

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 17, 1997

FILE NO. 333-22583

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

AMENDMENT NO. 5 TO

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

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

DELAWARE  
(STATE OR OTHER JURISDICTION  
OF INCORPORATION)

3944  
(PRIMARY STANDARD INDUSTRIAL  
CODE NUMBER)

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

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

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

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

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

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APPROXIMATE DATE OF PROPOSED SALE TO THE PUBLIC:

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

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT OF SHARES TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER SHARE(1)	MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE
Common Stock par value \$.001.....	1,000,000	\$8.50	\$8,500,000	\$2,575.76
Common Stock par value \$.001(2).....	150,000	\$8.50	\$1,275,000	\$386.36
Representative's Warrants.....	70,000	\$.001	\$70	\$.02

Common Stock par value \$.001 underlying Representative's Warrants.....	70,000	\$11.05	\$773,500	\$234.40
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Total.....			\$10,548,570	\$3,196.54(3)
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- (1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457.
- (2) Represents 150,000 shares of Common Stock which the Underwriters have the option to purchase from certain of the Company's stockholders to cover over-allotments, if any.
- (3) \$7,445.69 has been paid in registration fees.  
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THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE AN AMENDMENT THAT SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION (THE "COMMISSION"), ACTING PURSUANT TO SECTION 8(a), MAY DETERMINE.

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JAKKS PACIFIC, INC.  
CROSS-REFERENCE SHEET

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

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

SUBJECT TO COMPLETION, DATED APRIL 17, 1997

PROSPECTUS

1,000,000 SHARES

[JAKKS PACIFIC, INC. LOGO]

COMMON STOCK

All of the 1,000,000 shares of Common Stock offered hereby (the "Offering") are being sold by JAKKS Pacific, Inc., a Delaware corporation (the "Company" or "JAKKS"). The Common Stock of the Company is traded on the Nasdaq National Market System under the symbol "JAKK." On April 15, 1997, the last reported sale price of the Common Stock was \$7.25.

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 THE SECURITIES OFFERED HEREBY ARE SPECULATIVE AND INVOLVE A HIGH DEGREE OF RISK AND SHOULD NOT BE PURCHASED BY INVESTORS WHO CANNOT AFFORD THE LOSS OF THEIR ENTIRE INVESTMENT. SEE "RISK FACTORS" BEGINNING ON PAGE 7.  
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THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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

- (1) The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933. The Company has also agreed to sell to Cruttenden Roth Incorporated, the representative (the "Representative") of the Underwriters, for nominal consideration, warrants to purchase up to 70,000 shares of Common Stock exercisable at a per share price equal to 130% of the Price to Public (the "Representative's Warrants"). See "Underwriting."
- (2) Before deducting other expenses of this Offering payable by the Company, estimated to be \$600,000.
- (3) Certain of the Company's stockholders have granted the Underwriters an option, exercisable within 45 days from the date of this Prospectus, to purchase up to an aggregate of 150,000 additional shares of Common Stock on the same terms as set forth above, solely for the purpose of covering over-allotments, if any. If the Underwriters' over-allotment option is exercised in full, the total Price to the Public, Underwriting Discounts and Commissions, and Proceeds to the Company and such stockholders will be \$ , \$ , \$ and \$ , respectively. See "Underwriting."

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 The shares of Common Stock are offered severally by the Underwriters named herein, subject to prior sale, when, as and if delivered to and accepted by the Underwriters, and subject to certain other conditions. It is expected that delivery of the certificates representing the shares of Common Stock will be made against payment therefor at the offices of the Representative, 18301 Von

Karman, Suite 100, Irvine, California 92612,  
or through the facilities of Depository Trust Company, on or about  
1997.

CRUTTENDEN ROTH  
INCORPORATED

The date of this Prospectus is , 1997

[PICTURES]

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK. SUCH TRANSACTIONS MAY INCLUDE STABILIZING BIDS AND PURCHASES, SYNDICATE SHORT COVERING TRANSACTIONS AND PENALTY BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

## PROSPECTUS SUMMARY

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

## THE COMPANY

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

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

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

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

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

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

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

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



## THE OFFERING

Common Stock offered by the  
Company..... 1,000,000 shares

Common Stock to be  
outstanding after the  
Offering (1)..... 5,182,969 shares

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

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

Nasdaq National Market  
Trading Symbol..... "JAKK"  
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(1) Unless otherwise indicated, all share and per share data and information contained in this Prospectus relating to the number of shares of Common Stock outstanding does not include: (i) the 568,498 shares reserved for issuance upon the exercise of options outstanding and options available for grant; (ii) the 370,000 shares reserved for issuance upon the exercise of outstanding warrants (including the Representative's Warrants); and (iii) the 923,077 shares reserved for issuance upon the conversion of convertible debentures.

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

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

DECEMBER 31, 1996

	ACTUAL	PRO FORMA(7)	AS ADJUSTED(8)
<b>BALANCE SHEET DATA:</b>			
Working capital.....	\$ 7,824	\$ 5,312	\$10,717
Total assets.....	14,200	28,231	30,674
Short-term debt.....	190	6,117	3,180
Long-term debt.....	--	6,000	6,000
Stockholders' equity.....	11,746	13,246	18,626

- (1) Reflects statement of operations data of Justin for the year ended December 31, 1994.
- (2) Reflects the actual consolidated statement of operations data of JAKKS for the period from April 1, 1995 (inception) to December 31, 1995. The acquisition of Justin is accounted for as of July 1, 1995.
- (3) Reflects pro forma statements of operations for the Company and Justin and certain adjustments for the year ended December 31, 1995, as if the acquisition of Justin occurred on January 1, 1995.
- (4) Reflects the actual consolidated statement of operations data of JAKKS for year ended December 31, 1996.
- (5) Reflects pro forma statements of operations for the Company and Road Champs and certain adjustments for the year ended December 31, 1995, as if the acquisition of Road Champs occurred on January 1, 1995.
- (6) Reflects pro forma statements of operations for the Company and Road Champs and certain adjustments for the year ended December 31, 1996, as if the acquisition of Road Champs occurred on January 1, 1996.
- (7) Reflects pro forma balance sheet data for the Company and Road Champs and certain adjustments as of December 31, 1996, as if the acquisition of Road Champs occurred on January 1, 1996 and reflects the issuance of the convertible debentures in the amount of \$6,000,000 in January 1997.
- (8) As adjusted to give effect to the sale of 1,000,000 shares of Common Stock offered by the Company at an assumed offering price of \$6.50 per share, after deducting underwriting discounts and estimated offering expenses payable by the Company and the application of the estimated net proceeds therefrom.

## RISK FACTORS

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

## DEPENDENCE ON LIMITED NUMBER OF PRODUCT LINES

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

## CONSUMER PREFERENCES AND NEW PRODUCT INTRODUCTIONS

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

## DEPENDENCE ON LICENSING AGREEMENTS

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

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

Under certain character and product licenses, including the license for WWF, among others, the Company guarantees minimum royalty payments for a number of years regardless of the actual sales of the related product. If the Company fails to sell a sufficient quantity of such products, the Company may incur losses and might not be able to retain such licenses, which could have a material adverse effect on the Company's business, financial condition and results of operations. For the fiscal year ending December 31, 1997, the minimum guaranteed royalty payments under the Company's existing licenses will be approximately \$730,000. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## COMPETITION

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

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

#### ASSIMILATION OF ROAD CHAMPS

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

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

#### LIMITED OPERATING HISTORY

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

#### CONCENTRATION OF SALES

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

#### DEPENDENCE ON KEY PERSONNEL

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

one year thereafter. See "Management." In addition, pursuant to the terms of certain convertible debentures issued by the Company in the amount of \$6,000,000, holders of such debentures have the option to have the Company redeem part or all of such outstanding debentures in the event of Mr. Friedman's death. The Company currently maintains key man life insurance in the amount of \$8,000,000 on Mr. Friedman's life. See "Description of Securities -- Renaissance Debentures."

#### DEPENDENCE UPON NON-AFFILIATED FOREIGN MANUFACTURERS

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

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

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

#### SEASONALITY AND QUARTERLY FLUCTUATIONS

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

#### BROAD DISCRETION AS TO USE OF PROCEEDS

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

## GOVERNMENT REGULATION

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

## PROPRIETARY RIGHTS

The Company relies on copyright and trade secret protection, nondisclosure agreements and licensing arrangements to establish, protect and enforce proprietary rights in its products. Despite the efforts of the Company and its licensors to safeguard and maintain their proprietary rights, there can be no assurance that the Company or its licensors will be successful in so doing. In addition, the laws of certain foreign countries may not protect intellectual property rights to the same extent or in the same manner as the laws of the United States. Although the Company and its licensors continue to implement protective measures and intend to defend their proprietary rights vigorously, there can be no assurance that these efforts will be successful.

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

## POSSIBLE VOLATILITY OF MARKET PRICE OF COMMON STOCK

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

## SHARES ELIGIBLE FOR FUTURE SALE

Upon consummation of this Offering, the Company will have 5,182,969 shares of Common Stock outstanding, of which the 1,000,000 shares of Common Stock offered hereby is a part, and 3,057,454 shares will be freely tradeable without restriction or further registration under the Securities Act of 1933, as amended (the "Securities Act"). The remaining 2,125,515 shares of Common Stock are "restricted securities," as that term is defined under Rule 144 promulgated under the Securities Act. Such shares may only be sold pursuant to a registration statement under the Securities Act, in compliance with the exemption provisions of Rule 144 or pursuant to another exemption under the Securities Act.

The executive officers, directors, certain other shareholders of the Company and their affiliates have agreed, pursuant to lock-up agreements with the Representative, that they will not for a period of 180 days from the date of this Prospectus, without the prior written consent of the Representative, sell or otherwise dispose of an aggregate of approximately 1,735,984 restricted shares of Common Stock. In addition, certain other stockholders of the Company have agreed, pursuant to a lock-up agreement with the Company, that they will not sell or otherwise dispose of an aggregate of 198,020 restricted shares of Common Stock prior to

February 1998. Upon the expiration of these lock-up agreements, such shares of Common Stock will become eligible for sale in the public market, subject to the provisions of Rule 144 under the Securities Act.

The Company has also granted certain piggy-back registration and demand registration rights with respect to 198,020 shares of restricted Common Stock, 370,000 shares of restricted Common Stock issuable upon the exercise of outstanding warrants and 923,077 shares of restricted Common Stock issuable upon the conversion of outstanding debentures described below. See "Description of Securities -- Registration Rights."

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

The Company has also reserved a total of 938,498 shares of Common Stock for future issuance upon exercise of options and warrants. These include: (i) an aggregate of 216,998 shares reserved for issuance to key employees, officers, directors and consultants upon the exercise of options under the Company's Amended and Restated 1995 Stock Option Plan (the "Stock Option Plan"), of which options for 191,750 shares of Common Stock have been previously granted; (ii) an aggregate of 276,500 shares of Common Stock for issuance upon exercise of options granted to certain employees prior to adoption of the Stock Option Plan; (iii) an aggregate of 75,000 shares of Common Stock for issuance upon exercise of options to a certain consultant outside of the Stock Option Plan; (iv) 150,000 shares for issuance upon exercise of warrants which were issued to the representatives of the underwriters in the Company's Initial Public Offering in May 1996 (the "Initial Public Offering"); (v) 150,000 shares for issuance upon exercise of certain other outstanding warrants; and (vi) 70,000 shares for issuance upon exercise of the Representative's warrants. The Company has also reserved 923,077 shares for issuance upon conversion of outstanding debentures (the "Convertible Debentures").

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

#### CONTINUING CONTROL BY MANAGEMENT

After this Offering, all executive officers and directors of the Company as a group will beneficially own, in the aggregate, approximately 33.0% of the Company's outstanding Common Stock. Accordingly, such stockholders will be able to exert significant influence in the election of the Board. See "Principal and Selling Stockholders."

#### NO DIVIDENDS

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

#### FORWARD-LOOKING STATEMENTS

This Prospectus includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical fact, including those with respect to the Company's objectives, plans and strategy set forth under "Prospectus Summary" and "Business -- Business Strategy" and those preceded by or that include the words "believes," "expects," "anticipates," "intends," "plans," "is scheduled to" or similar expressions, are forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that those expectations will prove to have been correct.

Important factors that could cause actual results to differ materially from the Company's expectations ("Cautionary Statements") are disclosed in this Prospectus in conjunction with the forward-looking statements and under these "Risk Factors." All written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by those Cautionary Statements.

#### USE OF PROCEEDS

The net proceeds to the Company from the sale of the 1,000,000 shares of Common Stock offered by the Company hereby are estimated to be approximately \$5.4 million at an assumed offering price of \$6.50 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company. The Company will not receive any proceeds from the sale of Common Stock, if any, pursuant to the over-allotment option.

Of such net proceeds, the Company expects to use approximately \$2.9 million for the repayment of short-term debt incurred primarily in connection with the Road Champs Acquisition, \$1.0 million to acquire additional character and product licenses and approximately \$1.0 million to acquire product lines and other toy businesses. The remaining net proceeds will be used for working capital and general corporate purposes.

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

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



## PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

Since April 14, 1997, the Company's Common Stock has been trading on the Nasdaq National Market System under the symbol "JAKK." Prior to April 14, 1997, the Company's Common Stock traded on the Nasdaq SmallCap Market. The following table sets forth the high and low closing sales prices of the Company's Common Stock in each of the following quarters as reported by either the Nasdaq National Market System or the Nasdaq SmallCap Market since inception of trading on the latter on May 1, 1996.

	HIGH ----	LOW ----
1996		
Second quarter (from May 1).....	9	6 1/2
Third quarter.....	8 3/4	6 1/4
Fourth quarter.....	9	7 1/4
1997		
First quarter.....	8 5/8	7 1/8
Second quarter (to April 15).....	8 1/4	6

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

## CAPITALIZATION

The following table sets forth the short-term debt and capitalization of the Company; (i) as of December 31, 1996; (ii) on a pro forma basis to reflect the issuance of the Convertible Debentures in the principal amount of \$6.0 million in January 1997, the issuance of 198,020 shares of Common Stock and incurrence of obligations in connection with the Road Champs Acquisition in February 1997; and (iii) as adjusted to give effect to the sale of 1,000,000 shares of Common Stock offered by the Company hereby and the application of the estimated net proceeds therefrom. See "Use of Proceeds." This table should be read in conjunction with the Consolidated Financial Statements of the Company and the Notes thereto included elsewhere in this Prospectus.

	DECEMBER 31, 1996		
	ACTUAL	PRO FORMA	AS ADJUSTED
	(IN THOUSANDS)		
Short-term debt.....	\$ 190	\$ 6,117	\$ 3,180
Long-term debt.....	\$ --	\$ 6,000	\$ 6,000
Stockholders' equity:			
Preferred stock, \$.001 par value; 5,000 shares authorized, no shares issued.....	\$ --	\$ --	\$ --
Common stock, \$.001 par value; 25,000,000 shares authorized: 3,984,949 issued and outstanding, actual; 4,182,969 issued and outstanding, pro forma; 5,182,969 issued and outstanding, as adjusted.....	4	4	5
Additional paid-in capital.....	10,321	11,821	17,200
Retained earnings.....	1,616	1,616	1,616
Less unearned compensation from grant of options.....	11,941	13,441	18,821
Net stockholders' equity.....	195	195	195
Total capitalization.....	\$11,746	\$19,246	\$24,626

PRO FORMA FINANCIAL INFORMATION  
(UNAUDITED)

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

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

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

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

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

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

Total Convertible Debentures.....	\$ 6,000,000
Less: Placement agent and lender closing fees and expenses.....	510,000
	-----
Net proceeds.....	\$ 5,490,000
	=====

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

Purchase price.....	\$12,045,604
Less consideration paid at closing:	
Cash.....	4,619,061
Common stock of JAKKS.....	1,500,000
	-----
	6,119,061
	-----
Total deferred payments due within twelve months of closing.....	\$ 5,926,543
	=====



## JAKKS PACIFIC, INC. AND SUBSIDIARIES

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

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

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

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

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

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

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

OVERVIEW

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

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

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

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

RESULTS OF OPERATIONS

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

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

## YEARS ENDED DECEMBER 31, 1996 AND 1995

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

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

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

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

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

## QUARTERLY FLUCTUATIONS AND SEASONALITY

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



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

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

	1995 PRO FORMA(1)				1996			
	1ST	2ND	3RD	4TH	1ST	2ND	3RD	4TH
	(IN THOUSANDS, EXCEPT PER SHARE DATA)							
Net sales.....	\$ 219	\$1,634	\$3,769	\$2,309	\$ 835	\$2,382	\$4,458	\$4,377
Gross profit.....	72	501	989	958	418	839	1,804	1,760
Income (loss) before income taxes.....	(91)	163	436	115	(42)	195	730	460
Net income (loss).....	(76)	136	359	78	20	202	628	330
Net income (loss) per share.....	\$ (0.03)	\$ 0.06	\$ 0.16	\$ 0.04	\$ 0.01	\$ 0.06	\$ 0.15	\$ 0.08

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

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

#### LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

In January 1997, the Company received net proceeds of approximately \$5.5 million, net of issuance costs, from the issuance of \$6.0 million in convertible debentures which are convertible into 923,077 shares of Common Stock, subject to anti-dilution provisions. Such debentures bear interest at 9% per annum, payable monthly, and are due in December 2003.

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

The Company believes that its cash flow from operations, cash on hand and the net proceeds from the issuance of the Convertible Debentures, together with the net proceeds to the Company from this Offering, will be sufficient to meet working capital and capital expenditure requirements and provide the Company with adequate liquidity to meet its anticipated operating needs for the foreseeable future. Although operating activities are expected to provide cash, to the extent the Company grows significantly in the future, its operating and investing activities may use cash and, consequently, such growth may require the Company to obtain additional sources of financing. There can be no assurance that any necessary additional financing will be available to the Company on commercially reasonable terms, if at all.

#### EXCHANGE RATES

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

#### RECENT ACCOUNTING PRONOUNCEMENT

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

## BUSINESS

## COMPANY OVERVIEW

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

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

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

## INDUSTRY OVERVIEW

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

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

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

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

## BUSINESS STRATEGY

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

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

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

## PRODUCTS

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

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

## CURRENT PRODUCTS

## MALE ACTION FIGURES AND ACCESSORIES

## - World Wrestling Federation

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

## MINI VEHICLES

## - Die Cast Vehicles

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

## - Power Rangers ZEO

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

## FASHION/MINI DOLLS

## - Fashion/Mini Dolls

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

## CHILDREN'S ELECTRONIC TOYS

## - Sky Com and Audio Kid

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

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

#### NEW PRODUCTS

##### - TURBO Power Ranger

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

##### - Turbo Touch Racer

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

##### - Reactor and Mini Reactor

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

##### - Other Products

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

#### LICENSE AND MARKETING AGREEMENTS

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

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

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

products from Wow Wee and also pay Wow Wee royalties with certain minimum guarantees. However, the Company may cancel the agreement by payment of the guaranteed royalties.

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

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

#### MARKETING AND DISTRIBUTION

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

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

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

The Company generally budgets approximately 3% of its gross revenues for the advertising of its products, most of which is in conjunction with retailers in the form of cooperative advertising. The Company, together with retailers, sometimes tests the consumer acceptance of new products in selected markets before committing resources to production. In addition, the Company also advertises its products in trade and consumer magazines and other publications, as well as marketing its products at major and regional toy trade shows. The Company has recently engaged an advertising agency to begin producing television commercials for its radio controlled vehicle line. If management concludes that sales of a particular product would support the high cost, it may use television commercials to advertise certain of its products.



