, reorganization or similar laws from time to time in effect affecting the rights of creditors generally.

"Default" shall mean any of the events specified in Article VIII.

"Dividends", in respect of any corporation, shall mean (i) cash distributions or any other distributions on, or in respect of, any class of capital stock of such corporation, except for distributions made solely in shares of stock of the same class, and (ii) any and all funds, cash and other payments made in respect of the redemption, repurchase or acquisition of such stock, unless such stock shall be redeemed or acquired through the exchange of such stock with stock of the same class.

"ERISA" shall mean the Employee Retirement Income Security Act, as amended, together with all regulations issued pursuant thereto.

"GAAP" shall mean generally accepted accounting principles applied on a consistent basis, set forth in the Opinions of the Accounting Principles Board of the American Institute of Certified Public Accountants, or their successors, which are applicable in the circumstances as of the date in question. The requisite that such principles be applied on a consistent basis shall mean that the accounting principles observed in a current period are comparable in all material respects to those applied in a preceding period.

"Governmental Authority" shall mean any government (or any political subdivision or jurisdiction thereof), court, bureau, agency or other governmental authority having jurisdiction over Borrower or a Subsidiary or any of its or their businesses, operations or properties.

"Guaranty" of any Person shall mean any contract, agreement or understanding of such Person pursuant to which such Person in effect guarantees the payment of any Indebtedness of any other Person (the "Primary Obligor") in any manner, whether directly or indirectly, including without limitation agreements: (i) to purchase such Indebtedness or any property constituting security therefor; (ii) to advance or supply funds primarily for the purpose of assuring the holder of such Indebtedness of the ability of the Primary Obligor to make payment; or (iii) otherwise to assure the holder of the

Indebtedness of the Primary Obligor against loss in respect thereof, except that "Guaranty" shall not include the endorsement by Borrower or a Subsidiary in the ordinary course of business of negotiable instruments or documents for deposit or collection.

"Holder" shall mean the owner of Registrable Securities.

"Indebtedness" shall mean, with respect to any Person, the following indebtedness, obligations and liabilities of such Person: (i) all "liabilities" that would be reflected on a balance sheet of such Person; (ii) all obligations of such Person in respect of any Guaranty; (iii) all obligations of such Person in respect of any Capital Lease, (iv) all obligations, indebtedness and liabilities secured by any lien or any security interest on any property or assets of such Person; and (v) all preferred stock of such Person which is subject to a mandatory redemption requirement, valued at the greater of its involuntary redemption price or liquidation preference plus accrued and unpaid dividends.

"Investment" in any Person shall mean any investment, whether by means of share purchase, loan, advance, extension of credit, capital contribution or otherwise, in or to such Person, the Guaranty of any Indebtedness of such Person, or the subordination of any claim against such Person to other Indebtedness of such Person; provided however, that "Investment" shall not include (i) any demand deposits in a duly chartered state or national bank or other cash equivalent investments (ii) any loans permitted by Section 6.12, or (iii) any acquisitions of equity in any other Person.

"IRS Code" shall mean the Internal Revenue Code of 1986, as amended, together with all regulations issued thereunder.

"Lien" shall mean any lien, mortgage, security interest, tax lien, pledge, encumbrance, conditional sale or title retention arrangement, or any other interest in property designed to secure the repayment of Indebtedness, whether arising by agreement or under any statute or law, or otherwise.

"Loan" shall mean the money lent to Borrower pursuant to this Agreement, along with any accrued interest thereon.

"Loan Closing" or "Loan Closing Date" shall mean the initial disbursement of Loan funds which shall occur on a date 30 days from the date hereof or such earlier date on which Borrower requests, and Lender approves, as the date at which the initial advance of the Loan funds shall be consummated, provided that such date may be mutually extended beyond 30 days, but only by written agreement of the parties hereto.

"Loan Documents" shall mean this Agreement, the Debentures (including any renewals, extensions and refundings thereof), and any other agreements or documents (and with respect to this Agreement, and such other agreements and documents, any amendments or supplements thereto or modifications thereof) executed or delivered pursuant to the terms of this Agreement.

"Material Adverse Effect" or "Material Adverse Change" shall mean any change, factor or event that shall (i) have a material adverse effect upon the validity, performance or enforceability of any Loan Documents, (ii) have a material adverse effect upon the financial condition or business operations of Borrower or any Subsidiaries, (iii) have a material adverse effect upon the ability of the Borrower to fulfill its obligations under the Loan Documents, or (iv) any event that causes an Event of Default or which, with notice or lapse of time or both, could become an Event of Default.

"Material Indebtedness" shall mean any debt incurred by Borrower that shall (i) have a material adverse effect upon the ability of Borrower to fulfill its obligations under the Loan Documents, (ii) have a material adverse effect upon the financial conditions or business operations of Borrower or any Subsidiary, or (iii) cause an Event of Default or which, with notice or lapse of time or both, could become an Event of Default.

"Obligation" shall mean: (i) all present and future indebtedness, obligations and liabilities of Borrower to Lender arising pursuant to this Agreement, regardless of whether such indebtedness, obligations and liabilities are direct, indirect, fixed, contingent, joint, several, or joint and several; (ii) all present and future indebtedness, obligations and liabilities of Borrower to Lender arising pursuant to or

represented by the Debentures and all interest accruing thereon, and reasonable attorneys' fees incurred in the enforcement or collection thereof; (iii) all present and future indebtedness, obligations and liabilities of Borrower and any Subsidiary evidenced by or arising pursuant to any of the Loan Documents; (iv) all costs incurred by Lender, including but not limited to reasonable attorneys' fees and legal expenses related to this transaction; and (v) all renewals, extensions and modifications of the indebtedness referred to in the foregoing clauses, or any part thereof.

"Permitted Liens" shall mean: (i) Liens (if any) granted to Lender to secure the Obligation; (ii) pledges or deposits made to secure payment of worker's compensation insurance (or to participate in any fund in connection with worker's compensation insurance), unemployment insurance, pensions or social security programs; (iii) Liens imposed by mandatory provisions of law such as for landlord's, materialmen's, mechanics', warehousemen's and other like Liens arising in the ordinary course of business, securing Indebtedness whose payment is not yet due; (iv) Liens for taxes, assessments and governmental charges or levies imposed upon a Person or upon such Person's income or profits or property, if the same are not yet due and payable or if the same are being contested in good faith and as to which adequate cash reserves have been provided or if an extension is obtained with respect thereto; (v) Liens arising from good faith deposits in connection with tenders, leases, real estate bids or contracts (other than contracts involving the borrowing of money), pledges or deposits to secure public or statutory obligations and deposits to secure (or in lieu of) surety, stay, appeal or customs bonds and deposits to secure the payment of taxes, assessments, customs duties or other similar charges; (vi) encumbrances consisting of zoning restrictions, easements, or other restrictions on the use of real property, provided that such items do not materially impair the use of such property for the purposes intended, and none of which is violated by existing or proposed structures or land use; (vii) mortgages, financing statements, equipment leases or other encumbrances incurred in connection with the acquisition of property or equipment or the replacement of existing property or equipment, provided that such liens shall be limited to the property or equipment then being acquired; (viii) rights of licensors of intellectual and other property licensed by Borrower in the ordinary course of its business; (ix) Liens arising from standard bank revolving working capital financing or arising from indebtedness incurred for acquisitions secured by inventory, receivables, or general assets of the Borrower.

"Person" shall include an individual, a corporation, a joint venture, a general or limited partnership, a trust, an unincorporated organization or a government or any agency or political subdivision thereof.

"Plan" shall mean an employee benefit plan or other plan maintained by Borrower for employees of Borrower and/or any Subsidiaries and covered by Title IV of ERISA, or subject to the minimum funding standards under Section 412 of the Internal Revenue Code of 1986, as amended.

"Principal Amount" shall mean, as of any time, the then aggregate outstanding face amount of the Debentures after any conversions or redemptions and after giving effect to any installment payments received by Lender.

"Registrable Securities" shall mean (i) the Common Stock issued upon Conversion of the Debentures, or (ii) any Common Stock issued upon Conversion of the Debentures or exercise of any warrant, right or other security which is issued with respect to the Common Stock referred to in clause (i) and (ii) above by way of stock dividend; any other distribution with respect to or in exchange for, or in replacement of Common Stock; stock split; or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization; excluding in all cases, however, any Registrable Security that is not a Restricted Security and any Registrable Securities sold or transferred by a person in a transaction in which the rights under this Agreement are not assigned.

"Registrable Securities Then Outstanding" shall mean an amount equal to the number of Registrable Securities outstanding which have been issued pursuant to the Conversion of the Debentures.

"Rentals" of any Person shall mean, as of any date, the aggregate amount of the obligations and liabilities (including future obligations and liabilities not yet due and payable) of such Person to make

payments under all leases, subleases and similar arrangements for the use of real, personal or mixed property, other than leases which are Capital Leases.

"Restricted Security" shall mean a security that has not been (i) registered under the 1933 Act or (ii) distributed to the public pursuant to Rule 144 (or any similar provisions that are in force) under the 1933 Act.

"SEC" shall mean the Securities and Exchange Commission.

"1933 Act" shall refer to the Securities Act of 1933, as amended.

"1934 Act" shall refer to the Securities Exchange Act of 1934, as amended.

"Solvent" shall mean, with respect to any Person on a particular date, that on such date: (i) the fair value of the property of such Person is greater than the total amount of liabilities, including, without limitation, contingent liabilities, of such Person; (ii) the present fair salable value, in the ordinary course of business, of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured; (iii) such Person is able to realize upon its assets and pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business.. In computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the amount which, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

"Subordinated Debt" shall mean any indebtedness of the Borrower or any Subsidiaries, now existing or hereafter incurred, which indebtedness is, by its terms, junior in right of repayment to the payment of the Debentures.

"Subsidiary" shall mean any corporation whether now existing or hereafter acquired of which fifty percent (50%) or more of the Voting Shares are owned, directly or indirectly, by Borrower.

"Voting Shares" of any corporation shall mean shares of any class or classes (however designated) having ordinary voting power for the election of at least a majority of the members of the Board of Directors (or other governing bodies) of such corporation, other than shares having such power only by reason of the happening of a contingency.

SECTION 1.02. OTHER DEFINITION PROVISIONS.

(a) All terms defined in this Agreement shall have the above-defined meanings when used in the Debentures or any other Loan Documents, certificate, report or other document made or delivered pursuant to this Agreement, unless the context therein shall otherwise require.

(b) Defined terms used herein in the singular shall import the plural and vice versa.

(c) The words "hereof," "herein," "hereunder" and similar terms when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement.

(d) References to financial statements and reports shall be deemed to be a reference to such statements and reports prepared in accordance with GAAP recognized as such by the American Institute of Certified Public Accountants acting through its Accounting Principles Board or by the Financial Accounting Standards Board which principles are consistently applied, on the basis used by Borrower in prior years, for all periods after the date hereof so as to properly reflect the financial condition, and the results of operations and statement of cash flows, of Borrower and its Consolidated Subsidiaries, if any.

(e) Accounting terms not specifically defined above, or not defined in the Agreement, shall be construed in accordance with GAAP as recognized as of this date by the American Institute of Certified Public Accountants.

ARTICLE II - LOAN PROVISIONS

SECTION 2.01. LOAN CLOSING.

(a) Subject to the terms and conditions of this Agreement, and the compliance with such terms and conditions by all parties, Lender agrees to lend to Borrower, and Borrower agrees to borrow from Lender, the aggregate sum of up to SIX MILLION DOLLARS (\$6,000,000) which shall be disbursed at the Loan Closing as follows by the entities referred to below:

Renaissance Capital Growth & Income III, Inc.: \$3,000,000

Renaissance US Growth & Income Trust PLC: \$3,000,000

(b) Each such disbursement is to be at such time and subject to the conditions as provided hereunder and such borrowing shall be evidenced by Borrower's duly executed Debenture (in one or more counterparts) in the aggregate sum of the Principal Amount advanced substantially in the form of Exhibit 2.01(b) attached hereto and made a part hereof, with appropriate insertion of names, dates and amounts. In the event of any differences in terms between the Agreement and the Debenture, the Debenture will be controlling; provided, however, that the holder of the Debenture shall be entitled to all the rights and benefits of the Lender provided in this Agreement.

(c) Unless otherwise mutually agreed, the Loan Closing shall be at the offices of Renaissance Capital Group, Inc. in Dallas, Texas.

(d) If, within 30 days of the date of this Agreement (i) Borrower has failed to comply with the conditions precedent to the Loan Closing as specified in Article III hereof (unless compliance with such conditions in whole or in part has been waived or modified by Lender in its sole discretion) or (ii) the Loan Closing has not occurred (unless the date of such Loan Closing has been mutually extended) then, in either such case, the obligations of Lender under this Agreement shall terminate, provided however that Borrower shall be obligated for payment of the commitment fees and Lender expenses as provided in Section 2.07 due and payable as of such date of termination.

SECTION 2.02. USE OF PROCEEDS.

(a) Borrower intends to use the money advanced hereunder, along with funding from other sources, substantially for the acquisition of the stock of Road Champs, Inc., a Pennsylvania corporation and the assets of Die Cast Associates, Inc., a Florida corporation (collectively "Road Champs:), or if such acquisition is not consummated, for other acquisitions, as well as corporate and working capital.

(b) Borrower hereby acknowledges that the proceeds from the Loan shall be of benefit to the company for the growth of its business by providing capital for acquisitions as well as corporate and working capital which will provide added financial and marketing opportunities.

SECTION 2.03. INTEREST RATE AND INTEREST PAYMENTS.

(a) Interest on the Principal Amount outstanding from time to time shall accrue at the rate of 9.00% per annum, with the first installment payable on FEBRUARY 1, 1997 and subsequent payments at the first day of each month thereafter. Overdue principal and interest on the Debentures shall bear interest, to the extent permitted by applicable law, at a rate of 9.00% per annum. Interest on the Principal Amount of each Debenture shall be calculated, from time to time, on the basis of the actual days elapsed in a year consisting of 365 days.

SECTION 2.04. MATURITY.

(a) If not sooner redeemed or converted, the Debentures shall mature on DECEMBER 31, 2003, at which time all the remaining unpaid principal, interest and any other charges then due under the Agreement shall be due and payable in full.

SECTION 2.05. MANDATORY PRINCIPAL REDEMPTION INSTALLMENTS.

(a) Mandatory principal redemption installments on each Debenture shall be as provided for in the Debentures.

SECTION 2.06. OPTIONAL REDEMPTION.

(a) Optional principal redemption on each Debenture shall be as provided for in the Debentures.

