

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1999

OR

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

Commission file number: 0-28104

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

Delaware
(State or other jurisdiction of incorporation or organization)

95-4527222
(I.R.S. Employer Identification No.)

22761 Pacific Coast Highway
Malibu, California
(Address of principal executive offices)

90265
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

The number of shares outstanding of the issuer's common stock is 10,683,378 (as of August 9, 1999).

JAKKS PACIFIC, INC. AND SUBSIDIARIES  
INDEX TO QUARTERLY REPORT ON FORM 10-Q  
QUARTER ENDED JUNE 30, 1999

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheet  
June 30, 1999 (Unaudited)

## ASSETS

Current assets	
Cash and cash equivalents	\$ 64,236,214
Accounts receivable, net	21,864,336
Inventory, net	7,485,157
Prepaid expenses and other current assets	1,475,611
	-----
Total current assets	95,061,318
	-----
Property and equipment, at cost	10,404,438
Less accumulated depreciation and amortization	3,158,305
	-----
Property and equipment, net	7,246,133
	-----
Goodwill, net	14,469,093
Trademarks, net	13,225,307
Investment in joint venture	1,053,852
Other	179,660
	-----
Total assets	\$131,235,363
	=====

## LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities	
Accounts payable and accrued expenses	\$ 14,953,630
Reserve for sales returns and allowances	10,671,082
Income taxes payable	2,617,582
	-----
Total current liabilities	28,242,294
	-----
Deferred income taxes	17,455
	-----
Total liabilities	28,259,749
	-----
Commitments	
Stockholders' equity	
Preferred stock, \$.001 par value; 1,000,000 shares authorized, no shares issued	--
Common stock, \$.001 par value; 25,000,000 shares authorized; 10,665,670 shares issued and outstanding	10,665
Additional paid-in capital	87,296,219
Retained earnings	15,700,296
	-----
	103,007,180
Less unearned compensation from grant of options	31,566
	-----
Net stockholders' equity	102,975,614
	-----
Total liabilities and stockholders' equity	\$131,235,363
	=====

See accompanying notes to condensed consolidated financial statements.

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations  
For the Three and Six Months Ended June 30, 1998 and 1999 (Unaudited)

	Three Months Ended June 30, 1998	Six Months Ended June 30, 1999	Three Months Ended June 30, 1998	Six Months Ended June 30, 1999
Net sales	\$16,131,480	\$35,981,209	\$27,161,251	\$60,941,501
Cost of sales	10,013,122	21,332,316	16,693,025	35,528,848
	-----	-----	-----	-----
Gross profit	6,118,358	14,648,893	10,468,226	25,412,653
Selling, general and administrative expenses	4,692,019	10,424,163	8,274,028	18,444,588
	-----	-----	-----	-----
Income from operations	1,426,339	4,224,730	2,194,198	6,968,065
Other (income) and expense:				
Interest income	(42,005)	(398,385)	(51,049)	(530,851)
Interest expense	152,647	36,576	319,430	169,727
	-----	-----	-----	-----
Income before provision for income taxes	1,315,697	4,586,539	1,925,817	7,329,189
Provision for income taxes	357,732	1,231,602	505,991	1,969,055
	-----	-----	-----	-----
Net income	\$ 957,965	\$ 3,354,937	\$ 1,419,826	\$ 5,360,134
	=====	=====	=====	=====
Net income per share - basic	\$ 0.16	\$ 0.37	\$ 0.26	\$ 0.66
	=====	=====	=====	=====
Net income per share - diluted	\$ 0.14	\$ 0.32	\$ 0.22	\$ 0.58
	=====	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows  
For the Six Months Ended June 30, 1998 and 1999 (Unaudited)

	Six Months Ended June 30, 1998	1999
Cash flows from operating activities:		
Net income	\$ 1,419,826	\$ 5,360,134
	-----	-----
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,368,509	1,469,549
Change in accounts receivable	(3,072,401)	(9,937,611)
Change in inventory	(828,730)	(4,566,216)
Change in accounts payable and accrued expenses	1,259,081	13,405,187
Net change in other operating assets and liabilities	(613,882)	(267,714)
	-----	-----
Total adjustments	(1,887,423)	103,195
	-----	-----
Net cash provided (used) by operating activities	(467,597)	5,463,329
	-----	-----
Cash flows from investing activities:		
Purchase of property and equipment	(1,793,792)	(3,816,830)
Investment in joint venture	(1,000,000)	(53,852)
Acquisition cost of trademarks	(12,252)	--
Cash paid in excess of fair value of toy business assets acquired (goodwill)	--	(4,320,501)
(Increase) decrease in other assets	(168,158)	310,276
	-----	-----
Net cash used by investing activities	(2,974,202)	(7,880,907)
	-----	-----
Cash flows from financing activities:		
Repayment of bank debt	(114,700)	--
Repayment of acquisition debt	(1,766,376)	--
Proceeds from sale of common stock	--	51,898,066
Proceeds from sale of convertible preferred stock	4,787,761	--
Dividends paid on convertible preferred stock	--	(437,500)
Proceeds from warrants and stock options exercised	113,817	2,741,025
	-----	-----
Net cash provided by financing activities	3,020,502	54,201,591
	-----	-----
Net increase (decrease) in cash and cash equivalents	(421,297)	51,784,013
Cash and cash equivalents, beginning of period	2,535,925	12,452,201
	-----	-----
Cash and cash equivalents, end of period	\$ 2,114,628	\$64,236,214
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	\$ 259,757	\$ 897,486
	=====	=====
Interest	\$ 357,037	\$ 169,727
	=====	=====

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

See accompanying notes to condensed consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 1999

Note 1 - Basis of presentation

The accompanying 1998 and 1999 unaudited interim condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to prevent the information presented from being misleading. These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Form 10-KSB, which contains financial information for the years ended December 31, 1996, 1997 and 1998.

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

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries.

Basic earnings per share has been computed using the weighted average number of common shares. Diluted earnings per share has been computed using the weighted average number of common shares and common share equivalents (which consist of warrants, options and convertible securities, to the extent they are dilutive).

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)  
June 30, 1999

## Note 2 -- Earnings per share

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

	THREE MONTHS ENDED JUNE 30,					
	1998			1999		
	INCOME	WEIGHTED AVERAGE SHARES	PER-SHARE	INCOME	WEIGHTED AVERAGE SHARES	PER-SHARE
Net income per share - basic						
Net income.....	\$957,965			\$3,354,937		
Preferred stock dividends....	--			(87,500)		
Net income available to common stockholders.....	\$957,965	5,882,658	\$0.16	\$3,267,437	8,829,339	\$0.37
Effect of dilutive securities						
Options and warrants.....	--	301,206		--	905,703	
9% convertible debentures....	93,183	1,043,478		23,684	217,390	
7% convertible preferred stock.....	--	558,658		87,500	535,071	
Net income per share - diluted						
Income available to common stockholders plus assumed exercises and conversions...	\$1,051,148	7,786,000	\$0.14	\$3,378,621	10,487,503	\$0.32

	SIX MONTHS ENDED JUNE 30,					
	1998			1999		
	INCOME	WEIGHTED AVERAGE SHARES	PER-SHARE	INCOME	WEIGHTED AVERAGE SHARES	PER-SHARE
Net income per share - basic						
Net income.....	\$1,419,826			\$5,360,134		
Preferred stock dividends....	--			(437,500)		
Net income available to common stockholders.....	\$1,419,826	5,423,223	\$0.26	\$4,922,634	7,473,894	\$0.66
Effect of dilutive securities						
Options and warrants.....	--	216,415		--	762,040	
9% convertible debentures....	186,366	1,043,478		116,867	628,985	
4% convertible preferred stock.....	--	459,555		--	--	
7% convertible preferred stock.....	--	279,329		437,500	546,864	
Net income per share - diluted						
Income available to common stockholders plus assumed exercises and conversions...	\$1,606,192	7,422,000	\$0.22	\$5,477,001	9,411,783	\$0.58

## Note 3 -- Preferred stock and common stock

In May 1999, the Company issued and sold 2,666,563 shares of its common stock in a public offering and received \$51.9 million of net proceeds.

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

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

In March and April, 1999, the holders of \$6.0 million principal amount of the Company's 9% convertible debentures converted all such debentures into an aggregate of 1,043,479 shares of the Company's common stock.

In June 1999, all 1,000 outstanding shares of 7% cumulative convertible preferred stock with a total stockholders' equity value of \$4,731,152 were converted into an aggregate of 558,658 shares of the Company's common stock.



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

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

## OVERVIEW

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

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

We acquired Road Champs in February 1997, and have included the results of operations of Road Champs from February 1, 1997, the effective date of the acquisition. We acquired the Child Guidance and Remco trademarks in October 1997, both of which contributed to operations nominally in 1997, but contributed more significantly to operations commencing in 1998. In June 1999, we acquired Berk Corporation with its lines of educational toy foam puzzle mats and activity sets. We expect Berk to contribute modestly beginning in the third quarter of 1999.

Our products currently include (1) toys and action figures featuring licensed characters, including popular wrestling characters under our World Wrestling Federation license, (2) die-cast collectible and toy vehicles marketed under our Road Champs and Remco brand names, (3) pre-school electronic toys marketed under our Child Guidance brand name, (4) educational toy foam puzzles, mats and activity sets, and (5) fashion dolls and related accessories.

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

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

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

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

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

Selling, general and administrative expenses include costs directly associated with the selling process, such as sales commissions, advertising and travel expenses, as well as general corporate expenses, goodwill and trademark amortization and product development. We have recorded goodwill of approximately \$15.3 million and trademarks of approximately \$14.4 million in connection with acquisitions made to date. Goodwill is being amortized over a 30-year period, while trademark acquisition costs are being amortized over periods ranging from 10 to 30 years.

#### RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1998	1999	1998	1999
Net sales.....	100.0%	100.0%	100.0%	100.0%
Cost of sales.....	62.1	59.3	61.5	58.3
Gross profit.....	37.9	40.7	38.5	41.7
Selling, general and administrative expenses.....	29.1	29.0	30.4	30.3
Income from operations.....	8.8	11.7	8.1	11.4
Interest, net.....	(0.7)	1.0	(1.0)	0.6
Income before income taxes.....	8.1	12.7	7.1	12.0
Provision for income taxes.....	2.2	3.4	1.9	3.2
Net income.....	5.9%	9.3%	5.2%	8.8%

#### THREE MONTHS ENDED JUNE 30, 1999 AND 1998

Net Sales. Net sales increased \$19.9 million, or 123%, to \$36.0 million in 1999 from \$16.1 million in 1998. The significant growth in net sales was due primarily to the continuing growth of the World Wrestling Federation product line with its expanded product offerings in the action figures and accessories categories and frequent character releases, as well as to increasing sales of Child Guidance pre-school toys and fashion and holiday dolls. Contributions made by sales of Road Champs die-cast toy and collectible vehicles and Remco toy vehicles were comparable with the prior year.

Gross Profit. Gross profit increased \$8.5 million, or 139%, to \$14.6 million in 1999, or 40.7% of net sales, from \$6.1 million, or 37.9% of net sales, in 1998. The overall increase in gross profit was attributable to the significant increase in net sales. The increase in the gross profit margin of 2.8% of net sales was due in part to the changing product mix, which included products, such as World Wrestling Federation action figures, with higher margins than some of our other products, and the amortization expense of molds and tools used in the manufacture of our products, which decreased on a percentage basis due to the fixed nature of these costs. The higher margin resulting from lower product costs was offset in part by higher royalties.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$5.7 million, or 122%, to \$10.4 million, or 29.0% of net sales, in 1999, from \$4.7 million, or 29.1% of net sales, in 1998. Selling, general and administrative expenses decreased nominally as a percentage of net sales due in part to the fixed nature of certain of these expenses, which were offset in part by increases in advertising expenses and product development costs of our various products in 1999. The overall dollar increase of \$5.7 million was due to the significant increase in net sales with their proportionate impact on variable selling costs, such as freight and shipping related expenses, sales commissions, cooperative advertising and travel expenses. We produced television commercials in support of several of our products, including World Wrestling Federation action figures, in 1998 and 1999. From time to time, we may increase our advertising efforts, including the use of more expensive advertising media, such as television, if we deem it appropriate for particular products.