## PRODUCT DEVELOPMENT

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

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

## MANUFACTURING AND SUPPLIES

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

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

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

## TRADEMARKS AND COPYRIGHTS

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

## ACQUISITIONS

Road Champs Acquisition. In February 1997, the Company, through a wholly-owned subsidiary, purchased all of the shares of Road Champs, Inc. ("RC Inc."), a Pennsylvania corporation, which owns all of the shares of Road Champs Ltd. ("RC Ltd."), a Hong Kong corporation, and the operating assets of Die Cast Associates, Inc., a related Florida corporation (collectively, the "Road Champs Companies"). As part of such acquisition, the Company purchased, among other things, the Road Champs inventory, product lines, tools and molds and trademarks. The net purchase price was approximately \$12.0 million. Payments of approximately \$4.6 million in cash and \$1.5 million through the issuance of 198,020 shares of Common Stock were made at the closing. Payment of approximately \$2.9 million was deferred and is payable in three installments

in June and October 1997 and February 1998 with interest at the rate of 7% per annum. Payment of approximately \$2.0 million for the inventory will be made over the six-month period following the closing. Payment of approximately \$1.0 million is due on the earlier of the close of this Offering or May 6, 1997. All outstanding payments are secured by a pledge of the shares of stock of RC Inc. and RC Ltd. and a security interest in the Road Champs Companies' assets which is subordinate to the security interest given by the Company to Renaissance Capital Growth & Income Fund III, Inc. and Renaissance US Growth & Income Trust PLC (collectively, "Renaissance") to secure payment of the Convertible Debentures issued by the Company to Renaissance. See "Description of Securities -- Renaissance Debentures."

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

#### COMPETITION

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

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

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

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

#### SEASONALITY AND BACKLOG

Sales of toy products are seasonal, with a majority of retail sales occurring during the period from September through December. Approximately 73% of the Company's sales in 1996 were made in the third

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

The Company generally ships products to customers within three to six months of the date an order is received. The Company's backlog, exclusive of Road Champs, at March 8, 1997, was approximately \$5.3 million, compared to \$2.5 million at March 31, 1996. Because customer orders may be canceled at any time without penalty, the Company believes that backlog may not accurately indicate sales for any future period.

#### GOVERNMENT AND INDUSTRY REGULATION

The Company's products are subject to the provisions of the Consumer Product Safety Act ("CPSA"), the Federal Hazardous Substances Act ("FHSA"), the Flammable Fabrics Act ("FFA") and the regulations promulgated under each such Act. The CPSA and the FHSA enable the Consumer Product Safety Commission ("CPSC") to exclude from the market consumer products that fail to comply with applicable product safety regulations or otherwise create a substantial risk of injury and articles that contain excessive amounts of a banned hazardous substance. The FFA enables the CPSC to regulate and enforce flammability standards for fabrics used in consumer products. The CPSC may also require the repurchase by the manufacturer of articles which are banned. Similar laws exist in some states and cities and in various international markets. The Company maintains a quality control program designed to ensure compliance in all material respects with all applicable laws.

#### EMPLOYEES

As of April 15, 1997, the Company employed 55 persons, all of whom are full-time employees, including three executive officers. Twenty-eight of the Company's employees are located in the United States, while the remaining twenty-seven are located in Hong Kong. The Company believes that it has good relationships with its employees. None of the Company's employees are represented by a union.

#### PROPERTIES

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

The Company also leases two locations in Hong Kong. One such location, at the Chinachen Golden Plaza, 77 Mody Road, Tsimshatsui East, Kowloon, Hong Kong, consisting of approximately 1,210 square feet, is leased on a month to month basis and is used as office space for the Company's sourcing operations. The base rent for such facility is the U.S. dollar equivalent of \$5,119 per month. The Company acquired the lease for the second Hong Kong location in connection with the Road Champs Acquisition. The property is located at the Peninsula Center, 67 Mody Road, Tsimshatsui East, Kowloon, Hong Kong. The lease provides for a

monthly rent of the U.S. dollar equivalent of \$10,200, consists of approximately 3,200 square feet and is used for office space and expires on March 14, 1998. The Company will shortly combine all of its Hong Kong operations at the location previously occupied by Road Champs. The Company expects to lease a modestly larger space for its offices in California. With such increase, the Company believes that its facilities in the United States and Hong Kong will be adequate for its reasonably foreseeable future needs.

#### ENVIRONMENTAL ISSUES

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

#### LEGAL PROCEEDINGS

The Company is not a party to any legal proceedings.

## MANAGEMENT

## DIRECTORS AND EXECUTIVE OFFICERS

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

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

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

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

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

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

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

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

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

Until the Convertible Debentures are fully redeemed or converted, Renaissance has the right to designate one person for nomination by management as a director of the Company or as an advisor to the Board. Upon certain events of default under the loan agreement for the convertible debentures, Renaissance has the right to designate an additional person as director of the Company.

#### COMMITTEES OF THE BOARD OF DIRECTORS

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

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

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

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

#### INDEMNIFICATION OF OFFICERS AND DIRECTORS

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

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

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the Company, pursuant to the foregoing provisions, the Company has been informed that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

## EXECUTIVE COMPENSATION

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

SUMMARY COMPENSATION TABLE

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

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

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

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

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

## EMPLOYMENT AGREEMENTS

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

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

The Company has obtained key man life insurance policies in the amount of \$8,000,000 on Mr. Friedman's life. See "Description of Securities -- Renaissance Debentures."

## AMENDED AND RESTATED 1995 STOCK OPTION PLAN

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

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

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

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

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

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



## PRINCIPAL AND SELLING STOCKHOLDERS

## PRINCIPAL STOCKHOLDERS

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

NAME AND ADDRESS OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED	PERCENTAGE OF SHARES BENEFICIALLY OWNED	
		PRIOR TO OFFERING	AFTER OFFERING
Jack Friedman 24955 Pacific Coast Highway, #B202, Malibu, California 90265	1,410,488(1)	33.7%	27.2%
Stephen Berman 24955 Pacific Coast Highway, #B202, Malibu, California 90265	216,998(2)	5.2	4.2
Michael G. Miller One Blue Hill Plaza Pearl River, NY 10965	16,275(3)	*	*
Murray L. Skala 750 Lexington Avenue New York, NY 10022	238,696(4)	5.7	4.6
Robert E. Glick 1400 Broadway New York, NY 10018	23,275(5)	*	*
Renaissance Capital Growth & Income Fund III, Inc. and Renaissance US Growth & Income Trust PLC 8080 N. Central Expressway, Suite 310/LB59 Dallas, Texas 75206	923,077(6)	18.1	15.1
All Officers and Directors as a Group (six persons) (1)(2)(3)(4)(5)(7)	1,734,485	40.8%	33.0%

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

- (1) Includes an aggregate of 189,872 shares held by Mr. Skala as trustee under trusts for the benefit of the children of Mr. Friedman, the Company's Chairman, Chief Executive Officer and President.
- (2) Mr. Berman is the Company's Chief Operating Officer, Executive Vice President, Secretary and a director.
- (3) Represents 16,275 shares which Mr. Miller, a director of the Company, has the right to acquire pursuant to outstanding stock options.
- (4) Includes 27,124 shares owned by Mr. Skala, a director of the Company, 21,700 shares which Mr. Skala has the right to acquire pursuant to outstanding stock options and an aggregate of 189,872 shares held by Mr. Skala as trustee under trusts for the benefit of the children of Mr. Friedman.
- (5) Includes 16,275 shares which Mr. Glick, a director of the Company, has the right to acquire pursuant to outstanding stock options.
- (6) Consists of 923,077 shares in the aggregate which these two entities have the right to acquire upon the conversion of an aggregate of \$6,000,000 of convertible debentures owned by them. Each of these entities owns \$3,000,000 of such convertible debentures. The Company believes that these two entities are under common control by a third-party.

(7) Includes 2,000 shares beneficially owned by Joel M. Bennett, the Company's Chief Financial Officer, and 16,625 shares which Mr. Bennett has the right to acquire pursuant to outstanding stock options.

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

## OVER-ALLOTMENT OPTION SELLING STOCKHOLDERS

Certain stockholders of the Company have granted an option to the Underwriters, exercisable within 45 days after the date of this Prospectus, to purchase from such stockholders up to 150,000 shares of Common Stock at the offering price less the underwriting discount set forth on the cover page of this Prospectus. The Underwriters may exercise the option only for the purpose of covering over-allotments. If the over-allotment option is not exercised in full, such stockholders will sell the lesser number of over-allotment shares in the same proportions. The following table, which should be read in conjunction with the Principal Stockholder Table above, sets forth information regarding such stockholders' beneficial ownership of the Common Stock prior to the exercise of any portion of the over-allotment and after the full exercise of the over-allotment option.

NAME AND ADDRESS OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED PRIOR TO EXERCISE OF OVER-ALLOTMENT OPTION		SHARES OFFERED AS PART OF OVER-ALLOTMENT OPTION	SHARES BENEFICIALLY OWNED AFTER FULL EXERCISE OF OVER-ALLOTMENT OPTION	
	NUMBER	PERCENT		NUMBER	PERCENT
Jack Friedman 24955 Pacific Coast Highway, #B202, Malibu, California 90265	1,410,488(a)	33.7%	117,570(b)	1,292,918(c)	24.2%
Stephen Berman 24955 Pacific Coast Highway, #B202, Malibu, California 90265	216,998	5.2	24,000	192,998	3.6
Murray L. Skala 750 Lexington Avenue New York, NY 10022	238,696(a)	5.7	18,555(b)	220,141(c)	4.1
Natacha Friedman 19246 E. Country Club Drive Aventura, FL 33180	81,374	1.9	6,075	75,299	1.4
Trust for Brooke Friedman 750 Lexington Avenue New York, NY 10022	81,374	1.9	6,075	75,299	1.4
Trust for Tony Friedman 750 Lexington Avenue New York, NY 10022	81,374	1.9	6,075	75,299	1.4
Education Trust for Tony Friedman 750 Lexington Avenue New York, NY 10022	27,124	*	4,050	23,074	*
All Officers and Directors as a Group (six persons)	1,734,485(a)	40.8%	143,925(b)	1,590,560(c)	29.4%

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

(a) Includes an aggregate of 189,872 shares held by Mr. Skala as trustee under trusts for the benefit of the children of Mr. Friedman.

(b) Includes 16,200 shares held by Mr. Skala as trustee under trusts for the benefit of the children of Mr. Friedman.

(c) Includes 173,672 shares held by Mr. Skala as trustee under trusts for the benefit of the children of Mr. Friedman.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

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

## DESCRIPTION OF SECURITIES

## GENERAL

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

## COMMON STOCK

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

## PREFERRED STOCK

The Certificate of Incorporation provides that the Company is authorized to issue "blank check" preferred stock, which may be issued from time to time in one or more series upon authorization by the Board. The Board, without further approval of the stockholders, is authorized to fix any dividend rights, conversion rights, voting rights, redemption rights and terms, liquidation preferences and any other rights, preferences, privileges and restrictions applicable to each series of preferred stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, adversely affect the voting power of the holders of the Common Stock. Under certain circumstances, the issuance of preferred stock could also make it more difficult for a third party to gain control of the Company, discourage bids for the Company's Common Stock at a premium or otherwise adversely affect the market price of the Common Stock. To date, the Company has not issued any preferred stock.

## RENAISSANCE DEBENTURES

In January 1997, the Company issued \$6,000,000 of its 9% seven-year convertible debentures to Renaissance. After payment of a 6% brokerage commission to Joseph Charles & Associates, Inc. and fees to Renaissance and its attorneys, net proceeds to the Company were \$5,450,000. The debentures are presently convertible into 923,077 shares of Common Stock. When any shares of Common Stock are issued by the Company for consideration per share less than the then existing conversion price of the Convertible Debentures, then in each such case the conversion price shall be reduced to a new conversion price equal to the consideration per share received by the Company for such additional shares of Common Stock; provided however, that prior to such issuance, the Company may request the holders to waive the right to an adjustment of the conversion price and in the event such waiver is not granted by the holders, the Company shall have the right, prior to the issuance of such additional shares, to redeem the Convertible Debenture at 120% of face value. The number of shares of Common Stock into which the debentures are convertible are also subject to adjustment for certain changes in capital structure and other events.

The indebtedness must be repaid in part each month beginning December 1999, in the amount of 1% of the then unpaid balance, and in full at December 31, 2003. Pursuant to the terms of the Convertible Debentures, holders of such debentures also have the option to have the Company redeem part or all of such outstanding debentures in the event of Mr. Friedman's death. The Company maintains key man life insurance in the amount of \$8,000,000 on Mr. Friedman's life. The indebtedness to Renaissance is secured by all of the

Company's assets. The Company has the right to prepay all or part of such indebtedness in certain events at 120% of their original \$6,000,000 face value.

Renaissance has certain demand and piggy-back registration rights for the shares into which its debentures are convertible that may require the Company to register for public resale the shares of Common Stock issuable thereunder. Renaissance also has the right to designate one person for nomination by management as a director of the Company or as an advisor to the Board. Upon certain events of default under the loan agreement for the convertible debentures, Renaissance has the right to designate an additional person as director of the Company.

#### WARRANTS AND OPTIONS

In connection with the Initial Public Offering, the Company issued to the representatives of the underwriters warrants (the "IPO Warrants") to purchase an aggregate of 150,000 shares of Common Stock at an exercise price of \$9.375 per share. Such warrants expire on May 1, 2001. Holders of such warrants possess certain demand and incidental registration rights that may require the Company to register for public resale the shares of Common Stock issuable thereunder.

For its assistance with the Renaissance financing, the Company issued to Joseph Charles & Associates, Inc. a warrant (the "Renaissance Warrants") to purchase an aggregate of 150,000 shares of Common Stock at an exercise price of \$8.00 per share. Such warrant expires on January 8, 2002. Holders of such warrants possess certain demand and incidental registration rights that may require the Company to register for public resale the shares of Common Stock issuable thereunder.

The Company has agreed to sell to the Representative or its designees, for nominal consideration, the Representative's Warrants to purchase up to 70,000 shares of Common Stock at an exercise price equal to 130% of the public offering price. The Representative or its designees possess certain demand and incidental registration rights that may require the Company to register for public resale the shares of Common Stock issuable thereunder. The Representative's Warrants are exercisable for a period of four years beginning one year from the date of this Prospectus. See "Underwriting."

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

#### REGISTRATION RIGHTS

In connection with the Road Champs Acquisition, the Company issued 198,020 shares of Common Stock to the stockholders of Road Champs, Inc. Such stockholders are entitled to certain registration rights which provide that the Company must use its best efforts to file a registration statement under the Securities Act prior to February 6, 1998 for the public resale of such shares of Common Stock and use its best efforts to cause such registration statement to become effective.

Holders of the Convertible Debentures are entitled to certain registration rights with respect to the shares of Common Stock issuable upon conversion of the Convertible Debentures. At any time after six months from the date of this Prospectus, such holders have the right to have such shares registered, but the costs of such registration shall be at such holder's cost. Beginning in January 1999, such holders may demand registration of such shares on two occasions at the Company's expense, but not more often than once a year.

Holders of the IPO Warrants are entitled to certain registration rights with respect to the shares of Common Stock issuable under the IPO Warrants. At any time after May 1, 1997, holders of the IPO

Warrants may request that the Company file a registration statement under the Securities Act for the public resale of the Common Stock issuable upon exercise of the IPO Warrants. Upon such request and, subject to certain conditions, the Company will be required to prepare and file any such registration statement and to use its best efforts to cause such registration statement to become effective. The holders of the IPO Warrants have the right to demand registration as described above on at least two separate occasions.

The Holders of the Renaissance Warrants also possess demand registration rights with respect to the shares of Common Stock issuable pursuant thereto.

The Holders of the Representative's Warrants possess demand registration rights with respect to the shares of Common Stock issuable pursuant to the Representative's Warrants. Such rights are exercisable at any time after one year from the date of this Prospectus. These rights may be exercised on one occasion.

In the event the Company proposes to register any of its securities under the Securities Act, either for its own account or for the account of others, the holders of the Convertible Debentures, the IPO Warrants, the Renaissance Warrants and the Representative's Warrants are entitled to notice of such registration and to include the shares of Common Stock underlying such debentures and warrants therein. The Company is generally obligated to bear the expenses, other than underwriting discounts and sales commissions, of the above described registrations.

#### TRANSFER AGENT

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

## SHARES ELIGIBLE FOR FUTURE SALE

Upon the consummation of this Offering, the Company will have 5,182,969 shares of Common Stock outstanding. Of such shares, 3,057,454 shares (including the 1,000,000 shares of Common Stock offered hereby) will be freely tradeable without restriction or further registration under the Securities Act, except shares purchased by an affiliate of the Company. Another 2,125,515 shares of Common Stock are "restricted securities," as the term is defined under Rule 144. Such shares were acquired by their owners prior to this Offering in transactions not involving a public offering. Such shares may only be sold pursuant to a registration statement under the Securities Act, in compliance with the exemption provisions of Rule 144, or pursuant to another exemption under the Securities Act.

The executive officers, directors, certain other shareholders of the Company and their affiliates have agreed, pursuant to lock-up agreements with the Representative, that they will not for a period of 180 days from the date of this Prospectus, without the prior written consent of the Representative, sell or otherwise dispose of an aggregate of approximately 1,735,984 restricted shares of Common Stock. The Representative may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to any of such lock-up agreements. In addition, certain other shareholders of the Company have agreed, pursuant to a lock-up agreement with the Company, that they will not sell or otherwise dispose of an aggregate of 198,020 restricted shares of Common Stock prior to February 1998. Upon the expiration of these lock-up agreements, an aggregate of 1,934,004 of such shares of Common Stock will become eligible for sale in the public market, subject to the provisions of Rule 144 under the Securities Act.

In general, under Rule 144 under the Securities Act, as currently in effect, a person (or persons whose shares are aggregated) who has beneficially owned restricted shares (as that term is defined in Rule 144) for at least two years, including any person who may be deemed to be an affiliate of the Company, is entitled to sell, within any three-month period, a number of shares that does not exceed the greater of 1% of the total number of then-outstanding shares of Common Stock (approximately 51,829 shares immediately after this Offering) or the average weekly trading volume in the Common Stock as reported by Nasdaq during the four calendar weeks preceding such sale. Sales pursuant to Rule 144 also are subject to certain other requirements relating to the manner and notice of sale and availability of current public information about the Company. Affiliates may publicly sell shares not constituting restricted securities under Rule 144 in accordance with the foregoing volume limitations and other restrictions, but without regard to the two-year holding period. Under Rule 144(k), a person who is not deemed to have been an affiliate of the Company at any time during the 90 days immediately preceding a sale by such person, and who has beneficially owned restricted shares for at least three years, is entitled to sell such shares under Rule 144 without regard to the volume limitations and other conditions described above.

The SEC has adopted amendments, effective April 29, 1997, reducing the required two-year holding period under Rule 144 to one year and reducing the required three-year holding period under Rule 144(k) to two years. The amendments may be relied upon by holders of restricted securities on or after April 29, 1997 and will allow such holders to sell restricted securities in the open market significantly earlier than currently permitted. Approximately 1,927,495 restricted shares of Common Stock of the Company have been held for over one year.

An additional 913,250 shares of Common Stock that are issuable upon exercise of outstanding warrants and options will, under Rule 144, be eligible for sale into the public securities markets one year after the warrant or option is exercised and 923,077 shares of Common Stock that are issuable upon conversion of the Convertible Debentures will be eligible for sale into the public securities market after January 8, 1998, subject to the volume, manner and notice of sale and other conditions of Rule 144 described above.

The Company has granted certain piggy-back and demand registration rights with respect to 198,020 restricted shares outstanding, 370,000 restricted shares issuable upon the exercise of outstanding warrants and 923,077 restricted shares issuable upon the conversion of outstanding debentures. See "Description of Securities -- Registration Rights."

The Company makes no prediction as to the effect, if any, that future sales of shares or the availability of shares for future sale will have on the prevailing market price of the Common Stock. Sales of substantial amounts of the Common Stock in the public market or the perception that such sales could occur could have an adverse effect on the prevailing market price of the Common Stock.



## UNDERWRITING

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

UNDERWRITERS	NUMBER OF SHARES TO BE PURCHASED
----- Cruttenden Roth Incorporated.....	
Total.....	1,000,000 =====

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

Certain of the Company's stockholders have granted an option to the Underwriters, exercisable within 45 days after the date of this Prospectus, to purchase from such stockholders up to 150,000 shares of Common Stock at the offering price, less the underwriting discount set forth on the cover page of this Prospectus. The Underwriters may exercise the option only for the purpose of covering over-allotments. To the extent the Underwriters exercise such option, each Underwriter will be committed, subject to certain conditions, to purchase that number of additional shares of Common Stock which is proportionate to such Underwriter's initial commitment. See "Principal and Selling Stockholders -- Over-Allotment Option Selling Stockholders."