SECTION 2.07 CLOSING FEES AND LOAN CLOSING COSTS.

(a) Borrower has paid to Lender, or Lender's designee, a Loan Commitment fee of 1% of the loan amount available under this Agreement receipt of which is acknowledged by Lender.

(b) Borrower agrees to pay to Lender, or Lender's designee, a Loan Closing Fee of 1% of the amount of Loan funds disbursed at each Loan Closing, such to be due and payable at Loan Closing.

(c) In addition, at the Loan Closing Borrower agrees to pay Lender's reasonable costs and expenses (including, without limitation, the reasonable fees and expenses of Lender's legal counsel) in connection with the negotiation, preparation, execution and delivery of this Agreement, the Debentures, the other Loan Documents and the Loan Closing or Subsequent Loan Closings, provided that such costs and expenses shall not, in the aggregate, exceed 0.5% of the loan amount available under this Agreement.

(d) Lender acknowledges the receipt of the payment by the Borrower of \$30,000 to cover Due Diligence expenses.

SECTION 2.08. PLACEMENT FEE.

The Borrower shall be responsible for payment of any placement fees and commissions, brokerage fees or finder's fees in connection with the Loan. All such placement fee obligations are as listed in Schedule 2.08 attached hereto. The Lender has incurred no placement fee, commissions, brokerage fees, or finders fees on this transaction.

SECTION 2.09. TAXES.

(a) Each Debenture shall be exchangeable for shares of Borrower's common stock provided by Borrower and on such terms stated hereunder. Such exchange for shares shall be made without deduction for any present or future taxes, duties, charges or withholdings, (excluding, in the case of the Lender, any foreign taxes, any United States federal, state or local income taxes and any franchise taxes or taxes imposed upon it by the jurisdiction, or any political subdivision thereof, under which the Lender is organized or is qualified to do business), and all liabilities with respect thereto (herein "Taxes") shall be paid by Borrower. If Borrower shall be required by law to deduct any Taxes for which Borrower is responsible under the preceding sentence from any sum payable hereunder to any Lender: (i) the sum payable shall be increased so that after making all required deductions, such Lender receives an amount equal to the sum it would have received had no such deductions been made; (ii) Borrower shall make such deductions; and (iii) Borrower shall pay the full amount deducted to the relevant taxing authority or other authority in accordance with applicable law.

(b) Except as otherwise set forth in this Agreement or the other Loan Documents, Borrower shall pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or under the Loan Documents or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or the other Loan Documents (hereinafter referred to as "Other Taxes").

(c) Borrower shall indemnify Lender for the full amount of Taxes and Other Taxes reasonably paid by Lender or any liability (including any penalties or interest assessed because of Borrower's defaults) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. This indemnification shall be made within thirty (30) days from the date Lender makes written demand therefor. Lender shall subjugate any and all rights and claims relating to such Taxes and Other Taxes to Borrower upon payment of said indemnification.

(d) Without prejudice to the survival of any other agreement of Borrower hereunder, the agreements and obligations of Borrower in this Section 2.09 shall survive the payment in full of the Obligation.

SECTION 2.10 STOCK CONVERSION RIGHTS.

(a) Each Debenture shall be exchangeable for shares of Borrower's common stock on such terms and in such amounts as shall be stated in the Debenture. The holders of the stock issued upon exercise of the right of conversion as provided in said Debenture shall be entitled to all the rights of the Lender as stated in this Agreement or the other Loan Documents to the extent such rights are specifically stated to survive the surrender of the Debenture for conversion as therein provided.

SECTION 2.11 REGISTRATION RIGHTS AGREEMENT.

(a) The holder of shares of common stock of Borrower issued upon conversion of the Debentures shall be entitled to the rights as provided in Article IX of this Agreement.

ARTICLE III - CONDITIONS PRECEDENT

SECTION 3.01. DOCUMENT REQUIREMENTS.

(a) The obligation of Lender to advance funds at the Loan Closing Date hereof is subject to the condition precedent that, on or before the date of such advance, Lender shall have received the following in form and substance satisfactory to Lender:

(i) One or more duly executed Debentures aggregating the Principal Amount of Loan funds then advanced, each in amounts as requested by Lender, which shall be styled "River Oaks Trust Company, FBO, Renaissance Capital Growth and Income Fund III, Inc.," and "Renaissance U.S. Growth and Income Trust, PLC.", and in the form of Exhibit 2.01(a)(1) with appropriate insertions of date, amount and conversion features.

(ii) A stock pledge agreement from Borrower pledging as security, for all payments of interest, principal and other ancillary costs of the entire debt, all outstanding shares of Road Champs, Inc. upon acquisition thereof from use of the loan proceeds.

(iii) An agreement from the Borrower pledging as security, for all payment of interest, principal and other ancillary costs of the entire debt, (a) all marketing and manufacturing licenses acquired or to be acquired, to the extent assignable by Borrower and (b) all machinery and equipment to the extent of Borrower's interest therein and to the extent assignable by Borrower.

(iv) An opinion of legal counsel for Borrower dated as of the Loan Closing Date, satisfactory in form and substance to Lender, as to due execution by the Borrower of the Agreement, the Debenture and other Loan Documents and the legal enforceability thereof.

(v) A true and correct certificate signed by a duly authorized officer of the Borrower and dated as of the Loan Closing Date stating that, to the best knowledge and belief of such officer, after reasonable and due investigation and review of matters pertinent to the subject matter of such certificate: (A) all of the representations and warranties contained in Article IV hereof and the other Loan Documents are true and correct as of the Loan Closing Date and (B) no event has occurred and is continuing, or would result from the Loan, which constitutes a Default or an Event of Default.

(vi) Copies of resolutions, as adopted by the Borrower's Board of Directors (the "Board"), approving the execution, delivery and performance of this Agreement, the Debentures, and the other Loan Documents, including the transactions contemplated herein and accompanied by a certificate of the Secretary or Assistant Secretary of Borrower stating that such resolutions have been duly adopted, are true and correct, have not been altered or repealed and are in full force and effect.

(vii) A signed certificate of the Secretary or Assistant Secretary of the Borrower which shall certify the names of the officers of Borrower authorized to sign each of the Loan Documents to be executed by such officer, together with the true signatures of each of such officers. It is herewith stipulated and agreed that Lender may thereafter rely conclusively on the validity of this certificate as a representation of the officers of Borrower duly authorized to act with respect to the Loan Documents until such time as Lender shall receive a further certificate of the Secretary or Assistant Secretary of Borrower canceling or

amending the prior certificate and submitting the signatures of the officers thereupon authorized in such further certificate.

(viii) Certificates of good standing (or other similar instrument) for the Borrower issued by the Secretary of State of the state of incorporation of Borrower, and certificates of qualification and good standing for Borrower issued by the Secretary of State of each of the states wherein such Borrower has operating facilities of such nature so as to be required to be qualified to do business as a foreign corporation, dated within ten (10) days of Loan Closing.

(ix) A copy of the Articles of Incorporation of the Borrower and all amendments thereto, certified by the Secretary of State of the state of incorporation and dated within ten (10) days of the date of Loan Closing and a copy of the bylaws of Borrower and all amendments thereto, certified by the Secretary or Assistant Secretary of Borrower, as being true, correct and complete as of the date of such certification.

(x) Copies of the following financial statements for Borrower: (A) An audited balance sheet and income statement for Borrower as of December 31, 1995 and (B) unaudited balance sheet and income statement for Borrower as of March 31, 1996, June 30, 1996 and September 30, 1996.

(xi) Borrower shall obtain key employee life insurance on Jack Friedman in the amount of six million dollars (\$6,000,000). All proceeds from such policy shall be assigned to the Lender to be placed into escrow with a national bank designated by the Lender as collateral to secure the Loan.

(xii) Such other information and documents as may reasonably be required by Lender and Lender's counsel to substantiate Borrower's compliance with the requirements of this Agreement.

ARTICLE IV - REPRESENTATIONS AND WARRANTIES

To induce Lender to make the Loan hereunder, Borrower represents and warrants to Lender that:

SECTION 4.01. ORGANIZATION AND GOOD STANDING.

(a) Borrower is duly organized and existing in good standing under the laws of the state of its incorporation, is duly qualified as a foreign corporation and in good standing in all states in which failure to qualify would have a Material Adverse Effect, and has the corporate power and authority to own its properties and assets and to transact the business in which it is engaged and is or will be qualified in those states wherein it proposes to transact material business operations in the future.

SECTION 4.02. AUTHORIZATION AND POWER.

(a) Borrower has the corporate power and requisite authority to execute, deliver and perform the Loan Documents to be executed by Borrower. The Borrower is duly authorized to, and has taken all corporate action necessary to authorize, execute, deliver and perform the Loan Documents executed by Borrower. The Borrower is and will continue to be duly authorized to perform the Loan Documents executed by Borrower.

SECTION 4.03. NO CONFLICTS OR CONSENTS.

(a) Except as disclosed to Lender pursuant to Exhibit 4.03 - Schedule of Conflicts or Consents, neither the execution and delivery of the Loan Documents, nor the consummation of any of the transactions therein contemplated, nor compliance with the terms and provisions thereof, will contravene or materially conflict with any judgment, license, order or permit applicable to Borrower, or any indenture, loan agreement, mortgage, deed of trust, or other agreement or instrument to which Borrower is a party or by which Borrower is or becomes bound, or to which Borrower is or becomes subject, or violate any provision of the charter or bylaws of Borrower. No consent, approval, authorization or order of any court or governmental authority or third party is required in connection with the execution and delivery by Borrower of the Loan Documents or to consummate the transactions contemplated hereby or thereby except those that have been obtained.

SECTION 4.04. ENFORCEABLE OBLIGATIONS.

(a) The Loan Documents have been duly executed and delivered by the Borrower and are the legal and binding obligations of the Borrower, enforceable in accordance with their respective terms, except as limited by any applicable bankruptcy, insolvency or similar laws now or hereafter in effect affecting creditors rights and debtor's obligations.

SECTION 4.05. NO LIENS.

(a) Except for Permitted Liens, all of the properties and assets owned by the Borrower are free and clear of all Liens and other adverse claims of any nature, and Borrower has good and marketable title to such properties and assets or valid leasehold interests or valid licenses to licensed property. A true and complete list of all liens for borrowed money is disclosed to Lender pursuant to Exhibit 4.05.

SECTION 4.06. FINANCIAL CONDITION.

(a) Borrower has delivered to Lender copies of the balance sheet of Borrower as of December 31, 1995, and the related statements of income, stockholders' equity and statement of cash flow for the year ended, audited by its independent Certified Public Accountant. Borrower has also delivered to Lender copies of the balance sheet of Borrower as of September 30, 1996, and the related statements of income, stockholders' equity and statement of cash flow for the period ended such date, which financial statements have not been certified by its independent Certified Public Accountant. Such financial statements are true and correct in all material respects, fairly represent the financial condition of Borrower as of such dates and have been prepared in accordance with GAAP (except unaudited financial statements omit certain footnotes); and as of the date hereof, there are no obligations, liabilities or Indebtedness (including contingent and indirect liabilities and obligations) of Borrower which are (separately or in the aggregate) material and are not reflected in such financial statements or otherwise disclosed herein. Since the date of the above referenced year end financial statements and quarterly financial statements, there have not been, except as disclosed in Exhibit 4.06: (i) any Material Adverse Change in the financial condition, results of operations, business, prospects, assets or liabilities (contingent or otherwise, whether due or to become due, known or unknown), of the Borrower; (ii) any dividend declared or paid or distribution made on the capital stock of the Borrower or any capital stock thereof redeemed or repurchased; (iii) any incurrence of long-term debt by the Borrower; (iv) any salary, bonus or compensation increases to any officers, key employees or agents of the Borrower or; (v) other than the secondary stock offering by Cruttenden Roth, Inc., any other transaction entered into by the Borrower except in the ordinary course of business and consistent with past practice.

SECTION 4.07. FULL DISCLOSURE.

(a) To the best of Borrower's knowledge and belief after current investigation, there is no material fact that Borrower has not disclosed to Lender which could reasonably be expected to have a Material Adverse Effect on the properties, business, prospects or condition (financial or otherwise) of Borrower. Neither the financial statements referenced in Section 4.06 hereof, nor any business plan, offering memorandum or prospectus, certificate or statement delivered herewith or heretofore by Borrower to Lender in connection with the negotiations of this Agreement, contained any untrue statement of a material fact or omitted to state any material fact necessary to keep the statements contained herein or therein from being misleading.

SECTION 4.08. NO DEFAULT.

(a) No event has occurred and is continuing which constitutes a Default or an Event of Default under this Agreement.

SECTION 4.09. MATERIAL AGREEMENTS.

(a) The Borrower is not in default in any material respect under any contract, lease, loan agreement, indenture, mortgage, security agreement or other material agreement or obligation to which it is a party or by which any of its properties is bound.

SECTION 4.10. NO LITIGATION.

(a) Except as disclosed to Lender pursuant to Exhibit 4.10 - Schedule of Litigation attached hereto, there are no actions, suits, investigations, arbitrations or administrative proceedings pending, or to the knowledge of Borrower threatened, against Borrower, and there has been no change in the status of any of the actions, suits, investigations, litigation or proceedings disclosed to Lender which could have a materially adverse effect on Borrower or on any transactions contemplated by any Loan Document.

SECTION 4.11. BURDENSOME CONTRACTS.

(a) To the best knowledge of the Borrower, it is not a party to, or bound by, any contract or agreement, the faithful performance of which is so onerous so as to create or to likely create a Material Adverse Effect on the business, operations or financial condition of the Borrower.

SECTION 4.12. TAXES.

(a) All tax returns required to be filed by Borrower in any jurisdiction have been filed and all taxes (including mortgage recording taxes), assessments, fees and other governmental charges upon Borrower or upon any of its properties, income or franchises have been paid. To the best knowledge of Borrower, there is no proposed tax assessment against Borrower and there is no basis for such assessment.

SECTION 4.13 PRINCIPAL OFFICE, ETC.

(a) The principal office and principal place of business of the Borrower and each of its Subsidiaries is as follows:

JAKKS Pacific, Inc.
24955 Pacific Coast Highway
#B202
Malibu, California 90265

J-X Enterprises, Inc.
200 Fifth Avenue
New York City, New York

JAXXS (HK) Limited
Chinachen Golden Plaza
77 Mody Rd
Tsim Shatsui East,
Kowloon, Hong Kong

JP(HK) Limited
Chinachen Golden Plaza
77 Mody Rd
Tsim Shatsui East,
Kowloon, Hong Kong

SECTION 4.14. USE OF PROCEEDS.

(a) The Borrower hereby acknowledges that it intends to use proceeds from the Loan as disclosed in Section 2.03 hereof.