Interest, Net. We had significantly lower interest-bearing obligations in 1999 than in 1998 with the conversion of our 9% convertible debentures in 1999. In addition, we had significantly higher average cash balances during 1999 than in 1998 due to the net proceeds from the sale of our common stock in May 1999.

Provision for Income Taxes. Provision for income taxes included Federal, state and foreign income taxes in 1998 and 1999, at effective tax rates of 27.2% in 1998 and 26.9% in 1999, benefiting from a flat 16.5% Hong Kong Corporation Tax on our income arising in, or derived from, Hong Kong. As of December 31, 1998, we had deferred tax assets of approximately \$493,000 for which no allowance has been provided since, in the opinion of management, realization of the future benefit is probable. In making this determination, management considered all available evidence, both positive and negative, as well as the weight and importance given to such evidence.

#### SIX MONTHS ENDED JUNE 30, 1999 AND 1998

Net Sales. Net sales increased \$33.8 million, or 124%, to \$60.9 million in 1999 from \$27.1 million in 1998. The significant growth in net sales was due primarily to the continuing growth of the World Wrestling Federation product line with its expanded product offerings in the action figures and accessories categories and frequent character releases, as well as to increasing sales of Child Guidance pre-school toys and fashion and holiday dolls. Contributions made by sales of Road Champs die-cast toy and collectible vehicles and Remco toy vehicles were comparable with the prior year.

Gross Profit. Gross profit increased \$14.9 million, or 143%, to \$25.4 million in 1999, or 41.7% of net sales, from \$10.5 million, or 38.5% of net sales, in 1998. The overall increase in gross profit was attributable to the significant increase in net sales. The increase in the gross profit margin of 3.2% of net sales was due in part to the changing product mix, which included products, such as World Wrestling Federation action figures, with higher margins than some of our other products, and the amortization expense of molds and tools used in the manufacture of our products, which decreased on a percentage basis due to the fixed nature of these costs. The higher margin resulting from lower product costs was offset in part by higher royalties.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$10.1 million, or 123%, to \$18.4 million, or 30.3% of net sales, in 1999, from \$8.3 million, or 30.4% of net sales, in 1998. Selling, general and administrative expenses decreased nominally as a percentage of net sales due in part to the fixed nature of certain of these expenses, which were offset in part by increases in advertising expenses and product development costs of our various products in 1999. The overall dollar increase of \$10.1 million was due to the significant increase in net sales with their proportionate impact on variable selling costs, such as freight and shipping related expenses, sales commissions, cooperative advertising and travel expenses. We produced television commercials in support of several of our products, including World Wrestling Federation action figures, in 1998 and 1999. From time to time, we may increase our advertising efforts, including the use of more expensive advertising media, such as television, if we deem it appropriate for particular products.

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Provision for Income Taxes. Provision for income taxes included Federal, state and foreign income taxes in 1998 and 1999, at effective tax rates of 26.3% in 1998 and 26.9% in 1999, benefiting from a flat 16.5% Hong Kong Corporation Tax on our income arising in, or derived from, Hong Kong. As of December 31, 1998, we had deferred tax assets of approximately \$493,000 for which no allowance has been provided since, in the opinion of management, realization of the future benefit is probable. In making this determination, management considered all available evidence, both positive and negative, as well as the weight and importance given to such evidence.



## SEASONALITY

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

## LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 1999, we had working capital of \$66.8 million, as compared to \$13.7 million as of December 31, 1998. This increase was primarily attributable to the sale of our common stock in May 1999 as well as to our operating activities.

Operating activities provided net cash of \$5.5 million in 1999 as compared to using net cash of \$0.5 million in 1998. Net cash was provided primarily by net income and non-cash charges, such as depreciation, amortization and recognition of compensation expense for options, as well as a decrease in accounts receivable and increases in operating liabilities, which were offset in part by an increase in inventory. As of June 30, 1999, we had cash and cash equivalents of \$64.2 million.

Our investing activities used net cash of \$7.9 million in 1999, as compared to \$3.0 million in 1998, consisting primarily of the purchase of molds and tooling used in the manufacture of our products in 1999 and 1998 and goodwill acquired in the Berk Acquisition in 1999. As part of our strategy to develop and market new products, we have entered into various character and product licenses with royalties ranging from 1% to 10% payable on net sales of such products. As of June 30, 1999, these agreements required future aggregate minimum guarantees of \$17.2 million, exclusive of \$1.2 million in advances already paid.

Our financing activities provided net cash of \$54.2 million in 1999, consisting primarily of the issuance of common stock pursuant to our public offering in May 1999 and the exercises of options and warrants, partially offset by dividends paid to holders of our Series A Cumulative Convertible Preferred Stock. In 1998, financing activities provided net cash of \$3.0 million, consisting primarily of the issuance of our 7% Series A Convertible Preferred Stock partially offset by the repayment of various notes and other debt issued in connection with our acquisitions in 1997.

In March and April 1999, the holders of \$6.0 million principal amount of our 9.0% convertible debentures converted all such debentures into 1,043,479 shares of our common stock.

In October 1997, we entered into a credit facility agreement with Norwest Bank Minnesota, N.A. which provides our Hong Kong subsidiaries with a working capital line of credit and letters of credit for the purchase of products and the operation of those subsidiaries. The facility, which expired on May 31, 1999, had an overall limit of \$5.0 million, but was subject to other limitations based on advance rates on letters of credit and open accounts receivable. We expect to seek an alternative facility.

In April 1998, we received \$4.7 million in net proceeds from the issuance of shares of our Series A Cumulative Convertible Preferred Stock to two investors in a private placement, which were converted into 558,658 shares of our common stock in June 1999. The use of proceeds was for working capital and general corporate purposes.

In May 1999, we received \$51.9 million in net proceeds from the issuance of shares of our common stock in a public offering.

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

## RECENT ACCOUNTING PRONOUNCEMENTS

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

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

## IMPACT OF THE YEAR 2000

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

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

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

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

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial and commodity market prices and rates. We are exposed to market risk in the areas of changes in United States and international borrowing rates and changes in foreign currency exchange rates. In addition, we are exposed to market risk in certain geographic areas that have experienced or remain vulnerable to an economic downturn, such as China. We purchase substantially all of our inventory from companies in China, and, therefore, we are subject to the risk that such suppliers will be unable to provide inventory at competitive prices. While we believe that, if such an event were to occur we would be able to find alternative sources of inventory at competitive prices, we cannot assure you that we would be able to do so. These exposures are directly related to our normal operating and funding activities. Historically and as of June 30, 1999, we have not used derivative instruments or engaged in hedging activities to minimize our market risk.

## INTEREST RATE RISK

As of June 30, 1999, we do not have any bank loan or other credit facility, nor do we have any outstanding debt securities, and, accordingly, we are not generally subject to any direct risk of loss arising from changes in interest rates.

## FOREIGN CURRENCY RISK

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

## PART II. OTHER INFORMATION

## ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On June 30, 1999, the Company issued a warrant to purchase 111,250 shares of its common stock to Titan Sports, Inc. and a warrant to purchase 13,750 shares of its common stock to Stanley Shenker Associates, Inc. Each warrant is exercisable by the holder thereof at any time until December 31, 2009 to purchase common stock of the Company at an exercise price of \$10.00 per share (subject to adjustment in the event of certain changes to the Company's capital stock or certain transactions affecting the Company). The warrants were issued pursuant to a Consumer Products License Agreement between Titan Sports, Inc. and a joint venture limited liability company of which the Company is a member, in connection with the grant of certain trademark and other licenses and rights to the joint venture. No other consideration was paid to the Company in respect of the issuance of these warrants. Because the warrants were issued directly to the two holders pursuant to a privately negotiated commercial agreement, registration of the warrants (or the underlying common stock) was not required under the Securities Act of 1933 (the "Act") by reason of the exemption provided by Section 4(2) of the Act for transactions by the issuer of the securities not involving any public offering.

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

## (a) Exhibits

NUMBER - - - - -	DESCRIPTION -----
3.1	Restated Certificate of Incorporation of the Company(1)
3.1.1	Certificate of Designation and Preferences of Series A Cumulative Convertible Preferred Stock of the Company(2)
3.1.2	Certificate of Elimination of All Shares of 4% Redeemable Convertible Preferred Stock of the Company(2)
3.1.3	Certificate of Amendment of Restated Certificate of Incorporation of the Company(3)
3.2.1	By-Laws of the Company(1)
3.2.2	Amendment to By-Laws of the Company(4)
4.1	JAKKS Pacific, Inc. 9.00% Convertible Debenture issued to Renaissance Capital Growth & Income Fund III, Inc., dated December 31, 1996(4)
4.2	JAKKS Pacific, Inc. 9.00% Convertible Debenture issued to Renaissance US Growth & Income Trust PLC, dated December 31, 1996(4)
10.1	Lease Agreement, dated June 2, 1999, between Astoria Investment Company Limited and Road Champs Limited(5)
10.2	Stock Purchase Warrant for 111,250 shares of Common Stock issued to Titan Sports, Inc.(5)
10.3	Stock Purchase Warrant for 13,750 shares of Common Stock issued to Stanley Shenker Associates, Inc.(5)
27	Financial Data Schedule(5)

- - - - -
- (1) Filed previously as an exhibit to the Company's Registration Statement on Form SB-2 (File No. 333-2048-LA), effective May 1, 1996, and incorporated herein by reference.
- (2) Filed previously as an exhibit to the Company's Current Report on Form 8-K, filed April 7, 1998, and incorporated herein by reference.
- (3) Filed previously as exhibit 4.1.2 of the Company's Registration Statement on Form S-3 (File No. 333-74717), filed on March 9, 1999, and incorporated herein by reference.
- (4) Filed previously as an exhibit to the Company's Registration Statement on Form SB-2 (File No. 333-22583), effective May 1, 1997, and incorporated herein by reference.



(5) Filed herewith.

(b) Reports on Form 8-K

No Current Report on Form 8-K was filed in the fiscal quarter ended June 30, 1999.

## SIGNATURES

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

Registrant:

JAKKS PACIFIC, INC.

Date: August 9, 1999

By: /s/ Jack Friedman

-----  
Chairman  
(Principal Executive Officer)

Date: August 9, 1999

By: /s/ Joel M. Bennett

-----  
Chief Financial Officer  
(Principal Financial Officer)

THIS AGREEMENT made the 2nd day of June, One thousand  
nine hundred and ninety-nine

BETWEEN

ASTORIA INVESTMENT COMPANY LIMITED whose registered office is situate at Room 2703, Wing On House, 71 Des Voeux Road, Central, Hong Kong (hereinafter called "the Landlord") of the one part and

ROAD CHAMPS LIMITED whose registered office is situate at Units 1008-9, 10/F., Peninsula Centre, 67 Mody Road, Tsimshatsui East, Kowloon, Hong Kong (hereinafter Called "the Tenant") of the other part.

WHEREBY IT IS AGREED by and between the parties hereto as follows: -

1. The Landlord hereby lets to the Tenant and the Tenant takes from the Landlord the premises known as Unit 1015 on 10th Floor, Peninsula Centre, No. 67 Mody Road, Kowloon, Hong Kong (hereinafter called "the said premises") Together with the right in common with the Landlord and others having the like right to use go pass and repass up down over and upon the common parts including inter alia entrance passages halls staircases and lifts so far as the same are necessary for the proper enjoyment of the said premises subject to the term and conditions hereinafter contained TO HOLD the same unto the Tenant for the term of TWO YEARS commencing from the 15th day of June 1999 and expiring on the 14th day of June 2001 at a rent of HONG KONG DOLLARS THIRTY EIGHT THOUSAND NINE HUNDRED AND TWENTY ONLY (HK \$38,920.00) Hong Kong Currency per calendar month payable in advance on the 1st day of each and every calendar month without deduction Provided Further that the last of such payment shall be made pro-rate according to the number of days then unexpired in the month on which such payment is made.