The Company has agreed to sell to the Representative or its designee, for nominal consideration, the Representative's Warrants to purchase up to 70,000 shares of Common Stock at an exercise price per share equal to 130% of the Price to Public set forth on the cover page of this Prospectus. The Representative's Warrants are exercisable for a period of four years beginning one year from the date of this Prospectus and are not transferable for a period of one year from the date of this Prospectus except to officers of the Representative or any successor thereto. The Representative's Warrants include a net exercise provision permitting the holder(s) to pay the exercise price by cancellation of the exercisability of a number of shares with a fair market value, after deducting the exercise price therefore, equal to the aggregate exercise price of the Representative's Warrants then being exercised. In addition, the Company has granted certain rights to the holders of the Representative's Warrants to register the Representative's Warrants and the Common Stock underlying the Representative's Warrants under the Securities Act.

As underwriting compensation in connection with the Offering, the Company will pay the Underwriters' legal fees and expenses, estimated to be \$200,000. In addition, the Company will reimburse the underwriters for certain expenses incurred in connection with the underwriters' "road show."

Except in connection with acquisitions, strategic commercial transactions or pursuant to the exercise of options to purchase up to 216,998 shares of Common Stock that have been and may be granted under the Company's Stock Option Plan at an exercise price at least equal to fair market value of the shares of Common Stock, the Company has agreed, for a period of six months from the closing of this Offering, that it will not

issue or sell any shares of Common Stock or other equity securities of the Company or purchase any shares of the Common Stock of the Company without the prior written consent of the Representative. In addition, the officers, directors and certain stockholders of the Company have agreed that they will not sell any additional shares of Common Stock of the Company owned by them, except for their shares offered in this Offering, the 7,000 registered shares owned by Mr. Glick and the 2,000 registered shares owned by Mr. Bennett, for a period of 180 days from the consummation of this Offering without the prior written consent of the Representative, provided that intra-family transfers or transfers to family trusts shall not be thus restricted.

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

In connection with the Offering, certain Underwriters and selling group members and their respective affiliates may engage in transactions that stabilize, maintain or otherwise affect the market price of the Common Stock. Such transactions may include stabilization transactions effected in accordance with the Securities Exchange Act of 1934 pursuant to which such persons may bid for or purchase Common Stock for the purpose of stabilizing its market price. The Underwriters also may create a short position for the account of the Underwriters by selling more Common Stock in connection with the Offering than they are committed to purchase from the Company, and in such case may purchase Common Stock in the open market following completion of the Offering to cover all or a portion of such shares of Common Stock or may exercise the Underwriter's over-allotment option referred to above. In addition, the Representative, on behalf of the Underwriters, may impose "penalty bids" under contractual arrangements with the Underwriters whereby it may reclaim from an Underwriter (or dealer participating in the Offering), for the account of the other Underwriters, the selling concession with respect to Common Stock that is distributed in the Offering but subsequently purchased for the account of the Underwriters in the open market. Any of the transactions described in this paragraph may result in the maintenance of the price of the Common Stock at a level above that which might otherwise prevail in the open market. None of the transactions described in this paragraph are required, and, if they are undertaken, they may be discontinued at any time.

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

#### LEGAL MATTERS

The legality of the Common Stock offered hereby has been passed upon for the Company and certain stockholders by Feder, Kaszovitz, Isaacson, Weber, Skala & Bass, LLP, New York, New York. Murray L. Skala, a director of the Company, the owner of 27,124 shares of Common Stock and a stockholder who has granted a portion of the Underwriter's over-allotment option, is a partner of Feder, Kaszovitz, Isaacson, Weber, Skala & Bass, LLP. Gibson, Dunn & Crutcher LLP, Los Angeles, California, has passed upon certain legal matters for the Representative in connection with this Offering.

## EXPERTS

The consolidated financial statements of the Company as of December 31, 1996 and 1995 and for the year ended December 31, 1996 and the period from April 1, 1995 (inception) to December 31, 1995 included in this Prospectus have been audited by Pannell Kerr Forster, Certified Public Accountants, A Professional Corporation, Los Angeles, California, independent auditors, as stated in their report appearing herein and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing. The combined financial statements of Road Champs, Inc. and Subsidiary and Die Cast Associates, Inc. as of December 31, 1996 and 1995 and for the years then ended included in this Prospectus have been audited by Pannell Kerr Forster PC, New York, New York, independent auditors, as stated in their report appearing herein and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

## ADDITIONAL INFORMATION

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

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

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

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## INDEPENDENT AUDITORS' REPORT

The Stockholders  
JAKKS Pacific, Inc. and Subsidiaries

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

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

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

PANNELL KERR FORSTER  
Certified Public Accountants  
A Professional Corporation

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

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

## ASSETS

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

See notes to consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

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

See notes to consolidated financial statements.

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

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

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

See notes to consolidated financial statements.



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

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

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

See notes to consolidated financial statements.

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 1996

## NOTE 1 -- PRINCIPAL INDUSTRY

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

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

## NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## Principles of consolidation

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

## Cash and cash equivalents

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

## Use of estimates

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

## Revenue recognition

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

## Deferred product development costs

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

## Deferred offering and acquisition costs

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

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

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

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

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

## Inventory

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

## Property and equipment

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

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

## Advertising

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

## Income taxes

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

## Translation of foreign currencies

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

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

## Goodwill

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

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

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

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

## Intangible assets

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

## Reverse stock split

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

## Net income per share

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

## NOTE 3 -- ACQUISITION

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

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

The assets acquired from JPL were as follows:

Furniture and fixtures.....	\$ 47,500
Office equipment.....	12,500
Molds and tooling.....	250,000
Goodwill.....	2,655,353
	-----
Total assets acquired.....	\$2,965,353
	=====

## NOTE 4 -- CONCENTRATION OF CREDIT RISK

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

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

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

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

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

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

## NOTE 5 -- ADVANCES TO OFFICERS

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

## NOTE 6 -- ACCRUED EXPENSES

Accrued expenses consist of the following:

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

## NOTE 7 -- RESERVE FOR RETURNS AND ALLOWANCES

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

## NOTE 8 -- LONG-TERM DEBT

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

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

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

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

## NOTE 9 -- INCOME TAXES

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

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

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

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

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

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

No valuation allowance for deferred tax assets has been provided for as of December 31, 1996, since, in the opinion of the Company's management, realization of the future benefit is probable.

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

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

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

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

The components of earnings before income taxes are as follows:

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

## NOTE 10 -- NOTES PAYABLE -- OFFICER

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

## NOTE 11 -- LEASES

The Company leases office facilities and certain equipment under operating leases. The following is a schedule of minimum lease payments.

1997.....	\$111,342
1998.....	73,402
1999.....	70,682
2000.....	68,925
2001.....	66,467
Thereafter.....	132,934
	-----
	\$523,752
	=====

Rent expense for the year and period ended December 31, 1996 and 1995 totalled \$182,690 and \$89,737, respectively.

## NOTE 12 -- COMMON STOCK AND PREFERRED STOCK

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

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

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

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

## NOTE 13 -- COMMITMENTS

The Company entered into various license agreements whereby the Company may use certain characters and properties in conjunction with its products. Such license agreements call for royalties to be paid at 5 to

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

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

10% of net sales with minimum guarantees and advance payments. Additionally, under one such license, the Company has committed to spend 12.5% of related net sales, not to exceed \$1,000,000, on advertising per year.

Future minimum royalty guarantees are as follows:

1997.....	\$ 730,451
1998.....	714,166
1999.....	949,667
	-----
Total.....	\$2,394,284
	=====

## NOTE 14 -- STOCK OPTION PLAN

Under the Company's Amended and Restated 1995 Stock Option Plan, the Company has reserved 216,998 shares of the Company's Common Stock for issuance under the Plan. Under the Amended and Restated 1995 Stock Option Plan, employees (including officers), nonemployee directors and independent consultants may be granted options to purchase shares of Common Stock. Prior to the adoption of the Plan in 1995, options for 276,500 shares have been granted at an exercise price of \$2.00 per share. The Company has recorded deferred compensation costs and a related increase in paid-in capital of \$212,905 for the difference between the grant price and the deemed fair market value of the Common Stock of \$2.77 per share at the date of grant. Such compensation costs will be recognized on a straight-line basis over the vesting period of the options, which is 25% per year commencing twelve months after the grant date of such options. In 1996, the fair value of each employee option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used: risk-free rate of interest of 6.0%; dividend yield of 0%; and expected lives of 5 years. See note 19.

As of December 31, 1996 and 1995, 91,523 and 206,148 shares were available for future grant, respectively. Additional shares may become available for grant to the extent that options presently outstanding under the Plan terminate or expire unexercised.

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

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----
Outstanding, April 1, 1995 (Inception).....	--	\$ --
Granted.....	10,850	4.50
Exercised.....	--	--
Canceled.....	--	--
	-----	-----
Outstanding, December 31, 1995.....	10,850	4.50
Granted.....	114,625	6.70
Exercised.....	--	--
Canceled.....	--	--
	-----	-----
Outstanding, December 31, 1996.....	125,475	\$ 6.51
	=====	=====



## JAKKS PACIFIC, INC. AND SUBSIDIARIES

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

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

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----
Outstanding, April 1, 1995 (Inception).....	--	\$ --
Granted.....	276,500	2.00
Exercised.....	--	--
Canceled.....	--	--
	-----	-----
Outstanding, December 31, 1995.....	276,500	2.00
Granted.....	75,000	7.54
Exercised.....	--	--
Canceled.....	--	--
	-----	-----
Outstanding, December 31, 1996.....	351,500	\$ 3.18
	=====	=====

The weighted average fair value of options granted to employees in 1996 and 1995 was \$2.30 and \$0.77 per share, respectively.

The following table summarizes information about stock options outstanding and exercisable at December 31, 1996:

OPTION PRICE RANGE	OUTSTANDING			EXERCISABLE	
	NUMBER OF SHARES	WEIGHTED AVERAGE LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
-----	-----	-----	-----	-----	-----
\$ 2.00 - \$8.25	476,975	6.1 years	\$ 4.06	182,100	\$ 5.03

At December 31, 1995, options were exercisable for 10,850 shares at a weighted average exercise price of \$4.50 per share.

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

## NOTE 15 -- SUBSEQUENT EVENTS

On January 8, 1997, the Company issued two \$3,000,000 convertible debentures for a total of \$6,000,000. Interest on the principal amounts outstanding will accrue at 9.0% per annum with the first monthly installment payable on February 1, 1997. If not sooner redeemed or converted into common stock, the debentures shall mature on December 31, 2003. Commencing on December 31, 1999, and the first day of each successive month thereafter prior to maturity, mandatory principal redemption installments, each of such installment to be in the amount of \$10 per \$1,000 of the then remaining principal amount of the debenture. Such debentures are convertible at \$8.50 per share into 705,882 shares of the Company's common stock, subject to reset and anti-dilution provisions. A stock pledge agreement from the Company pledging as security all outstanding shares of a certain entity being acquired, upon acquisition thereof from use of loan proceeds, and all of the outstanding shares of the Company's wholly-owned subsidiaries. In addition, all marketing and manufacturing licenses acquired or to be acquired, and all machinery and equipment to the extent assignable by the Company are also to be pledged as security. As compensation paid to an investment banker, 6% of the gross proceeds was paid in cash and warrants for the purchase of 150,000 shares of common stock, exercisable at \$8.00 per share, were sold for \$0.001 per share.

On February 6, 1997, the Company acquired all of the stock of Road Champs, Inc. and all of the operating assets of an affiliated company for approximately \$12,045,000. Consideration paid at closing was approximately \$4,619,000 in cash plus the issuance of \$1,500,000 (198,020 shares) of the Company's common stock. The balance of the adjusted purchase price of approximately \$2,937,000 is to be paid in three equal

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

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

installments, with the third installment payable one year after the closing of the transactions all of which will carry interest at a rate of 7.0% per annum. In addition, the payment for inventory of approximately \$1,988,000, without interest, is payable within 30 days of shipment to customers and the balance is payable no later than August 6, 1997, and a payment of \$1,001,000 is due seven days after the close of an additional public offering of the Company's common stock, but not later than May 6, 1997. Outstanding balances will be secured by all acquired shares and assets, however, they will be subordinated to the security interest for the convertible debentures noted above.

## NOTE 16 -- MAJOR CUSTOMERS

Sales to major customers were as follows:

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

## NOTE 17 -- SUPPLEMENTAL INFORMATION TO STATEMENTS OF CASH FLOWS

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

Shares of common stock were issued as partial consideration for toy business assets acquired totalling \$560,000 in 1995. The excess of cost over toy business assets acquired (goodwill) is reflected in the consolidated statement of cash flows net of the stock issued.

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

## NOTE 18 -- RELATED PARTY TRANSACTIONS

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

## NOTE 19 -- RECENT ACCOUNTING PRONOUNCEMENT

The FASB issued a new standard, SFAS No. 123 "Accounting for Stock-Based Compensation," which contains a fair value-based method for valuing stock-based compensation that entities may use, which measures compensation cost at the grant date based on the fair value of the award. Compensation is then recognized over the service period, which is usually the vesting period. Alternatively, the standard permits entities to continue accounting for employee stock option and similar equity instruments under APB Opinion No. 25, "Accounting for Stock Issued to Employees." Entities that continue to account for stock options using APB Opinion No. 25 are required to make pro forma disclosures of net income and earnings per share, as if the fair value-based method of accounting defined in SFAS No. 123 had been applied. Management accounts for options under APB Opinion No. 25. If the alternative accounting-related provisions of SFAS No. 123 had been adopted as of the beginning of 1995, the effect on 1996 and 1995 net income and earnings per share would have been immaterial. See note 14.

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

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

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

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying combined balance sheets of Road Champs, Inc. and Subsidiary and Die Cast Associates, Inc. as of December 31, 1996 and 1995 and the related combined statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

PANNELL KERR FORSTER PC

New York, New York  
February 12, 1997

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

COMBINED BALANCE SHEETS

ASSETS

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

See notes to combined financial statements.

ROAD CHAMPS, INC. AND SUBSIDIARY  
AND  
DIE CAST ASSOCIATES, INC.  
COMBINED STATEMENTS OF OPERATIONS

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

See notes to combined financial statements.

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

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

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

See notes to combined financial statements.

ROAD CHAMPS, INC. AND SUBSIDIARY  
AND  
DIE CAST ASSOCIATES, INC.  
COMBINED STATEMENTS OF CASH FLOWS

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

See notes to combined financial statements.



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

NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 1996

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and description of business

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

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

Cash and cash equivalents

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

Revenue recognition

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

Inventory

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

Investments

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

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

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

Property and equipment

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

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

Income taxes

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

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

Foreign Currency Translation

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

Use of estimates

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

Fair value of financial instruments

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

Split Dollar Insurance Plan

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

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

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

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

International operations

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

NOTE 2 -- RISK CONCENTRATIONS

Accounts receivable and sales

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

NOTE 3 -- INVENTORY

Inventory consists of the following:

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

NOTE 4 -- INVESTMENTS

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

DECEMBER 31, 1996

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

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

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

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

DECEMBER 31, 1995

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

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

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

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

## NOTE 5 -- COMMON STOCK

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

	PAR VALUE	SHARES		
		AUTHORIZED	ISSUED AND OUTSTANDING	
Road Champs, Inc.....	\$50	100	95	\$4,750
Die Cast Associates, Inc. ....	50	100	100	5,000
		200	195	\$9,750
		<u>===</u>	<u>===</u>	<u>=====</u>

## NOTE 6 -- INCOME TAXES

The provision for income taxes consists of:

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

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

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

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

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

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

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

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

NOTE 7 -- COMMITMENTS

a. Leases

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

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

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

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

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

1997.....	\$ 484,922
1998.....	395,169
1999.....	371,550
2000.....	195,150
2001.....	23,050
	-----
	\$1,469,841
	=====

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

b. Stock Appreciation Plan

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

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

c. Line-of-credit

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

NOTE 8 -- NOTES PAYABLE -- STOCKHOLDER

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

NOTE 9 -- SPLIT DOLLAR INSURANCE PLAN

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

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

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

=====

1,000,000 SHARES

'JAKKS LOGO'  
 (TM)

COMMON STOCK

-----  
 PROSPECTUS

-----  
 CRUTTENDEN ROTH  
 INCORPORATED  
 , 1997  
 =====

## INFORMATION NOT REQUIRED IN PROSPECTUS

## ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Company's Certificate of Incorporation provides that the personal liability of the directors of the Company shall be limited to the fullest extent permitted by the provisions of Section 102(b)(7) of the General Corporation Law of the State of Delaware ("DGCL"). Section 102(b)(7) of the DGCL generally provides that no director shall be liable personally to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that the Certificate of Incorporation does not eliminate the liability of a director for (i) any breach of the director's duty of loyalty to the Company or its stockholders; (ii) acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law; (iii) acts or omissions in respect of certain unlawful dividend payments or stock redemptions or repurchases; or (iv) any transaction from which such director derives improper personal benefit. The effect of this provision is to eliminate the rights of the Company and its stockholders to recover monetary damages against a director for breach of her or his fiduciary duty of care as a director (including breaches resulting from negligent or grossly negligent behavior) except in the situations described in clauses (i) through (iv) above. The limitations summarized above, however, do not affect the ability of the Company or its stockholders to seek nonmonetary remedies, such as an injunction or rescission, against a director for breach of her or his fiduciary duty.

In addition, the Certificate of Incorporation provides that the Company shall, to the fullest extent permitted by Section 145 of the DGCL, indemnify all persons whom it may indemnify pursuant to Section 145 of the DGCL. Section 145 of the DGCL permits a company to indemnify an officer or director who was or is a party or is threatened to be made a party to any proceeding because of his or her position, if the officer or director acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

The Company maintains a directors' and officers' liability insurance policy covering certain liabilities that may be incurred by any director or officer in connection with the performance of his or her duties and certain liabilities that may be incurred by the Company, including the indemnification paid to any director or officers. This policy provides for \$1 million in maximum aggregate coverage including defense costs. The entire premium for such insurance is paid by the Company.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers, or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that in the opinion of the Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Reference is hereby made to Section 8 of the Underwriting Agreement, filed as Exhibit 1.1, to this Registration Statement, pursuant to which the Underwriters have agreed to indemnify and hold harmless the Company and its directors, officers and controlling persons against certain liabilities.



## ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth all estimated costs and expenses in connection with the issuance and distribution of the securities being registered, other than underwriting discounts. All such expenses will be paid by the Company; none will be paid by the Company's stockholders. As underwriting compensation in connection with the issuance and distribution of the securities being registered, the Company will pay the Underwriters' legal fees and expenses.

SEC Registration fee.....	\$ 7,445.69
NASD filing fee.....	2,957.08
*Blue sky fee and expenses (including legal fees).....	50,000.00
Nasdaq National Market System listing fee.....	31,144.92
*Printing expenses.....	75,000.00
*Accountants' fees and expenses.....	25,000.00
*Attorneys' fees and expenses.....	175,000.00
*Underwriters' legal fees.....	200,000.00
*Miscellaneous.....	33,452.31
	-----
*TOTAL.....	\$600,000.00
	=====

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\* Estimated

## ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES

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

NAME OR CLASS OF PURCHASERS	APPROXIMATE DATE OF ISSUANCE	NUMBER OF SHARES OF COMMON STOCK OR PRINCIPAL AMOUNT OF DEBT SECURITIES(1)	CONSIDERATION
Jack Friedman	Apr.-Oct. 1995	1,627,486	\$500,000
Stephen G. Berman	May 1, 1995	216,998	\$50,000
Murray L. Skala	Apr. 1, 1995	27,124	Issued in consideration for services, in the amount of \$8,333
Justin Products Limited	Oct. 19, 1995	75,951	Issued in partial consideration for the Company's acquisition of certain product lines, in the amount of \$560,000(2)
William Lee	Oct. 30, 1995	90,416	\$250,000
Robert Johnson	Nov. 15, 1995	16,275	\$45,000
Justin Products Limited	May 1, 1996	13,649	Adjustment to reflect the offering price in the Initial Public Offering for the partial consideration for the acquisition of certain product lines
Shareholders of Road Champs, Inc.	Feb. 6, 1997	198,020	\$1,500,000

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

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

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

of the Initial Public Offering, and the remaining 246,300 shares were listed as additional registered shares in the Prospectus relating thereto.