SECTION 4.15. EMPLOYEE BENEFIT AND INCENTIVE PLANS; ERISA.

(a) Borrower is not obligated under any Plans.

(b) Borrower is not a party to any collective bargaining agreement and is not aware of any activities of any labor union that is currently seeking to represent or organize its employees. Borrower has not

experienced any labor problems, including work stoppages, disputes or slowdowns with respect to its employees.

SECTION 4.16. COMPLIANCE WITH LAW.

(a) To the best knowledge of Borrower, Borrower is in compliance with all laws, rules, regulations, orders and decrees which are applicable to Borrower or its properties by reason of any Governmental Authority which are material to the conduct of the business of Borrower or any of its properties. SECTION 4.17.

COMPLIANCE WITH ENVIRONMENTAL REQUIREMENTS.

(a) To the best knowledge of Borrower, all properties of Borrower are in compliance with all federal, state or local environmental protection laws, statutes and regulations which are material to the conduct of the business of Borrower, or its properties, and the Borrower is currently in compliance with all material reporting requirements, rules, and regulations which are applicable to Borrower or its properties by reason of such governmental environmental protective agencies.

SECTION 4.18. SCHEDULE OF CAPITAL STOCK AND SEC REQUIREMENTS.

(a) Set forth on Exhibit 4.18 - Schedule of Capital Stock is a true and correct schedule of all classes of authorized, issued, and outstanding Capital Stock of the Borrower, all stock options, warrants, conversion rights, subscription rights and other rights or agreements to acquire securities of Borrower and any shares held in treasury or reserved for issue upon exercise of such stock options, warrants or conversion rights, subscription rights and other rights or agreements to acquire securities including date of termination of such right and the consideration therefor.

(b) Except as provided in Exhibit 4.18 - Schedule of Capital Stock, to the best of the Borrower's knowledge, all securities of Borrower have been issued in compliance with the requirements of the 1933 Act, and the rules and regulation promulgated thereunder, or pursuant to an exemption therefrom.

(c) The shares of common stock of the Borrower when issued to Lender upon conversion of the Debentures will be duly and validly issued, fully paid and nonassessable and in compliance with all applicable securities laws. Such issuance will not give rise to preemptive rights or similar rights by any other security holder of Borrower, except for anti-dilution provisions found in certain securities previously issued by the Borrower. Borrower shall at all times reserve and keep available sufficient authorized and unissued shares of common stock to effectuate the conversion of the Debentures.

SECTION 4.19. INSIDER.

(a) Neither the Borrower, nor any Person having "control" (as that term is defined in the Investment Company Act of 1940, as amended, or in regulations promulgated pursuant thereto (herein the "1940 Act")) of the Borrower is, an "executive officer," "director," or "principal shareholder" (as those terms are defined in the 1940 Act) of Lender.

(b) All material transactions between the Borrower and any affiliates of Borrower not conducted in the ordinary course of business have been disclosed to Lenders.

(c) All agreements between the Borrower and any of its officers, directors, and principal shareholders, including employment agreements, are listed on Exhibit 4.19 - Schedule of Affiliate Transactions.

SECTION 4.20. SUBSIDIARIES.

(a) As of the date hereof, the Borrower has the Subsidiaries identified on Exhibit 4.20 hereof.

(b) Except as disclosed in the Financial Statements and except for Subsidiaries, the Borrower does not own any equity or debt interest or any form of proprietary interest in any entity, or any right or option to acquire any such interest in any such entity.

SECTION 4.21. CASUALTIES.

(a) Neither the business nor the properties of Borrower is currently affected by any environmental hazard, fire, explosion, accident, strike, lockout or other labor dispute, drought, storm, hail, earthquake,

embargo, act of God or other casualty (whether or not covered by insurance),
which could have a Material Adverse Effect.

SECTION 4.22 INVESTMENT COMPANY ACT.

(a) Borrower is not an "investment company" as defined in Section 3 of the 1940 Act nor a company that would be an investment company except for the exclusions from the definition of an investment company in Section 3(C) of the 1940 Act, and Borrower is not controlled by such a company.

SECTION 4.23. SUFFICIENCY OF CAPITAL.

(a) Borrower is, and after consummation of this Agreement and giving effect to all Indebtedness incurred and transactions contemplated in connection herewith will be, Solvent.

SECTION 4.24. CORPORATE NAMES.

(a) The Borrower has not, during the preceding five (5) years, been known as or used any other corporate, fictitious or Trade names except as disclosed on Exhibit 4.24 - Schedule of Corporate Names, Mergers and Consolidations. Except as disclosed on Exhibit 4.24, the Borrower has not, during the preceding five (5) years, been the surviving corporation of a merger or consolidation or acquired all or substantially all of the assets of any Person.

SECTION 4.25 MARGIN REGULATION.

(a) As of the Loan Closing Date, the Borrower does not have class of securities with respect to which a member of a national securities exchange, broker, or dealer may extend or maintain credit to or for a customer pursuant to rules or regulation adopted by the Board of Governors of the Federal Reserve System under Section 7 of the 1934 Act.

SECTION 4.26 INSURANCE.

(a) All of the insurable properties of the Borrower are insured for its benefit under valid and enforceable policies, issued by insurers of recognized responsibility in amounts and against such risks and losses as is customary in such industry. Such policies are listed in Exhibit 4.26 - Schedule of Insurance.

SECTION 4.27 PATENTS, TRADEMARKS AND COPYRIGHTS.

(a) To the best of Borrower's knowledge and belief after current investigation, Borrower owns all patents, trademarks and copyrights, if any, necessary to conduct its business or possesses licenses or other rights, if any, therefor. All such intangible property rights are listed in Exhibit 4.27 - Schedule of Patents, Trademarks and Copyrights. Borrower has the right to use such proprietary rights without infringing or violating the rights of any third parties. No claim has been asserted by any person to the ownership of or right to use any such proprietary right or challenging or questioning the validity or effectiveness of any such license or agreement. Each of the proprietary rights is valid and subsisting, and has not been canceled, abandoned or otherwise terminated.

SECTION 4.28. SURVIVAL OF REPRESENTATIONS AND WARRANTIES.

(a) All representations and warranties by Borrower herein shall survive the Loan Closing and any subsequent Loan Closings and the delivery of the Debentures, and any investigation at any time made by or on behalf of Lender shall not diminish Lender's right to rely on Borrower's representations and warranties as herein set forth.

ARTICLE V - AFFIRMATIVE COVENANTS

So long as any part of the Debentures remains unpaid or has not been redeemed or converted hereunder, and until such payment, redemption or conversion in full, unless the Lender shall otherwise consent in writing, which consent shall not be unreasonably withheld, Borrower agrees that:

SECTION 5.01. FINANCIAL STATEMENTS, REPORTS AND DOCUMENTS.

(a) The Borrower shall, and shall cause each of its Subsidiaries (if any):

(i) to maintain complete and accurate books and records of its transactions in accordance with Generally Accepted Accounting Practices ("GAAP");

(ii) employ a firm of independent certified public accountants (which firm shall be one of the six largest national accounting firms, or if not such, the firm of Pennell Kerr Forster P.C. or another firm approved by Lender, said approval not to be unreasonably withheld or delayed) to make annual audits of its accounts in accordance with GAPP:

(iii) permit the Lender and its duly authorized representatives, at such reasonable times and intervals as the Lender may request (which shall generally be during normal business hours and not exceed more than quarterly inspections unless Borrower has consented to a greater frequency or except in the event of a default under this Agreement), to have access to and to inspect any of the properties of Borrower and its Subsidiaries and shall permit such representative to examine, copy or make excerpts from, any and all books, records and documents in the possession of Borrower and its Subsidiaries and relating to its affairs, and

(iv) permit the Lender and its duly authorized representatives to discuss its affairs, finances and accounts with its and its Subsidiaries officers, agents, attorneys and auditors, all to such reasonable extent and at such reasonable times and intervals as the Lender may request.

(v) make a copy of this Agreement, along with any waivers, consents, modifications or amendments, available for review at its principal office by Lender or Lender's representatives.

(b) The Borrower shall provide the following reports and information to the Lender and/or the Lender's designee:

(i) As soon as available, and in any event within forty-five (45) days after the close of each quarter, the Company's report on Form 10-Q with exhibits for said period. In addition, the Lender may at its sole discretion request internal monthly reports for specific periods.

(ii) As soon as available, and in any event within ninety (90) days after the close of each year, the Company's report on Form 10-K with exhibits for said period.

(iii) Each quarter, concurrent with the periodic report required above, a certificate executed by the Chief Financial Officer or Chief Executive Officer of the Borrower, (A) stating that a review of the activities of the Borrower during such fiscal period has been made under his supervision and that the Borrower has observed, performed and fulfilled each and every obligation and covenant contained herein and is not in default under any of the same or, if any such default shall have occurred, specifying the nature and status thereof, and (B) setting forth a computation in reasonable detail as of the end of the period covered by such statements, of compliance with the Agreed Minimum Financial Standards in Exhibit 7.01 as provided therein.

(iv) So long as any Debenture remains outstanding, promptly (but in any event within five (5) business days) upon learning of the occurrence of a Default or an Event of Default deliver a certificate signed by the Chief Executive Officer or Chief Financial Officer of the Borrower describing such Default, Event of Default and stating what steps are being taken to remedy or cure the same.

(v) Promptly (but in any event within five (5) business days) upon the receipt thereof by the Borrower or the Board of Directors of the Borrower, copies of all reports and management letters submitted to the Borrower or the Board by independent accountants in connection with each annual or interim audit or review of the accounts or affairs of the Borrower made by such accountants.

(vi) With reasonable promptness, such other information relating to the finances, properties, business and affairs of the Borrower and each Subsidiary, as Lender may reasonably request from time to time.

(vii) Promptly upon its becoming available, one copy of each financial statement, report, release, notice or proxy statement sent by Borrower to stockholders generally, and of each regular or periodic report, registration statement or prospectus filed by Borrower with any securities exchange or the SEC or any successor agency, and of any order issued by any Governmental Authority in any proceeding to which the Borrower is a party.

SECTION 5.02. PREPARATION OF A BUDGET.

(a) Prior to the beginning of Borrower's fiscal year Borrower agrees to prepare and submit to the Board of the Borrower and furnish to the Lender a copy of, an annual plan for such year which shall include, without limitation, plans for expansion, if any, plans for incurrences of Indebtedness and projections regarding other sources of funds, quarterly projected capital and operating expense budgets, cash flow statements, profit and loss statements and balance sheet projections, itemized in such detail as the Lender may reasonably request.

(b) Borrower shall furnish to Lender monthly financial reports, including budgets (as currently used by management in the conduct of business) within 30 days of the end of each month.

SECTION 5.03. OPERATION REVIEW.

(a) Borrower agrees that it will review its operations with Lender. Such operations reviews will be in such depth and detail as Lender shall reasonably request. Operations reviews, which usually will require a day or less to complete, will be held as reasonably necessary, generally once a fiscal quarter.

SECTION 5.04. PAYMENT OF TAXES AND OTHER INDEBTEDNESS.

(a) Borrower shall, and shall cause its Subsidiaries (if any) to, pay and discharge (i) all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits, or upon any property belonging to it, before delinquent, (ii) all lawful claims (including claims for labor, materials and supplies), which, if unpaid, might give rise to a Lien upon any of its property, and (iii) all of its other Indebtedness, except as prohibited hereunder; provided, however, that Borrower and its Subsidiaries, if any, shall not be required to pay any such tax, assessment, charge or levy if and so long as the amount, applicability or validity thereof shall currently be contested in good faith by appropriate proceedings and appropriate accruals and reserves therefor have been established in accordance with GAAP.

SECTION 5.05. MAINTENANCE OF EXISTENCE AND RIGHTS; CONDUCT OF BUSINESS.

(a) Borrower shall, and shall cause its Subsidiaries (if any) to, preserve and maintain its corporate existence and all of its rights, privileges and franchises necessary or desirable in the normal conduct of its business, and conduct its business in an orderly and efficient manner consistent with good business practices and in accordance with all valid regulations and orders of any Governmental Authority. Borrower shall keep its principal place of business within the United States.

SECTION 5.06. SEC FILING AND MAINTENANCE OF SEC REPORTING REQUIREMENTS.

(a) So long as Borrower has a class of securities registered pursuant to Section 12 of the 1934 Act, Borrower shall duly file, when due, all reports and statements required of a company whose securities are registered for public trading under and pursuant to the 1934 Act, as amended, and any rules and regulations issued thereunder, and to preserve and maintain its registration thereunder and all of the rights of its security holders normally associated with a publicly traded stock company.

SECTION 5.07. NOTICE OF DEFAULT.

(a) Borrower shall furnish to Lender, immediately upon becoming aware of the existence of any condition or event which constitutes a Default or would with the passage of time become a Default or an Event of Default, written notice specifying the nature and period of existence thereof and the action which Borrower is taking or proposes to take with respect thereto.

SECTION 5.08. OTHER NOTICES.

(a) Borrower shall promptly notify Lender of (i) any Material Adverse Change in its financial condition or its business, (ii) any default under any material agreement, contract or other instrument to which it is a party or by which any of its properties are bound, or any acceleration of the maturity of any Indebtedness owing by Borrower or its Subsidiaries, if any, (iii) any material adverse claim against or affecting Borrower or its Subsidiaries, if any, or any of its properties, and (iv) the commencement of, and any material determination in, any litigation with any third party or any proceeding before any Governmental Authority, the negative result of which has a Material Adverse Effect on Borrower and its Subsidiaries, taken as a whole.

SECTION 5.09. COMPLIANCE WITH LOAN DOCUMENTS.

(a) Borrower shall, and shall cause each of its Subsidiaries (if any) to, promptly comply with any and all covenants and provisions of the Loan Documents.

SECTION 5.10. COMPLIANCE WITH MATERIAL AGREEMENTS.

(a) Borrower shall, and shall cause each of its Subsidiaries (if any) to, comply in all material respects with all material agreements, indentures, mortgages or documents binding on it or affecting its properties or business.

SECTION 5.11. OPERATIONS AND PROPERTIES.

(a) Borrower shall, and shall cause each of its Subsidiaries (if any) to, act prudently and in accordance with customary industry standards in managing or operating its assets, properties, business and investments. Borrower shall, and shall cause each of its Subsidiaries (if any) to, keep in good working order and condition, ordinary wear and tear excepted, all of its assets and properties which are necessary to the conduct of its business.

SECTION 5.12. COMPLIANCE WITH LAW.