2. It is hereby agreed and declared that the said premises are let for the use of an office by the Tenant only.

3. The tenant hereby agrees with the Landlord as follows: -

- (a) To pay the said rent at the times and in the manner aforesaid.
- (b) To pay and discharge all rates taxes assessments duties charges impositions and other outgoings now or at any time hereafter to be imposed or charged by the Government of Hong Kong or other lawful authority in respect of the said premises upon the owner or occupier in respect thereof (Government Rent, Property Tax and all other outgoings of a capital or non-recurring nature excepted.)
- (c) To pay all charges for electricity, water and gas consumed by the Tenant in the said premises and all service, maintenance charges and management fees payable in respect of the said premises, including the deposits for the meters therefor.

- (d) To well and sufficiently paint maintain and keep in good repair and condition the interior of the said premises, the furniture and fittings (if any) and all the Landlord's fixtures and additions thereto (fair wear and tear expected). In particular, the Tenant will at its own expense replace any broken or damaged window panes, fancoils, pipes, wires, drains, taps, wash-basins and cisterns on the said premises save and except damaged caused by the agent or servant of the Landlord.
- (e) To take all diligent precautions and due care to protect the interior of the said premises against damage by fire storm typhoon or the like.
- (f) To permit the Landlord and its agents with or without workmen or others at all reasonable times and upon reasonable notice being given to the Tenant to enter upon the said premises and to view the condition thereof and upon notice being given by the Landlord forthwith to repair in accordance therewith. Upon the Tenant failing to comply with the said notice the Landlord or its agents shall be entitled with or without workmen or others at all reasonable times and upon reasonable notice being given to the tenant to enter upon the said premises to carry out any repair and the Tenant shall be liable to pay the Landlord's costs of carrying out any such repair and incidental charges provided that in the event of any emergency the Landlord its servants or agents may enter without notice and forcibly if necessary, provided that the Landlord shall keep the Tenant indemnified for any loss and damages caused by the negligence of the Landlord or its agents in gaining such entry.
- (g) Not without the previous written consent of the Landlord (which consent shall not be unreasonably withheld or delayed) to erect install or alter any fixtures partitioning or other erection or installation in the said premises or any part thereof or without the like consent to make or permit or suffer to be made alterations in or additions to the electrical/gas wiring/piping and installations or to install or permit or suffer to be installed any equipment apparatus or machinery which imposes a weight on any part of the flooring in excess of that for which it is designed or which requires any additional electrical/gas main wiring/piping or which consumes electricity/gas not metered through the Tenant's separate meter. The Landlord shall be entitled to prescribe the maximum weight and permitted locations of safes and other heavy equipment and to require that the same stand on supports of such dimensions and material to distribute the weight as the Landlord may deem necessary.
- (h) Not to transfer assign underlet or otherwise part with the possession of the said premises or any part thereof either by way of subletting lending sharing or other means whereby any person or persons not party to this Agreement obtains the use or possession of the said premises or any part thereof irrespective of whether any rental or other consideration is given for such use or possession and in the event of any such transfer subletting sharing assignment or parting with the possession of the said premises (whether for monetary consideration or not) this Agreement shall at the discretion of the Landlord determine and the Tenant shall forthwith surrender the said premises to the landlord. The tenancy shall be personal to the Tenant named in this Agreement and without in any way limiting the generality of the foregoing, the following acts and events shall, unless previously approved in

writing by the Landlord (which approval the Landlord shall not be unreasonably withheld) be deemed to be breaches of this subclause: -

- (1) in the case of a Tenant which is a partnership, the taking in of one or more new partners whether on the death or retirement of an existing partner or otherwise.
  - (2) in the case of tenant who is an individual (including a sole surviving partner of a partnership tenant) the death, insanity or other disability of that individual to the intent that no right to use, possess, occupy or enjoy the said premises or any part thereof shall vest in the executors, administrators, personal representatives, next of kin, trustee or committee of any such individual.
  - (3) in the case of a tenant which is a corporation any take-over reconstruction, amalgamation, merger, voluntary liquidation or change in the person or persons who owns or own a majority of its voting shares or who otherwise has or have effective control thereof.
  - (4) the giving by the Tenant of a Power of Attorney or similar authority whereby the donee of the Power obtains the right to use, possess, occupy or enjoy the said premises or any part thereof or does in fact use, occupy or enjoy the same.
  - (5) the change of the Tenant's business name without the previous written consent of the Landlord which consent shall not be withheld or delayed.
- (i) Not to do or permit or suffer to be done in or upon the said premises or any part thereof any act or thing which may be or become or cause a nuisance annoyance damage or disturbance to the Landlord or to any of the tenants or occupiers of the other parts of the said building or of the neighboring premises or which shall amount to a breach or non-observance of any of the covenants and conditions contained in the Government Lease of the said premises, the Occupation Permit and the Deed of Mutual Covenant or which shall be in anyway against the laws of regulations of the Government of Hong Kong.
  - (j) Not to keep or store or cause or permit or suffer to be kept or stored any arms, ammunition, gunpowder, salt-petre, or other explosive or inflammable substance in the said premises.
  - (k) Not to use or permit or suffer to be used the said premises or any part thereof for any illegal or immoral purposes.
  - (l) To observe and comply with all house rules and regulations made by the appropriate management authorities relating to the use and management of the common parts of the said building.
  - (m) Not to do or permit or suffer to be done anything in or upon the said building and the said premises which may infringe any laws, regulations, bye-laws and rules and all notices and requirement of the Governmental Departments and other competent authorities in connection with or in relation to the use and occupation of the said premises and the said building.
  - (n) Not to do or cause or permit or suffer to be done anything whereby the policy or policies of insurance on the said premises and/or the said building against damage by fire or against other damages howsoever caused may be rendered void or voidable or whereby the premium for such insurance may be liable to be

increased and the Tenant shall indemnify the Landlord against such increased or additional premium as shall have been brought about or caused by its act or default.

- (o) Not to obstruct or permit any employee or agent to obstruct any passageway lift staircase entrance exit or other common parts of the said building, and it is hereby expressly agreed that if any such obstruction shall happen and the Tenant shall fail to remove the same immediately upon request either to the Tenant or to the person then in charge of the said premises on the Tenant's behalf, the Landlord shall be entitled to dispose of the same in whatever manner the Landlord shall deem fit including inter alia destroying and disposing of the same as rubbish and selling the same on such terms and conditions as the Landlord may deem fit.
- (p) Not to use the verandah of the said premises for the purposes of drying or hanging any clothing and not to exhibit or display anything on or near the verandah of the said premises or any part thereof in such a manner which will affect the appearance of the said building.
- (q) Not to erect or permit to be erected outside the said premises any wireless or television aerial nor do to permit to be done anything to the external walls of the said premises which will affect the appearance of the said building.
- (r) Not to place or allow to be placed any showboard name-bill placard advertisement or notice of any description upon the external walls and the windows of the said premises.
- (s) Not to keep in the said premises any animal or domestic pet without the prior consent of the Landlord.
- (t) To pay and make good to the Landlord all and every loss and damage whatsoever incurred or sustained by the Landlord as a consequence of every breach or non-observance of the Tenant's obligations and stipulations herein contained and to indemnify the Landlord from and against all actions claims liability costs and expenses thereby arising.
- (u) At the expiration or sooner determination of this Agreement to deliver up to the Landlord the said premises in particular the furniture and fittings (if any) in good clean and tenantable repair condition (fair wear and tear excepted) as aforesaid together with any additional erections alterations or improvements which the Tenant may with the consent of the Landlord as aforesaid have made upon or in the said premises without payment of any compensation for such additional erections alterations or improvements Provided That the Landlord may at its discretion require the Tenant to reinstate remove or do away with any alternations fixtures or additions made to the said premises with or without the Landlord's consent or any part or portion thereof and make good and repair in a proper and workmanlike manner any damage to the said premises and the Landlord's fixtures and fittings therein as a result thereof before delivering up the said premises to the Landlord.
- (v) To allow at all reasonable times by appointment within three calendar months immediately preceding the expiration of the said term prospective Tenants or occupiers to inspect the said premises.

4. The Landlord hereby agrees with the Tenant as follows: -

- (a) That the Tenant paying the rent hereby reserved and performing and observing the terms and conditions herein contained and on the part of the Tenant to be performed and observed may peaceably hold and enjoy the said premises during the said term without any interruption by the Landlord or any person lawfully claiming through or under it.
- (b) To pay Government rent, property tax and all outgoings of a capital or nonrecurring nature which are now or may hereafter during the said term be imposed by the Government upon the said premises.
- (c) To use its best endeavor at the Landlord's expense to procure the manager of the said building to maintain the main walls, main drains and main pipes, main structures, roof, lifts, electricity cables and all common areas and facilities of the said building and/or the said premises in good and substantial repair and condition throughout the said term.

5. PROVIDED ALWAYS AND IT IS HEREBY EXPRESSLY AGREED AND DECLARED as follows: -

- (a) If the rent reserved or any part thereof shall be unpaid for seven (7) days after becoming payable (whether legally or formally demanded or not) or if the Tenant shall fail or neglect or perform or observe any term or condition herein contained and on the Tenant's part to be performed or observed or if the Tenant shall become bankrupt or in the case of a limited company shall go into liquidation or if a petition for the Tenant's bankruptcy or winding up, as the case may be, shall have been filed or if the Tenant shall enter into any composition or arrangement with creditors or shall suffer the Tenant's goods or other property to be levied on execution then and in any of the said cases it shall be lawful for the Landlord at any time thereafter to determine this Agreement and to re-enter the said premises or any part thereof in the name of the whole but without prejudice to any right of action of the Landlord in respect of any breach of the Tenant's terms and conditions herein contained and the deposit paid hereunder shall be forfeited to the Landlord but without prejudice to the Landlord's right to claim any further damages which the Landlord shall have sustained or may sustain and a written notice served by the Landlord on the Tenant to the effect that the Landlord thereby exercised the power of re-entry and determination hereinbefore contained shall be a full and sufficient exercise of such power.
- (b) In the event of any breach of any term or condition on the part of the Tenant herein contained, the Landlord shall not by acceptance of rent or by any other act whatsoever or by any omission be deemed to have waived any such breach of term or condition notwithstanding any rule of law or equity to the contrary and that no consent to or waiver of any breach shall be binding on the Landlord unless the same is in writing of the Landlord.
- (bb) Notwithstanding anything hereinbefore contained in the event of default in payment by the Tenant in respect of any payments to be made hereunder for a period of seven days from the date on which the same falls due for payment, the

Tenant shall further pay to the Landlord on demand interest on the amount in arrears at the rate of 1.5 percent (1.5)% per month calculated from the date on which the same becomes due for payment until the date of payment as liquidated damages and not as penalty provided that the demand and/or receipt by the Landlord of interest pursuant to this provision shall be without prejudice to and shall not affect the right of the Landlord to exercise any other right or remedy hereof (including the right of re-entry) exercisable under the terms of this Agreement.