Effective January 8, 1997 the Company issued \$6,000,000 in aggregate, of 9% seven-year convertible debentures to Renaissance Capital Growth Income Fund III, Inc. and Renaissance US Growth & Income Trust PLC (together "Renaissance"). Net proceeds to the Company after payment of a 6% brokerage commission to Joseph Charles & Associates, Inc. and fees to Renaissance and its attorneys were \$5,450,000. The debentures are convertible into 923,077 shares of the Company's Common Stock based on a conversion price of \$6.50 per share. When any shares of Common Stock are issued by the Company for consideration per share less than the then existing conversion price of the Convertible Debentures, then in each such case the conversion price shall be reduced to a new conversion price equal to the consideration per share received by the Company for such additional shares of Common Stock; provided however, that prior to such issuance, the Company may request the holders to waive the right to an adjustment of the conversion price and in the event such waiver is not granted by the holders, the Company shall have the right, prior to the issuance of such additional shares, to redeem the Convertible Debenture at 120% of face value. The number of shares of Common Stock into which the debentures are convertible are also subject to adjustment for certain changes in capital structure and other events. The indebtedness must be repaid in part each month beginning December 1999, in the amount of 1% of the then unpaid balance and in full at December 31, 2003. The Company has the right to prepay all or part of such indebtedness in certain events at 120% of their original \$6,000,000 face value.

For its assistance with the Renaissance financing, the Company issued to Joseph Charles & Associates, Inc. a warrant to purchase an aggregate of 150,000 shares of Common Stock at an exercise price of \$8.00 per share. Such warrant expires on January 8, 2002. Holders of such warrants possess certain demand and incidental registration rights that may require the Company to register for public resale the shares of Common Stock issuable thereunder.

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

#### ITEM 27. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

##### (A) EXHIBITS

##### EXHIBIT NUMBER

- - - - -

- 1.1 Form of Underwriting Agreement (1)
- 3.1 Restated Certificate of Incorporation of the Company (2)
- 3.2.1 By-Laws of the Company (2)
- 3.2.2 Amendment to By-Laws of the Company (3)
- 4.1 Form of certificate evidencing shares of Common Stock (2)
- 4.2 JAKKS Pacific, Inc. 9.00% Convertible Debenture issued to Renaissance Capital Growth & Income Fund III, Inc. dated December 31, 1996 (3)
- 4.3 JAKKS Pacific, Inc. 9.00% Convertible Debenture issued to Renaissance US Growth & Income Trust PLC dated December 31, 1996 (3)
- 4.4 Form of Warrant for 70,000 shares of Common Stock of the Company issuable to the Representative, to be dated the date of the Prospectus (1)
- 5.1 Opinion, with consent, of Feder, Kaszovitz, Isaacson, Weber, Skala & Bass LLP, counsel for the Registrant (1)

EXHIBIT  
NUMBER

- 
- 10.1 Amended and Restated 1995 Stock Option Plan (3)
  - 10.2 Employment Agreement by and between the Company and Jack Friedman dated January 1, 1997 (3)
  - 10.3 Employment Agreement by and between the Company and Stephen G. Berman dated January 1, 1997 (3)
  - 10.4 Asset Purchase Agreement dated October 19, 1995 (as of July 1, 1995) between the Company, JP (HK) Limited and Justin (2)
  - 10.5 Convertible Loan Agreement by and between the Company and Renaissance Capital Growth & Income Fund III, Inc. and Renaissance US Growth & Income Trust PLC dated December 31, 1996 (3)
  - 10.6 Purchase Agreement among JAKKS Pacific, Inc. and JAKKS Acquisition Corp. and Road Champs, Inc., Road Champs Ltd. and Die Cast Associates, Inc. and the shareholders of Road Champs, Inc. for the purchase of all of the shares of stock of Road Champs, Inc. and Road Champs Ltd. and the operating assets of Die Cast Associates, Inc. dated January 21, 1997 (4)
  - 10.7.1 Lease of the Company's offices at 24955 Pacific Coast Highway, Malibu, California (2)
  - 10.7.2 Amendment to Lease of Company's offices at 24955 Pacific Coast Highway, Malibu, California (3)
  - 10.8 Lease of the Company's warehouse space at 7 Patton Drive, West Caldwell, New Jersey and amendment thereto(4)(P)
  - 10.9 Lease of the Company's showroom at the Toy Center South, 200 Fifth Avenue, New York, New York (2)
  - 10.10 Lease of the Company's showroom at the Toy Center North, 1107 Broadway, New York, New York (4)(P)
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  - 10.12.3 International License Agreement with Titan Sports, Inc. dated February 24, 1997(3)
  - 10.13 License Agreement with Saban Merchandising, Inc. and Saban International N.V. with amendment dated (3)
  - 10.14 License Agreement with Wow Wee International dated June 1, 1996 (3)
  - 10.15 Agreement with Quantum Toy Concepts Pty, Ltd. dated July 1996 (3)
  - 21 Subsidiaries of the Company (3)
  - 23.1 Consent of Pannell Kerr Forster, Certified Public Accountants, A Professional Corporation, Los Angeles, California (1)
  - 23.2 Consent of Pannell Kerr Forster PC, New York, New York (1)
  - 23.3 Consent of Feder, Kaszovitz, Isaacson, Weber, Skala & Bass LLP (included in Exhibit 5.1) (1)
  - 24 Power of Attorney (included in Part II to this Registration Statement) (3)
  - 27 Financial Data Schedule (3)

-----

(1) Filed herewith.

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

- (3) Previously filed as part of this Registration Statement on Form SB-2.
- (4) Filed previously as an exhibit to the Company's Current Report on Form 8-K, filed February 21, 1997 or as schedule 4.2(iii) thereto.

(B) FINANCIAL STATEMENT SCHEDULES

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

ITEM 28. UNDERTAKINGS

The Registrant hereby undertakes:

(1) That for purposes of determining any liability under the Securities Act of 1933, as amended (the "Securities Act"), the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) That for the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

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

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

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

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

(5) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provision, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable.

In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

## POWER OF ATTORNEY

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

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## SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and authorized this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Malibu, California, on the 16th day of April 1997.

JAKKS PACIFIC, INC.

By: /s/ JACK FRIEDMAN

-----  
 Jack Friedman  
 President

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

SIGNATURE	TITLE	DATE
/s/ JACK FRIEDMAN ----- Jack Friedman	Chairman, Chief Executive Officer (Principal Executive Officer) and President	April 16, 1997
/s/ STEPHEN G. BERMAN ----- Stephen G. Berman	Chief Operating Officer, Executive Vice President, Secretary and Director	April 16, 1997
/s/ JOEL M. BENNETT ----- Joel M. Bennett	Chief Financial Officer (Principal Financial and Accounting Officer)	April 16, 1997
/s/ MICHAEL G. MILLER ----- Michael G. Miller	Director	April 16, 1997
/s/ MURRAY L. SKALA ----- Murray L. Skala	Director	April 16, 1997
/s/ ROBERT E. GLICK ----- Robert E. Glick	Director	April 16, 1997

## EXHIBIT INDEX

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NUMBER

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(1) Filed herewith.

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

(3) Previously filed as part of this Registration Statement on Form SB-2.

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



JAKKS PACIFIC, INC.  
1,000,000 Shares<sup>1</sup>  
Common Stock

UNDERWRITING AGREEMENT  
April \_\_, 1997

CRUTTENDEN ROTH INCORPORATED  
As Representative of the Several Underwriters  
18301 Von Karman, Suite 100  
Irvine, California 92715  
Dear Sirs:

JAKKS Pacific, Inc., a Delaware corporation (the "Company"), the persons named in Schedule 1-A hereto (the "Management Selling Stockholders") and the persons named in Schedule 1-B hereto (the "Non-Management Selling Stockholders") hereby confirm their agreement with the several underwriters named in Schedule 2 hereto (the "Underwriters"), for whom you have been duly authorized to act as representative (in such capacity, the "Representative"), as set forth below. If you are the only Underwriters, all references herein to the Representative shall be deemed to be to the Underwriters. The Management Selling Stockholders and the Non-Management Selling Stockholder are each referred to herein as a "Selling Stockholder" and are collectively referred to herein as the "Selling Stockholders."

1. Securities. Subject to the terms and conditions herein contained, the Company proposes to sell to the several Underwriters an aggregate of 1,000,000 shares (the "Firm Securities") of the Company's Common Stock, \$.001 par value per share (the "Common Stock"). The Firm Securities consist of 1,000,000 shares of Common Stock to be issued and sold by the Company and no shares of Common Stock to be sold by the Selling Stockholders. The Selling Stockholders also severally propose to sell to the several Underwriters not more than 150,000 additional shares of Common Stock if requested by the Representative as provided in Section 3 of this Agreement. Any and all shares of Common Stock to be purchased by the Underwriters pursuant to such option are referred to herein as the "Option Securities." The Option Securities, if any, consist of up to 150,000 shares of Common Stock to be issued and sold by each of the Selling Stockholders in the amounts set forth opposite the name of such Selling Stockholder in Schedules 1-A or 1-B hereto. The Firm Securities and any Option Securities are collectively referred to herein as the "Securities."

2. Representations and Warranties of the Company and Selling Stockholders.

(a) The Company and each of the Management Selling Stockholders jointly and severally represent and warrant to, and agree with, each of the several Underwriters that:

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(1) Plus an option to purchase up to 150,000 additional shares to cover over-allotments, if any.

(i) registration statement on Form SB-2 (File No. 333-22583) with respect to the Securities, including a prospectus subject to completion, has been filed by the Company with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Act"), and one or more amendments to such registration statement may have been so filed. After the execution of this Agreement, the Company will file with the Commission either (A) if such registration statement, as it may have been amended, has been declared by the Commission to be effective under the Act, either (1) if the Company relies on Rule 434 under the Act, a Term Sheet (as hereinafter defined) relating to the Securities, that shall identify the Preliminary Prospectus (as hereinafter defined) that it supplements containing such information as is required or permitted by Rules 434, 430A and 424(b) under the Act or (2) if the Company does not rely on Rule 434 under the Act, a prospectus in the form most recently included in an amendment to such registration statement (or, if no such amendment shall have been filed, in such registration statement), with such changes or insertions as are required by Rule 430A under the Act or permitted by Rule 424(b) under the Act, and in the case of either clause (A)(1) or (A)(2) of this sentence, as have been provided to and approved by the Representative prior to the execution of this Agreement, or (B) if such registration statement, as it may have been amended, has not been declared by the Commission to be effective under the Act, an amendment to such registration statement, including a form of prospectus, a copy of which amendment has been furnished to and approved by the Representative prior to the execution of this Agreement. The Company may also file a related registration statement with the Commission pursuant to Rule 462(b) under the Act for the purpose of registering certain additional Securities, which registration statement shall be effective upon filing with the Commission. As used in this Agreement, the term "Original Registration Statement" means the registration statement initially filed relating to the Securities, as amended at the time when it was or is declared effective, including all financial schedules and exhibits thereto and including any information omitted therefrom pursuant to Rule 430A under the Act and included in the Prospectus (as hereinafter defined); the term "Rule 462(b) Registration Statement" means any registration statement filed with the Commission pursuant to Rule 462(b) under the Act (including the Registration Statement and any Preliminary Prospectus or Prospectus incorporated therein at the time such Registration Statement becomes effective); the term "Registration Statement" includes both the Original Registration Statement and any Rule 462(b) Registration Statement; the term "Preliminary Prospectus" means each prospectus subject to completion filed with such registration statement or any amendment thereto (including the prospectus subject to completion, if any, included in the Registration Statement or any amendment thereto at the time it was or is declared effective); the term "Prospectus" means: (x) if the Company relies on Rule 434 under the Act, the Term Sheet relating to the Securities that is first filed pursuant to Rule 424(b)(7) under the Act, together with the Preliminary Prospectus identified therein that such Term Sheet supplements; (y) if the Company does not rely on Rule 434 under the Act, the prospectus first filed with the Commission pursuant to Rule 424(b) under the Act; or (z) if the Company does not rely on Rule 434 under the Act and if no prospectus is required to be filed pursuant to Rule 424(b) under the Act, the prospectus included in the Registration Statement; and the term "Term Sheet" means any term sheet that satisfies the requirements of Rule 434 under the Act. Any reference herein to the "date" of a Prospectus that includes a Term Sheet shall mean the date of such Term Sheet.

(ii) The Commission has not issued or, to the best knowledge of the Company, threatened or contemplated any order preventing or suspending the use of any Preliminary Prospectus; no stop order suspending the sale of the Securities in any jurisdiction has been issued

and no proceedings for that purpose are pending or, to the best knowledge of the Company, threatened or contemplated, and any request of the Commission for additional information (to be included in the Registration Statement, any Preliminary Prospectus or the Prospectus or otherwise) has been complied with. When any Preliminary Prospectus was filed with the Commission it (A) contained all statements required to be stated therein in accordance with, and complied in all material respects with the requirements of, the Act and the rules and regulations of the Commission thereunder and (B) did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. When the Registration Statement or any amendment thereto was or is declared effective, it (A) contained or will contain all statements required to be stated therein in accordance with, and complied or will comply in all material respects with the requirements of, the Act and the rules and regulations of the Commission thereunder and (B) did not or will not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. When the Prospectus or any Term Sheet that is a part thereof or any amendment or supplement to the Prospectus is filed with the Commission pursuant to Rule 424(b) (or, if the Prospectus or any part thereof or such amendment or supplement is not required to be so filed, when the Registration Statement or the amendment thereto containing such amendment or supplement to the Prospectus was or is declared effective) and on the Firm Closing Date and any Option Closing Date (both as hereinafter defined), the Prospectus, as amended or supplemented at any such time, (A) contained or will contain all statements required to be stated therein in accordance with, and complied or will comply in all material respects with the requirements of, the Act and the rules and regulations of the Commission thereunder and (B) did not or will not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The foregoing provisions of this paragraph (ii) do not apply to statements or omissions made in any Preliminary Prospectus, the Registration Statement or any amendment thereto or the Prospectus or any amendment or supplement thereto in reliance upon and in conformity with written information furnished to the Company by any Underwriter through the Representative specifically for use therein.

(iii) If the Company has elected to rely on Rule 462(b), (A) the Company has filed a Rule 462(b) Registration Statement in compliance with Rule 462(b), which is effective upon filing pursuant to Rule 462(b), and has received confirmation of its receipt and (B) the Company has given irrevocable instructions for transmission of the applicable filing fee in connection with the filing of the Rule 462(b) Registration Statement, in compliance with Rule 111 promulgated under the Act or the Commission has received payment of such filing fee.

(iv) The Company and each of its subsidiaries have been duly organized and are validly existing as corporations in good standing under the laws of their respective jurisdictions of incorporation and are duly qualified to transact business as foreign corporations and are in good standing under the laws of all other jurisdictions where the ownership or leasing of their respective properties or the conduct of their respective businesses requires such qualification, except where the failure to be so qualified does not result in a material adverse change in the condition (financial or otherwise), business, prospects, net worth or results of operations of the Company and its subsidiaries, taken as a whole (a "Material Adverse Effect").

(v) The Company and each of its subsidiaries have full power (corporate and other) to own or lease their respective properties and conduct their respective businesses as described in the Registration Statement and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus); the Company has full power (corporate and other) and authority to enter into this Agreement and to carry out all the terms and Provisions hereof to be carried out by it; and the Company has full power (corporate and other) and authority to execute and deliver the warrants to purchase Common Stock to be issued and sold to the Representative under the terms of the Warrant Agreement (as hereinafter defined) in accordance with Section 5(o) hereto (the "Representative's Warrants").

(vi) The issued shares of capital stock of each of the Company's subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable and are owned beneficially by the Company free and clear of any security interests, liens, encumbrances, equities or claims. The Warrant Agreement and the Representative's Warrants, as of the Closing Date, will have been duly authorized and validly issued, and when executed and delivered by the Company will be valid and binding obligations enforceable against the Company in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally or by general equitable principles. The Common Stock issuable pursuant to the Representative's Warrants, when issued in accordance with the terms thereof, will be duly authorized, validly issued, fully paid and nonassessable. The Representative's Warrants and the shares of Common Stock issuable thereunder were not and will not be issued in violation of any preemptive rights of any security holder of the Company. The Company has reserved a sufficient number of shares of Common Stock for issuance pursuant to the Representative's Warrants. The holders of the Common Stock issuable pursuant to the Representative's Warrants will not be subject to personal liability solely by reason of being such holders. The issuance and sale of the Common Stock pursuant to the Representative's Warrants will be made in conformity with the applicable registration requirements or exemptions therefrom under federal and applicable state securities law.

(vii) The Company has an authorized, issued and outstanding capitalization as set forth in the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus). All of the issued shares of capital stock of the Company have been duly authorized and validly issued and are fully paid and nonassessable. The Firm Securities and the Option Securities have been duly authorized and at the Firm Closing Date or the related Option Closing Date (as the case may be), after payment therefor in accordance herewith, will be validly issued, fully paid and nonassessable. At the Firm Closing Date or the Option Closing Date, no holders of outstanding shares of capital stock of the Company will be entitled as such to any preemptive or other rights to subscribe for any of the Securities, and no holder of securities of the Company has any right which has not been fully exercised or waived to require the Company to register the offer or sale of any securities owned by such holder under the Act in the public offering contemplated by this Agreement.

(viii) The capital stock of the Company conforms in all material respects to the description thereof contained in the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus), and this Agreement, the Warrant Agreement and the Representative's Warrants conform in all material respects to the descriptions thereof contained in

the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(ix) Except as disclosed in the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus), there are no outstanding (A) securities or obligations of the Company or any of its subsidiaries convertible into or exchangeable for any capital stock of the Company or any such subsidiary, (B) warrants, rights or options to subscribe for or purchase from the Company or any such subsidiary any such capital stock or any such convertible or exchangeable securities or obligations, or (C) obligations of the Company or any such subsidiary to issue any shares of capital stock, any such convertible or exchangeable securities or obligations, or any such warrants, rights or options. The information in the Registration Statement and the Prospectus insofar as it relates to the Representative's Warrants, in each case as of the date on which the Registration Statement is declared effective by the Commission, the Closing Date and any Option Closing Date, is true, correct and complete in all material respects.

(x) The consolidated financial statements and schedules of the Company and its consolidated subsidiaries included in the Registration Statement and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus) fairly present the financial position of the Company and its consolidated subsidiaries and the results of operations and cash flows as of the dates and periods therein specified. The combined financial statements and schedules of Road Champs, Inc., Die Cast Associates, Inc. and their consolidated subsidiaries (collectively, "Road Champs") included in the Registration Statement and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus) fairly present the financial position of Road Champs and the results of operations and cash flows as of the dates and periods therein specified. Such financial statements and schedules have been prepared in accordance with generally accepted accounting principles ("GAAP") consistently applied throughout the periods involved (except as otherwise noted therein). The selected financial data set forth under the captions "Summary Consolidated Financial Data" and "Capitalization" in the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus) fairly present, in accordance with GAAP, as applicable, on the basis stated in the Prospectus (or such Preliminary Prospectus), the information included therein. No other financial statements or schedules are required to be included in the Registration Statement.

(xi) Pannell Kerr Forster, P.C., which has audited certain financial statements of the Company and its consolidated subsidiaries and Road Champs and its consolidated subsidiaries and delivered their report with respect to the audited consolidated financial statements and audited combined financial statements included in the Registration Statement and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus), are independent public accountants as required by the Act and the applicable rules and regulations thereunder.

(xii) The execution and delivery of this Agreement, the Warrant Agreement and the Representative's Warrants have been duly authorized by the Company; this Agreement, the Warrant Agreement and the Representative's Warrants have been duly executed and delivered by the Company and are the valid and binding obligations of the Company, enforceable against the Company in accordance with their respective terms, except as such enforceability may be limited by the effect of bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to rights and remedies of creditors or by general equitable principles.