(a) Borrower shall, and shall cause each of its Subsidiaries (if any) to, comply with all applicable laws, rules, regulations, and all orders of any Governmental Authority applicable to it or any of its property, business operations or transactions, a breach of which could reasonably be expected to have a Material Adverse Effect.

SECTION 5.13. INSURANCE.

(a) Borrower shall, and shall cause each of its Subsidiaries (if any) to, maintain such worker's compensation insurance, liability insurance and insurance on its properties, assets and business, now owned or hereafter acquired, against such casualties, risks and contingencies, and in such types and amounts, as are consistent with customary practices and standards of companies engaged in similar businesses.

SECTION 5.14. AUTHORIZATIONS AND APPROVALS.

(a) Borrower shall, and shall cause each of its Subsidiaries (if any) to, promptly obtain, from time to time at its own expense, all such governmental licenses, authorizations, consents, permits and approvals as may be required to enable it to comply with its obligations hereunder and under the other Loan Documents.

SECTION 5.15. ERISA COMPLIANCE.

(a) Borrower shall (i), at all times, make prompt payment of all contributions required under all Plans, if any, and shall meet the minimum funding standards set forth in ERISA with respect to its Plans subject to ERISA, if any, (ii) notify Lender immediately of any fact in connection with any of its Plans, which might constitute grounds for termination thereof or for the appointment by the appropriate United States District Court of a trustee to administer such Plan, together with a statement, if requested by Lender as to the reason therefor and the action, if any, proposed to be taken with respect thereto, and (iii)

furnish to Lender upon its request such additional information concerning any of its Plans as may be reasonably requested.

SECTION 5.16. FURTHER ASSURANCES.

(a) Borrower shall, and shall cause each of its Subsidiaries (if any) to, make, execute or endorse, and acknowledge and deliver or file or cause the same to be done, all such notices, certifications and additional agreements, undertakings, transfers, assignments, or other assurances, and take any and all such other action, as Lender may, from time to time, deem reasonably necessary or proper in connection with any of the Loan Documents, or the obligations of Borrower or its Subsidiaries, if any, thereunder, which Lender may request from time to time.

SECTION 5.17. INDEMNITY BY BORROWER.

(a) Borrower shall indemnify, save, and hold harmless, Lender and its directors, officers, agents, attorneys, and employees (singularly or collectively, the "Indemnitee") from and against (i) any and all claims, demands, actions or causes of action that are asserted against any Indemnitee if the claim, demand, action or cause of action directly or indirectly relates to the Agreement and the other Loan Documents issued pursuant thereto, the use of proceeds of the Loans, or the relationship of Borrower and Lender under this Agreement or any transaction contemplated pursuant to this Agreement, (ii) any administrative or investigative proceeding by any Governmental Authority directly or indirectly related to a claim, demand, action or cause of action described in clause (i) above, and (iii) any and all liabilities, losses, costs, or expenses (including reasonable attorneys' fees and disbursements) that any Indemnitee suffers or incurs as a result of any of the foregoing; provided, however, that Borrower shall have no obligation under this Section 5.17 to Lender with respect to any of the foregoing arising out of the negligence or willful misconduct of Lender or its assignees or the breach by the Lender or its assignees or their respective directors, officers, agents, attorneys or employees of this Agreement or any other Loan Document or other document executed in connection with any of the aforesaid, the breach by Lender or its assignees of any agreement or commitment with other parties, the violation or alleged violation of any law, rule or regulation by Lender or its assignees, or from the transfer or disposition by Lender of any Debenture or the Common Stock issued upon conversion of the Debenture. If any claim, demand, action or cause of action is asserted against any Indemnitee, such Indemnitee shall promptly notify Borrower, but the failure to so promptly notify Borrower shall not affect Borrower's obligations under this Section unless such failure materially prejudices Borrower's right to participate in the contest of such claim, demand, action or cause of action, as hereinafter provided. In the event that such Indemnitee's failure to properly notify the Borrower materially prejudices Borrower's right to participate in the contest of such claim, demand, action, or cause of action, then said Indemnitee shall have no right to receive, and Borrower shall have no obligation to pay, any indemnification amounts hereunder. Borrower may elect to defend any such claim, demand, action or cause of action (at its own expense) asserted against said Indemnitee and, if requested by Borrower in writing and so long as no Default or Event of Default shall have occurred and be continuing, such Indemnitee (at Borrower's expense) shall in good faith contest the validity, applicability and amount of such claim, demand, action or cause of action and shall permit Borrower to participate in such contest. Any Indemnitee that proposes to settle or compromise any claim or proceeding for which Borrower may be liable for payment to or on behalf of an Indemnitee hereunder shall give Borrower written notice of the terms of such proposed settlement or compromise reasonably in advance of settling or compromising such claim or proceeding and shall obtain Borrower's written concurrence thereto. In the event that said Indemnitee fails to obtain Borrower's prior written consent to any such settlement or compromise, said Indemnitee shall have no right to receive and Borrower shall have no obligation to pay any indemnification amounts hereunder. Each Indemnitee may employ counsel in enforcing its rights hereunder and in defending against any claim, demand, action, or cause of action covered by this Section 5.17; provided, however, that each Indemnitee shall endeavor, but shall not be obligated, in connection with any matter covered by this Section which also involves any other Indemnitee, to use reasonable efforts to avoid unnecessary duplication of effort by counsel for all Indemnities, including by allowing Borrower to select one lawyer for all parties, such selection to be

subject to the approval of such parties, which approval shall not be unreasonably withheld or delayed. Any obligation or liability of Borrower to any Indemnitee under this Section 5.17 shall survive the expiration or termination of this Agreement and the repayment of the Debentures.

5.18 PAYMENT OF MANAGEMENT FEE/MONITORING FEE

(a) Borrower shall pay each of Renaissance III and Renaissance PLC a monitoring and financial advisory fee of \$500 per month and shall reimburse them for the reasonable travel and out-of-pocket expenses incurred by them or their agents in monitoring Borrowers compliance with the Agreement, including service by the individuals, if any, designated by Lender to serve as a director or Advisory Director of Borrower pursuant to Section 10.01 of this agreement.

ARTICLE VI - NEGATIVE COVENANTS

So long as any part of the Debentures have not been redeemed or converted hereunder, and until such redemption or conversion in full, unless the Lender shall otherwise consent in writing, which consent shall not be unreasonably withheld, Borrower agrees that, unless permitted otherwise:

SECTION 6.01. LIMITATION ON INDEBTEDNESS.

(a) Borrower and its Subsidiaries shall not incur, create, contract, waive, assume, have outstanding, guarantee or otherwise be or become, directly or indirectly, liable in respect of any Indebtedness, except:

(i) Indebtedness arising out of this Agreement or otherwise contemplated herein;

(ii) Indebtedness secured by the Permitted Liens;

(iii) Current liabilities for accounts payable or obligations accrued (other than for borrowed funds or purchase money obligations) and incurred in the ordinary course of business, and for taxes and assessments;

(iv) Indebtedness as listed on Exhibit 4.05.

SECTION 6.02. NEGATIVE PLEDGE.

(a) Borrower shall not, and shall not permit its Subsidiaries (if any) to, create, incur, permit or suffer to exist any Lien upon any of its property or assets other than Permitted Liens, or payments upon any Subordinated Debt other than regularly scheduled installments of principal and interest and shall not directly or indirectly make any payment of any Subordinated Debt which would violate the terms of the Agreement or of such Subordinated Debt or any subordination agreement applicable to such Subordinated Debt.

SECTION 6.03. ALTERATION OF MATERIAL AGREEMENTS.

(a) Borrower shall not, and shall not permit its Subsidiaries (if any) to, consent to or permit any alteration, amendment, modification, release, waiver or termination of any material agreement to which it is a party other than in the ordinary course of business. An agreement shall not be considered material unless it relates to a value greater than five percent (5%) of the net worth of the Borrower.

SECTION 6.04. CERTAIN TRANSACTIONS.

(a) Except as permitted by Section 6.11, Borrower shall not, and shall not permit its Subsidiaries (if any) to, enter into any transaction with, or pay any management fees to, any Affiliate; provided, however, that Borrower and any Subsidiary may enter into transactions with Affiliates upon terms not less favorable to Borrower and any Subsidiary than would be obtainable at the time in comparable transactions of Borrower and any Subsidiaries in arms-length dealings with Persons other than Affiliates.

SECTION 6.05. LIMITATIONS ON ACQUISITION OF NON-RELATED BUSINESS.

(a) Borrower shall not, and shall not permit its Subsidiaries (if any) to, engage in any line of business or acquire any new product lines or business or acquire any companies unless such new product line or business of the company acquired is primarily involved in the Borrower's current lines of business (which the Lender acknowledges is the toy business).

SECTION 6.06. LIMITATION ON SALE OF PROPERTIES.

(a) Borrower shall not, and shall not permit its Subsidiaries (if any) to (i) sell, assign, convey, exchange, lease or otherwise dispose of any of its properties, rights, assets or business, whether now owned or hereafter acquired, except in the ordinary course of its business and for a fair consideration, or (ii) sell, assign or discount any accounts receivable except in the ordinary course of business or except to secure bank or commercial working capital loans in the ordinary course of business. This restriction shall not apply unless the transaction, or in the case of related transactions, the aggregate of such related transactions, involves a value greater than 10 percent (10%) of the net worth of the Borrower.

SECTION 6.07. FISCAL YEAR AND ACCOUNTING METHOD.

(a) Borrower shall not, and shall not permit its Subsidiaries, if any, to, change its method of accounting except as permitted by GAAP.

SECTION 6.08. LIQUIDATION AND DISPOSITIONS OF SUBSTANTIAL ASSETS.

(a) Borrower shall not permit its Subsidiaries to (i) dissolve or liquidate, (ii) sell, transfer, lease or otherwise dispose of all or any substantial part of its property or assets or business, or (iii) enter into any other transaction that has a similar effect.

SECTION 6.09. NO AMENDMENTS TO ARTICLES OF INCORPORATION OR BYLAWS.

(a) Borrower shall not, and shall not permit its Subsidiaries (if any) to amend its Articles of Incorporation or bylaws in a manner which would have a materially adverse impact upon the Lender except as is necessary to fulfill the conditions of this Agreement.

SECTION 6.10. LIMITATION ON INCREASED EXECUTIVE COMPENSATION AND BONUS, PROFIT SHARING OR OTHER INCENTIVE PAYMENTS.

(a) Borrower will not increase the salary, bonus, or other compensation programs (whether in cash, securities, or other property, and whether payment is deferred or current) of its top five executive officers unless such compensation increase is approved by a majority of the Board, or a Compensation Committee of the Board, a majority of whom shall non-employee Directors.

(b) Borrower shall not pay any Bonus, Profit Sharing or Other Incentive Payments until such plans are formally adopted by the majority of the Board, or a Compensation Committee of the Board, a majority of whom shall be non-employee Directors.

SECTION 6.11. RESTRICTED PAYMENTS.

(a) So long as any Debentures are outstanding, Borrower shall not (i) declare or pay any dividend (other than stock dividends) on any Common Stock, or (ii) purchase, redeem, decrease, or otherwise acquire any shares of Common Stock, or any Preferred Stock. Debentures must be prepaid on a pro rata basis with any prepayments of debt which is pari passu with the Debentures.

SECTION 6.12. RETENTION OF STOCK OWNERSHIP.

(a) As provided in Exhibit 6.12, so long as the Debentures remain outstanding, key members of management will agree to withhold sale or assignment of their ownership in Borrower until April 30, 1997, unless released earlier by Joseph Charles & Associates or offered together with an underwritten offering of Borrower's common stock and otherwise, while and so long as they continue to be employed by the Borrower or its Subsidiaries, such members may only sell pursuant to Rule 144 until the Debentures have been repaid.

ARTICLE VII - COVENANTS OF MAINTENANCE OF FINANCIAL STANDARDS

SECTION 7.01. FINANCIAL RATIOS.

(a) So long as any part of the Debentures has not been redeemed or converted hereunder, and until such redemption or conversion in full, or unless the Lender (or if any portion of the Debentures has been assigned, the holders of a majority in amount of the outstanding Principal Amount) shall otherwise

consent in writing, the Borrower will at all times maintain the agreed minimum financial ratios or standards as provided and set forth in Exhibit 7.01 - Agreed Minimum Financial Standards as attached hereto and made a part hereof. Borrower shall deliver to Lender a compliance certificate covering these ratios as required in Section 5.01(b)(iii).

ARTICLE VIII - EVENTS OF DEFAULT

SECTION 8.01. EVENTS OF DEFAULT.

(a) An "Event of Default" shall exist if any one or more of the following events (herein collectively called "Events of Default") shall occur and be continuing:

(i) Borrower shall fail to pay (or shall state in writing an intention not to pay or its inability to pay), not later than ten (10) days after the due date, any installment of interest on or principal of, any Debenture or any fee, expense or other payment required hereunder;

(ii) Any representation or warranty made under this Agreement, or any of the other Loan Documents, or in any certificate or statement furnished or made to Lender pursuant hereto or in connection herewith or with the Loans hereunder, shall prove to be untrue or inaccurate in any material respect as of the date on which such representation or warranty was made;

(iii) Default shall occur in the performance of any of the covenants or agreements of Borrower or of its Subsidiaries (if any) contained herein, or in any of the other Loan Documents, which is not remedied within thirty (30) days after written notice thereof to Borrower from Lender;

(iv) Default shall occur in the payment of any material indebtedness (other than the Obligation) of the Borrower and its Subsidiaries (if any) considered in the aggregate, or default shall occur in respect of any note, loan agreement or credit agreement relating to any such indebtedness and such default shall continue for more than the period of grace, if any, specified therein and any such indebtedness shall become due before its stated maturity by acceleration of the maturity thereof or shall become due by its terms and shall not be promptly paid or extended;

(v) Any of the Loan Documents shall cease to be legal, valid and binding agreements enforceable against the Borrower in accordance with the respective terms thereof, or shall in any way be terminated or become or be declared ineffective or inoperative, or shall in any way whatsoever cease to give or provide the respective rights, titles, interests, remedies, powers or privileges intended to be created thereby;

(vi) Borrower or its Subsidiaries (if any) shall (A) apply for or consent to the appointment of a receiver, trustee, custodian, intervenor or liquidator of itself, or of all or substantially all of such Person's assets, (B) file a voluntary petition in bankruptcy, admit in writing that such Person is unable to pay such Person's debts as they become due or generally not pay such Person's debts as they become due, (C) make a general assignment for the benefit of creditors, (D) file a petition or answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy or insolvency laws, (E) file an answer admitting the material allegations of, or consent to, or default in answering, a petition filed against such Person in any bankruptcy, reorganization or insolvency proceeding, or (F) take corporate action for the purpose of effecting any of the foregoing;

(vii) An involuntary petition or complaint shall be filed against Borrower or any of its Subsidiaries (if any) seeking bankruptcy or reorganization of such Person or the appointment of a receiver, custodian, trustee, intervenor or liquidator of such Person, or all or substantially all of such Person's assets, and such petition or complaint shall not have been dismissed within sixty (60) days of the filing thereof or an order, order for relief, judgment or decree shall be entered by any court of competent jurisdiction or other competent authority approving a petition or complaint seeking reorganization of Borrower or its subsidiary (if any) or appointing a receiver, custodian, trustee, intervenor or liquidator of such Person, or of all or substantially all of such Person's assets;

(viii) Any final judgment(s) not subject to appeal for the payment of money in excess of the sum of \$250,000 in the aggregate shall be rendered against Borrower or any subsidiary and such judgment or judgments shall not be satisfied or discharged at least ten (10) days prior to the date on which any of its assets could be lawfully sold to satisfy such judgment;

(ix) The Borrower shall fail to issue and deliver shares of Common Stock as provided herein upon conversion of the Debenture; or

(x) The Borrower shall fail to submit to its stockholders Lender's nominee, if any, for election to the Board of Directors of the Borrower or shall remove Lender's nominee from the Board of Directors of Borrower other than for cause.