- (c) For the purpose of this Agreement any act default neglect or omission of any servant, agent, licensee, visitor and invitee of the Tenant shall be deemed to be the act default neglect or omission of the Tenant.
- (d) In the event of the said premises or any part thereof at any time during the said term being damaged or destroyed by acts of war, fire, typhoon, earthquake, flood, white ants or subsidence of the soil so as to render the same unfit for occupation and use and the cause of which is not attributable to the acts or omissions of the Tenant then the rent hereby reserved or a fair proportion thereof according to the nature and extent of the damage sustained shall cease to be payable until the said premises shall have been again rendered fit for occupation and use PROVIDED ALWAYS that should the whole of the said premises or the greater part thereof be so destroyed or damaged by the happening of any of the above events as to be unfit for use and occupation the Landlord shall not be required to rebuild or reinstate the said premises or the said building if by reason of the condition of the same or any local Regulations or other circumstances beyond the control of the Landlord it is not practicable or reasonable to do so Provided that if the Landlord shall fail to reinstate or cause to be reinstated the said premises or the said building within six months of receiving a written notice to reinstate the same from the Tenant or if the said premises or the greater part thereof or the said building remain uninhabitable or inaccessible for a period of one month the Tenant my forthwith or within a responsible time thereafter by a written notice terminate this Agreement and thereupon the same and everything herein contained shall be void as from the date of occurrence of such damage or destruction and the Landlord shall forthwith refund to the Tenant the said deposit or the balance thereof but without prejudice to the rights and remedies of either party against the other in respect of any antecedent claim or breach or covenant.
- (e) Any notice required to be served hereunder shall be sufficiently served on the Tenant if delivered or sent by post or left addressed to it at the said premises or at its registered office in Hong Kong and any notice to the Landlord shall be sufficiently served if sent to the Landlord by post at the Landlord's registered office in Hong Kong. A notice sent by post shall be deemed to have been received at the time when in due course of post it would be delivered at the address to which it is sent.
- (f) For the purpose of distress for rent in terms of Part III of the Landlord and Tenant (Consolidation) Ordinance (Cap.7) and for the purpose of this Agreement the rent in respect of the said premises shall be deemed to be in arrears if not paid in advance at the time and in the manner hereinbefore provided for payment thereof.



- (g) The Tenant shall not be entitled to any compensation or abatement of rent in respect of any failure howsoever caused in respect of the lifts, electricity supply or other services provided to the said building.
- (h) The Landlord does not warrant that the light and air to the premises would not be obstructed.
- (i) The Landlord shall not be in any way liable to the Tenant or to any person or persons claiming any right title or interest under the Tenant or any person expressly or impliedly authorized by the Tenant to enter leave or remain on the said building or any part thereof for any damage to property or injury to person which may be sustained by the Tenant or any such person or persons as aforesaid on account of the defective or damaged condition of the said premises the said building and the Landlord's fixtures or fittings therein and any part thereof and in particular the Landlord shall not be responsible to the Tenant or any person or persons as aforesaid for any damage to property or injury to person caused by or through or in any way owing to the overflow of water or water leakage from any floor flat or premises or any part of the said building any typhoon electric current water pipes electric wiring or cables situated upon under or in any way connected with the said premises and/or the said building or dropping of cigarette ends broken pieces of glass or other articles from any floor flat premises or any part of the said building or neighborhood and the Tenant hereby agrees to indemnify the Landlord against all claims demands actions costs expenses whatsoever made upon the Landlord by any person or persons in respect of the matters aforesaid and further the Tenant shall be responsible for any damage which may be done to any part of the said premises or the Landlord's fixtures and fittings therein.

6.

- (a) The Tenant shall on or before the signing hereof deposit with the Landlord the sum specified in the Schedule hereto to secure the due observance and performance by the Tenant of the agreements stipulations and conditions herein contained and on the Tenant's part to be observed and performed. The said deposit shall be retained by the Landlord throughout the said term free of any interest to the Tenant and in the event of any breach or non-observance or nonperformance by the Tenant or any of the agreements stipulations or conditions aforesaid the Landlord shall be entitled to terminate this Agreement in which event the said deposit may be forfeited to the Landlord without prejudice to the Landlord's right of action to claim for any monetary loss or damage which the Landlord may sustain by reasons of the aforesaid breach non-observance or non-performance. Notwithstanding the foregoing the Landlord may in any such event at its option elect not to terminate this Agreement but to deduct from the deposit the amount of any monetary loss incurred by the Landlord in consequence of the breach non-observance or non-performance by the Tenant in which event the Tenant shall as a condition precedent to the continuation of the tenancy deposit with the Landlord shall forthwith be entitled to re-enter on the said premises or any part thereof in the name of the whole and to determine this Agreement in which event the deposit may be forfeited to the Landlord as hereinbefore provided.

- (b) Subject as aforesaid the said deposit shall be refunded to the tenant by the Landlord without interest within thirty days after the expiration or sooner determination of this Agreement and delivery of vacant possession to the Landlord against the Tenant for any arrears of rent rates and other charges and for any breach non-observance or non-performance of any of the covenants agreements stipulations terms and conditions herein contained and on the part of the Tenant to be observed or performed whichever shall be the later.

7. It is hereby expressly declared that no key or construction money or other premium of a similar nature has been paid by the Tenant or any person or persons for and on behalf of the Tenant to the Landlord or any other person for the grant of this tenancy.

8. Where more than one person is party hereto as Landlord or Tenant, the expression "the Landlord" and "the Tenant" shall where the context admits include all either or any of such persons and their liability contained or implied herein shall be joint and several.

9. In this Agreement unless inconsistent with the context, words denoting persons include corporations and firms; words denoting masculine gender include feminine gender and neuter gender; and words denoting the singular number include the plural number and vice versa.

10. Each party shall bear his own solicitors' costs charges and expenses of an incidental to this Agreement and the stamp duty (including the counterpart) and registration fee, if any, on this agreement shall be borne equally by the parties hereto.

11. The Tenant hereby declares and confirms that the Tenant has duly inspected the said premises and is fully aware that he is taking the said premises in its present state and condition. The said premises is let on an "as is" basis and in the physical state and condition as it stands and no warranty or representation whatsoever has been given or is made by the Landlord or its agents regarding the physical state and condition thereof or of the building of which the said premises forms part.

12. Notwithstanding anything herein contained, the Landlord hereby agrees to grant a rent free period to the Tenant from 15th June 1999 to 14th July 1999 for decoration purposes only. The management fee, air-conditioning charges, government rates and all outgoings payable in respect of the said premises for the said rent-free period shall be borne and paid by the Tenant solely.

13. (a) The said premises are at present subject to a tenancy agreement dated the 26th day of March 1997 (hereinafter referred as "the preceding Tenancy Agreement") made between the Landlord of the one part and one Toy Park (International) Limited (hereinafter referred to as "the preceding Tenant") of the other part for the term of two years commencing from the 1st day of June 1997 and expiring on the 31st day of May 1999 and upon such terms and conditions as therein more particularly mentioned. The preceding Tenant has agreed to deliver up vacant possession of the said premises to the Landlords on or before 31st May 1999

(hereinafter referred to as "the Date of Surrender"). Notwithstanding anything herein to the contrary, this Agreement is conditional upon the delivery of vacant possession of the premises by the preceding Tenant as scheduled. Should the preceding Tenant fail to deliver vacant possession of the premises on or before the Date of Surrender, this Agreement shall immediately become null and void and in such event the rental deposits paid hereunder by the Tenant to the Landlord shall be returned to the Tenant without compensation or costs.

- (b) Notwithstanding the payment of rental deposits and the monthly rental (if any) by the Tenant herein, no relationship of the Landlord and the Tenant is hereby created unless and until the vacant possession of the said premises is delivered to the Landlord on the Date of Surrender.

AS WITNESS the hands of the parties hereto the day and year first above written.

## THE SCHEDULE

The deposits in the sum of HK\$135,798.00 on the breakdown of which are as follows: -

(a)	Rental deposit	HK\$116,760.00
(b)	Management fee and Air-conditioning Charges deposit	HK\$ 19,038.00 ----- HK\$135,798.00 =====

SIGNED by Mr. Lauw Siang Liong ) For and on behalf of  
 ) ASTORIA INVESTMENT  
 for and on behalf of the Landlord in the ) CO., LTD.  
 )  
 presence of :- /s/ John Tso ) /s/ Lauw Siang Liong

SIGNED by Mr. Stephen G. Berman ) For and on behalf of  
 ) ROAD CHAMPS LTD.  
 for and on behalf of the Tenant in the )  
 ) /s/ Stephen G. Berman  
 presence of :- /s/ Wills Hon Yen-Ming )

RECEIVED the day and year first above written )  
 )  
 of and from the Tenant HONG KONG DOLLARS ONE )  
 )  
 HUNDRED THIRTY FIVE THOUSAND SEVEN )  
 )  
 HUNDRED AND NINETY EIGHT ONLY being the rental )  
 )  
 deposits, management fee & air-conditioning charges )  
 )  
 deposits above expressed to be paid by the Tenant to the )  
 )  
 Landlord in respect of the said premises )HK\$135,798.00

For and on behalf of ASTORIA  
 INVESTMENT CO., LTD.

/s/ Lauw Siang Liong

-----  
 the Landlord

Date the 2nd day of June 1999  
ASTORIA INVESTMENT COMPANY LIMITED  
AND  
ROAD CHAMPS LIMITED

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TENANCY AGREEMENT

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## JAKKS PACIFIC, INC.

## STOCK PURCHASE WARRANT

THE WARRANT EVIDENCED HEREBY AND THE COMMON STOCK ISSUABLE UPON EXERCISE THEREOF ARE SUBJECT TO A REGISTRATION RIGHTS AGREEMENT DATED JUNE 30, 1999 BETWEEN JAKKS PACIFIC, INC., AND TITAN SPORTS, INC.

NEITHER THIS WARRANT NOR THE UNDERLYING SHARES OF COMMON STOCK HAVE BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE OR OTHER SECURITIES LAW. THE HOLDER HEREOF, BY ACQUIRING THIS WARRANT, AGREES FOR THE BENEFIT OF THQ, INC. THAT THIS WARRANT MAY BE RESOLD, PLEDGED, EXERCISED OR OTHERWISE TRANSFERRED ONLY (1) PURSUANT TO AN AVAILABLE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, (2) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATIONS UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

WARRANT TO PURCHASE COMMON STOCK OF  
JAKKS PACIFIC, INC.

Expiration Date: December 31, 2009

This Warrant Certificate certifies that Titan Sports, Inc. (the "Holder"), or registered assigns, is the registered holder of a Warrant (the "Warrant") to purchase 111,250 shares of Common Stock, \$.001 par value (the "Common Stock"), of JAKKS PACIFIC, INC., a Delaware corporation (the "Company"). This Warrant entitles the Holder upon exercise to purchase from the Company, during the Exercise Period (as defined below), that number of shares of fully paid and nonassessable Common Stock (the "Warrant Securities") set forth below. The exercise price (the "Exercise Price") at which shares of Common Stock shall be deliverable upon exercise of this Warrant shall initially be \$10.00 per share. Shares of Common Stock shall be deliverable upon (i) surrender of this Warrant with the form of election to purchase attached hereto properly completed and executed and (ii) payment of the Exercise Price at the office of the Company designated for such purpose, pursuant to and subject only to the conditions set forth in this Warrant.

Notwithstanding the foregoing, upon notice of an Acquisition Transaction (as defined in Section 7 hereof), this Warrant may be exercised without the exchange of funds pursuant to the net exercise provisions of Section 3(a) below. The Exercise Price and number of Warrant Securities issuable upon exercise of this Warrant are subject to adjustment upon the occurrence of certain events set forth herein.

Section 1. Registration of Transfers and Exchanges.

(a) Subject to the limitations set forth below, this Warrant may be exchanged at the option of the Holder, when surrendered to the Company at its office, for another Warrant or other Warrants of like tenor and representing in the aggregate a like number of Warrant Securities. When this Warrant is surrendered for exchange it shall be canceled and disposed of by the Company. Upon due presentation for registration of exchange of this Warrant at the office of the Company, a new Warrant or Warrants of like tenor and evidencing in the aggregate a like number of Warrant Securities shall be issued, without charge, to the transferee(s) in exchange for this Warrant, subject to the limitations set forth herein.