(xiii) No legal or governmental proceedings are pending to which the Company or

any of its subsidiaries is a party or to which the property of the Company or any of its subsidiaries is subject that are required to be described in the Registration Statement or the Prospectus and are not described therein (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus), and, to the Company's knowledge, no such proceedings have been threatened against the Company or any of its subsidiaries or with respect to any of their respective properties; and no contract or other document is required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement that is not described therein (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus) or filed as required.

(xiv) The issuance, offering and sale of the Securities to the Underwriters by the Company pursuant to this Agreement and of the Representative's Warrants to the Representative by the Company pursuant to the Warrant Agreement; the execution and delivery of this Agreement, the Warrant Agreement and the Representative's Warrants by the Company; the compliance by the Company with the provisions of this Agreement, the Warrant Agreement and the Representative's Warrants; and the consummation of all transactions contemplated therein do not (A) require the consent, approval, authorization, registration or qualification of or with any court, government or governmental authority, domestic or foreign, except such as have been obtained, such as may be required under state securities or blue sky laws, such as may be required by the National Association of Securities Dealers, Inc. (the "NASD") and, if the Registration Statement filed with respect to the Securities (as amended) is not effective under the Act as of the time of execution hereof, such as may be required (and shall be obtained as provided in this Agreement) under the Act, or (B) conflict with or result in a breach or violation of any of the terms and provisions of, or constitute a default under, any indenture, mortgage, deed of trust, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries or any of their respective properties are bound, or the charter documents or by-laws of the Company or any of its subsidiaries, or any statute or any judgment, decree, order, rule or regulation of any court or other governmental authority or any arbitrator applicable to the Company or any of its subsidiaries, which would have a Material Adverse Effect.

(xv) Subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus), neither the Company nor any of its subsidiaries has sustained any loss or interference with their respective businesses or properties having or resulting in a Material Adverse Effect from fire, flood, hurricane, accident or other calamity, whether or not covered by insurance, or from any labor dispute or any legal or governmental proceeding and there has not been any event, circumstance, or development that results in, or that the Company believes would result in, a Material Adverse Effect, except in each case as described in the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(xvi) The Company has not, directly or indirectly (except for the sale of Securities under this Agreement), (i) taken any action designed to cause or to result in, or that has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities or (ii) since the filing of the Registration Statement (A) sold, bid for, purchased, or paid anyone any compensation for soliciting purchases of, the Securities or (B) paid or agreed to pay to any person

any compensation for soliciting another to purchase any other securities of the Company.

(xvii) (a) The Company and its subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state or foreign regulatory authorities necessary to conduct their respective businesses except where the failure to possess any such item would not have a Material Adverse Effect, and (b) neither the Company nor any such subsidiary has received any notice of proceedings relating to the revocation or modification of any such certificate, authorization or permit that, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a Material Adverse Effect, except as described in the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(xviii) The Company is not an investment company under the Investment Company Act of 1940, as amended (the "1940 Act"), and this transaction will not cause the Company to become an investment company subject to registration under the 1940 Act.

(xix) The Company has filed all foreign, federal, state and local tax returns that are required to be filed or has requested extensions thereof (except in any case in which the failure so to file would not have a Material Adverse Effect) and has paid all taxes required to be paid by it and any other assessment, fine or penalty levied against it, to the extent that any of the foregoing is due and payable, except for any such assessment, fine or penalty that is currently being contested in good faith or as described in or contemplated by the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(xx) Except for the shares of capital stock of each of the subsidiaries owned by the Company, neither the Company nor any such subsidiary owns any shares of stock or any other equity securities of any corporation or has any equity interest in any firm, partnership, association or other entity. All shares of stock or other equity securities of the subsidiaries are wholly-owned directly or indirectly by the Company.

(xxi) The books, records and accounts of the Company and each of its subsidiaries accurately and fairly reflect, in reasonable detail, the transactions in and dispositions of the assets of the Company and each of its subsidiaries, respectively. The books, records and accounts of Road Champs and each of its subsidiaries accurately and fairly reflect, in reasonable detail, the transactions in and dispositions of the assets of Road Champs and each of its subsidiaries, respectively. The Company, Road Champs and each of their subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (A) transactions are executed in accordance with management's general or specific authorizations; (B) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain asset accountability; (C) access to assets is permitted only in accordance with management's general or specific authorization; and (D) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(xxii) Except as described in the Registration Statement and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus), no default exists and no event has occurred that, with notice or lapse of time or both, would constitute a default, in the due performance and observance of any term, covenant or condition of any contract, indenture, mortgage, deed of trust, lease or other agreement or instrument to which the Company or any of

its subsidiaries is a party or by which the Company or any of its subsidiaries or any of their respective properties is bound or may be affected, in any respect that would have a Material Adverse Effect. The agreements to which the Company or any of its subsidiaries is a party described in the Registration Statements are valid agreements, enforceable by the Company or such subsidiary, except as the enforcement thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles and, to the best of the Company's knowledge, the other contracting party or parties thereto are not in material breach or material default under any of such agreements.

(xxiii) The Company has not distributed and, prior to the later of (A) the Firm Closing Date or any Option Closing Date and (B) the completion of the distribution of the Securities, will not distribute any written offering material in connection with the offering and sale of the Securities other than the Registration Statement or any amendment thereto, any Preliminary Prospectus, the Prospectus or Term Sheet or any amendment or supplement thereto, or other materials, if any, permitted by the Act.

(xxiv) The description of the Company's and its subsidiaries' real property contained in the Registration Statement and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus), is true and complete in all material respects and the Company and its subsidiaries have good and marketable title to all real and personal property owned by each of them, in each case free and clear of any security interests, liens, encumbrances, equities, claims and other defects, except for those relating to debts of the Company or such subsidiary described in the Registration Statement and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus) and those that do not interfere with the use made or proposed to be made of such property by the Company or such subsidiary, and any real property and buildings held under lease by the Company or any such subsidiary are held under valid, subsisting and enforceable leases (except as enforceability may be limited by the effect of bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to rights and remedies of creditors or by general equitable principles), with such exceptions as are not material and do not interfere with the use made or proposed to be made of such property and buildings by the Company or such subsidiary, in each case except as described in or contemplated by the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus). The Company and its subsidiaries own or lease all such properties as are necessary to its operations as now conducted and as described in the Registration Statement and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(xxv) No labor dispute with the employees of the Company or any of its subsidiaries exists or to the Company's knowledge, is threatened or imminent that could result in a Material Adverse Effect, except as described in or contemplated by the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus), and the Company is not aware of an existing, imminent or threatened labor disturbance by the employees of any principal suppliers, manufacturers, contractors or others that that could result in a Material Adverse Effect, except as described in or contemplated by the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(xxvi) The Company and its subsidiaries own or possess all material trademarks,



service marks, trade names, licenses, copyrights and proprietary or other confidential information currently employed by them in connection with their respective businesses, and neither the Company nor any such subsidiary has received any notice of infringement of or conflict with asserted rights of any third party with respect to any of the foregoing which, singly or in the aggregate, if the subject of unfavorable decisions, rulings or findings, would have a Material Adverse Effect, except as described in the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus). The description of the Company's licensing and marketing agreements contained in the Registration Statement and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus), is true and complete in all material respects. All such licensing and marketing agreements are valid, binding and in full force and effect and neither the Company nor any subsidiary is, or has received any notice that it is, in default (or with the giving of notice or lapse of time or both, would be in default) under any such licensing or marketing agreements.

(xxvii) The Company and each of its subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged; and neither the Company nor any such subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not have a Material Adverse Effect, except as described in or contemplated by the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(xxviii) The Common Stock is registered pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is quoted on the Nasdaq Small Cap and, upon completion of the Offering, will be quoted on the Nasdaq National Market, and the Company has taken no action designed to, or likely to have the effect of, terminating the registration of the Common Stock under the Exchange Act or delisting the Common Stock from the Nasdaq Small Cap or that could in the future cause the Common Stock to be delisted from the Nasdaq National Market, nor has the Company received any notification that the Commission or NASD is contemplating terminating such registration or listing. The Company has timely filed all reports required to be filed by it under the Exchange Act.

(xxix) The Company has not at any time during the last five (5) years (A) made any unlawful contribution to any candidate for foreign office or failed to disclose fully any contribution in violation of law, or (B) made any payment to any federal or state governmental officer or official, or other person charged with similar public or quasi-public duties, other than payments required or permitted by the laws of the United States or any jurisdiction thereof.

(xxx) Any pro forma financial or other information and related notes included in the Registration Statement, each Preliminary Prospectus and the Prospectus comply (or, if the Prospectus has not been filed with the Commission, as to the Prospectus, will comply) in all material respects with the requirements of the Act and the rules and regulations of the Commission thereunder and present fairly the pro forma information shown, as of the dates and for the periods covered by such pro forma information. Such pro forma information, including any related notes and schedules, has been prepared on a basis consistent with the historical financial statements and other historical information, as applicable, included in the Registration

Statement, the Preliminary Prospectus and the Prospectus, except for the pro forma adjustments specified therein, and give effect to assumptions made on a reasonable basis to give effect to historical and, if applicable, proposed transactions described in the Registration Statement, each Preliminary Prospectus and the Prospectus.

(xxx) Except as set forth in the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus), there are no outstanding loans, advances or guaranties of indebtedness by the Company or its subsidiaries to or for the benefit of any of (i) its "affiliates," as such term is defined in the Act and the rules and regulations thereof or (ii) any of the members of the families of any of them.

(xxxii) The Company and its subsidiaries have no liability, absolute or contingent, relating to: (A) public health or safety; (B) worker health or safety; (C) product defect or warranty (except, as to product defect or warranty, as is disclosed in the Registration Statement and Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus)); or (D) pollution, damage to or protection of the environment, including, without limitation, relating to damage to natural resources, emissions, discharges, releases or threatened releases of hazardous materials into the environment (including, further without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or otherwise relating to the manufacture, processing, use, treatment, storage, generation, disposal, transport or handling of any hazardous materials. As used herein, "hazardous material" includes chemical substances, wastes, pollutants, contaminants, hazardous or toxic substances, constituents, materials or wastes, whether solid, gaseous or liquid in nature.

(b) Each of the Selling Stockholders represents and warrants to, and agrees with, each Underwriter that:

(i) Such Selling Stockholder is the lawful owner of the Securities to be sold by such Selling Stockholder hereunder and upon sale and delivery of, and payment for, such Securities, as provided herein, such Selling Stockholder will convey good and marketable title to such Securities, free and clear of all liens, encumbrances, equities and claims whatsoever.

(ii) Such Selling Stockholder has not taken and will not take, directly or indirectly, any action designed to or which has constituted or which might reasonably be expected to cause or result, under the Exchange Act or otherwise, in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities and has not effected any sales of shares of Common Stock which, if effected by the issuer, would be required to be disclosed in response to Item 701 of Regulation S-B.

(iii) The execution and delivery of this Agreement have been duly authorized by such Selling Stockholder, and this Agreement has been duly executed and delivered by such Selling Stockholder and is the valid and binding agreement of such Selling Stockholder, enforceable against such Selling Stockholder in accordance with its terms, except as such enforceability may be limited by the effect of bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to rights and remedies of creditors or by general equitable principles.

(iv) Certificates in negotiable form for such Selling Stockholder's Securities have

been placed in custody, for delivery pursuant to the terms of this Agreement, under a Custody Agreement duly authorized, executed and delivered by such Selling Stockholders, in the form heretofore furnished to you (the "Custody Agreement") with US Stock Transfer Corporation of Glendale, California, as Custodian (the "Custodian"); the Securities represented by the certificates so held in custody for each of the Selling Stockholders are subject to the interests hereunder of the Underwriters, the Company and the other Selling Stockholders, if any; the arrangements for custody and delivery of such certificates, made by such Selling Stockholder hereunder and under the Custody Agreement, are not subject to termination by any acts of such Selling Stockholder, or by operation of law, whether by the death or incapacity of such Selling Stockholder or the occurrence of any other event; and if any such death, incapacity or any other such event shall occur before the delivery of such Securities hereunder, certificates for the Securities will be delivered by the Custodian in accordance with the terms and conditions of this Agreement and the Custody Agreement as if such death, incapacity or other event had not occurred, regardless of whether or not the Custodian shall have received notice of such death, incapacity or other event.

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

(vi) Neither the sale of the Securities being sold by such Selling Stockholder nor the consummation of any other of the transactions herein contemplated by such Selling Stockholder or the fulfillment of the terms hereof by such Selling Stockholder will conflict with or result in a breach or violation of any of the terms and provisions of, or constitute a default under, any indenture, mortgage, deed of trust, lease or other agreement or instrument to which such Selling Stockholder is a party or by which such Selling Stockholder is bound, or the charter documents or by-laws of such Selling Stockholder, or any statute or any judgment, decree, order, rule or regulation of any court or other governmental authority or any arbitrator applicable to such Selling Stockholder.

(vii) Such Selling Stockholder has delivered to the Representative an agreement to the effect that such person or entity will not, except to the extent otherwise specifically permitted by the terms of each such person's or entity's agreement, directly or indirectly, without the prior written consent of the Representative, offer, sell, offer to sell, contract to sell, pledge, grant any option to purchase or otherwise sell or dispose (or announce any offer, sale, offer of sale, contract of sale, pledge, grant of an option to purchase or other sale or disposition) of any shares of Common Stock or any securities convertible into, or exchangeable or exercisable for, shares of Common Stock for a period of 180 days after the date of this Agreement; provided, however, that intra-family transfers or transfers to trust for estate planning purposes shall not be so restricted.

(c) Any certificate signed by any officer of the Company or any Selling Stockholder and delivered to the Representative or to counsel for the Underwriters shall be deemed a representation and warranty by the Company or such Selling Stockholder, respectively, to each Underwriter, as to the matters covered thereby.

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

(a) On the basis of the representations, warranties, agreements and covenants herein contained and subject to the terms and conditions herein set forth, (i) the Company agrees to issue and sell 1,000,000 Firm Securities, and (ii) each of the Underwriters, severally and not jointly, agrees to purchase from the Company, at a purchase price of [\$ ] per share, an aggregate number of Firm Securities set forth opposite the name of such Underwriter in Schedule 2 hereto. One or more certificates in definitive form for the Firm Securities that the several Underwriters have agreed to purchase hereunder from the Company, in such denomination or denominations and registered in such name or names as the Representative requests upon notice to the Company at least 48 hours prior to the Firm Closing Date, shall be delivered by or on behalf of the Company to the Representative for the respective accounts of the Underwriters, against payment by or on behalf of the Underwriters of the aggregate purchase price therefor by wire transfer in same day funds (the "Wired Funds") to the account of the Company. The certificates for the Option Securities that the several Underwriters have agreed to purchase hereunder from the Selling Stockholders shall be delivered in accordance with the terms of the custody agreement by or on behalf of the Selling Stockholders to the Representative for the respective accounts of the Underwriters against payment by or on behalf of the Underwriters of the aggregate purchase price therefor at any such closing. Such delivery of and payment for the Firm Securities shall be made at the offices of Gibson, Dunn & Crutcher LLP, 2029 Century Park East, Los Angeles, California 90067, at 6:30 A.M., Pacific time, on April \_\_, 1997, or at such other place, time or date as the Representative and the Company may agree upon or as the Representative may determine pursuant to Section 9 hereof, such time and date of delivery against payment being herein referred to as the "Firm Closing Date." The Company will make such certificate or certificates for the Firm Securities available for checking and packaging by the Representative at the offices of the Company's transfer agent or registrar at least 24 hours prior to the Firm Closing Date or, if available, will coordinate the transfer of the Firm Securities to the Underwriters through the facilities of the Depository Trust Company.

(b) For the sole purpose of covering any over-allotments in connection with the distribution and sale of the Firm Securities as contemplated by the Prospectus, on the basis of the several (and not joint) covenants and agreements of the Underwriters contained in this Agreement and subject to the terms and conditions set forth in this Agreement, each of the Selling Stockholders hereby grants to the several Underwriters an option to purchase, severally and not jointly, so many of the Option Securities set forth opposite the name of such Selling Stockholder in Schedules 1-A and 1-B. The purchase price to be paid for any Option Securities shall be the same price per share as the price per share for the Firm Securities set forth above in paragraph (a) of this Section 3. The option granted hereby may be exercised as to all or any part of the Option Securities from time to time within forty-five days after the date of the Prospectus (or, if such 45th day shall be a Saturday or Sunday or a holiday, on the next business day thereafter when the Nasdaq National Market is open). The Underwriters shall not be under any obligation to purchase any of the Option Securities prior to the exercise of such option. The Representative may from time to time exercise the option granted hereby by giving notice in writing or by telephone (confirmed within 24 hours in writing) to the Company and each of the Selling Stockholders setting forth the aggregate number of Option Securities as to which the several Underwriters are then exercising the option and the date and time for delivery of and payment for such Option Securities. Any such date of delivery shall be

determined by the Representative but shall not be earlier than two business days or later than five business days after such exercise of the option and, in any event, shall not be earlier than the Firm Closing Date. The time and date set forth in such notice, or such other time on such other date as the Representative and the Company may agree upon or as the Representative may determine pursuant to Section 9 hereof, is herein called the "Option Closing Date" with respect to such Option Securities. Upon exercise of the option as provided herein, each of the Selling Stockholders shall become obligated to sell to each of the several Underwriters, and, subject to the terms and conditions herein set forth, each of the Underwriters (severally and not jointly) shall become obligated to purchase from each of the Selling Stockholders, the same percentage of the total number of the Option Securities as to which the several Underwriters are then exercising the option as such Underwriter is obligated to purchase of the aggregate number of Firm Securities, as adjusted by the Representative in such manner as it deems advisable to avoid fractional shares. If the option is exercised as to all or any portion of the Option Securities, one or more certificates in definitive form for such Option Securities, and payment therefor, shall be delivered on the related Option Closing Date in the manner, and upon the terms and conditions, set forth in paragraph (a) of this Section 3, except that reference therein to the Firm Securities and the Firm Closing Date shall be deemed, for purposes of this paragraph 3(b), to refer to such Option Securities and Option Closing Date, respectively.

(c) It is understood that you, individually and not as the Representative, may (but shall not be obligated to) make payment on behalf of any Underwriter or Underwriters for any of the Securities to be purchased by such Underwriter or Underwriters. No such payment shall relieve such Underwriter or Underwriters from any of its or their obligations hereunder.

(d) The Company and each of the Selling Stockholders hereby acknowledge that the wire transfer by or on behalf of the Underwriters of the purchase price for any Securities does not constitute closing of a purchase and sale of the Securities. Only execution and delivery of a receipt (by facsimile or otherwise) for the Securities by the Underwriters indicates completion of the closing of a purchase of the Securities from the Company or the Selling Stockholders. Furthermore, in the event that the Underwriters wire funds to the Company or the Selling Stockholders prior to the completion of the closing of a purchase of Securities, the Company and each of the Selling Stockholders hereby acknowledge that until the Underwriters execute and deliver a receipt for the Securities, by facsimile or otherwise, the Company and each of the Selling Stockholders will not be entitled to the wired funds and each shall return the wired funds received by them to the Underwriters as soon as practicable (by wire transfer of same-day funds) upon demand. In the event that the closing of a purchase of Securities is not completed and the wire funds are not returned by the Company or the Selling Stockholders to the Underwriters on the same day the wired funds were received by the Company or the Selling Stockholders, the Company and each of the Selling Stockholders agree to pay to the underwriters in respect of each day the wire funds are not returned by it, in same-day funds, interest at the Prime Rate as stated in the Wall Street Journal on the date hereof on the amount of such wire funds received by them.

4. Offering by the Underwriters. Upon your authorization of the release of the Firm Securities, the several Underwriters propose to offer the Firm Securities for sale to the public upon the terms set forth in the Prospectus.