SECTION 8.02. REMEDIES UPON EVENT OF DEFAULT.

(a) If an Event of Default shall have occurred and be continuing for a period of thirty (30) days, then Lender may exercise any one or more of the following rights and remedies, and any other remedies provided in any of the Loan Documents, as Lender in its sole discretion may deem necessary or appropriate:

(i) declare the unpaid Principal Amount (after application of any payments or installments received by Lender) of, and all interest then accrued but unpaid on, the Debentures and any other liabilities hereunder to be forthwith due and payable, whereupon the same shall forthwith become due and payable without presentment, demand, protest, notice of default, notice of acceleration or of intention to accelerate or other notice of any kind, all of which Borrower hereby expressly waives, anything contained herein or in the Debentures to the contrary notwithstanding;

(ii) reduce any claim to judgment; and

(iii) without notice of default or demand, pursue and enforce any of Lender's rights and remedies under the Loan Documents, or otherwise provided under or pursuant to any applicable law or agreement, all of which rights may be specifically enforced.

SECTION 8.03. PERFORMANCE BY LENDER.

(a) Should Borrower fail to perform any covenant, duty or agreement contained herein or in any of the other Loan Documents, Lender may perform or attempt to perform such covenant, duty or agreement on behalf of Borrower. In such event, Borrower shall, at the request of Lender, promptly pay any amount reasonably expended by Lender in such performance or attempted performance to Lender at its principal office in Dallas, Texas, together with interest thereon, at the interest rate specified in the Debenture, from the date of such expenditure until paid. Notwithstanding the foregoing, it is expressly understood that Lender assumes no liability or responsibility for the performance of any duties of Borrower hereunder or under any of the other Loan Documents.

SECTION 8.04. PAYMENT OF EXPENSES INCURRED BY LENDER.

(a) Upon the occurrence of a Default or an Event of Default, which occurrence is not cured within the notice provisions, if any, provided herein, Borrower agrees to pay and shall pay all costs and expenses (including Lender's attorney's fees and expenses) reasonably incurred by Lender in connection with the preservation and enforcement of Lender's rights under the Agreement, the Debentures, or any other Loan Document.

ARTICLE IX - REGISTRATION RIGHTS

SECTION 9.01. DEMAND FOR REGISTRATION.

(a) Subject to the Holder's rights to convert all or part of the Debentures, the Borrower hereby agrees to register, at the Holder's expense and subject to the terms and conditions set forth herein, all or any portion of the Registrable Securities at any time (but on not more than one occasion prior to December 31, 1998) it shall receive a written request from the Holder that the Borrower file a registration statement under the 1933 Act covering the registration of the Registrable Securities held by

the Holder, but in no event prior to the later of (i) March 1, 1997 or (ii) if a registration statement for an underwritten public offering of the Borrower's common stock is filed with the SEC on or before March 1, 1997, six months following the effective date of such registration or such lesser time as may be allowed by the underwriter for shares held by officers, directors or other shareholders of the Company. The Borrower shall, within 20 days of its receipt thereof, give written notice of such request to all Holders of record of Registrable Securities. The Holders of said Registrable Securities shall then have 15 days from the date of mailing of such notice by the Borrower to request that all or a portion of their respective Registrable Securities be included in said registration. The Borrower hereby agrees, subject to the limitations hereof, to use its best lawful efforts to effect as soon as reasonably possible, and in any event (if legally possible, and as allowed by the SEC, and if no factor outside the Borrower's reasonable control prevents it) within 150 days of the receipt of the initial written registration request, to effect the registration under the 1933 Act of all Registrable Securities which the Holders thereof (the "Initiating Holders") have requested.

(b) After two years from the date this Loan Agreement was executed, the Borrower hereby agrees to register, at the expense of the Borrower and subject to the terms and conditions set forth herein, all or any portion of the Registrable Securities at any time it shall receive a written request from the Holder that the Borrower file a registration statement under the 1933 Act covering the registration of the Registrable Securities held by the Holder. Such registrations at the Borrower's expense shall be limited to a maximum of two and at a frequency no greater than one per year. The Borrower shall, within 20 days of its receipt thereof, give written notice of such request to all Holders of record of Registrable Securities. The Holders of said Registrable Securities shall then have 15 days from the date of mailing of such notice by the Borrower to request that all or a portion of their respective Registrable Securities be included in said registration. The Borrower hereby agrees, subject to the limitations hereof, to use its best lawful efforts to effect as soon as reasonably possible, and in any event (if legally possible, and as allowed by the SEC, and if no factor outside the Borrower's reasonable control prevents it) within 150 days of the receipt of the initial written registration request, to effect the registration under the 1933 Act of all Registrable Securities which the Holders thereof (the "Initiating Holders") have requested.

(b) If the Initiating Holders intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Borrower as a part of their request made pursuant to this Agreement, and the Borrower shall include such information in the written notice to the other Holders of Registrable Securities referred to in Section 9.01(a). In such event, the right of any Holder to include his/her Registrable Securities in such registration shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting (unless otherwise mutually agreed by the Borrower, the underwriter, a majority in interest of the Initiating Holders and such Holder) is limited to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall (together with the Borrower as provided in Section 9.03(e)) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by mutual agreement of the Borrower and a majority in interest of the Initiating Holders, which agreement shall not be unreasonably withheld. Notwithstanding any other provision of this Section 9.01, if the underwriter advises the Initiating Holders and the Borrower in writing that marketing factors require a limitation of the number of shares to be underwritten, then the Initiating Holder(s) shall so advise all Holders of Registrable Securities which would otherwise be underwritten pursuant hereto, and the number of shares of Registrable Securities that may be included in the underwriting shall be allocated on a pro rata basis among all Holders that have requested to participate in such registration.

(c) Holders shall utilize Rule 144 if said exemption, in the Lender's sole determination, meets its distribution requirements.

(d) Notwithstanding the foregoing, if the Borrower shall furnish to the Initiating Holders a certificate signed by the President of the Borrower stating that in the good faith judgment of the Board of Directors of the Borrower, it would be materially detrimental to the Borrower and its shareholders for a registration

statement to be filed at that time, and it is therefore essential to defer the filing of such registration statement described in this Section 9.01, the Borrower shall have the right to defer the commencement of such a filing for a period of not more than 180 days after receipt of the request of the Initiating Holders; provided, however, that at least 12 months must elapse between any two such deferrals.

SECTION 9.02. "PIGGY-BACK" REGISTRATION.

If, but without any obligation to do so, the Borrower proposes to register any of its capital stock under the 1933 Act in connection with the public offering of such securities for its own account or for the account of its security holders, other than Holders of Registrable Securities pursuant hereto (a "Piggy-Back Registration Statement"), (except for (i) a registration relating solely to the sale of securities to participants in the Borrower's stock plans or employee benefit plans or (ii) a registration relating solely to an SEC Rule 145 transaction or any rule adopted by the SEC in substitution thereof or in amendment thereto), then:

(a) The Borrower shall give written notice of such determination to each Holder of Registrable Securities, and each such Holder shall have the right to request, by written notice given to the Borrower within 15 days of the date that such written notice was mailed by the Borrower to such Holder, that a specific number of Registrable Securities held by such Holder be included in the Piggy-Back Registration Statement (and related underwritten offering, if any), subject to a 90 day delay in the commencement of the Holder's offering of the shares at the underwriter's request;

(b) If the Piggy-Back Registration Statement relates to an underwritten offering, the notice given to each Holder shall specify the name or names of the managing underwriter or underwriters for such offering. In addition such notice shall also specify the number of securities to be registered for the account of the Borrower and for the account of its shareholders (other than the Holders of Registrable Securities), if any;

(c) If the Piggy-Back Registration Statement relates to an underwritten offering, each Holder of Registrable Securities to be included therein must agree (i) to sell such Holder's Registrable Securities on the same basis as provided in the underwriting arrangement approved by the Borrower, and (ii) to timely complete and execute all questionnaires, powers of attorney, indemnities, hold-back agreements, underwriting agreements and other documents required under the terms of such underwriting arrangements or by the SEC or by any state securities regulatory body;

(d) If the managing underwriter or underwriters for the underwritten offering under the Piggy-Back Registration Statement determines that inclusion of all or any portion of the Registrable Securities in such offering would adversely affect the ability of the underwriters for such offering to sell all of the securities requested to be included for sale in such offering at the best price obtainable therefor, the aggregate number of Registrable Securities that may be sold by the Holders shall be limited to such number of Registrable Securities, if any, that the managing underwriter or underwriters determine may be included therein without such adverse effect as provided below. If the number of Registrable Securities proposed to be sold in such underwritten offering exceeds the number of securities that may be sold in such offering, there shall be included in the offering, first, up to the maximum number of securities to be sold by the Borrower for its own account and for the account of other stockholders (other than Holders of Registrable Securities), as they may agree among themselves, and second, as to the balance, if any, Registrable Securities requested to be included therein by the Holders thereof (pro rata as between such Holders based upon the number of Registrable Securities initially proposed to be registered by each), or in such other proportions as the managing underwriter or underwriters for the offering may require; provided, however, that in the event that the number of Registrable Securities proposed to be sold in such underwritten offering exceeds the number of securities that may be sold in such offering pursuant to the terms and conditions set forth above and the Piggy-Back Registration Statement is a result of public offering by the Borrower of its securities for its own account, there shall be included in the offering, first, up to the maximum number of securities to be sold by the Borrower for its own account and second, up to 400,000 shares of common stock to be sold for the account of

Borrower's common shares stock holders other than the Holders of Registrable Securities as to the balance, if any, securities to be sold for the account of the Borrower's stockholders (both the Holders of Registrable Securities requested and such other stockholders of the Borrower requested to be included therein) on a pro rata basis; and

(e) Holders of Registrable Securities shall have the right to withdraw their Registrable Securities from the Piggy-Back Registration Statement, but if the same relates to an underwritten offering, they may only do so during the time period and on the terms agreed upon among the underwriters for such underwritten offering and the Holders of Registrable Securities.

SECTION 9.03. OBLIGATIONS OF THE BORROWER.

Whenever required to effect the registration of any Registrable Securities pursuant to this Agreement, the Borrower shall, as expeditiously as reasonably possible at the Holder's expense if pursuant to Section 9.01(a):

(a) Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its best lawful efforts to cause such registration statement to become effective, and keep such registration statement effective until the sooner of all such Registrable Securities having been distributed, or until 120 days have elapsed since such registration statement became effective (subject to extension of this period as provided below);

(b) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the 1933 Act with respect to the disposition of all securities covered by such registration statement, or until 120 days have elapsed since such registration statement became effective whichever occurs first (subject to the extension of this period as provided below in paragraph (g));

(c) Furnish to the Holders such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the 1933 Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them;

(d) Use its best lawful efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders, provided that the Borrower shall not be required in connection therewith or as a condition thereto to qualify as a broker-dealer in any states or jurisdictions or to do business or to file a general consent to service of process in any such states or jurisdictions;

(e) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement with the managing underwriter of such offering, in usual and customary form reasonably satisfactory to the Borrower and the Holders of a majority of the Registrable Securities to be included in such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement;

(f) Notify each Holder of Registrable Securities covered by such registration statement, at any time when a prospectus relating thereto and covered by such registration statement is required to be delivered under the 1933 Act, of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing; and

(g) In the event of the notification provided for in Section 9.03(f) above, the Borrower shall use its best efforts to prepare and file with the SEC (and to provide copies thereof to the Holders) as soon as reasonably possible an amended prospectus complying with the 1933 Act, and the period during which the prospectus referred to in the notice provided for in Section 9.03(f) above cannot be used and the time period prior to the use of the amended prospectus referred to in this Section 9.03(g) shall not be counted in the 120 day period of this Section 9.03.

SECTION 9.04. FURNISH INFORMATION.

(a) It shall be a condition precedent to the obligations of the Borrower to take any action pursuant to this Article IX that the selling Holders shall furnish to the Borrower any and all information reasonably requested by the Borrower, its officers, directors, employees, counsel, agents or representatives, the underwriter or underwriters, if any, and the SEC or any other Governmental Authority, including but not limited to: (i) such information regarding themselves, the Registrable Securities held by them, and the intended method of disposition of such securities, as shall be required to effect the registration of their Registrable Securities, and (ii) the identity of and compensation to be paid to any proposed underwriter or broker-dealer to be employed in connection therewith.

(b) In connection with the preparation and filing of each registration statement registering Registrable Securities under the 1933 Act, the Borrower shall give the Holders of Registrable Securities on whose behalf such Registrable Securities are to be registered and their underwriters, if any, and their respective counsel and accountants, at such Holders' sole cost and expense (except as otherwise set forth herein), such access to copies of the Borrower's records and documents and such opportunities to discuss the business of the Borrower with its officers and the independent public accountants who have certified its financial statements as shall be reasonably necessary in the opinion of such Holders and such underwriters or their respective counsel, to conduct a reasonable investigation within the meaning of the 1933 Act.

SECTION 9.05. EXPENSES OF DEMAND REGISTRATION.

Except as set forth below, all expenses, other than underwriting discounts and commissions incurred in connection with not more than two demand registrations pursuant to Section 9.01 above, including, without limitation, all registration, filing and qualification fees, printers' and accounting fees, fees and disbursements of counsel for the Borrower, and the reasonable fees and disbursements of one counsel for the selling Holders, shall be borne by the Borrower; provided, however, that the Borrower shall not be required to pay and the Holders shall pay for any expenses of any registration proceeding which was commenced prior to December 31, 1998, pursuant to Section 9.01, or if a registration request is subsequently withdrawn at the written request of the Holders of the majority of the Registrable Securities entitled to such registration.