(b) Without limiting the restrictions of Section 10 hereof, in connection with any Transfer (as defined below), the Holder shall, if required by the Company, obtain from counsel to such Holder (who may be in-house counsel for Titan Sports, Inc.) an opinion that the proposed Transfer of this Warrant may be effected without registration under the Securities Act of 1933, as amended (the "Act") or applicable state securities law. When this Warrant is surrendered for Transfer it shall be canceled and disposed of by the Company. Upon due presentation for registration of Transfer of this Warrant at the office of the Company, a new Warrant or Warrants of like tenor and evidencing in the aggregate a like number of Warrant Securities shall be issued, without charge, to the transferee(s) in exchange for this Warrant, subject to the limitations set forth herein. As used herein, "Transfer" means sell, assign, transfer, pledge, hypothecate, mortgage, encumber, dispose by gift or bequest, or otherwise transfer or disposition.

(c) The Company shall from time to time register the exchange or Transfer of this Warrant in a Warrant register to be maintained by the Company upon surrender of this Warrant accompanied by a written instrument or instruments of such exchange or Transfer in form satisfactory to the Company, duly executed by the registered holder or holders hereof.

Section 2. Vesting of Warrant; Forfeiture.

This Warrant shall be fully vested and immediately exercisable upon the execution hereof by the Company.

Section 3. Exercise of Warrant.

(a) Subject to the terms of this Warrant, the Holder shall have the right, which may be exercised commencing on the date of this Warrant and until 5:00 p.m., Eastern time on December 31, 2009 (the "Exercise Period"), to receive from the Company the number of fully paid and nonassessable Warrant Securities which the Holder may at the time be entitled to



receive on exercise of this Warrant and payment to the Company of the Exercise Price then in effect for such Warrant Securities. In the event the Holder receives notice of an Acquisition Transaction, the Holder may exercise its right to receive Warrant Securities on a net basis, such that, without the exchange of any funds, such Holder receives that number of Warrant Securities otherwise issuable or payable) upon exercise of this Warrant less that number of Warrant Securities having a Current Market Price (as defined in section 7(b) hereof) at the time of exercise equal to the aggregate Exercise Price that would otherwise have been paid by such Holder of this Warrant. If not exercised within the Exercise Period, this Warrant shall become void and all rights hereunder and all rights in respect hereof shall become void and shall cease as of such time.

(b) No fractional shares shall be issued upon the exercise of this Warrant (or any portion hereof). All shares of Common Stock (including fractions thereof) issuable upon exercise of this Warrant (or fraction hereof) by the Holder shall be aggregated for purposes of determining whether the exercise would result in the issuance of any fractional share. If, after the aforementioned aggregation, the exercise would result in the issuance of a fraction of a share of Common Stock, the Company shall, in lieu of issuing any fractional share, pay the Holder otherwise entitled to such fraction a sum in cash equal to the Current Market Price, multiplied by such fraction on the date of exercise.

(c) This Warrant may be exercised upon surrender to the Company at its office designated for such purpose (the address of which is set forth in Section 9 hereof) of this Warrant with the form of election to purchase duly filled in and signed, and upon payment to the Company of the Exercise Price, subject to adjustment pursuant to Section 7 hereof, for the number of Warrant Securities in respect of which this Warrant is then exercised. Payment of the aggregate Exercise Price shall be made (i) in cash or by certified or official bank check payable to the order of the Company or wire transfer in immediately available funds to such account as shall be designated by the Company or (ii) in the event the Holder receives notice of an Acquisition Transaction, in the manner provided in Section 3(a) hereof.

(d) Upon such surrender of this Warrant and payment of the Exercise Price by the Holder, the Company shall issue and cause to be delivered within three (3) business days to or upon the written order of the Holder and (subject to the provisions of Section 10 hereof) in such name or names as the Holder may designate, a certificate or certificates for the number of full Warrant Securities issuable upon the exercise of this Warrant. In the event the name or names so designated are not that of the Holder, such certificate or certificates shall be deemed to have been issued and any person so designated to be named therein shall (subject to the provisions of Section 10 hereof) be deemed to have become a Holder of record of such Warrant Securities as of the date of the surrender of this Warrant and payment of the Exercise Price.

(e) This Warrant shall be exercisable, at the election of the Holder, either in full or from time to time in part and, in the event that this Warrant is exercised in respect of fewer than all of the Warrant Securities issuable on such exercise at any time during the Exercise Period, the Company shall, at the time of delivery of this Warrant, deliver to the Holder a new Warrant, which new Warrant shall in all other respects be identical with this Warrant but

exercisable only for the balance of the Warrant Securities remaining subject to the Warrant, or, at the request of the Holder, appropriate notation may be made on this Warrant and such Warrant shall be returned to the Holder.

(f) This Warrant shall also be conditionally exercisable, at the election of the Holder, so that if the Holder exercises this Warrant in contemplation of the consummation of a transaction described in any of clauses (i) - (iv) of Section 8(b) hereof and such transaction is not consummated, the Holder may elect to revoke such exercise, in which case this Warrant shall be deemed not to have been so exercised.

(g) This Warrant shall be canceled and disposed of by the Company when surrendered upon exercise. The Company shall keep copies of this Warrant and any notices given or received hereunder available for inspection by the Holder during normal business hours at its office.

Section 4. Payment of Taxes. The Company will pay all documentary stamp taxes attributable to the issuance of Warrant Securities upon exercise of this Warrant.

Section 5. Mutilated or Missing Warrant Certificate. In case this Warrant is mutilated, lost, stolen or destroyed, the Company shall issue, in exchange and substitution for and upon cancellation of the mutilated Warrant, or in lieu of and substitution of this Warrant, a new Warrant of like tenor and representing an equivalent number of Warrant Securities, but only upon the Company's receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction of this Warrant and of suitable indemnification.

Section 6. Reservation of Warrant Securities. The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the exercise of this Warrant, a number of its shares of Common Stock as shall from time to time be sufficient to effect the exercise of this Warrant at the then applicable Exercise Price, and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the exercise of this Warrant, the Company will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose, including, without limitation, engaging in best efforts to obtain the requisite shareholder approval. The Company will be irrevocably authorized and directed at all times to reserve such number of authorized shares as shall be required for such purpose. Before taking any action which would cause an adjustment pursuant to Section 7 hereof to reduce the Exercise Price below the then par value (if any) of this Warrant Securities, the Company will take any corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally issue fully paid and nonassessable Warrant Securities at the Exercise Price as so adjusted. The Company covenants that all Warrant Securities which may be issued upon exercise of this Warrant will, upon issue, be fully paid, nonassessable, free of preemptive rights and free from all taxes, liens, charges and security interests with respect to the issue thereof (other than any such rights, taxes, liens, charges or interests created or granted by Holder or any other person other than the Company).

Section 7. Adjustment of Exercise Price. The Exercise Price is subject to adjustment from time to time upon the occurrence of the events enumerated in this Section 7. For purposes of this Section 7, "Common Stock" means shares now or hereafter authorized of any class of common stock of the Company and any other stock of the Company, however designated, that has the right to participate in any distribution of the assets or earnings of the Company.

(a) Adjustment for Change in Capital Stock. If the Company (1) pays a dividend or makes a distribution on its Common Stock in shares of its Common Stock, (2) subdivides its outstanding shares of Common Stock into a greater number of shares, or (3) combines its outstanding shares of Common Stock into a smaller number of shares, then the Exercise Price shall be adjusted in accordance with the formula:

$$E1 = E \times \frac{O}{A}$$

where:

E1	=	the adjusted Exercise Price.
E	=	the current Exercise Price.
O	=	the number of shares of all classes of Common Stock outstanding prior to such action.
A	=	the number of shares of all classes of Common Stock outstanding immediately after such action.

In the case of a dividend or distribution, the adjustment shall become effective immediately after the record date for determination of holders of shares of Common Stock entitled to receive such dividend or distribution, and in the case of a subdivision, combination or reclassification, the adjustment shall become effective immediately after the effective date of such corporate action. If after an adjustment the Holder of this Warrant upon exercise hereof may receive shares of two or more classes of capital stock of the Company, the Board of Directors of the Company (the "Board") shall determine in good faith the allocation of the adjusted Exercise Price between the classes of capital stock. After such allocation, the exercise privileges, the number of shares issuable upon such exercise and the Exercise Price of each class of capital stock shall thereafter be subject to adjustment on terms comparable to those applicable to Common Stock in this Section 7. The adjustment required by this Section 7(a) shall be made successively whenever any event listed above shall occur.

## (b) Certain Definitions.

(i) Current Market Price. The "Current Market Price" per share of Common Stock on any date is the average of the closing prices of the Common Stock for thirty (30) consecutive trading days commencing forty-five (45) trading days before the date in question. The term "closing price" of the Common Stock on any day, as indicated in the next day's Wall Street Journal if so reported in the Wall Street Journal (or if not reported in the Wall Street Journal, as reported by National Quotation Bureau Incorporated or, if not so reported, by a nationally recognized quotation service), shall be (A) the reported closing price (last sale price) of the Common Stock on the principal stock exchange on which the Common Stock is listed, or (B) if the Common Stock is not listed on a stock exchange, the last sale price of the Common Stock on the principal automated securities price quotation system on which sale prices of the Common Stock are reported, or (C) if the Common Stock is not listed on a stock exchange and sale prices of the Common Stock are not reported on an automated quotation system, the mean of the final bid and asked prices for the Common Stock as reported by National Quotation Bureau Incorporated or any successor entity if at least two (2) securities dealers have inserted both bid and asked quotations for the Common Stock on at least five (5) of the ten (10) preceding trading days. If none of the foregoing provisions are applicable, the Current Market Price shall be determined by the Board in good faith, based upon the Fair Market Value of one hundred percent (100%) of the Company if sold as a going concern and without regard to any discount for the lack of liquidity or on the basis that the relevant shares of the Common Stock do not constitute a majority or controlling interest in the Company and assuming, if applicable, the exercise or conversion of all "in-the-money" warrants, convertible securities, options or other rights to subscribe for or purchase any additional shares of capital stock of the Company or securities convertible or exchangeable into such capital stock that in any case may be entitled to participate in the proceeds of such sale. The term "trading day" shall mean (X) if the Common Stock is listed on at least one stock exchange, a day on which there is trading on the principal stock exchange on which the Common Stock is listed, (Y) if the Common Stock is not listed on a stock exchange but sale prices of the Common Stock are reported on an automated quotation system, a day on which trading is reported on the principal automated quotation system on which sales of the Common Stock are reported, or (Z) if the foregoing provisions are inapplicable, a day on which quotations are reported by National Quotation Bureau Incorporated.

(2) Fair Market Value. The term "Fair Market Value" means the value obtainable upon a sale in an arm's length transaction to a third party under usual

and normal circumstances, with neither the buyer nor the seller under any compulsion to act, with equity to both, as determined by the Board in good faith; provided, however, that if a Holder or Holders, who individually or in the aggregate own 66% or more of the Warrant Securities (collectively, a "Significant Holder"), shall dispute the Fair Market Value as determined by the Board, the Company shall retain an Independent Expert (as defined in Section 7(b)(3)), provided, however, that if the Significant Holder does not accept such Independent Expert, then the Company and the Significant Holder shall each select an Independent Expert and the two Independent Experts so selected shall select a third Independent Expert who shall determine the Fair Market Value. The determination of Fair Market Value by the Independent Expert shall be final, binding and conclusive on the Company and the Significant Holder. All costs and expenses of the Independent Expert shall be borne one-half by the Company and one-half by the Significant Holder.

(3) Independent Expert. The term "Independent Expert" means an investment banking firm reasonably agreeable to the Company and the Significant Holder who does not (and whose affiliates do not) have a financial interest in the Company or any of its affiliates.