5. Covenants of the Company. The Company covenants and agrees with each of the

Underwriters that:

(a) The Company will use its best efforts to cause the Registration Statement, if not effective at the time of execution of this Agreement, to become effective as promptly as possible. If required, the Company will file the Prospectus or any Term Sheet that constitutes a part thereof and any amendment or supplement thereto with the Commission in the manner and within the time period required by Rules 434 and 424(b) under the Act. During any time when a prospectus relating to the Securities is required to be delivered under the Act, the Company (i) will comply with all requirements imposed upon it by the Act and the rules and regulations of the Commission thereunder to the extent necessary to permit the continuance of sales of or dealings in the Securities in accordance with the provisions hereof and of the Prospectus, as then amended or supplemented, and (ii) will not file with the Commission the Prospectus, Term Sheet or the amendment referred to in the second sentence of Section 2(a)(i) hereof, any amendment or supplement to such Prospectus, Term Sheet or any amendment to the Registration Statement or any Rule 462(b) Registration Statement of which the Representative shall not previously have been advised and furnished with a copy for a reasonable period of time prior to the proposed filing and as to which filing the Representative shall not have given its consent. The Company will prepare and file with the Commission, in accordance with the rules and regulations of the Commission, promptly upon request by the Representative or counsel for the Underwriters, any amendments to the Registration Statement or amendments or supplements to the Prospectus that may be deemed necessary or advisable in connection with the distribution of the Securities by the several Underwriters, and will use its best efforts to cause any such amendment to the Registration Statement to be declared effective by the Commission as promptly as possible. The Company will advise the Representative, promptly after receiving notice thereof, of the time when the Registration Statement or any amendment thereto has been filed or declared effective or the Prospectus or any amendment or supplement thereto has been filed and will provide to the Representative copies of each such filing.

(b) The Company will advise the Representative, promptly after receiving notice or obtaining knowledge thereof, of (i) the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or any Rule 462(b) Registration Statement or any amendment thereto or any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, (ii) the suspension of the qualification of the Securities for offering or sale in any jurisdiction, (iii) the institution, threatening or contemplation of any proceeding for any such purpose, or (iv) any request made by the Commission for amending the Original Registration Statement or any Rule 462(b) Registration Statement, for amending or supplementing the Prospectus or for additional information. The Company will use its best efforts to prevent the issuance of any such stop order and, if any such stop order is issued, to obtain the withdrawal thereof as promptly as possible.

(c) The Company will arrange for the qualification of the Securities for offering and sale under the securities or blue sky laws of such jurisdictions as the Representative may designate and will continue such qualifications in effect for as long as may be necessary to complete the distribution of the Securities; provided, however, that in connection therewith the Company shall not be required to qualify as a foreign corporation or to execute a general consent to service of process in any jurisdiction. If, after the public offering of the Securities by the Underwriters and during such period, the Underwriters propose to vary the terms of offering thereof by reason of changes in general market conditions or otherwise, the Representative will advise the Company in writing of the proposed

variation and if, in the opinion either of counsel for the Company or counsel for the Underwriters, such proposed variation requires that the Prospectus be supplemented or amended, the Company will forthwith prepare and file with the Commission a supplement to the Prospectus or an amended Prospectus setting forth such variation. The Company authorizes the Underwriters and all dealers to whom any of the Securities may be sold by the Underwriters to use the Prospectus, as from time to time so amended or supplemented, in connection with the sale of the Securities in accordance with the applicable provisions of the Act and the rules and regulations thereunder for such period.

(d) If, at any time prior to the later of (i) the final date when a prospectus relating to the Securities is required to be delivered under the Act or (ii) the Option Closing Date, any event occurs as a result of which the Prospectus, as then amended or supplemented, would include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if for any other reason it is necessary at any time to amend or supplement the Prospectus to comply with the Act or the rules or regulations of the Commission thereunder, the Company will promptly notify the Representative thereof and, subject to Section 5(a) hereof, will prepare and file with the Commission, at the Company's expense, an amendment to the Registration Statement or an amendment or supplement to the Prospectus that corrects such statement or omission or effects such compliance.

(e) The Company will, without charge, provide (i) to the Representative and to counsel for the Underwriters a signed copy of the registration statement originally filed with respect to the Securities and each amendment thereto (in each case including exhibits thereto) and any Rule 462(b) Registration Statement, (ii) to each other Underwriter, a conformed copy of such registration statement and any Rule 462(b) Registration Statement and each amendment thereto (in each case without exhibits thereto) and (iii) so long as a prospectus relating to the Securities is required to be delivered under the Act, as many copies of each Preliminary Prospectus or the Prospectus or any amendment or supplement thereto as the Representative may reasonably request; without limiting the application of clause (iii) of this sentence, the Company shall, as soon as practicable following the determination of the public offering price, deliver to the Underwriters, without charge, as many copies of the Prospectus and any amendment or supplement thereto as the Representative may reasonably request for purposes of confirming orders that are expected to settle on the Firm Closing Date. The Company will provide or cause to be provided to each of the Representative, and to each Underwriter that so requests in writing, a copy of each report on Form SR filed by the Company as required by Rule 463 under the Act.

(f) If the Company elects to rely on Rule 462(b), the Company shall both transmit a Rule 462(b) Registration Statement with the Commission in compliance with Rule 462(b) and pay the applicable fees in accordance with Rule 111 promulgated under the Act by the earlier of (i) 10:00 P.M., Eastern time on the date of this Agreement and (ii) the time confirmations are sent or given, as specified by Rule 462(b)(2).

(g) The Company, as soon as practicable, will make generally available to its security holders and to the Representative a consolidated earnings statement of the Company and its subsidiaries that satisfies the provisions of Section 11(a) of the Act and Rule 158 thereunder.

(h) The Company will apply the net proceeds from the sale of the Securities as set forth under "Use of Proceeds" in the Prospectus.

(i) The Company will not, directly or indirectly, without the prior written consent of the Representative on behalf of the Underwriters, offer, sell, offer to sell, contract to sell, pledge, grant any option to purchase or otherwise sell or dispose (or announce any offer, sale, offer of sale, contract of sale, pledge, grant of any option to purchase or other sale or disposition) of any shares of Common Stock or any securities convertible into, or exchangeable or exercisable for, shares of Common Stock for a period of 180 days after the date hereof, except pursuant to this Agreement, issuances pursuant to warrants, options and convertible debentures outstanding prior to the date hereof, stock options granted under the company's stock option plan to officers, employees, directors and consultants at an exercise price equal to fair market value and any stock issued on exercise thereof or issuances in connection with an acquisition. If the Company plans to issue any Common Stock or other securities in connection with an acquisition, the Company shall provide the Representative with three days' advance written notice of its intention to so issue such securities including the terms of any such proposed transaction.

(j) The Company will not, directly or indirectly, (i) take any action designed to cause or to result in, or that has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities or (ii) for a period of 180 days after the date hereof (A) sell, bid for, purchase, or pay anyone any compensation for soliciting purchases of, the Securities or (B) pay or agree to pay to any person any compensation for soliciting another to purchase any other securities of the Company. The Company will not, directly or indirectly, without the prior written consent of the Representative on behalf of the Underwriters, offer, purchase, offer to purchase, contract to purchase, grant any option to sell or otherwise purchase or acquire (or announce any offer, purchase, offer of purchase, contract to purchase, grant of any option to sell or other purchase or acquisition of) any shares of Common Stock or any securities convertible into, or exchangeable or exercisable for, shares of Common Stock for a period of 180 days after the date hereof.

(k) The Company will obtain the lockup agreements described in Section 7(g) and Section 7(h) hereof prior to the Firm Closing Date.

(l) The Company will cause the Securities to be duly included for quotation on the Nasdaq National Market prior to the Firm Closing Date. The Company will use its best efforts to ensure that the Securities remain included for quotation on the Nasdaq National Market following the Firm Closing Date.

(m) During a period of five years commencing with the date of this Agreement, the Company will promptly furnish to the Representative and to each Underwriter who may so request in writing copies of (i) all periodic and special reports furnished by it to Stockholders of the Company, (ii) all information, documents and reports filed by it with the Commission, Nasdaq National Market, any securities exchange or the NASD, (iii) all press releases and material news items or articles in respect of the Company, its products or affairs released or prepared by the Company (other than promotional and marketing materials disseminated solely to customers and potential customers of the Company in the ordinary course of business) and (iv) any additional information concerning the Company or its business which the Representative may reasonably request.

(n) The Company will use its best efforts to maintain insurance of the types and in the amounts which it deems adequate for its business consistent with insurance coverage maintained by companies of similar size and engaged in similar businesses including, but not limited to, general



liability insurance covering all real and personal property owned or leased by the Company and its subsidiaries against theft, damage, destruction, acts of vandalism and all other risks customarily insured against.

(o) On the Closing Date, the Company will sell to the Representative, at a purchase price of \$0.001 per warrant, warrants to purchase 70,000 shares of Common Stock. Such Representative's Warrants will be issued pursuant to the terms of the Warrant Agreement and will have an exercise price equal to [\$\_\_\_\_], subject to adjustment, will be exercisable during the period beginning on the first anniversary of the Effective Date and ending on the fifth anniversary of the Effective Date and will contain customary anti-dilution and registration rights provisions.

6. Expenses. The Company will pay all costs and expenses incident to the performance of its obligations under this Agreement, whether or not the transactions contemplated herein are consummated or this Agreement is terminated pursuant to Section 11 hereof, including all costs and expenses incident to (i) the printing or other production of documents with respect to the transactions, including any costs of printing the Registration Statement originally filed with respect to the Securities and any amendment thereto, any Rule 462(b) Registration Statement, any Preliminary Prospectus and the Prospectus and any amendment or supplement thereto, this Agreement and any blue sky memoranda, (ii) all arrangements relating to the delivery to the Underwriters of copies of the foregoing documents, (iii) the fees and disbursements of the counsel, the accountants and any other experts or advisors retained by the Company and the fees and disbursements of counsel to the Representative, (iv) preparation, issuance and delivery to the Underwriters of any certificates evidencing the Securities, including transfer agent's and registrar's fees, (v) the qualification of the Securities under state securities and blue sky laws, including filing fees and fees and disbursements of counsel for the Underwriters relating thereto, (vi) the filing fees of the Commission and the NASD relating to the Securities; (vii) any quotation of the Securities on the Nasdaq National Market; (viii) the Company's travel expenses in connection with meetings with the brokerage community and institutional investors and expenses associated with hosting such meetings, including meeting rooms, meals, facilities and ground transportation expenses; and (ix) the cost of preparing two bound volumes of the public offering documents for the Representative and its counsel. If the sale of the Securities provided for herein is not consummated because any condition to the obligations of the Underwriters set forth in Section 7 hereof is not satisfied, because this Agreement is terminated pursuant to Section 11 hereof or because of any failure, refusal or inability on the part of the Company to perform all obligations and satisfy all conditions on its part to be performed or satisfied hereunder other than by reason of a default by any of the Underwriters, the Company will reimburse the Representative upon demand for all reasonable out-of-pocket expenses (including counsel fees and disbursements) that shall have been incurred by it in connection with the proposed purchase and sale of the Securities. The Company shall not in any event be liable to any of the Underwriters for the loss of anticipated profits from the transactions covered by this Agreement. If the sale of the Securities provided for herein is consummated, the Underwriters shall pay all of their own out-of-pocket expenses (other than fees and disbursements of counsel) and the Company shall have no obligation therefor.

7. Conditions of the Underwriters' Obligations. The obligations of the several Underwriters to purchase and pay for the Firm Securities shall be subject, in the sole discretion of the Representative, to the accuracy of the representations and warranties of the Company and the Selling Stockholders contained herein as of the date hereof and as of the Firm Closing Date, as if made on and as of the Firm Closing Date, to the accuracy of the statements of the Company's officers made pursuant

to the provisions hereof, to the performance by the Company and the Selling Stockholders of their covenants and agreements hereunder and to the following additional conditions:

(a) If the Original Registration Statement or any amendment thereto filed prior to the Firm Closing Date has not been declared effective as of the time of execution hereof, the Registration Statement or such amendment, and if the Company has elected to rely upon Rule 462(b), the Rule 462(b) Registration Statement, shall have been declared effective not later than the earlier of (i) 11:00 A.M., Eastern time, on the date on which the amendment to the Registration Statement originally filed with respect to the Securities or to the Registration Statement, as the case may be, containing information regarding the offering price of the Securities has been filed with the Commission, and (ii) the time confirmations are sent or given as specified by Rule 462(b) or, with respect to the Original Registration Statement, such later time and date as shall have been consented to by the Representative; if required, the Prospectus or any Term Sheet that constitutes a part thereof and any amendment or supplement thereto shall have been filed with the Commission in the manner and within the time period required by Rules 434 and 424(b) under the Act; no stop order suspending the effectiveness of the Registration Statement or any amendment thereto shall have been issued, and no proceedings for that purpose shall have been instituted or threatened or, to the knowledge of the Company or the Representative, shall be contemplated by the Commission; and the Company shall have complied with any request of the Commission for additional information (to be included in the Registration Statement or the Prospectus or otherwise).

(b) The Representative shall have received an opinion, dated the Firm Closing Date, of Feder, Kaszovitz, Isaacson, Weber, Skala and Bass LLP, counsel for the Company, dated the Closing Date (and stating that it may be relied on by Gibson, Dunn & Crutcher LLP, Underwriter's Counsel, in rendering their opinion), to the effect that:

(i) the Company and each of its subsidiaries listed in Schedule 3 hereto (the "Subsidiaries") have been duly organized and are validly existing as corporations in good standing under the laws of their respective jurisdictions of incorporation and are duly qualified to transact business as foreign corporations and are in good standing under the laws of all other jurisdictions where, to counsel's knowledge, the ownership or leasing of their respective properties or the conduct of their respective businesses requires such qualification, except where the failure to be so qualified does not or would not have a Material Adverse Effect;

(ii) the Company and each of the Subsidiaries have corporate power to own or lease their respective properties and conduct their respective businesses as described in the Registration Statement and the Prospectus, and the Company has the corporate power to enter into this Agreement and to carry out all the terms and provisions hereof to be carried out by it;

(iii) the issued and outstanding shares of capital stock of each of the Subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable and are owned by the Company free and clear of any perfected security interests (other than those disclosed in the Prospectus) and, to such counsel's knowledge, the Prospectus accurately describes, to the extent so described, any material corporation, association, or other entity owned or controlled, directly or indirectly, by the Company;

(iv) the Company has an authorized, issued and outstanding capitalization as set forth in the Prospectus; all of the issued and outstanding shares of capital stock of the Company

have been duly authorized and validly issued and are fully paid and nonassessable, and were not issued in violation of or subject to any preemptive rights or other rights to subscribe for or purchase securities; the Firm Securities have been duly authorized by all necessary corporate action of the Company and, when issued and delivered to and paid for by the Underwriters pursuant to this Agreement, will be validly issued, fully paid and nonassessable; to counsel's knowledge, no holders of outstanding shares of capital stock of the Company are entitled as such to any preemptive or other rights to subscribe for any of the Securities; and, to such counsel's knowledge, no holders of securities of the Company are entitled to have such securities registered under the Registration Statement except for those which have been so registered; the statements set forth under the heading "Description of Securities" in the Prospectus, insofar as such statements purport to summarize certain provisions of the capital stock and registration rights of the Company, provide a fair summary of such provisions; and the statements set forth under the heading "Business--Licensing and Marketing Agreements," "Business--Government and Industry Regulation," "Business--Acquisitions," "Indemnification of Officers and Directors," "Amended and Restated 1995 Stock Option Plan," "Certain Relationships and Related Transactions," "Shares Eligible for Future Sale," "Risk Factors - Shares Eligible for Future Sale," "Risk Factors - Government Regulation" and "Risk Factors - Substantial Number of Shares Reserved for Future Issuance" in the Prospectus, insofar as such statements constitute a summary of the legal matters, documents or proceedings referred to therein, provide a fair summary of such legal matters, documents and proceedings in all material respects;

(v) the execution and delivery of this Agreement and the Warrant Agreement have been duly authorized by all necessary corporate action of the Company, and this Agreement and the Warrant Agreement have been duly executed and delivered by the Company and, assuming due authorization, execution and delivery by you, are binding agreements of the Company, enforceable in accordance with their terms, except insofar as indemnification provisions may be limited by applicable law and to which counsel need not express any opinion and except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally or by general equitable principles;

(vi) to counsel's knowledge, (A) no legal or governmental proceedings are pending to which the Company or any of the Subsidiaries is a party or to which the property of the Company or any of the Subsidiaries is subject that are required to be described in the Registration Statement or the Prospectus and are not described therein, and no such proceedings have been threatened against the Company or any of the Subsidiaries or with respect to any of their respective properties and (B) no contract or other document is required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement that is not described therein or filed as required;

(vii) to counsel's knowledge, subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus), (A) the Company and its Subsidiaries have not incurred any material liability or obligation, direct or contingent, nor entered into any material transaction not in the ordinary course of business; and (B) the Company has not purchased any of its outstanding capital stock, nor declared, paid or otherwise made any dividend or distribution of any kind on its capital stock, except in each case as described in or contemplated by the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus);

(viii) the issuance, offering and sale of the Securities to the Underwriters by the Company pursuant to this Agreement and of warrants to the Representative by the Company pursuant to the Warrant Agreement; the compliance by the Company with the other provisions of this Agreement and the Warrant Agreement; and the consummation of the other transactions contemplated in such agreements do not (A) require the consent, approval, authorization, registration or qualification of or with any governmental authority, except such as have been obtained and such as may be required under state securities or blue sky laws and by the NASD, or (B) conflict with or result in a breach or violation of any of the terms and provisions of, or constitute a default under, any material contract, indenture, mortgage, deed of trust, lease or other agreement or instrument known to such counsel to which the Company or any of the Subsidiaries is a party or by which the Company or any of the Subsidiaries or any of their respective properties are bound, or the charter documents or by-laws of the Company or any of the Subsidiaries, or, so far as it is known to such counsel, any statute or any judgment, decree, order, rule or regulation of any court or other governmental authority or any arbitrator having jurisdiction over the Company or any of the Subsidiaries; and no further approval or authorization of the stockholders or the Board of Directors of the Company is required for (Y) the issuance and sale of the Securities to be sold by the Company or the transfer and sale of the shares of Common Stock to be sold by the Selling Stockholders pursuant to this Agreement or (Z) the issuance and sale of the shares of Common Stock issuable upon exercise of the Warrant Agreement;

(ix) the Registration Statement is effective under the Act; any required filing of the Prospectus, or any Term Sheet that constitutes a part thereof, pursuant to Rules 434 and 424(b) has been made in the manner and within the time period required by Rules 434 and 424(b); and, to such counsel's best knowledge, no stop order suspending the effectiveness of the Registration Statement or any amendment thereto has been issued, and no proceedings for that purpose have been instituted or threatened or are contemplated by the Commission;

(x) the Registration Statement originally filed with respect to the Securities and each amendment thereto, any Rule 462(b) Registration Statement and the Prospectus (in each case, other than the financial statements and other financial and statistical information contained therein, as to which such counsel need express no opinion) comply as to form in all material respects with the applicable requirements of the Act and the rules and regulations of the Commission thereunder;

(xi) if the Company elects to rely on Rule 434, the Prospectus is not "materially different," as such term is used in Rule 434, from the prospectus included in the Registration Statement at the time of its effectiveness or an effective post-effective amendment thereto (including such information that is permitted to be omitted pursuant to Rule 430A);

(xii) the Company is not, and the transactions contemplated by this Agreement will not cause the Company to become, an investment company subject to registration under the 1940 Act;

(xiii) the specimen stock certificate of the Company filed as an exhibit to the Registration Statement is in due and proper form to evidence shares of Common Stock, has been duly authorized and approved by the Board of Directors of the Company and complies with all legal requirements applicable under the Delaware General Corporation Law;

(xiv) the descriptions in the Registration Statement and the Prospectus of the charter and bylaws of the Company and of statutes are accurate and fairly present the information required to be presented by the Act and the applicable rules and regulations (provided that counsel need not express any opinion as to their completeness);

(xv) to such counsel's knowledge, except as described in the Prospectus, no holders of Common Stock or other securities of the Company have registration rights with respect to securities of the Company; and

(xvi) counsel has no reason to believe that the offer and sale of all securities of the Company made within the last three years as set forth in Item 26 of the Registration Statements were not exempt from the registration requirements of the Securities Act, pursuant to the provisions set forth in such Item, and from the registration or qualification requirements of all relevant state securities laws.