SECTION 9.06. EXPENSES OF PIGGY-BACK REGISTRATION.

(a) Each Holder shall bear and pay all commissions and discounts attributable to the inclusion of such Holder's Registrable Securities in any registration, filing or qualification of Registrable Securities pursuant to Section 9.01(a) and Section 9.02 and the reasonable fees and disbursements of the counsel for the selling Holders

SECTION 9.07. INDEMNIFICATION REGARDING REGISTRATION RIGHTS.

If any Registrable Securities are included in a registration statement under this Article IX:

(a) To the extent permitted by law, the Borrower will indemnify and hold harmless each Holder, the officers and directors of each Holder, any underwriter (as defined in the 1933 Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the 1933 Act or the 1934 Act, against any losses, claims, damages, liabilities (joint or several) or any legal or other costs and expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action to which they may become subject under the 1933 Act, the 1934 Act or other federal or state law, insofar as such losses, claims, damages, costs, expenses or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"): (i) any untrue statement or alleged untrue statement of a material fact with respect to the Borrower or its securities contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements therein; (ii) the omission or alleged omission to state therein a material fact with respect to the Borrower or its securities required to be stated therein or necessary to make the statements therein not misleading; or (iii)

any violation or alleged violation by the Borrower of the 1933 Act, the 1934 Act, any federal or state securities law or any rule or regulation promulgated under the 1933 Act, the 1934 Act or any state securities law. Notwithstanding the foregoing, the indemnity agreement contained in this Section 9.07(a) shall not apply and the Borrower shall not be liable (i) in any such case for any such loss, claim, damage, costs, expenses, liability or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by or on behalf of any such Holder, underwriter or controlling person, or (ii) for amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the prior written consent of the Borrower, which consent shall not be unreasonably withheld.

(b) To the extent permitted by law, each Holder who participates in a registration pursuant to the terms and conditions of this Agreement shall indemnify and hold harmless the Borrower, each of its directors and officers who have signed the registration statement, each Person, if any, who controls the Borrower within the meaning of the 1933 Act or the 1934 Act, each of the Borrower's employees, agents, counsel and representatives, any underwriter and any other Holder selling securities in such registration statement, or any of its directors or officers, or any person who controls such Holder, against any losses, claims, damages, costs, expenses, liabilities (joint or several) to which the Borrower or any such director, officer, controlling person, employee, agent, representative, underwriter, or other such Holder, or director, officer or controlling person thereof, may become subject, under the 1933 Act, the 1934 Act or other federal or state law, only insofar as such losses, claims, damages, costs, expenses or liabilities or actions in respect thereto arise out of or are based upon any Violation, in each case to the extent and only to the extent that such Violation occurs in reliance upon and in conformity with written information furnished by or on behalf of such Holder expressly for use in connection with such. Each such Holder will indemnify any legal or other expenses reasonably incurred by the Borrower or any such director, officer, employee, agent representative, controlling person, underwriter or other Holder, or officer, director or of any controlling person thereof, in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 9.07(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, costs, expenses, liability or action if such settlement is effected without the prior written consent of the Holder, which consent shall not be unreasonably withheld.

(c) Promptly after receipt by an indemnified party under this Section 9.07 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 9.07, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party shall have the right to retain its own counsel, with the reasonable fees and expenses of such counsel to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential conflict of interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve the indemnifying party of its obligations under this Section 9.07, except to the extent that the failure results in a failure of actual notice to the indemnifying party and such indemnifying party is materially prejudiced in its ability to defend such action solely as a result of the failure to give such notice.

(d) If the indemnification provided for in this Section 9.07 is unavailable to an indemnified party under this Section in respect of any losses, claims, damages, costs, expenses, liabilities or actions referred to herein, then each indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, costs, expenses, liabilities or actions in such proportion as is appropriate to reflect the relative

fault of the Borrower, on the one hand and of the Holder, on the other, in connection with the Violation that resulted in such losses, claims, damages, costs, expenses, liabilities or actions. The relative fault of the Borrower, on the one hand, and of the Holder, on the other, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of the material fact or the omission to state a material fact relates to information supplied by the Borrower or by the Holder, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

(e) The Borrower, on the one hand, and the Holders, on the other hand, agree that it would not be just and equitable if contribution pursuant to this Section 9.07 were determined by a pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an indemnified party as a result of losses, claims, damages, costs, expenses, liabilities and actions referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any reasonable legal or other expenses incurred by such indemnified party in connection with defending any such action or claim. Notwithstanding the provisions of this Section 9.07, neither the Borrower nor the Holders shall be required to contribute any amount in excess of the amount by which the total price at which the securities were offered to the public exceeds the amount of any damages which the Borrower or each such Holder has otherwise been required to pay by reason of such Violation. No person guilty of fraudulent misrepresentations (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation.

SECTION 9.08. REPORTS UNDER THE 1934 ACT.

So long as the Borrower has a class of securities registered pursuant to Section 12 of the 1934 Act, with a view to making available to the Holders the benefits of Rule 144 promulgated under the 1933 Act ("Rule 144") and any other rule or regulation of the SEC that may at any time permit a Holder to sell securities of the Borrower to the public without registration or pursuant to a registration on Form S-3, if applicable, the Borrower agrees to use its best lawful efforts to:

(a) Make and keep public information available, as those terms are understood and defined in SEC Rule 144, at all times;

(b) File with the SEC in a timely manner all reports and other documents required of the Borrower under the 1933 Act and the 1934 Act;

(c) Use its best efforts to include all Common Stock covered by such registration statement on NASDAQ if the Common Stock is then quoted on NASDAQ; or list all Common Stock covered by such registration statement on such securities exchange on which any of the Common Stock is then listed; or, if the Common Stock is not then quoted on NASDAQ or listed on any national securities exchange, use its best efforts to have such Common Stock covered by such registration statement quoted on NASDAQ or, at the option of the Borrower, listed on a national securities exchange; and

(d) Furnish to any Holder, so long as the Holder owns any Registrable Securities, (i) forthwith upon request a copy of the most recent annual or quarterly report of the Borrower and such other SEC reports and documents so filed by the Borrower, and (ii) such other information (but not any opinion of counsel) as may be reasonably requested by any Holder seeking to avail himself of any rule or regulation of the SEC which permits the selling of any such securities without registration or pursuant to such form.

SECTION 9.09. ASSIGNMENT OF REGISTRATION RIGHTS.

(a) Subject to the terms and conditions of the Agreement, and the Debentures, the right to cause the Borrower to register Registrable Securities pursuant to this Agreement may be assigned by Holder to any transferee or assignee of such securities; provided that said transferee or assignee is a transferee or assignee of at least ten percent (10%) of the Registrable Securities and provided that the Borrower is, within a reasonable time after such transfer, furnished with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being

assigned; and provided, further, that such assignment shall be effective only if immediately following such transfer the further disposition of such securities by the transferee or assignee is restricted under the 1933 Act; it being the intention that so long as Holder holds any Registrable Securities hereunder, either Holder or its transferee or assignee of at least ten percent may exercise the demand right to registration and piggy-back registration rights hereunder. Other than as set forth above, the parties hereto hereby agree that the registration rights hereunder shall not be transferable or assigned and any contemplated transfer or assignment in contravention of this Agreement shall be deemed null and void and of no effect whatsoever.

SECTION 9.10. OTHER MATTERS.

(a) Each Holder of Registrable Securities hereby agrees by acquisition of such Registrable Securities that, with respect to each offering of the Registrable Securities, whether each Holder is offering such Registrable Securities in an underwritten or non-underwritten offering, such Holder will comply with Rules 10b-2, 10b-6 and 10b-7 of the 1934 Act and such other or additional anti-manipulation rules then in effect until such offering has been completed, and in respect of any non-underwritten offering, in writing will inform the Borrower, any other Holders who are selling shareholders, and any national securities exchange upon which the securities of the Borrower are listed, that the Registrable Securities have been sold and will, upon the Borrower's request, furnish the distribution list of the Registrable Securities. In addition, upon the request of the Borrower, each Holder will supply the Borrower with such documents and information as the Borrower may reasonably request with respect to the subject matter set forth and described in this Section 9.10.

(b) Each Holder of Registrable Securities hereby agrees by acquisition of such Registrable Securities that, upon receipt of any notice from the Borrower of the happening of any event which makes any statement made in the registration statement, the prospectus or any document incorporated therein by reference, untrue in any material respect or which requires the making of any changes in the registration statement, the prospectus or any document incorporated therein by reference, in order to make the statements therein not misleading in any material respect, such Holder will forthwith discontinue disposition of Registrable Securities under the prospectus related to the applicable registration statement until such Holder's receipt of the copies of the supplemented or amended prospectus, or until it is advised in writing by the Borrower that the use of the prospectus may be resumed, and has received copies of any additional or supplemental filings which are incorporated by reference in the prospectus.

(c) The Borrower hereby agrees not to effect any public sale or other distribution of its equity securities, or any securities convertible into or exchangeable or exercisable for such equity securities, during the period commencing on the 7th day prior to, and ending on the 120th day (subject to extension as provided in Section 9.03 hereof) following the effective date of any underwritten demand registration, other than pursuant to Form S-8.

SECTION 9.11 TERMINATION OF RIGHTS.

(a) The Holders' right to demand registration and to participate in a Piggy-Back Registration, as granted to Holders under this Article IX, shall terminate on June 30, 2006, or after the Holder has exercised two demand registration rights at the expense of the Borrower as provided in Article IX of this Agreement, whichever is first to occur.

ARTICLE X - DIRECTORS AND BOARD MEETING ATTENDANCE

SECTION 10.01. BOARD REPRESENTATION OR ATTENDANCE BY LENDER DESIGNEE.

(a) Borrower herewith agrees that Lender shall have the right from time to time, at Lender's option and so long as all of Debentures have not been fully converted or redeemed, to designate a nominee to the Board of Directors of the Borrower, which designee is subject to the written approval of Borrower which approval shall not be unreasonably withheld. Borrower will, at all times, use its reasonable best efforts to secure the election of such designee as a Director of the Borrower, provided that such designee may, at his or her option, elect to serve only as an "Advisory Director" with all the rights of the Directors

in regards to notice and attendance at meetings of the Board of Directors, or committees thereof, but without voting rights. All reasonable costs and expenses incurred by such Designee as a Director or Advisory Director, or by Lender on behalf of such Designee, shall be reimbursed by Borrower, consistent with payment policies accorded to other independent directors.

(b) Further, though Lender may waive, from time to time, its right to require a Board Designee, in such event it shall be entitled, at its own expense, to have a representative of the Lender attend meetings of the Board of Directors of the Borrower or of its Subsidiaries and such representative may serve as an observer but without voice in matters under discussion except as requested.

(c) Any such Designee or representative of the Lender shall, if requested to do so, absent himself or herself from the meeting in the event of, and so long as, the Directors are considering and acting on matters pertaining to any rights or obligations of the Borrower or the Lender under the Agreement, the Debenture, or the other Loan Documents. Borrower will provide Lender's designated representative with the same notice of Board meetings and information as the Borrower shall provide to its duly elected Directors.

(d) Upon an Event of Default, the Holders shall have the right to name two of the Borrower's Directors.

SECTION 10.02. BORROWER'S RIGHT TO REQUEST LENDER TO PROVIDE AN ADVISOR AND A DIRECTOR NOMINEE.

(a) Lender herewith agrees that, so long as no Default or Event of Default exists under the Agreement and so long as the Debentures have not been fully converted or redeemed, Lender will, at the written request of Borrower, use its reasonable best efforts to provide, from time to time, a person or persons, reasonably believed knowledgeable in investor relations, such person or persons to be available to consult with, and serve as advisor to, the Borrower about its communications with its shareholders and with the general investment public. Further, if requested by Borrower, at least one such person will be available to serve as a nominee to the Board of Directors of the Borrower provided that such nominee may, at his or her option, elect to serve only as an "Advisory Director" with all the rights of the Directors in regards to notice and attendance at meetings of the Board of Directors, or committees thereof, but without voting rights. All reasonable costs and expenses incurred by such person or persons, or by Lender on behalf of such persons, shall be reimbursed by Borrower, consistent with payment policies accorded to other independent directors.

SECTION 10.03. LIMITATION OF AUTHORITY OF PERSONS DESIGNATED AS A DIRECTOR NOMINEE.

(a) It is provided and agreed that the actions and advice of any person while serving pursuant to Section 10.01 or 10.02 as an advisor to the Borrower or as a member of Borrower's Board of Directors, or while serving solely as a representative of Lender in attendance at meetings of the Board of Directors, shall be construed to be the actions and advice of that person alone and not be construed as actions of the Lender as to any notice of requirements or rights of Lender under this Agreement, the Debenture or the other Loan Documents; nor as actions of the Lender to approve modifications, consents, amendments or waivers thereof; and all such actions or notices shall be deemed actions or notices of the Lender only when duly provided in writing and given in accordance with the provisions of this Agreement.

SECTION 10.04. NONLIABILITY OF LENDER.

(a) The provisions of Section 10.01 and 10.02 notwithstanding, the relationship between Borrower and Lender is, and shall at all times remain, solely that of borrower and lender, and except for the agreement to use its best efforts to provide a knowledgeable advisor (whose actions and advice shall be deemed to be solely advised by such person in an individual capacity and not advice by Lender), Lender neither undertakes nor assumes any responsibility or duty to the Borrower to review, inspect, supervise, pass judgment upon, or inform Borrower of any matter in connection with any phase of Borrower's business, operations, or condition, financial or otherwise. Borrower shall rely entirely upon its own judgment with respect to such matters, and any review, inspection, supervision, exercise of judgment, or information supplied to Borrower by Lender, or any representative or agent of Lender, in connection

with any such matter is for the protection of Lender, and neither Borrower nor any third party is entitled to rely thereon.

ARTICLE XI - AGENCY AND INTER-LENDER PROVISIONS

SECTION 11.01. LENDERS' REPRESENTATIONS AND WARRANTIES TO OTHER LENDERS Each

Lender represents and warrant to the other Lender and the Agent:

(a) It is legal for it to make its portion of the Loan, and the making of such portion of the Loan complies with laws applicable to it;

(b) It has made, without reliance upon any other Lender, its own independent review (including any desired investigations and inspections) of, and it accepts and approves, the Loan, the Agreement and the associated documents and all other matters and information which it deems pertinent. It acknowledges that the Loan Documents are a complete statement of all understandings and respective rights and obligations between and among Lenders and Borrowers regarding the Loan.