(c) When Adjustment Not Required. If the Company shall take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend or distribution and shall, thereafter and before the distribution to stockholders thereof, legally abandon its plan to pay or deliver such dividend or distribution, then thereafter no adjustment shall be required by reason of the taking of such record and any such adjustment previously made in respect thereof shall be rescinded and annulled.

(d) Notice of Adjustment. Whenever the Exercise Price is adjusted, the Company shall provide the notices required by Section 8 hereof.

(e) Reorganization of Company. If any capital reorganization or reclassification of the capital stock of the Company, any consolidation or merger of the Company with another entity, or the sale or lease of all or substantially all of the Company's assets to another entity, other than in each case in connection with an Acquisition Transaction shall be effected in such a way that holders of Common Stock of the Company shall be entitled to receive stock, securities or assets with respect to or in exchange for such Common Stock, then, as a condition precedent to such reorganization, reclassification, consolidation, merger, sale or lease, lawful and adequate provisions shall be made whereby the Holder shall thereafter have the right to purchase and receive upon the basis and the terms and conditions specified herein and in lieu of the shares of Common Stock immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby, such shares of stock, securities or assets as may be issued or payable in such reorganization, reclassification, consolidation, merger, sale or lease with respect to or in exchange for the number of shares of Common Stock purchasable and receivable upon the exercise of the rights represented hereby had such rights been exercised immediately prior thereto, and in any such case appropriate provision shall be made with respect

to the rights and interests of the Holder to the end that the provisions hereof (including without limitation, if applicable, provisions for adjustments of the Exercise Price and of the number of shares of Common Stock purchasable and receivable upon the exercise of this Warrant) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof. The Company will not effect any such consolidation, merger, sale or lease, unless prior to the consummation thereof the successor corporation (if other than the Company) resulting from such consolidation or merger or the corporation purchasing or leasing such assets shall assume by written instrument, executed and mailed or delivered to the Holder at the last address thereof appearing on the books of the Company, the obligation to deliver to the Holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, the Holder may be entitled to purchase.

Notwithstanding any provision of the preceding paragraph to the contrary, upon consummation by the Company of an Acquisition Transaction, this Warrant shall terminate and cease to be exercisable. As used herein, "Acquisition Transaction" means a transaction in which (i) the Company sells or leases, in one or a series of related transactions, all or substantially all or the Company's assets to another entity and distributes the proceeds (or a portion of such proceeds) of such transaction to the holders of the then outstanding shares of Common Stock, or (ii) not less than a majority of the then outstanding shares of Common Stock are changed into or sold or exchanged (whether pursuant to a recapitalization, reorganization, merger, consolidation, tender or exchange offer or otherwise) for a different kind of shares of common stock or other securities (of the Company or of another corporation or other entity) or for property, cash or any combination of securities, property or cash, other than in a transaction the sole purpose of which is to change the Company's domicile.

(f) Form of Warrant. Irrespective of any adjustments in the Exercise Price or the number or kind of shares purchasable upon the exercise of this Warrant, any warrant heretofore or hereafter issued may continue to express the same price and number and kind of shares as are stated in this Warrant.

#### Section 8. Notices to Warrant Holders.

(a) Upon any adjustment of the Exercise Price pursuant to Section 7 hereof, the Company shall promptly thereafter cause to be given to the registered holder of this Warrant written notice setting forth the Exercise Price after such adjustment and setting forth the number of Warrant Securities (or portion thereof) issuable after such adjustment in the Exercise Price, upon exercise of this Warrant and payment of the adjusted Exercise Price. Where appropriate, such notice may be given in advance and included as a part of the notice required to be mailed under the other provisions of this Section 8.

(b) In the event (i) that the Company shall authorize the issuance of rights, options or warrants to subscribe for or purchase shares of Common Stock or of any other subscription rights or warrants to any holders of shares of Common Stock, (ii) that the Company shall authorize the distribution to any holders of shares of Common Stock of evidences of its indebtedness or assets (including without limitation regular cash dividends), (iii) of any

consolidation or merger to which the Company is a party and for which approval of any stockholders of the Company is required, or of the conveyance or transfer of the properties and assets of the Company substantially as an entirety, or of any reclassification or change of Common Stock issuable upon exercise of this Warrant (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination), or a tender offer or exchange offer made by the Company for shares of Common Stock, or (iv) of the voluntary or involuntary dissolution, liquidation or winding up of the Company, then the Company shall cause to be given to the Holder, at least thirty (30) days prior to the applicable record date hereinafter specified (or such later date as notice is given to the holders of record of Common Stock), or promptly in the case of events for which there is no record date, a written notice stating (A) the date as of which the persons who will receive such rights, options, warrants or distribution is determined, (B) the initial expiration date set forth in any tender offer or exchange offer made by the Company for shares of Common Stock, (C) the date on which any such reclassification, consolidation, merger, conveyance, transfer, dissolution, liquidation or winding up is expected to become effective or consummated, and the date as of which it is expected that holders of record of shares of Common Stock shall be entitled to exchange such shares for securities or other property, if any, deliverable upon such reclassification, consolidation, merger, conveyance, transfer, dissolution, liquidation or winding up, or (D) the date on which any such issuance, sale, grant or distribution is expected to become effective or consummated.

(c) The Company shall distribute to the Holder copies of all notices, materials, annual and quarterly reports, proxy statements, information statements and any other documents distributed generally to the holders of shares of Common Stock, at such times and by such method as such documents are distributed to such holders of shares of Common Stock provided that the Holder is subject to, or delivers to the Company, an undertaking satisfactory to the Company agreeing to maintain the confidentiality of any nonpublic information.

(d) The Company shall deliver to the Holder written notice of the expiration of the Exercise Period of this Warrant. Such notice shall be delivered by the Company not less than thirty (30) days but not more than ninety (90) days prior to the existing expiration date of the Exercise Period of this Warrant.

Section 9. Notices Generally. Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be effective (a) upon hand delivery or delivery by telex (with collect answer back received), telecopy or facsimile at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

- (i) If to the Company: Jakks Pacific, Inc.  
 22761 Pacific Coast Highway  
 #226  
 Malibu, CA 90265  
 Attention: Jack Friedman  
 Chief Executive Officer
- (ii) If to the Holder: Titan Sports, Inc.  
 Titan Tower  
 1241 East Main Street  
 Stamford, CT 06902  
 Attention: August Liguori, Executive  
 Vice President  
 Edward Kaufman, General  
 Counsel

or at such other address as either party shall have specified by notice in writing.

Section 10. Successors and Assigns. Except as otherwise provided herein, this Warrant shall be binding upon and inure to the benefit of the parties and their successors and assigns. The Company may not assign this Warrant or any rights or obligations hereunder without the prior written consent of Holder (which consent may be withheld for any reason in the sole discretion of such Holder), except that the Company may assign this Warrant in connection with the sale of all or substantially all of its assets, provided that the Company is not released from any of its obligations hereunder, and such assignee assumes all obligations of the Company hereunder. The Holder may not assign this Warrant (in whole or in part) or any rights or obligations hereunder (including, but not limited to, any right to receive any Warrant Securities then issuable upon exercise of this Warrant) without the consent of the Company, which consent will not be unreasonably withheld or withheld as to any transferee established to the satisfaction of the Company to be an individual or entity to whom the Warrant Securities may be issued by the Company without registration under the Act pursuant to an exemption from such registration requirements. In addition, this Warrant may not be Transferred in whole or in part other than pursuant to an effective registration statement under the Act or an exemption from the registration provisions thereof. Each Warrant issued upon any such Transfer shall bear the restrictive legend set forth at the beginning hereof, unless the Holder delivers to the Company an opinion of counsel to the effect that such legend is not required for the purposes of compliance with the Act. The assignment by the Company or Holder of any rights hereunder shall not affect the obligations of such party under this Warrant.

Section 11. Governing Law. This Warrant shall be deemed to be a contract made under the laws of the State of New York and for all purposes shall be governed by and construed and enforced in accordance with the internal laws of such state without regard to such state's principles of conflict of laws.

Section 12. Amendment. This Warrant may be amended only by a written instrument, signed by the Holder and the Company, which specifically states that it is amending this Warrant.



Section 13. Attorneys' Fees. The Holder shall be entitled to recover from the Company the reasonable attorneys' fees and expenses incurred by the Holder in connection with enforcement by the Holder of any obligation of the Company under this Warrant.

Section 14. Headings. The headings herein are for convenience only, do not constitute a part of this Warrant and shall not be deemed to limit or affect any of the provisions hereof.

Section 15. Severability. If any provision of this Warrant is held to be illegal, invalid or unenforceable under any present or future law, and if the rights or obligations of any party hereto will not be materially and adversely affected thereby, such provision will be fully severable.

Section 16. Entire Agreement. This Warrant contains the entire understandings of the parties with respect to the matters covered hereby, and except as specifically set forth herein, neither of the parties hereto makes any representation, warranty, covenant or undertaking with respect to such matters.

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by an authorized officer.

Dated: June 30, 1999

JAKKS PACIFIC, INC.

By: /s/ Stephen G. Berman  
-----  
Name: Stephen G. Berman  
Its: President

[Form of Election to Purchase]

(To be Executed upon Exercise of this Warrant)

The undersigned registered owner of this Warrant irrevocably (subject to Section 3(f) of the Warrant) exercises the attached Warrant for and purchases \_\_\_\_\_ shares of Common Stock and tenders payment for such shares to the order of JAKKS PACIFIC, INC.. in the amount of \$\_\_\_\_\_ in accordance with the terms of the attached Warrant, unless the holder is exercising this Warrant pursuant to the net exercise provisions of Section 3(a) of this Warrant. The undersigned requests that certificate(s) for such shares be issued and registered in the name of \_\_\_\_\_, whose address is \_\_\_\_\_ and that such certificate(s) be delivered to \_\_\_\_\_ whose address is \_\_\_\_\_.

If said number of shares is less than all of the shares of Common Stock purchasable under this Warrant, the undersigned requests that anew Warrant representing the remaining balance of such shares be registered in the name of \_\_\_\_\_, whose address is \_\_\_\_\_ and that such Warrant be delivered to \_\_\_\_\_ whose address is \_\_\_\_\_.

Date: \_\_\_\_\_

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

Name: \_\_\_\_\_

Its: \_\_\_\_\_

## JAKKS PACIFIC, INC.

## STOCK PURCHASE WARRANT

NEITHER THIS WARRANT NOR THE UNDERLYING SHARES OF COMMON STOCK HAVE BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE OR OTHER SECURITIES LAW. THE HOLDER HEREOF, BY ACQUIRING THIS WARRANT, AGREES FOR THE BENEFIT OF THQ, INC. THAT THIS WARRANT MAY BE RESOLD, PLEDGED, EXERCISED OR OTHERWISE TRANSFERRED ONLY (1) PURSUANT TO AN AVAILABLE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, (2) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATIONS UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

WARRANT TO PURCHASE COMMON STOCK OF  
JAKKS PACIFIC, INC.

Expiration Date: December 31, 2009

This Warrant Certificate certifies that Stanley Shenker Associates, Inc. (the "Holder"), or registered assigns, is the registered holder of a Warrant (the "Warrant") to purchase 13,750 shares of Common Stock, \$.001 par value (the "Common Stock"), of JAKKS PACIFIC, INC., a Delaware corporation (the "Company"). This Warrant entitles the Holder upon exercise to purchase from the Company, during the Exercise Period (as defined below), that number of shares of fully paid and nonassessable Common Stock (the "Warrant Securities") set forth below. The exercise price (the "Exercise Price") at which shares of Common Stock shall be deliverable upon exercise of this Warrant shall initially be \$10.00 per share. Shares of Common Stock shall be deliverable upon (i) surrender of this Warrant with the form of election to purchase attached hereto properly completed and executed and (ii) payment of the Exercise Price at the office of the Company designated for such purpose, pursuant to and subject only to the conditions set forth in this Warrant.