Such counsel shall also state that such counsel has participated in conferences with officers and other representatives of the Company, the independent public accountants of the Company, the Representative and counsel to the Underwriters, at which conferences the contents of the Registration Statement and the Prospectus and related matters were discussed and, they have no reason to believe that the Registration Statement, as of its effective date, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus, as of its date or the date of such opinion, included or includes any untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading (except such counsel need express no view as to the financial statements and notes thereto, schedules and reports thereon, and other financial and statistical data included or incorporated by reference in the Registration Statement or Prospectus).

In rendering any such opinion, such counsel may rely, as to matters of fact, to the extent such counsel deem(s) proper, on certificates or opinions of responsible officers of the Company and public officials, and may limit its opinions to the laws of the United States of America and the States of New York and Delaware, as appropriate.

References to the Registration Statement and the Prospectus in this paragraph (b) shall include any amendment or supplement thereto at the date of such opinion.

(c) The Representative shall have received an opinion, dated the Firm Closing Date, of Feder, Kaszovitz, Isaacson, Weber, Skala and Bass LLP, counsel for the Selling Stockholders, dated the Closing Date (and stating that it may be relied on by Gibson, Dunn & Crutcher LLP, Underwriter's Counsel, in rendering their opinion), to the effect that:

(i) this Agreement, the Custody Agreement and the Power-of-Attorney have been duly authorized, executed and delivered by the Selling Stockholders and constitute the legal, valid and binding agreement of such Selling Stockholder, enforceable against such Selling Stockholder in accordance with its terms, except as such enforceability may be limited by the effect of bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to rights and remedies of creditors or by general equitable principles; and each of the Selling Stockholders has full legal right and authority to sell, transfer and deliver in the manner provided in this Agreement

and the Custody Agreement the Securities being sold by such Selling Stockholder hereunder;

(ii) the delivery by each of the Selling Stockholders to the several Underwriters of certificates for the Securities being sold hereunder by such Selling Stockholder against payment therefor as provided herein will pass good and marketable title to such Securities to the several Underwriters, free and clear of all liens, encumbrances, equities and claims whatsoever;

(iii) no consent, approval, authorization or order of any governmental agency or body or, to such counsel's knowledge, of any court, is required for the consummation by any Selling Stockholder of the transactions contemplated herein, except such as may have been obtained under the Act and such as may be required under the blue sky laws of any jurisdiction in connection with the purchase and distribution of the Securities by the Underwriters and such other approvals (specified in such opinion) as have been obtained;

(iv) neither the sale of the Securities being sold by any Selling Stockholder nor the consummation of any other of the transactions herein contemplated by any Selling Stockholder nor the fulfillment of the terms hereof by any Selling Stockholder will conflict with, result in a breach or violation of, or constitute a default under any law or the terms of any indenture or other agreement or instrument known to such counsel and to which any Selling Stockholder is a party or bound, or any judgment, order or decree known to such counsel to be applicable to any Selling Stockholder of any court, regulatory body, administrative agency, governmental body or arbitrator having jurisdiction over any Selling Stockholder; and

(v) there are no transfer or other taxes (other than income taxes) known to such counsel payable in connection with the sale and delivery of the Securities.

In rendering any such opinion, such counsel may rely, as to matters of fact, to the extent such counsel deem(s) proper, on certificates or opinions of the Selling Stockholders and public officials, and may limit its opinions to the laws of the United States of America and the States of New York and Delaware, as appropriate.

References to the Registration Statement and the Prospectus in this paragraph (c) shall include any amendment or supplement thereto at the date of such opinion.

(d) The Representative shall have received from Pannell Kerr Forster, P.C. a letter or letters dated, respectively, the date hereof and the Firm Closing Date, in form and substance satisfactory to the Representative, to the effect that:

(i) they are independent accountants with respect to the Company and its consolidated subsidiaries and Road Champs within the meaning of the Act and the applicable rules and regulations thereunder;

(ii) in their opinion, the audited consolidated financial statements, the audited combined financial statements and the pro forma financial statements examined by them and included in the Registration Statement and the Prospectus comply in form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations;

(iii) on the basis of carrying out certain specified procedures (which do not constitute an examination made in accordance with generally accepted auditing standards) that would not necessarily reveal matters of significance with respect to the comments set forth in this paragraph (iii), a reading of the minute books of the stockholders, the board of directors and any committees thereof of the Company and each of its consolidated subsidiaries and Road Champs, and inquiries of certain officials of the Company and its consolidated subsidiaries and Road Champs who have responsibility for financial and accounting matters, nothing came to their attention that caused them to believe that at a specific date not more than five business days prior to the date of such letter, there were any changes in the capital stock or total debt of the Company and its consolidated subsidiaries and Road Champs or any decreases in total assets or stockholders' equity of the Company and its consolidated subsidiaries and Road Champs, in each case compared with amounts shown on the December 31, 1996 consolidated balance sheet and on the December 31, 1996 combined balance sheet included in the Registration Statement and the Prospectus, or for the period from January 1, 1997 to such specified date there were any decreases, as compared with the same period in the prior year, in total revenues, net income or net income per share, respectively, of the Company and its consolidated subsidiaries and Road Champs, except in all instances for changes, decreases or increases set forth in such letter;

(iv) they have carried out certain specified procedures, not constituting an audit, with respect to certain amounts, percentages and financial information that are derived from the general accounting records of the Company and its consolidated subsidiaries and Road Champs and are included in the Registration Statement and the Prospectus, and have compared such amounts, percentages and financial information with such records of the Company and its consolidated subsidiaries and Road Champs and with information derived from such records and have found them to be in agreement, excluding any questions of legal interpretation; and

(v) their review of the system of internal controls of the Company and its consolidated subsidiaries and Road Champs, to the extent they deemed necessary in establishing the scope of their examination of the Company's financial statements as of December 31, 1996 and the Road Champs combined financial statements as of December 31, 1996, did not disclose any weaknesses in internal controls that they considered to be material weaknesses.

In the event that the letters referred to above set forth any such changes, decreases or increases which, in the reasonable discretion of the Representative, are likely to result in a Material Adverse Effect, it shall be a further condition to the obligations of the Underwriters that such letters shall be accompanied by a written explanation of the Company as to the significance thereof, unless the Representative deem such explanation unnecessary.

References to the Registration Statement and the Prospectus in this paragraph (d) with respect to either letter referred to above shall include any amendment or supplement thereto by the date of such letter.

(e) The Representative shall have received a certificate, dated the Firm Closing Date, of Jack Friedman, Stephen Berman and Joel M. Bennett in their capacities as the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer, respectively, of the Company and as Management Selling Stockholders to the effect that:

(i) the representations and warranties of the Company in this Agreement are true

and correct as if made on and as of the Firm Closing Date; the Registration Statement, as amended as of the Firm Closing Date, does not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading, and the Prospectus, as amended or supplemented as of the Firm Closing Date, does not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and the Company has performed all covenants and agreements and satisfied all conditions on its part to be performed or satisfied at or prior to the Firm Closing Date;

(ii) no stop order suspending the effectiveness of the Registration Statement or any amendment thereto has been issued, and no proceedings for that purpose have been instituted or, to the best of the Company's knowledge, threatened or, are contemplated by the Commission; and

(iii) subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, neither the Company nor any of its subsidiaries has sustained any loss or interference with their respective businesses or properties having or resulting in a Material Adverse Effect from fire, flood, hurricane, accident or other calamity, whether or not covered by insurance, or from any labor dispute or any legal or governmental proceeding, and there has not been any event, circumstance, or development that results in, or that the Company reasonably believes will result in, a Material Adverse Effect, except in each case as described in or contemplated by the Prospectus (exclusive of any amendment or supplement thereto).

(f) The Representative shall have received a certificate, dated the Firm Closing Date, of each of the Selling Stockholders, in such capacity, to the effect that the representations and warranties of such Selling Stockholder in this Agreement are true and correct as if made on and as of the Firm Closing Date and that such Selling Stockholder has performed all covenants and agreements and satisfied all conditions on its part to be performed or satisfied at or prior to the Firm Closing Date.

(g) The Representative shall have received from each officer and director of the Company and the persons and entities listed in Schedule 4 an agreement to the effect that such person or entity will not, except to the extent otherwise specifically permitted by the terms of each such person's or entity's agreement, directly or indirectly, without the prior written consent of the Representative, offer, sell, offer to sell, contract to sell, pledge, grant any option to purchase or otherwise sell or dispose (or announce any offer, sale, offer of sale, contract of sale, pledge, grant of an option to purchase or other sale or disposition) of any shares of Common Stock or any securities convertible into, or exchangeable or exercisable for, shares of Common Stock for a period of 180 days after the date of this Agreement; provided, however, that intra-family transfers or transfers to trust for estate planning purposes shall not be so restricted.

(h) The Representative shall have received from each of the Selling Stockholders an agreement to the effect that such person or entity will not, except to the extent otherwise specifically permitted by the terms of each such person's or entity's agreement, directly or indirectly, without the prior written consent of the Representative, offer, sell, offer to sell, contract to sell, pledge, grant any option to purchase or otherwise sell or dispose (or announce any offer, sale, offer of sale, contract of sale, pledge, grant of an option to purchase or other sale or disposition) of any shares of Common Stock or any securities convertible into, or exchangeable or exercisable for, shares of Common Stock for a period of 180 days after the date of this Agreement; provided, however, that intra-family transfers or transfers to trust for estate planning purposes shall not be so restricted.



(i) On or before the Firm Closing Date, the Representative and counsel for the Underwriters shall have received such further certificates, documents or other information as they may have reasonably requested from the Company.

(j) Upon consummation of the offering of the Securities, the Securities shall have been included for trading on the Nasdaq National Market.

(k) The Representative shall have received an opinion, dated the Firm Closing Date, of Gibson, Dunn & Crutcher LLP, counsel for the Underwriters, with respect to the issuance and sale of the Firm Securities, the Registration Statement and Prospectus, and such other related matters as the Representative may reasonably require, and the Company shall have furnished to such counsel such documents as they may reasonably request for the purpose of enabling them to pass upon such matters.

(l) The Company shall have executed and delivered a Warrant Agreement in a form satisfactory to the Representative (the "Warrant Agreement"), and there shall have been tendered to the Representative all of the Representative's Warrants described in Section 5(o) hereof to be purchased by the Representative on the Closing Date.

All opinions, certificates, letters and documents delivered pursuant to this Agreement will comply with the provisions hereof only if they are reasonably satisfactory in all material respects to the Representative and counsel for the Underwriters. The Company shall furnish to the Representative such conformed copies of such opinions, certificates, letters and documents in such quantities as the Representative and counsel for the Underwriters shall reasonably request.

The respective obligations of the several Underwriters to purchase and pay for any Option Securities shall be subject, in their discretion, to each of the foregoing conditions to purchase the Firm Securities, except that all references to the Firm Securities and the Firm Closing Date shall be deemed to refer to such Option Securities and the related Option Closing Date, respectively.

#### 8. Indemnification and Contribution.

(a) The Company and the Management Selling Stockholders jointly and severally agree to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, against any losses, claims, damages or liabilities to which such Underwriter or such controlling person may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon:

(i) any breach by the Company or any Management Selling Stockholder of its representations or warranties set forth in Section 2(a) and (b) of this Agreement;

(ii) any untrue statement or alleged untrue statement of any material fact contained in (A) the Registration Statement or any amendment thereto, any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto or (B) any application or other document, or any amendment or supplement thereto, executed by the Company or any Management Selling Stockholder or based upon written information furnished by or on behalf of the Company or any Management Selling Stockholder filed in any jurisdiction in order to qualify the Securities under

the securities or blue sky laws thereof or filed with the Commission or any securities association or securities exchange (each, an "Application");

(iii) the omission or alleged omission to state in the Registration Statement or any amendment thereto, any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or any Application, a material fact required to be stated therein or necessary to make the statements therein not misleading; or

(iv) any untrue statement or alleged untrue statement of any material fact contained in any audio or visual materials produced by the Company or any Management Selling Stockholder and used in connection with the marketing of the Securities, including without limitation, slides, videos, films, tape recordings, and, such party or parties, as the case may be, will reimburse, as incurred, each Underwriter and each such controlling person for any legal or other expenses reasonably incurred by such Underwriter or such controlling person in connection with investigating, defending against or appearing as a third-party witness in connection with any such loss, claim, damage, liability or action;

provided, however, that the Company or such Management Selling Stockholder will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission made in such Registration Statement or any amendment thereto, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto or any Application in reliance upon and in conformity with written information furnished to the Company or such Management Selling Stockholder by any Underwriter through the Representative specifically for use therein; and provided, further, that the Company or such Management Selling Stockholder will not be liable to any Underwriter or any person controlling such Underwriter with respect to any such untrue statement or omission made in any Preliminary Prospectus that is corrected in the Prospectus (or any amendment or supplement thereto) if the person asserting any such loss, claim, damage or liability purchased Securities from such Underwriter but was not sent or given a copy of the Prospectus (as amended or supplemented) at or prior to the written confirmation of the sale of such Securities to such person in any case where such delivery of the Prospectus (as amended or supplemented) is required by the Act, unless such failure to deliver the Prospectus (as amended or supplemented) was a result of noncompliance by the Company with Section 5(d) and (e) of this Agreement. This indemnity agreement will be in addition to any liability that the Company or any Management Selling Stockholder may otherwise have. The Company and the Management Selling Stockholders shall not, without the prior written consent of the Representative, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit or proceeding in respect of which indemnification may be sought hereunder (whether or not any Underwriter or any person who controls any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act is a party to such claim, action, suit or proceeding), unless such settlement, compromise or consent includes an unconditional release of all of the Underwriters and such controlling persons from all liability arising out of such claim, action, suit or proceeding.

Each Non-Management Selling Stockholders severally agrees to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, against any losses, claims, damages or liabilities to which such Underwriter or such controlling person may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out

of or are based upon any breach by such Non-Management Selling Stockholder of its representations or warranties set forth in Section 2(b) of this Agreement.

(b) Each Underwriter, severally and not jointly, will indemnify and hold harmless the Company, each of its directors, each of its officers who signed the Registration Statement, each person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act and each of the Selling Stockholders, against any losses, claims, damages or liabilities to which the Company or any such director, officer of the Company, controlling person of the Company or Selling Stockholder may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement or any amendment thereto, any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or any Application or (ii) the omission or the alleged omission to state therein a material fact required to be stated in the Registration Statement or any amendment thereto, any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or any Application or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by such Underwriter through the Representative specifically for use therein; and, subject to the limitation set forth immediately preceding this clause, will reimburse, as incurred, any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person or Selling Stockholder in connection with investigating or defending any such loss, claim, damage, liability or any action in respect thereof. This indemnity agreement will be in addition to any liability which such Underwriter may otherwise have.

(c) Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 8, notify the indemnifying party of the commencement thereof, but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party, except to the extent that the indemnifying party demonstrates it has been irreparably prejudiced by such failure to receive notice.

(d) In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party; provided, however, that if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded or shall have been advised by its counsel that there may be one or more legal defenses available to it and/or other indemnified parties that conflict with those available to the indemnifying party, the indemnifying party shall not have the right to direct the defense of such action on behalf of such indemnified party or parties and such indemnified party or parties shall have the right to select separate counsel to defend such action on behalf of such indemnified party or parties. After notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof and approval by such indemnified party of counsel appointed to defend such action, the indemnifying party will not be liable to such indemnified party under this Section 8 for any legal or other expenses, other than reasonable costs of investigation, subsequently incurred by such indemnified party in connection with the defense

thereof, unless (i) the indemnified party shall have employed separate counsel in accordance with the proviso to the next preceding sentence (it being understood, however, that in connection with such action the indemnifying party shall not be liable for the expenses of more than one separate counsel (in addition to local counsel) in any one action or separate but substantially similar actions in the same jurisdiction arising out of the same general allegations or circumstances, designated by the Representative in the case of paragraph (a) of this Section 8, representing the indemnified parties under such paragraph (a) who are parties to such action or actions) or (ii) the indemnifying party does not promptly retain counsel satisfactory to the indemnified party or (iii) the indemnifying party has authorized the employment of counsel for the indemnified party at the expense of the indemnifying party. After such notice from the indemnifying party to such indemnified party, the indemnifying party will not be liable for the costs and expenses of any settlement of such action effected by such indemnified party without the consent of the indemnifying party.

(e) In circumstances in which the indemnity agreement provided for in the preceding paragraphs of this Section 8 is unavailable or insufficient, for any reason, to hold harmless an indemnified party in respect of any losses, claims, damages or liabilities (or actions in respect thereof), each indemnifying party, in order to provide for just and equitable contribution, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect (i) the relative benefits received by the indemnifying party or parties on the one hand and the indemnified party on the other from the offering of the Securities or (ii) if the allocation provided by the foregoing clause (i) is not permitted by applicable law, not only such relative benefits but also the relative fault of the indemnifying party or parties on the one hand and the indemnified party on the other in connection with the statements or omissions or alleged statements or omissions that resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriters. The relative fault of the parties shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or the Underwriters, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission, and any other equitable considerations appropriate in the circumstances. The Company and the Underwriters agree that it would not be equitable if the amount of such contribution were determined by pro rata or per capita allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take into account the equitable considerations referred to above in this paragraph (d). Notwithstanding any other provision of this paragraph (e), no Underwriter shall be obligated to make contributions hereunder that in the aggregate exceed the total public offering price of the Securities purchased by such Underwriter under this Agreement, less the aggregate amount of any damages that such Underwriter has otherwise been required to pay in respect of the same or any substantially similar claim, and no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute hereunder are several in proportion to their respective underwriting obligations and not joint, and as between themselves, contributions among Underwriters shall be governed by the provisions of the Representative's Agreement Among Underwriters. For the purposes of this paragraph 8(e), each person, if any, who controls an

Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act shall have the same rights to contribution as such Underwriter, and each director of the Company, each officer of the Company who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, shall have the same rights to contribution as the Company.

9. Default of Underwriters. If one or more Underwriters default in their obligations to purchase Firm Securities or Option Securities hereunder and the aggregate number of such Securities that such defaulting Underwriter or Underwriters agreed but failed to purchase is ten percent or less of the aggregate number of Firm Securities or Option Securities to be purchased by all of the Underwriters at such time hereunder, then the other Underwriters may make arrangements satisfactory to the Representative for the purchase of such Securities by other persons (who may include one or more of the non-defaulting Underwriters, including the Representative), but if no such arrangements are made by the Firm Closing Date or the related Option Closing Date, as the case may be, the other Underwriters shall be obligated severally in proportion to their respective commitments hereunder to purchase the Firm Securities or Option Securities that such defaulting Underwriter or Underwriters agreed but failed to purchase. If one or more Underwriters so default with respect to an aggregate number of Securities that is more than ten percent of the aggregate number of Firm Securities or Option Securities, as the case may be, to be purchased by all of the Underwriters at such time hereunder, and if arrangements satisfactory to the Representative are not made within 36 hours after such default for the purchase by other persons (who may include one or more of the non-defaulting Underwriters, including the Representative) of the Securities with respect to which such default occurs, this Agreement will terminate without liability on the part of any non-defaulting Underwriter or the Company other than as provided in Section 10 hereof. In the event of any default by one or more Underwriters as described in this Section 9, the Representative shall have the right to postpone the Firm Closing Date or the Option Closing Date, as the case may be, established as provided in Section 3 hereof for not more than seven business days in order that any necessary changes may be made in the arrangements or documents for the purchase and delivery of the Firm Securities or Option Securities, as the case may be. As used in this Agreement, the term "Underwriter" includes any person substituted for an Underwriter under this Section 9. Nothing herein shall relieve any defaulting Underwriter from liability for its default.

10. Survival. The respective representations, warranties, agreements, covenants, indemnities and other statements of the Company, its officers, the Selling Stockholders and the several Underwriters set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement shall remain in full force and effect, regardless of (i) any investigation made by or on behalf of the Company, any of its officers or directors, any Selling Stockholders, any Underwriter or any controlling person referred to in Section 8 hereof and (ii) delivery of and payment for the Securities. The respective agreements, covenants, indemnities and other statements set forth in Sections 6 and 8 hereof shall remain in full force and effect, regardless of any termination or cancellation of this Agreement.