(c) No Lender has made any express or implied representation or warranty to any other Lender with respect to this transaction.

(d) It will, independently and without reliance upon any other Lender, and based upon such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and will make such investigation as it deems necessary to inform itself as to the Loan, the Loan Document, the Borrower and any collateral; provided, however, nothing contained in this Section shall limit Agent's obligation to provide the other Lenders with the information and documents Agent is expressly required to deliver under this Agreement.

(e) The relationship of Lender is, and shall at all times remain, solely that of a lender of its respective Loan portion. Lenders are not partners or joint venturers in connection with the Loan

SECTION 11.02. WAIVER OF LOAN PROVISIONS OR INTEREST OR PRINCIPAL PAYMENTS

(a) So long as Renaissance III and Renaissance PLC each have not sold or assigned any of the debentures issued to such Lender pursuant to this Agreement, consent of both Renaissance III and Renaissance PLC will be required for the waiver of principal or interest payment and any alterations thereto.

(b) If either Renaissance III and Renaissance PLC disposes of any part of their Debentures, a waiver of an interest or principal payment and any alterations thereto will require the consent of the holders of a majority by dollar amount of the then outstanding Debentures issued pursuant to this Agreement.

SECTION 11.03. AGENCY

(a) Renaissance III and Renaissance PLC each hereby designates and appoints Renaissance Capital Group, Inc. ("Renaissance Group") as its Agent under this Agreement and authorizes the Agent to take such action on its behalf under the provisions of this Agreement and the other Loan Documents and to exercise such powers as are set forth herein or therein, together with such other powers as are reasonable incidental thereto. In performing its functions and duties under this Agreement, the Agent shall act solely as agent of the Lenders and does not assume and shall not be deemed to have assumed any obligation toward or relationship of agency or trust with or for any of the Borrowers. The Agent may perform any of its duties under this Agreement, or under the other Loan Documents, by or through its agents or employees.

(b) The Agent shall have no duties or responsibilities except those expressly set forth in this Agreement or in the other Loan Documents. Except as expressly provided herein, the duties of the Agent shall be mechanical and administrative in nature. The Agent shall have and may use its sole discretion with respect to exercising or refraining from taking any actions which the Agent is expressly entitled to take or assert under this Agreement and the other Loan Documents. The Agent shall not have by reason of this Agreement a fiduciary relationship with respect to any Lender. Nothing in this Agreement or any

of the other Loan Documents, express or implied, is intended to or shall be construed to impose upon the Agent any obligations in respect of this Agreement or any of the other Loan Documents except as expressly set forth herein or therein. If the Agent seeks the consent or approval of the Majority in Interest to the taking or refraining from taking any action hereunder, the Agent shall send notice thereof to each Lender. The Agent shall promptly notify each Lender any time that the Majority in Interest have instructed the Agent to act or refrain from acting pursuant hereto. The Agent may employ agents, co-agents and attorneys-in-fact and shall not be responsible to the Lenders or the Borrower, except as to money or securities received by it or its authorized agents, for the negligence or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care.

(c) Neither the Agent nor any of its officers, directors, employees or agents shall be liable to any Lender for any action taken or omitted by it or any of them under this Agreement or under any of the other Loan Documents, or in connection herewith or therewith, except that no Person shall be relieved of any liability imposed by law, intentional tort or gross negligence. The Agent shall not be responsible to any Lender for any recitals, statements, representations or warranties contained in this Agreement or for the execution, effectiveness, genuineness, validity, enforceability, collectability, or sufficiency of this Agreement or any of the other Loan Documents or any of the transactions contemplated thereby, or for the financial condition of any of the Borrowers. The Agent shall not be required to make any inquiry concerning either the performance or observance of any of the terms, provisions or conditions of this Agreement or any of the other Loan Documents or the financial condition of any of the Borrowers, or the existence or possible existence of any Default or Event of Default. Agent shall give Lender notice of any Default or Event of Default of which Agent has actual notice. The Agent may at any time request instructions from the Lenders with respect to any actions or approvals which by the terms of this Agreement or of any of the other Loan Documents the Agent is permitted or required to take or to grant, and if such instructions are promptly requested, the Agent shall be absolutely entitled to refrain from taking any action or to withhold any approval and shall not be under any liability whatsoever to any Person for refraining from any action or withholding any approval under any of the Loan Documents until it shall have received such instructions from the Majority in Interest. Without limiting the foregoing, no Lender shall have any right of action whatsoever against the Agent as a result of the Agent acting or refraining from acting under this Agreement or any of the other Loan Documents in accordance with the instructions of the Majority in Interest.

(d) The Agent shall be entitled to rely upon any written notices, statements, certificates, orders or other documents or any telephone message believed by it in good faith to be genuine and correct and to have been signed, sent or made by the proper Person, and with respect to all matters pertaining to this Agreement or any of the other Loan Documents and its duties hereunder or thereunder, upon advice of counsel selected by it.

(e) To the extent that the Agent is not reimbursed and indemnified by the Borrowers, the Lenders will reimburse and indemnify the Agent for and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, advances or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of this Agreement or any of the other Loan Documents or any action taken or omitted by the Agent under this Agreement or any of the other Loan Documents, in proportion to each Lender's pro rata share. The obligations of the Lenders under this indemnification provision shall survive the payment in full of the Loans and the termination of this Agreement.

(f) (i) The Agent is hereby authorized by each of the Borrowers and the Lenders, from time to time, before or after the occurrence of an Event of Default, to make such disbursements and advances ("Agent Advances") pursuant to this Agreement and the other Loan Documents which the Agent, in its sole discretion, deems necessary or desirable to preserve or protect the collateral, or any portion thereof, in order to enhance the likelihood of, or maximize the amount of, repayment by the Borrowers, or any guarantor or other Person, of the Loans and other Obligations or to pay any other amount chargeable to

any of the Borrowers pursuant to the terms of this Agreement, including, without limitation, costs, fees and expenses. The Agent Advances shall be repayable on demand and be secured by the collateral.

(ii) If and so long as the Loan is secured or the Lender is a beneficiary of any security agreement or pledge, the Lenders hereby irrevocably authorize the Agent, at its option and in its discretion, to release any Lien granted to or held by the Agent for the benefit of the secured creditors upon any collateral (A) upon termination of the commitments and payments and satisfaction of all Loans, (whether or not due) and all other Obligations which have matured and which the Agent has been notified in writing are then due and payable, (B) constituting property being sold or disposed of if the applicable Borrower certifies to the Agent that the sale or disposition is made in compliance with this Agreement (and the Agent may rely conclusively on any such certificate, without further inquiry); (C) constituting property in which none of the Borrowers owned any interest at the time the Lien was granted or at any time thereafter; (D) constituting property leased to any of the Borrowers under a lease which has expired or been terminated in a transaction permitted under this Agreement or which will expire imminently and which has not been, and is not intended by such Borrower to be, renewed or extended; or (E) if approved, authorized or ratified in writing by the Majority in Interest. Upon request by the Agent or each of the Borrowers at any time, the Lenders will confirm in writing the Agent's authority to release any Lien granted to or held by the Agent, for the benefit of the secured creditors, upon particular types or items of collateral pursuant to this section.

(iii) So long as no Event of Default has occurred and is then continuing, upon receipt by the Agent of confirmation from the Majority in Interest of its authority to release any Lien granted to or held by the Agent, for the benefit of the secured creditors, upon particular types or items of collateral, and upon at least five (5) business days prior written request by each of the Borrowers, the Agent shall (and is hereby irrevocably authorized by the Lenders to) execute such documents as may be necessary to evidence the release of the Liens granted to the Agent, for the benefit of the secured creditors, herein or pursuant hereto upon such collateral; provided, however, that the Agent (i) shall not be required to execute any such document on terms which, in the Agent's opinion, would expose the Agent to liability or create any obligation or entail any consequence other than the release and (ii) shall not in any manner discharge, affect or impair the Obligations or any Liens (other than those expressly being released) upon (or obligations of any of the Borrowers in respect of) all interests retained by any Borrower, including (without limitation) the proceeds of any sale, all of which shall continue to constitute part of the collateral.

(iv) The Agent shall have no obligation whatsoever to any Lender to assure that the collateral exists or is owned by any Borrower or is cared for, protected or insured or has been encumbered or that the Liens granted to the Agent, for the benefit of the secured creditors, herein or pursuant hereto have been properly or sufficiently or lawfully created, perfected, protected or enforced or are entitled to any particular priority, or to exercise at all or in any particular manner or under any duty or care, disclosure or fidelity, or to continue exercising, any of the rights, authorities and powers granted or available to the pursuant to this section or pursuant to any of the Loan Documents, it being understood and agreed that in respect of the collateral, or any act, omission or event related thereto, the Agent may act in any manner it may deem appropriate, in its sole discretion, given the Agent's own interest in the collateral in its capacity as one of the Lenders and that the Agent shall have no duty or liability whatsoever to any Lender as to any of the foregoing.

ARTICLE XII - MISCELLANEOUS

SECTION 12.01. STRICT COMPLIANCE.

(a) Any waiver by Lender of any breach or any term or condition of this Agreement or the other Loan Documents shall not be deemed a waiver of any other breach, nor shall any failure to enforce any provision of this Agreement or the other Loan Documents operate as a waiver of such provision or of any other provision, nor constitute nor be deemed a waiver or release of the Borrower for anything arising out of, connected with or based upon this Agreement or the other Loan Documents.

SECTION 12.02. WAIVERS AND MODIFICATIONS.

(a) All modifications, consents, amendments or waivers (herein "Waivers") of any provision of this Agreement, the Debentures or any other Loan Documents, and any consent to departure therefrom, shall be effective only if the same shall be in writing by Lender and then shall be effective only in the specific instance and for the purpose for which given. No notice or demand given in any case shall constitute a waiver of the right to take other action in the same, similar or other instances without such notice or demand. No failure to exercise, and no delay in exercising, on the part of Lender, any right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right. The rights of Lender hereunder and under the other Loan Documents shall be in addition to all other rights provided by law.

SECTION 12.03. LENDER LIABILITY.

(a) The duties, warranties, covenants and promises arising from the Loan Documents of each Lender to Borrower shall be several and not joint, and the Borrower shall have no legal or equitable cause of action against one Lender (or its successors or assigns) for any liability of the other Lender (or its successors or assigns)

SECTION 12.03. NOTICES.

(a) Any notices or other communications required or permitted to be given by this Agreement or any other documents and instruments referred to herein must be (i) given in writing and personally delivered, mailed by prepaid certified, registered mail or sent by overnight service such as Federal Express, or (ii) made by telex or facsimile transmission delivered or transmitted to the party to whom such notice or communication is directed, with confirmation thereupon given in writing and personally delivered or mailed by prepaid certified or registered mail.

(b) Any notice to be mailed, sent or personally delivered shall be mailed or delivered to the principal offices of the party to whom such notice is addressed, as that address is specified herein on the signature page hereof. Any such notice or other communication shall be deemed to have been given (whether actually received or not) on the day it is mailed, postage prepaid, or sent by overnight service or personally delivered or, if transmitted by telex or facsimile transmission, on the day that such notice is transmitted; provided, however, that any notice by telex or facsimile transmission, received by any Borrower or Lender after 4:00 p.m., Standard Time at the recipient's address, on any day, shall be deemed to have been given on the next succeeding day. Any party may change its address for purposes of this Agreement by giving notice of such change to the other parties pursuant to this Section 12.03.

SECTION 12.04. CHOICE OF FORUM; CONSENT TO SERVICE OF PROCESS AND JURISDICTION.

(a) Any suit, action or proceeding against the Borrower with respect to this Agreement, the Debentures or any judgment entered by any court in respect thereof, may be brought in the courts of the State of Texas, County of Dallas, or in the United States courts located in the State of Texas as Lender in its sole discretion may elect, and Borrower hereby submits to the non-exclusive jurisdiction of such courts for the purpose of any such suit, action or proceeding. Borrower hereby agrees that service of all writs, process and summonses in any such suit, action or proceeding brought in the State of Texas may be brought upon, and Borrower hereby irrevocably appoints, the CT Corporation, Dallas, Texas, as its true and lawful attorney-in-fact in the name, place and stead of Borrower to accept such service of any and all such writs, process and summonses. Borrower hereby irrevocably waives any objections which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or any Debenture brought in the courts located in the State of Texas, County of Dallas, and hereby further irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in any inconvenient forum.

SECTION 12.05. ARBITRATION

(a) Upon the demand of the Lender or Borrower (collectively the "parties"), made before the institution of any judicial proceeding or not more than 60 days after service of a complaint, third party

complaint, cross-claim or counterclaim or any answer thereto or any amendment to any of the above, any Dispute (as defined below) shall be resolved by binding arbitration in accordance with the terms of this arbitration clause. A "Dispute" shall include any action, dispute, claim, or controversy of any kind, whether founded in contract, tort, statutory or common law, equity, or otherwise, now existing or hereafter occurring between the parties arising out of, pertaining to or in connection with this Agreement, any document evidencing, creating, governing, or securing any indebtedness guaranteed pursuant to the terms hereof, or any related agreements, documents, or instruments (the "Documents"). The parties understand that by this Agreement they have decided that the Disputes may be submitted to arbitration rather than being decided through litigation in court before a judge or jury and that once decided by an arbitrator the claims involved cannot later be brought, filed, or pursued in court. IF BORROWER SHALL FAIL TO PAY (OR SHALL STATE IN WRITING AN INTENTION NOT TO PAY OR ITS INABILITY TO PAY), NOT LATER THAN TEN (10) DAYS AFTER THE DUE DATE, ANY INSTALLMENT OF INTEREST ON OR PRINCIPAL OF, ANY DEBENTURE OR ANY FEE, EXPENSE OR OTHER PAYMENT REQUIRED HEREUNDER, LENDER MAY, AT ITS SOLE OPTION, ENFORCE ITS RIGHTS OUTSIDE THE ARBITRATION PROVISION FOUND IN THIS SECTION 12.05 OR ANY DEBENTURE.

(b) Arbitrations conducted pursuant to this Agreement, including selection of arbitrators, shall be administered by the American Arbitration Association ("Administrator") pursuant to the Commercial Arbitration rules of the Administrator. Arbitrations conducted pursuant to the terms hereof shall be governed by the provisions of the Federal Arbitration Act (Title 9 of the United States Code), and to the extent the foregoing are inapplicable, unenforceable or invalid, the laws of the State of Texas. Judgment upon any award rendered hereunder may be entered in any court having jurisdiction; provided, however, that nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. 91 or similar governing state law. Any party who fails to submit to binding arbitration following a lawful demand by the opposing party shall bear all costs and expenses, including reasonable attorney's fees, incurred by the opposing party in compelling arbitration of any Dispute.