Notwithstanding the foregoing, upon notice of an Acquisition Transaction (as defined in Section 7 hereof), this Warrant may be exercised without the exchange of funds pursuant to the net exercise provisions of Section 3(a) below. The Exercise Price and number of Warrant Securities issuable upon exercise of this Warrant are subject to adjustment upon the occurrence of certain events set forth herein.

Section 1. Registration of Transfers and Exchanges.

(a) Subject to the limitations set forth below, this Warrant may be exchanged at the option of the Holder, when surrendered to the Company at its office, for another Warrant or other Warrants of like tenor and representing in the aggregate a like number of Warrant Securities. When this Warrant is surrendered for exchange it shall be canceled and disposed of by the Company. Upon due presentation for registration of exchange of this Warrant at the office of the Company, a new Warrant or Warrants of like tenor and evidencing in the aggregate a like number of Warrant Securities shall be issued, without charge, to the transferee(s) in exchange for this Warrant, subject to the limitations set forth herein.

(b) Without limiting the restrictions of Section 10 hereof, in connection with any Transfer (as defined below), the Holder shall, if required by the Company, obtain from counsel to such Holder (who may be in-house counsel for Stanley Shenker Associates, Inc.) an opinion that the proposed Transfer of this Warrant may be effected without registration under the Securities Act of 1933, as amended (the "Act") or applicable state securities law. When this Warrant is surrendered for Transfer it shall be canceled and disposed of by the Company. Upon due presentation for registration of Transfer of this Warrant at the office of the Company, a new Warrant or Warrants of like tenor and evidencing in the aggregate a like number of Warrant Securities shall be issued, without charge, to the transferee(s) in exchange for this Warrant, subject to the limitations set forth herein. As used herein, "Transfer" means sell, assign, transfer, pledge, hypothecate, mortgage, encumber, dispose by gift or bequest, or otherwise transfer or disposition.

(c) The Company shall from time to time register the exchange or Transfer of this Warrant in a Warrant register to be maintained by the Company upon surrender of this Warrant accompanied by a written instrument or instruments of such exchange or Transfer in form satisfactory to the Company, duly executed by the registered holder or holders hereof.

Section 2. Vesting of Warrant; Forfeiture.

This Warrant shall be fully vested and immediately exercisable upon the execution hereof by the Company.

Section 3. Exercise of Warrant.

(a) Subject to the terms of this Warrant, the Holder shall have the right, which may be exercised commencing on the date of this Warrant and until 5:00 p.m., Eastern time on December 31, 2009 (the "Exercise Period"), to receive from the Company the number of fully paid and nonassessable Warrant Securities which the Holder may at the time be entitled to receive on exercise of this Warrant and payment to the Company of the Exercise Price then in effect for such Warrant Securities. In the event the Holder receives notice of an Acquisition Transaction, the Holder may exercise its right to receive Warrant Securities on a net basis, such that, without the exchange of any funds, such Holder receives that number of Warrant Securities otherwise issuable or payable) upon exercise of this Warrant less that number of Warrant Securities having a Current Market Price (as defined in section 7(b) hereof) at the time of

exercise equal to the aggregate Exercise Price that would otherwise have been paid by such Holder of this Warrant. If not exercised within the Exercise Period, this Warrant shall become void and all rights hereunder and all rights in respect hereof shall become void and shall cease as of such time.

(b) No fractional shares shall be issued upon the exercise of this Warrant (or any portion hereof). All shares of Common Stock (including fractions thereof) issuable upon exercise of this Warrant (or fraction hereof) by the Holder shall be aggregated for purposes of determining whether the exercise would result in the issuance of any fractional share. If, after the aforementioned aggregation, the exercise would result in the issuance of a fraction of a share of Common Stock, the Company shall, in lieu of issuing any fractional share, pay the Holder otherwise entitled to such fraction a sum in cash equal to the Current Market Price, multiplied by such fraction on the date of exercise.

(c) This Warrant may be exercised upon surrender to the Company at its office designated for such purpose (the address of which is set forth in Section 9 hereof) of this Warrant with the form of election to purchase duly filled in and signed, and upon payment to the Company of the Exercise Price, subject to adjustment pursuant to Section 7 hereof, for the number of Warrant Securities in respect of which this Warrant is then exercised. Payment of the aggregate Exercise Price shall be made (i) in cash or by certified or official bank check payable to the order of the Company or wire transfer in immediately available funds to such account as shall be designated by the Company or (ii) in the event the Holder receives notice of an Acquisition Transaction, in the manner provided in Section 3(a) hereof.

(d) Upon such surrender of this Warrant and payment of the Exercise Price by the Holder, the Company shall issue and cause to be delivered within three (3) business days to or upon the written order of the Holder and (subject to the provisions of Section 10 hereof) in such name or names as the Holder may designate, a certificate or certificates for the number of full Warrant Securities issuable upon the exercise of this Warrant. In the event the name or names so designated are not that of the Holder, such certificate or certificates shall be deemed to have been issued and any person so designated to be named therein shall (subject to the provisions of Section 10 hereof) be deemed to have become a Holder of record of such Warrant Securities as of the date of the surrender of this Warrant and payment of the Exercise Price.

(e) This Warrant shall be exercisable, at the election of the Holder, either in full or from time to time in part and, in the event that this Warrant is exercised in respect of fewer than all of the Warrant Securities issuable on such exercise at any time during the Exercise Period, the Company shall, at the time of delivery of this Warrant, deliver to the Holder a new Warrant, which new Warrant shall in all other respects be identical with this Warrant but exercisable only for the balance of the Warrant Securities remaining subject to the Warrant, or, at the request of the Holder, appropriate notation may be made on this Warrant and such Warrant shall be returned to the Holder.

(f) This Warrant shall also be conditionally exercisable, at the election of the Holder, so that if the Holder exercises this Warrant in contemplation of the consummation of a

transaction described in any of clauses (i) - (iv) of Section 8(b) hereof and such transaction is not consummated, the Holder may elect to revoke such exercise, in which case this Warrant shall be deemed not to have been so exercised.

(g) This Warrant shall be canceled and disposed of by the Company when surrendered upon exercise. The Company shall keep copies of this Warrant and any notices given or received hereunder available for inspection by the Holder during normal business hours at its office.

Section 4. Payment of Taxes. The Company will pay all documentary stamp taxes attributable to the issuance of Warrant Securities upon exercise of this Warrant.

Section 5. Mutilated or Missing Warrant Certificate. In case this Warrant is mutilated, lost, stolen or destroyed, the Company shall issue, in exchange and substitution for and upon cancellation of the mutilated Warrant, or in lieu of and substitution of this Warrant, a new Warrant of like tenor and representing an equivalent number of Warrant Securities, but only upon the Company's receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction of this Warrant and of suitable indemnification.

Section 6. Reservation of Warrant Securities. The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the exercise of this Warrant, a number of its shares of Common Stock as shall from time to time be sufficient to effect the exercise of this Warrant at the then applicable Exercise Price, and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the exercise of this Warrant, the Company will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose, including, without limitation, engaging in best efforts to obtain the requisite shareholder approval. The Company will be irrevocably authorized and directed at all times to reserve such number of authorized shares as shall be required for such purpose. Before taking any action which would cause an adjustment pursuant to Section 7 hereof to reduce the Exercise Price below the then par value (if any) of this Warrant Securities, the Company will take any corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally issue fully paid and nonassessable Warrant Securities at the Exercise Price as so adjusted. The Company covenants that all Warrant Securities which may be issued upon exercise of this Warrant will, upon issue, be fully paid, nonassessable, free of preemptive rights and free from all taxes, liens, charges and security interests with respect to the issue thereof (other than any such rights, taxes, liens, charges or interests created or granted by Holder or any other person other than the Company).

Section 7. Adjustment of Exercise Price. The Exercise Price is subject to adjustment from time to time upon the occurrence of the events enumerated in this Section 7. For purposes of this Section 7, "Common Stock" means shares now or hereafter authorized of any class of common stock of the Company and any other stock of the Company, however designated, that has the right to participate in any distribution of the assets or earnings of the Company.

(a) Adjustment for Change in Capital Stock. If the Company (1) pays a dividend or makes a distribution on its Common Stock in shares of its Common Stock, (2) subdivides its outstanding shares of Common Stock into a greater number of shares, or (3) combines its outstanding shares of Common Stock into a smaller number of shares, then the Exercise Price shall be adjusted in accordance with the formula:

$$E1 = \frac{E \times O}{A}$$

where:

E1	=	the adjusted Exercise Price.
E	=	the current Exercise Price.
O	=	the number of shares of all classes of Common Stock outstanding prior to such action.
A	=	the number of shares of all classes of Common Stock outstanding immediately after such action.

In the case of a dividend or distribution, the adjustment shall become effective immediately after the record date for determination of holders of shares of Common Stock entitled to receive such dividend or distribution, and in the case of a subdivision, combination or reclassification, the adjustment shall become effective immediately after the effective date of such corporate action. If after an adjustment the Holder of this Warrant upon exercise hereof may receive shares of two or more classes of capital stock of the Company, the Board of Directors of the Company (the "Board") shall determine in good faith the allocation of the adjusted Exercise Price between the classes of capital stock. After such allocation, the exercise privileges, the number of shares issuable upon such exercise and the Exercise Price of each class of capital stock shall thereafter be subject to adjustment on terms comparable to those applicable to Common Stock in this Section 7. The adjustment required by this Section 7(a) shall be made successively whenever any event listed above shall occur.

(b) Certain Definitions.

(i) Current Market Price. The "Current Market Price" per share of Common Stock on any date is the average of the closing prices of the Common Stock for thirty (30) consecutive trading days commencing forty-five (45) trading days before the date in question. The term "closing price" of the Common Stock on any day, as indicated in the next day's Wall Street Journal if so reported in the Wall Street Journal (or if not

reported in the Wall Street Journal, as reported by National Quotation Bureau Incorporated or, if not so reported, by a nationally recognized quotation service), shall be (A) the reported closing price (last sale price) of the Common Stock on the principal stock exchange on which the Common Stock is listed, or (B) if the Common Stock is not listed on a stock exchange, the last sale price of the Common Stock on the principal automated securities price quotation system on which sale prices of the Common Stock are reported, or (C) if the Common Stock is not listed on a stock exchange and sale prices of the Common Stock are not reported on an automated quotation system, the mean of the final bid and asked prices for the Common Stock as reported by National Quotation Bureau Incorporated or any successor entity if at least two (2) securities dealers have inserted both bid and asked quotations for the Common Stock on at least five (5) of the ten (10) preceding trading days. If none of the foregoing provisions are applicable, the Current Market Price shall be determined by the Board in good faith, based upon the Fair Market Value of one hundred percent (100%) of the Company if sold as a going concern and without regard to any discount for the lack of liquidity or on the basis that the relevant shares of the Common Stock do not constitute a majority or controlling interest in the Company and assuming, if applicable, the exercise or conversion of all "in-the-money" warrants, convertible securities, options or other rights to subscribe for or purchase any additional shares of capital stock of the Company or securities convertible or exchangeable into such capital stock that in any case may be entitled to participate in the proceeds of such sale. The term "trading day" shall mean (X) if the Common Stock is listed on at least one stock exchange, a day on which there is trading on the principal stock exchange on which the Common Stock is listed, (Y) if the Common Stock is not listed on a stock exchange but sale prices of the Common Stock are reported on an automated quotation system, a day on which trading is reported on the principal automated quotation system on which sales of the Common Stock are reported, or (Z) if the foregoing provisions are inapplicable, a day on which quotations are reported by National Quotation Bureau Incorporated.

(2) Fair Market Value. The term "Fair Market Value" means the value obtainable upon a sale in an arm's length transaction to a third party under usual and normal circumstances, with neither the buyer nor the seller under any compulsion to act, with equity to both, as determined by the Board in good faith; provided, however, that if a Holder or Holders, who individually or in the aggregate own 66% or more of the Warrant Securities (collectively, a "Significant Holder"), shall dispute the Fair Market Value as determined by the Board, the Company shall retain an Independent Expert (as defined in Section 7(b)(3)), provided, however, that if the Significant Holder does not accept such Independent Expert, then the Company and the Significant Holder shall each



select an Independent Expert and the two Independent Experts so selected shall select a third Independent Expert who shall determine the Fair Market Value. The determination of Fair Market Value by the Independent Expert shall be final, binding and conclusive on the Company and the Significant Holder. All costs and expenses of the Independent Expert shall be borne one-half by the Company and one-half by the Significant Holder.

(3) Independent Expert. The term "Independent Expert" means an investment banking firm reasonably agreeable to the Company and the Significant Holder who does not (and whose affiliates do not) have a financial interest in the Company or any of its affiliates.

(c) When Adjustment Not Required. If the Company shall take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend or distribution and shall, thereafter and before the distribution to stockholders thereof, legally abandon its plan to pay or deliver such dividend or distribution, then thereafter no adjustment shall be required by reason of the taking of such record and any such adjustment previously made in respect thereof shall be rescinded and annulled.

(d) Notice of Adjustment. Whenever the Exercise Price is adjusted, the Company shall provide the notices required by Section 8 hereof.

(e) Reorganization of Company. If any capital reorganization or reclassification of the capital stock of the Company, any consolidation or merger of the Company with another entity, or the sale or lease of all or substantially all of the Company's assets to another entity, other than in each case in connection with an Acquisition Transaction shall be effected in such a way that holders of Common Stock of the Company shall be entitled to receive stock, securities or assets with respect to or in exchange for such Common Stock, then, as a condition precedent to such reorganization, reclassification, consolidation, merger, sale or lease, lawful and adequate provisions shall be made whereby the Holder shall thereafter have the right to purchase and receive upon the basis and the terms and conditions specified herein and in lieu of the shares of Common Stock immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby, such shares of stock, securities or assets as may be issued or payable in such reorganization, reclassification, consolidation, merger, sale or lease with respect to or in exchange for the number of shares of Common Stock purchasable and receivable upon the exercise of the rights represented hereby had such rights been exercised immediately prior thereto, and in any such case appropriate provision shall be made with respect to the rights and interests of the Holder to the end that the provisions hereof (including without limitation, if applicable, provisions for adjustments of the Exercise Price and of the number of shares of Common Stock purchasable and receivable upon the exercise of this Warrant) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof. The Company will not effect any such consolidation, merger, sale or lease, unless prior to the consummation thereof the successor corporation (if other than the Company) resulting from such consolidation or merger or the corporation purchasing or leasing such assets shall assume by written instrument, executed and

mailed or delivered to the Holder at the last address thereof appearing on the books of the Company, the obligation to deliver to the Holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, the Holder may be entitled to purchase.

Notwithstanding any provision of the preceding paragraph to the contrary, upon consummation by the Company of an Acquisition Transaction, this Warrant shall terminate and cease to be exercisable. As used herein, "Acquisition Transaction" means a transaction in which (i) the Company sells or leases, in one or a series of related transactions, all or substantially all or the Company's assets to another entity and distributes the proceeds (or a portion of such proceeds) of such transaction to the holders of the then outstanding shares of Common Stock, or (ii) not less than a majority of the then outstanding shares of Common Stock are changed into or sold or exchanged (whether pursuant to a recapitalization, reorganization, merger, consolidation, tender or exchange offer or otherwise) for a different kind of shares of common stock or other securities (of the Company or of another corporation or other entity) or for property, cash or any combination of securities, property or cash, other than in a transaction the sole purpose of which is to change the Company's domicile.

(f) Form of Warrant. Irrespective of any adjustments in the Exercise Price or the number or kind of shares purchasable upon the exercise of this Warrant, any warrant heretofore or hereafter issued may continue to express the same price and number and kind of shares as are stated in this Warrant.

#### Section 8. Notices to Warrant Holders.

(a) Upon any adjustment of the Exercise Price pursuant to Section 7 hereof, the Company shall promptly thereafter cause to be given to the registered holder of this Warrant written notice setting forth the Exercise Price after such adjustment and setting forth the number of Warrant Securities (or portion thereof) issuable after such adjustment in the Exercise Price, upon exercise of this Warrant and payment of the adjusted Exercise Price. Where appropriate, such notice may be given in advance and included as a part of the notice required to be mailed under the other provisions of this Section 8.

(b) In the event (i) that the Company shall authorize the issuance of rights, options or warrants to subscribe for or purchase shares of Common Stock or of any other subscription rights or warrants to any holders of shares of Common Stock, (ii) that the Company shall authorize the distribution to any holders of shares of Common Stock of evidences of its indebtedness or assets (including without limitation regular cash dividends), (iii) of any consolidation or merger to which the Company is a party and for which approval of any stockholders of the Company is required, or of the conveyance or transfer of the properties and assets of the Company substantially as an entirety, or of any reclassification or change of Common Stock issuable upon exercise of this Warrant (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination), or a tender offer or exchange offer made by the Company for shares of Common Stock, or (iv) of the voluntary or involuntary dissolution, liquidation or winding up of the Company, then the Company shall cause to be given to the Holder, at least thirty (30) days prior

to the applicable record date hereinafter specified (or such later date as notice is given to the holders of record of Common Stock), or promptly in the case of events for which there is no record date, a written notice stating (A) the date as of which the persons who will receive such rights, options, warrants or distribution is determined, (B) the initial expiration date set forth in any tender offer or exchange offer made by the Company for shares of Common Stock, (C) the date on which any such reclassification, consolidation, merger, conveyance, transfer, dissolution, liquidation or winding up is expected to become effective or consummated, and the date as of which it is expected that holders of record of shares of Common Stock shall be entitled to exchange such shares for securities or other property, if any, deliverable upon such reclassification, consolidation, merger, conveyance, transfer, dissolution, liquidation or winding up, or (D) the date on which any such issuance, sale, grant or distribution is expected to become effective or consummated.

(c) The Company shall distribute to the Holder copies of all notices, materials, annual and quarterly reports, proxy statements, information statements and any other documents distributed generally to the holders of shares of Common Stock, at such times and by such method as such documents are distributed to such holders of shares of Common Stock provided that the Holder is subject to, or delivers to the Company, an undertaking satisfactory to the Company agreeing to maintain the confidentiality of any nonpublic information.

(d) The Company shall deliver to the Holder written notice of the expiration of the Exercise Period of this Warrant. Such notice shall be delivered by the Company not less than thirty (30) days but not more than ninety (90) days prior to the existing expiration date of the Exercise Period of this Warrant.

Section 9. Notices Generally. Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be effective (a) upon hand delivery or delivery by telex (with collect answer back received), telecopy or facsimile at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

- |      |                    |  |
|------|--------------------|--|
| (i)  | If to the Company: | Jakks Pacific, Inc.<br>22761 Pacific Coast Highway<br>#226<br>Malibu, CA 90265<br>Attention: Jack Friedman<br>Chief Executive Officer                  |
| (ii) | If to the Holder:  | Stanley Shenker Associates, Inc.<br>c/o Titan Sports, Inc.<br>Titan Tower<br>1241 East Main Street<br>Stamford, CT 06902<br>Attention: Stanley Shenker |

or at such other address as either party shall have specified by notice in writing.

Section 10. Successors and Assigns. Except as otherwise provided herein, this Warrant shall be binding upon and inure to the benefit of the parties and their successors and assigns. The Company may not assign this Warrant or any rights or obligations hereunder without the prior written consent of Holder (which consent may be withheld for any reason in the sole discretion of such Holder), except that the Company may assign this Warrant in connection with the sale of all or substantially all of its assets, provided that the Company is not released from any of its obligations hereunder, and such assignee assumes all obligations of the Company hereunder. The Holder may not assign this Warrant (in whole or in part) or any rights or obligations hereunder (including, but not limited to, any right to receive any Warrant Securities then issuable upon exercise of this Warrant) without the consent of the Company, which consent will not be unreasonably withheld or withheld as to any transferee established to the satisfaction of the Company to be an individual or entity to whom the Warrant Securities may be issued by the Company without registration under the Act pursuant to an exemption from such registration requirements. In addition, this Warrant may not be Transferred in whole or in part other than pursuant to an effective registration statement under the Act or an exemption from the registration provisions thereof. Each Warrant issued upon any such Transfer shall bear the restrictive legend set forth at the beginning hereof, unless the Holder delivers to the Company an opinion of counsel to the effect that such legend is not required for the purposes of compliance with the Act. The assignment by the Company or Holder of any rights hereunder shall not affect the obligations of such party under this Warrant.

Section 11. Governing Law. This Warrant shall be deemed to be a contract made under the laws of the State of New York and for all purposes shall be governed by and construed and enforced in accordance with the internal laws of such state without regard to such state's principles of conflict of laws.

Section 12. Amendment. This Warrant may be amended only by a written instrument, signed by the Holder and the Company, which specifically states that it is amending this Warrant.

Section 13. Attorneys' Fees. The Holder shall be entitled to recover from the Company the reasonable attorneys' fees and expenses incurred by the Holder in connection with enforcement by the Holder of any obligation of the Company under this Warrant.

Section 14. Headings. The headings herein are for convenience only, do not constitute a part of this Warrant and shall not be deemed to limit or affect any of the provisions hereof.

Section 15. Severability. If any provision of this Warrant is held to be illegal, invalid or unenforceable under any present or future law, and if the rights or obligations of any party hereto will not be materially and adversely affected thereby, such provision will be fully severable.

Section 16. Entire Agreement. This Warrant contains the entire understandings of the parties with respect to the matters covered hereby, and except as specifically set forth herein, neither of the parties hereto makes any representation, warranty, covenant or undertaking with respect to such matters.

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by an authorized officer.

Dated: June 30, 1999

JAKKS PACIFIC, INC.

By:           /s/ Stephen G. Berman  
                  -----  
Name:       Stephen G. Berman  
Its:         President

[Form of Election to Purchase]

(To be Executed upon Exercise of this Warrant)

The undersigned registered owner of this Warrant irrevocably (subject to Section 3(f) of the Warrant) exercises the attached Warrant for and purchases \_\_\_\_\_ shares of Common Stock and tenders payment for such shares to the order of JAKKS PACIFIC, INC.. in the amount of \$\_\_\_\_\_ in accordance with the terms of the attached Warrant, unless the holder is exercising this Warrant pursuant to the net exercise provisions of Section 3(a) of this Warrant. The undersigned requests that certificate(s) for such shares be issued and registered in the name of \_\_\_\_\_, whose address is \_\_\_\_\_ and that such certificate(s) be delivered to \_\_\_\_\_ whose address is \_\_\_\_\_.

If said number of shares is less than all of the shares of Common Stock purchasable under this Warrant, the undersigned requests that anew Warrant representing the remaining balance of such shares be registered in the name of \_\_\_\_\_, whose address is \_\_\_\_\_ and that such Warrant be delivered to \_\_\_\_\_ whose address is \_\_\_\_\_.

Date: \_\_\_\_\_

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

Name: \_\_\_\_\_

Its: \_\_\_\_\_

3-MOS  
 DEC-31-1999  
 JAN-01-1999  
 JUN-30-1999  
     64,236,214  
     0  
     22,031,902  
     167,586  
     7,485,157  
 95,061,318  
     10,404,438  
     3,158,305  
     131,235,363  
 28,242,294  
                     0  
     0  
             0  
             10,665  
     102,964,949  
 131,235,363  
             60,941,501  
 60,941,501  
             35,528,848  
     8,020,425  
 (132,466)  
     0  
 169,727  
     7,329,189  
     1,969,055  
     0  
             0  
             0  
                     0  
     5,360,134  
         .66  
         .58