(c) No provision of, nor the exercise of any rights under, this arbitration clause shall limit the right of any party to (i) foreclose against any real or personal property collateral or other security, (ii) exercise self-help remedies (including repossession and setoff rights) or (iii) obtain provisional or ancillary remedies such as injunctive relief, sequestration, attachment, replevin, garnishment, or the appointment of a receiver from a court having jurisdiction. Such rights can be exercised at any time except to the extent such action is contrary to a final award or decision in any arbitration proceeding. The institution and maintenance of an action as described above shall not constitute a waiver of the right of any party, including the plaintiff, to submit the Dispute to arbitration, nor render inapplicable the compulsory arbitration provisions hereof. Any claim or Dispute related to exercise of any self-help, auxiliary or other exercise of rights under this section shall be a Dispute hereunder.

(d) Arbitrator(s) shall resolve all Disputes in accordance with the applicable substantive law of the State of Texas. Arbitrator(s) may make an award of attorneys' fees and expenses if permitted by law or the agreement of the parties. All statutes of limitation applicable to any Dispute shall apply to any proceeding in accordance with this arbitration clause. Any arbitrator selected to act as the only arbitrator in a Dispute shall be required to be a practicing attorney with not less than 5 years practice in commercial law in the State of Texas. With respect to a Dispute in which the claims or amounts in controversy do not exceed five hundred thousand dollars (\$500,000), a single arbitrator shall be chosen and shall resolve the Dispute. In such case the arbitrator shall have authority to render an award up to but not to exceed five hundred thousand dollars (\$500,000) including all damages of any kind whatsoever, costs, fees and expenses. Submission to a single arbitrator shall be a waiver of all parties' claims to recover more than five hundred thousand dollars (\$500,000). A Dispute involving claims or amounts in controversy exceeding five hundred thousand dollars (\$500,000) shall be decided by a majority vote of a panel of three arbitrators ("Arbitration Panel"), one of whom must possess the qualifications to sit as a single arbitrator in a Dispute decided by one arbitrator. If the arbitration is consolidated with one conducted pursuant to the terms of an agreement between the Lender and the

Borrower related to the indebtedness guaranteed, then the Arbitration Panel shall be one which meets the criteria set forth between the Lender and Borrower. Arbitrator(s) may, in the exercise of their discretion, at the written request of a party, (i) consolidate in a single proceeding any multiple party claims that are substantially identical and all claims arising out of a single loan or series of loans including claims by or against borrower(s), guarantors, sureties and/or owners of collateral if different from the Borrower, and (ii) administer multiple arbitration claims as class actions in accordance with Rule 23 of the Federal Rules of Civil Procedure. The arbitrator(s) shall be empowered to resolve any dispute regarding the terms of this Agreement or the arbitrability of any Dispute or any claim that all or any part (including this provision) is void or voidable but shall have no power to change or alter the terms of this Agreement. The award of the arbitrator(s) shall be in writing and shall specify the factual and legal basis for the award.

(e) To the maximum extent practicable, the Administrator, the arbitrator(s) and the parties shall take any action necessary to require that an arbitration proceeding hereunder be concluded within 180 days of the filing of the Dispute with the Administrator. The arbitrator(s) shall be empowered to impose sanctions for any party's failure to proceed within the times established herein. Arbitration proceedings hereunder shall be conducted in Texas at a location determined by the Administrator. In any such proceeding a party shall state as a counterclaim any claim which arises out of the transaction or occurrence or is in any way related to the Documents which does not require the presence of a third party which could not be joined as a party in the proceeding. The provisions of this arbitration clause shall survive any termination, amendment, or expiration of the Documents and repayment in full of sums owed to Lender by Borrower unless the parties otherwise expressly agree in writing. Each party agrees to keep all Disputes and arbitration proceedings strictly confidential, except for disclosures of information required in the ordinary course of business of the parties or as required by applicable law or regulation.

SECTION 12.06. INVALID PROVISIONS.

(a) If any provision of any Loan Document is held to be illegal, invalid or unenforceable under present or future laws during the term of this Agreement, such provision shall be fully severable; such Loan Document shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part of such Loan Document; and the remaining provisions of such Loan Document shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance from such Loan Document. Furthermore, in lieu of each such illegal, invalid or unenforceable provision shall be added as part of such Loan Document a provision mutually agreeable to Borrower and Lender as similar in terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable. In the event Borrower and Lender are unable to agree upon a provision to be added to the Loan Document within a period of ten (10) business days after a provision of the Loan Document is held to be illegal, invalid or unenforceable, then a provision acceptable to independent arbitrators, such to be selected in accordance with the provisions of the American Arbitration Association, as similar in terms to the illegal, invalid or unenforceable provision as is possible and be legal, valid and enforceable shall be added automatically to such Loan Document. In either case, the effective date of the added provision shall be the date upon which the prior provision was held to be illegal, invalid or unenforceable.

SECTION 12.07. MAXIMUM INTEREST RATE.

(a) Regardless of any provision contained in any of the Loan Documents, Lender shall never be entitled to receive, collect or apply as interest on the Debentures any amount in excess of interest calculated at the Maximum Rate, and, in the event that any Lender ever receives, collects or applies as interest any such excess, the amount which would be excessive interest shall be deemed to be a partial prepayment of principal and treated hereunder as such; and, if the principal amount of the Obligation is paid in full, any remaining excess shall forthwith be paid to Borrower. In determining whether or not the interest paid or payable under any specific contingency exceeds interest calculated at the Maximum Rate,

Borrower and Lender shall, to the maximum extent permitted under applicable law, (i) characterize any non-principal payment as an expense, fee or premium rather than as interest; (ii) exclude voluntary prepayments and the effects thereof, and (iii) amortize, pro rate, allocate and spread, in equal parts, the total amount of interest throughout the entire contemplated term of the Debentures; provided that, if the Debentures are paid and performed in full prior to the end of the full contemplated term thereof, and if the interest received for the actual period of existence thereof exceeds interest calculated at the Maximum Rate, Lender shall refund to Borrower the amount of such excess or credit the amount of such excess against the principal amount of the Debentures and, in such event, Lender shall not be subject to any penalties provided by any laws for contracting for, charging, taking, reserving or receiving interest in excess of interest calculated at the Maximum Rate.

(b) "Maximum Rate" shall mean, on any day, the highest nonusurious rate of interest (if any) permitted by applicable law on such day that at any time, or from time to time, may be contracted for, taken, reserved, charged or received on the Indebtedness evidenced by the Debentures under the laws which are presently in effect of the United States of America and the State of Texas or by the laws of any other jurisdiction which are or may be applicable to the holders of the Debentures and such Indebtedness or, to the extent permitted by law, under such applicable laws of the United States of America and the State of Texas or by the laws of any other jurisdiction which are or may be applicable to the holder of the Debentures and which may hereafter be in effect and which allow a higher maximum nonusurious interest rate than applicable laws now allow.

SECTION 12.08. PARTICIPATIONS AND ASSIGNMENTS OF THE DEBENTURES.

(a) The Lender shall have the right to enter into a participation agreement with any other party with respect to the Debentures, or to sell all or any part of the Debentures, but any participation or sale shall not affect the rights and duties of such Lender hereunder vis-à-vis Borrower. In the event that all or any portion of the Loan shall be, at any time, assigned, transferred or conveyed to other parties, any action, consent or waiver (except for compromise or extension of maturity), to be given or taken by Lender hereunder (herein "Action"), shall be such action as taken by the holders of a majority in amount of the Principal Amount of the Debentures then outstanding, as such holders are recorded on the books of the Borrower and represented by Lender's Agent as described in subsection (b) below.

(b) Assignment or sale of the Debentures shall be effective, on the books of the Borrower only upon (i) endorsement of the Debenture, or part thereof, to the proposed new holder, along with a current notation of the amount of payments or installments received and net Principal Amount yet unfunded or unpaid, and presentment of such Debenture to the Borrower for issue of a replacement Debenture, or Debentures, in the name of the new holder; (ii) a designation by the holders of a single Lender's Agent for Notice, such agent to be the sole party to whom Borrower shall be required to provide notice when notice to Lender is required hereunder and who shall be the sole party authorized to represent Lender in regard to modification or waivers under the Debenture, the Agreement, or other Loan Documents; and (iii) delivery of an opinion of counsel, reasonably satisfactory to Borrower, that transfer shall not require registration or qualification under applicable state or federal securities laws.

(c) So long as the Borrower is not in default hereunder, the Lender shall not sell or assign an interest in the Debentures or rights under the Agreement to any Person that the Borrower reasonably identifies to Lender as being engaged as a competitor.

SECTION 12.09 CONFIDENTIALITY.

(a) All financial reports or information which are furnished to Lender, or its Director designee or other representatives, pursuant to this Agreement or pursuant to the Debentures or other Loan Documents shall be treated as confidential unless and to the extent that such information has been otherwise disclosed by the Borrower, but nothing herein contained shall limit or impair Lender's right to disclose such reports to any appropriate Governmental Authority, or to use such information to the extent pertinent to an evaluation of the Obligation, or to enforce compliance with the terms and conditions of

this Agreement, or to take any lawful action which Lender deems necessary to protect its interests under this Agreement.

(b) Lender, its director designees, and agents shall use their reasonable best efforts to protect and preserve the confidentiality of such information except for such disclosure as shall be required for compliance by Lender or its director designees with SEC reporting requirements or otherwise as a matter of law. The provisions of Section 5.01 notwithstanding, Borrower may refuse to provide information as required pursuant thereto to an assignee or successor in interest to the Lender unless and until such assignee or successor shall have executed an agreement to maintain the confidentiality of the information as provided herein.

SECTION 12.10. BINDING EFFECT.

(a) The Loan Documents shall be binding upon and inure to the benefit of Borrower and Lender and their respective successors, assigns and legal representatives; provided, however, that Borrower may not, without the prior written consent of Lender, assign any rights, powers, duties or obligations thereunder.

SECTION 12.11. NO THIRD PARTY BENEFICIARY.

(a) The parties do not intend the benefits of this Agreement to inure to any third party, nor shall this Agreement be construed to make or render Lender liable to any materialman, supplier, contractor, subcontractor, purchaser or lessee of any property owned by Borrower, or for debts or claims accruing to any such persons against Borrower. Notwithstanding anything contained herein or in the Debentures, or in any other Loan Document, no conduct by any or all of the parties hereto, before or after signing this Agreement nor any other Loan Document, shall be construed as creating any right, claim or cause of action against Lender, or any of its officers, directors, agents or employees, in favor of any materialman, supplier, contractor, subcontractor, purchaser or lessee of any property owned by Borrower, nor to any other person or entity other than Borrower.

SECTION 12.12. ENTIRETY.

(a) This Agreement and the Debentures and the other Loan Documents issued pursuant thereto contain the entire agreement between the parties and supersede all prior agreements and understandings, if any, relating to the subject matter hereof and thereof.

SECTION 12.13. HEADINGS.

(a) Section headings are for convenience of reference only and, except as a means of identification of reference, shall in no way affect the interpretation of this Agreement.

SECTION 12.14. SURVIVAL.

(a) All representations and warranties made by Borrower herein shall survive delivery of the Debentures and the making of the Loans.

SECTION 12.15. MULTIPLE COUNTERPARTS.

(a) This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart.

SECTION 12.16. GOVERNING LAW.

(a) THIS LOAN AGREEMENT HAS BEEN PREPARED, IS BEING EXECUTED AND DELIVERED, AND IS INTENDED TO BE PERFORMED IN THE STATE OF TEXAS, AND THE SUBSTANTIVE LAWS OF SUCH STATE AND THE APPLICABLE FEDERAL LAWS OF THE UNITED STATES OF AMERICA SHALL GOVERN THE VALIDITY, CONSTRUCTION, ENFORCEMENT AND INTERPRETATION OF THIS LOAN AGREEMENT AND ALL OF THE OTHER LOAN DOCUMENTS.

SECTION 12.17 REFERENCE TO BORROWER.

(a) The term Borrower shall mean JAKKS Pacific, Inc. where the context of the agreement makes such other reference appropriate.

IN WITNESS WHEREOF, the undersigned has caused this Agreement to be executed, sealed, and delivered, as of the day and year first above written.

Address for Notice:
24955 Pacific Coast Highway
#B202
Malibu, CA 90265
Phone (310) 458-7799
Fax (310) 317-8527

BORROWER

JAKKS PACIFIC, INC.

By: _____
Jack Friedman, President

Attest by: _____
Title Secretary

LENDER

Address for Notice:
8080 North Central Expressway,
Suite 210/LB59
Dallas, Texas 75206
Phone (214) 891 8294
Fax: (214) 891-8200

Renaissance US Growth & Income Trust PLC

By: _____
Vance M. Arnold, Executive Vice President

Attest by: _____
Title: Secretary

LENDER

Address for Notice:
8080 North Central Expressway,
Suite 210/LB59
Dallas, Texas 75206
Phone (214) 891 8294
Fax: (214) 891-8200

Renaissance Capital Growth & Income Fund III, Inc.

By: _____
Vance M. Arnold, Executive Vice President

Attest by: _____
Title: Secretary

J-X Enterprises, Inc., a New York corporation

JP (HK) Ltd., a Hong Kong corporation

JAXXS (HR) Ltd., a Hong Kong corporation

JAKKS Acquisition Corp., a Delaware corporation

CONSENT OF PANNELL KERR FORSTER

We hereby consent to the inclusion in the Registration Statement on Form SB-2 of JAKKS Pacific, Inc. of our report dated January 23, 1997, except for note 15, for which the date is February 6, 1997, on our audits of the consolidated financial statements of JAKKS Pacific, Inc. as of December 31, 1996 and 1995, and for the year and nine months then ended.

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

/s/ PANNELL KERR FORSTER

PANNELL KERR FORSTER
Certified Public Accountants
A Professional Corporation

Los Angeles, California
February 28, 1997

CONSENT OF PANNELL KERR FORSTER PC

We hereby consent to the inclusion in the Registration Statement on Form SB-2 of JAKKS Pacific, Inc. of our report dated February 12, 1997 on our audit of the combined financial statements of Road Champs, Inc. and Subsidiary and Die Cast Associates, Inc. as of December 31, 1996 and December 31, 1995 and for the years then ended.

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

/s/ PANNELL KERR FORSTER PC

PANNELL KERR FORSTER PC

New York, New York
February 28, 1997

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	JAN-01-1996
	DEC-31-1996
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