11. Termination.

(a) This Agreement may be terminated with respect to the Firm Securities or any Option Securities in the sole discretion of the Representative by notice to the Company and the Selling Stockholders given prior to the Firm Closing Date or the related Option Closing Date, respectively, in

the event that the Company or any Selling Stockholders shall have failed, refused or been unable to perform all obligations and satisfy all conditions on its part to be performed or satisfied hereunder at or prior thereto or, if at or prior to the Firm Closing Date or, such Option Closing Date, respectively,

(i) after the respective dates as of which information is given in the Registration Statement and the Prospectus, any material adverse change or development involving a prospective adverse change in or affecting particularly the business, properties, condition (financial or otherwise), results of operations or prospects of the Company, whether or not arising in the ordinary course of business, occurs which would, in the Representative's sole judgment, make the offering or the delivery of the Securities impracticable or inadvisable;

(ii) trading in the Common Stock shall have been suspended by the Commission or the Nasdaq National Market or minimum or maximum prices shall have been established on the Nasdaq National Market;

(iii) a banking moratorium shall have been declared by New York or United States authorities; or

(iv) there shall have been (A) an outbreak or escalation of hostilities between the United States and any foreign power, (B) an outbreak or escalation of any other insurrection or armed conflict involving the United States or (C) any other calamity or crisis or material adverse change in general economic, political or financial conditions having an effect on the U.S. financial markets that, in the sole judgment of the Representative, makes it impractical or inadvisable to proceed with the public offering or the delivery of the Securities as contemplated by the Registration Statement, as amended as of the date hereof.

(b) Termination of this Agreement pursuant to this Section 11 shall be without liability of any party to any other party except as provided in Section 10 hereof.

12. Information Supplied by Underwriters. The statements set forth in (a) the last paragraph on the front cover page of any Preliminary Prospectus or the Prospectus, (b) under the heading "Underwriting" in any Preliminary Prospectus or the Prospectus and (c) on page 2 in any Preliminary Prospectus or the Prospectus pertaining to stabilization (to the extent such statements relate to the Underwriters) constitute the only information furnished by any Underwriter through the Representative to the Company for the purposes of Section 8 hereof. The Underwriters confirm that such statements (to such extent) are correct.

13. Notices. All communications hereunder shall be in writing and, if sent to any of the Underwriters, shall be delivered or sent by mail, telex or facsimile transmission and confirmed in writing to Cruttenden Roth Incorporated, 18301 Von Karman, Suite 100, Irvine, California 92715; if sent to the Company, shall be delivered or sent by mail, telex or facsimile transmission and confirmed in writing to the Company at 24955 Pacific Coast Highway, #B202 Malibu, California 90265, Attention: Chief Executive Officer; and if sent to a Selling Stockholder, shall be delivered or sent by mail, telex or facsimile transmission and confirmed in writing to such Selling Stockholder at the address listed opposite such Selling Stockholder's name in Schedules 1-A or 1-B hereto.

14. Successors. This Agreement shall inure to the benefit of and shall be binding upon the several Underwriters, the Company, the Selling Stockholders and their respective successors and legal

representatives, and nothing expressed or mentioned in this Agreement is intended or shall be construed to give any other person any legal or equitable right, remedy or claim under or in respect of this Agreement, or any provisions herein contained, this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of such persons and for the benefit of no other person except that (a) the indemnities of the Company and the Selling Stockholders contained in Section 8 of this Agreement shall also be for the benefit of any person or persons who control any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act and (b) the indemnities of the Underwriters contained in Section 8 of this Agreement shall also be for the benefit of the directors of the Company, the officers of the Company who have signed the Registration Statement and any person or persons who control the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act and the Selling Stockholders. No purchaser of Securities from any Underwriter shall be deemed a successor because of such purchase.

15. Applicable Law. The validity and interpretation of this Agreement, and the terms and conditions set forth herein, shall be governed by and construed in accordance with the laws of the State of California, without giving effect to any provisions relating to conflicts of laws.

16. Consent to Jurisdiction and Service of Process. All judicial proceedings arising out of or relating to this Agreement may be brought in any state or federal court of competent jurisdiction in the State of California, and by execution and delivery of this Agreement, the Company and the Selling Stockholders accept for themselves and in connection with their respective properties, generally and unconditionally, the nonexclusive jurisdiction of the aforesaid courts and waives any defense of forum non conveniens and irrevocably agree to be bound by any judgment rendered thereby in connection with this Agreement. The Company designates and appoints Jack Friedman and such other persons as may hereafter be selected by the Company irrevocably agreeing in writing to so serve, as its agent to receive on its behalf service of all process in any such proceedings in any such court, such service being hereby acknowledged by the Company to be effective and binding service in every respect. A copy of any such process so served shall be mailed by registered mail to the Company at its address provided in Section 13 hereof; provided, however, that, unless otherwise provided by applicable law, any failure to mail such copy shall not affect the validity of service of such process. If any agent appointed by the Company refuses to accept service, the Company hereby agrees that service of process sufficient for personal jurisdiction in any action against the Company in the State of California may be made by registered or certified mail, return receipt requested, to the Company at its address provided in Section 13 hereof, and the Company hereby acknowledges that such service shall be effective and binding in every respect. Nothing herein shall affect the right to serve process in any other manner permitted by law or shall limit the right of any Underwriter to bring proceedings against the Company in the courts of any other jurisdiction.

17. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

If the foregoing correctly sets forth our understanding please indicate your acceptance thereof in the space provided below for that purpose, whereupon this letter shall constitute an agreement binding the Company, each of the Selling Stockholders and each of the several Underwriters.

Very truly yours,

JAKKS PACIFIC, INC.

By: \_\_\_\_\_  
Jack Friedman  
Chief Executive Officer

\_\_\_\_\_  
Jack Friedman

\_\_\_\_\_  
Stephen Berman

\_\_\_\_\_  
Murray L. Skala

TRUST FOR BROOKE FRIEDMAN

By: \_\_\_\_\_  
Murray L. Skala  
Trustee

TRUST FOR TONY FRIEDMAN

By: \_\_\_\_\_  
Murray L. Skala  
Trustee

EDUCATION TRUST FOR TONY FRIEDMAN

By: \_\_\_\_\_  
Murray L. Skala  
Trustee



The foregoing Agreement is hereby confirmed and accepted as of the date first above written.

CRUTTENDEN ROTH INCORPORATED

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

For itself and as Representative.

## Schedule 1-A

## MANAGEMENT SELLING STOCKHOLDERS

Management Selling Stockholder	Number of Shares of Underwritten Option Securities to be Sold	Address
Jack Friedman	101,370	24955 Pacific Coast Highway, B#202 Malibu, California 90265
Stephen Berman	24,000	24955 Pacific Coast Highway, B#202 Malibu, California 90265

## Schedule 1-B

## NON-MANAGEMENT SELLING STOCKHOLDERS

Management Selling Stockholder	Number of Shares of Underwritten Option Securities to be Sold	Address
Murray L. Skala	2,355	750 Lexington Avenue New York, NY 10022
Natacha Friedman	6,075	19246 E. Country Club Drive Aventura, FL 33180
Trust for Brooke Friedman	6,075	750 Lexington Avenue New York, NY 10022
Trust for Tony Friedman	6,075	750 Lexington Avenue New York, NY 10022
Education Trust for Tony Friedman	4,050	750 Lexington Avenue New York, NY 10022

Schedule 2  
UNDERWRITERS

----- UNDERWRITERS -----	NUMBER OF FIRM SECURITIES TO BE PURCHASED -----
Cruttenden Roth Incorporated . . . . .	-----
Total . . . . .	1,000,000 =====

## Schedule 3

## SUBSIDIARIES

Name	Jurisdiction of Incorporation
Road Champs, Inc.	Pennsylvania corporation
JAXXS (HK) Limited	Hong Kong corporation
JP (HK) Limited	Hong Kong corporation
J-X Enterprises, Inc.	New York corporation
JAKKS Acquisition Corp.	Delaware corporation
Road Champs Ltd.	Hong Kong corporation

Schedule 4

PERSONS AND ENTITIES SUBJECT TO LOCK-UP AGREEMENTS,  
OTHER THAN THE COMPANY'S OFFICERS AND DIRECTORS

Name

-----

Natacha Friedman

Trust for Brooke Friedman

Trust for Tony Friedman

Education Trust for Tony Friedman

## WARRANT AGREEMENT

This WARRANT AGREEMENT ("Agreement") dated as of April \_\_, 1997 is by and between JAKKS Pacific, Inc., a Delaware corporation (the "Company"), and Cruttenden Roth Incorporated ("Cruttenden" or the "Representative").

WHEREAS, the Representative has agreed pursuant to the Underwriting Agreement dated April \_\_, 1997 (the "Underwriting Agreement") to act as the representative of the several underwriters in connection with the proposed public offering by the Company and certain selling stockholders of up to 1,150,000 shares in the aggregate of Common Stock, including 150,000 of such shares covered by an over-allotment option (the "Public Offering"); and

WHEREAS, pursuant to Section 5(o) of the Underwriting Agreement, the Company has agreed to issue warrants to the Representative (the "Warrants") to purchase, at a price of \$0.001 per warrant, up to an aggregate of 70,000 shares (hereinafter, and as the number thereof may be adjusted hereto, the "Warrant Shares"), of the Company's Common Stock, \$.001 par value per share (the "Common Stock"), each Warrant initially entitling the holder thereof to purchase one share of Common Stock.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein and in the Underwriting Agreement set forth and for other good and valuable consideration, the parties hereto agree as follows:

1. Issuance of Warrants: Form of Warrant. The Company will issue and deliver to the Representative, Warrants to purchase 70,000 Warrant Shares on the Closing Date referred to in the Underwriting Agreement in consideration for, and as part of the Representative's compensation in connection with, the Representative acting as the representative of the several underwriters for the Public Offering pursuant to the Underwriting Agreement. The text of the Warrants and of the form of election to purchase shares shall be substantially as set forth in Exhibit A attached hereto. The Warrants shall be executed on behalf of the Company by the manual or facsimile signature of the present or any future Chairman of the Board, President or Vice President of the Company, under its corporate seal, affixed or in facsimile, attested by the manual or facsimile signature of the Secretary or an Assistant Secretary of the Company.

Warrants bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any one of them shall have ceased to hold such offices prior to the delivery of such Warrants or did not hold such offices on the date of this Agreement. Warrants shall be dated as of the date of execution thereof by the Company either upon initial issuance or upon division, exchange, substitution or transfer.

2. Registration. The Warrants shall be numbered and shall be registered on the books of the Company (the "Warrant Register") as they are issued. The Company shall be entitled to treat the registered holder of any Warrant on the Warrant Register (the "Holder") as the owner in fact therefor for all purposes and shall not be bound to recognize any equitable or other claim to

or interest in such Warrant on the part of any other person, and shall not be liable for any registration or transfer of Warrants which are registered or are to be registered in the name of a fiduciary or the nominee of a fiduciary unless made with the actual knowledge that a fiduciary or nominee is committing a breach of trust in requesting such registration or transfer, or with the knowledge of such facts that its participation therein amounts to bad faith. Warrants to purchase 70,000 shares shall be registered initially in the name of "Cruttenden Roth Incorporated," or in such other denominations as Cruttenden may request in writing to the Company.

3. Exchange of Warrant Certificates. Subject to any restriction upon transfer set forth in this Agreement, each Warrant certificate may be exchanged for another certificate or certificates entitling the Holder thereof to purchase a like aggregate number of Warrant Shares as the certificate or certificates surrendered then entitled such Holder to purchase. Any Holder desiring to exchange a Warrant certificate or certificates shall make such request in writing delivered to the Company, and shall surrender, properly endorsed, the certificate or certificates to be so exchanged. Thereupon, the Company shall execute and deliver to the person entitled thereto a new Warrant certificate or certificates, as the case may be, as so requested.

4. Transfer of Warrants. Until April \_\_, 1998, the Warrants will not be sold, transferred, assigned or hypothecated except to bona fide officers and partners of the Representative who agree in writing to be bound by the terms hereof. The Warrants shall be transferable only on the Warrant Register upon delivery thereof duly endorsed by the Holder or by the Holder's duly authorized attorney or representative, or accompanied by proper evidence of succession, assignment or authority to transfer. In all cases of transfer by an attorney, the original power of attorney, duly approved, or an official copy thereof, duly certified, shall be deposited with the Company. In case of transfer by executors, administrators, guardians or other legal representatives, duly authenticated evidence of their authority shall be produced and may be required to be deposited with the Company in its discretion. Upon any registration of transfer, the Company shall deliver a new Warrant or Warrants to the person entitled thereto.

5. Term of Warrants; Exercise of Warrants.

5.1 Each Warrant entitles the registered owner thereof to purchase one share of Common Stock at any time from 10:00 a.m., Pacific time, on April \_\_, 1998 (the "Initiation Date") until 6:00 p.m., Pacific time, on April \_\_, 2002 (the "Expiration Date") at a purchase price of [\$\_\_\_\_], subject to adjustment (the "Warrant Price"). Notwithstanding the foregoing, if at 6:00 p.m., Pacific time on the Expiration Date, any Holder or Holders of the Warrants have not exercised their Warrants and the Closing Price (as defined below) for the Common Stock on the Expiration Date is greater than the Warrant Price, then each such unexercised Warrant shall be automatically converted into a number of shares of Common Stock of the Company equal to: (A) the number of shares of Common Stock then issuable upon exercise of a Warrant multiplied by (B) a fraction (1) the numerator of which is the difference between the Closing Price for the Common Stock on the Expiration Date and the Warrant Price and (2) the denominator of which is the Closing Price for the Warrant Stock on the Expiration Date.

5.2 The Warrant Price and the number of Warrant Shares issuable upon exercise of Warrants are subject to adjustment upon the occurrence of certain events, pursuant to the provisions of Section 11 of this Agreement. Subject to the provisions of this Agreement, each Holder of Warrants shall have the right, which may be exercised as expressed in such Warrants, to



purchase from the Company (and the Company shall issue and sell to such Holder of Warrants) the number of fully paid and nonassessable Warrant Shares specified in such Warrants, upon surrender to the Company, or its duly authorized agent, of such Warrants, with the form of election to purchase on the reverse thereof duly filled in and signed, and upon payment to the Company of the Warrant Price, as adjusted in accordance with the provisions of Section 11 of this Agreement, for the number of Warrant Shares in respect of which such Warrants are then exercised. Payment of such Warrant Price shall be made in cash or by certified or official bank check, or a combination thereof. No adjustment shall be made for any dividends on any Warrant Shares of stock issuable upon exercise of a Warrant.

5.3 Upon such surrender of Warrants, and payment of the Warrant Price as aforesaid, the Company shall issue and cause to be delivered with all reasonable dispatch to or upon the written order of the Holder of such Warrants and in such name or names as such registered Holder may designate, a certificate or certificates for the number of full Warrant Shares so purchased upon the exercise of such Warrants, together with cash, as provided in Section 12 of this Agreement, in respect of any fraction of a share otherwise issuable upon such surrender and, if the number of Warrants represented by a Warrant Certificate shall not be exercised in full, a new Warrant Certificate, executed by the Company for the balance of the number of whole Warrant Shares represented by the Warrant Certificate.

5.4 If permitted by applicable law, such certificate or certificates shall be deemed to have been issued and any person so designated to be named therein shall be deemed to have become a holder of record of such shares as of the date of the surrender of such Warrants and payment of the Warrant Price as aforesaid. The rights of purchase represented by the Warrants shall be exercisable, at the election of the registered Holders thereof, either as an entirety or from time to time for only part of the shares specified therein.

6. Compliance with Government Regulations. The Company covenants that if any shares of Common Stock required to be reserved for purposes of exercise or conversion of Warrants require, under any Federal or state law or applicable governing rule or regulation of any national securities exchange, registration with or approval of any governmental authority, or listing on any such national securities exchange before such shares may be issued upon exercise, the Company will in good faith and as expeditiously as possible endeavor to cause such shares to be duly registered, approved or listed on the relevant national securities exchange, as the case may be; provided, however, that (except to the extent legally permissible with respect to Warrants of which the Representative is the Holder) in no event shall such shares of Common Stock be issued, and the Company is hereby authorized to suspend the exercise of all Warrants, for the period during which such registration, approval or listing is required but not in effect.

7. Payment of Taxes. The Company will pay all documentary stamp taxes, if any, attributable to the initial issuance of Warrant Shares upon the exercise of Warrants; provided, however, that the Company shall not be required to pay any tax or taxes which may be payable in respect of any transfer involved in the issue or delivery of any Warrants or certificate for Warrant Shares in a name other than that of the registered Holder of such Warrants.

8. Mutilated or Missing Warrants. In case any of the Warrants shall be mutilated, lost, stolen or destroyed, the Company shall issue and deliver in exchange and substitution for and upon cancellation of the mutilated Warrant, or in lieu of and substitution for the Warrant lost, stolen or destroyed, a new Warrant of like tenor and representing an equivalent right or interest; but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction of such Warrant and, if requested, indemnity or bond also reasonably satisfactory to the Company. An applicant for such substitute Warrants shall also comply with such other reasonable regulations and pay such other reasonable charges as the Company may prescribe.

9. Reservation of Warrant Shares. There have been reserved out of the authorized and unissued shares of Common Stock a number of shares sufficient to provide for the exercise of the rights of purchase represented by the Warrants and the transfer agent for the Common Stock ("Transfer Agent") and every subsequent Transfer Agent for any shares of the Company's capital stock issuable upon the exercise of any of the rights of purchase aforesaid are hereby irrevocably authorized and directed at all times until the Expiration Date to reserve such number of authorized and unissued shares as shall be required for such purpose. The Company will keep a copy of this Agreement on file with the Transfer Agent and with every subsequent Transfer Agent for any shares of the Company's capital stock issuable upon the exercise of the rights of purchase represented by the Warrants. The Company will supply such Transfer Agent with duly executed stock certificates for such purposes and will itself provide or otherwise make available any cash which may be issuable as provided in Section 12 of this Agreement. The Company will furnish to such Transfer Agent a copy of all notices of adjustments, and certificates related thereto, transmitted to each Holder pursuant to Section 11.2 of this Agreement. All Warrants surrendered in the exercise of the rights thereby evidenced shall be cancelled.

10. Obtaining Stock Exchange Listings. The Company will from time to time take all action which may be necessary so that the Warrant Shares, immediately upon their issuance upon the exercise of Warrants, will be listed on the principal securities exchanges and markets within the United States of America, if any, on which other shares of Common Stock are then listed.

11. Adjustment of Warrant Price and Number of Warrant Shares. The number and kind of securities purchasable upon the exercise of each Warrant and the Warrant Price shall be subject to adjustment from time to time upon the happening of certain events as hereinafter defined. For purposes of this Section 11, "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 (subject to any prior rights of any class or series of preferred stock) to participate in any distribution of the assets or earnings of the Company without limit as to per share amount.

11.1 Mechanical Adjustments. The number of Warrant Shares purchasable upon the exercise of each Warrant and the Warrant Price shall be subject to adjustment as follows:

(a) In case the Company shall (i) pay a dividend in shares of Common Stock or make a distribution in shares of Common Stock, (ii) subdivide its outstanding shares of Common Stock, (iii) combine its outstanding shares of Common Stock or (iv) issue by reclassification of its shares of Common Stock other securities of the Company (including any such reclassification in

connection with a consolidation or merger in which the Company is the surviving corporation), the number of Warrant Shares purchasable upon exercise of each Warrant immediately prior thereto shall be adjusted so that the Holder of each Warrant shall be entitled to receive the kind and number of Warrant Shares or other securities of the Company which he would have owned or would have been entitled to receive after the happening of any of the events described above, had such Warrants been exercised immediately prior to the happening of such event or any record date with respect thereto. An adjustment made pursuant to this paragraph (a) shall become effective immediately after the effective date of such event retroactive to the record date, if any, for such event. Such adjustment shall be made successively whenever any event listed above shall occur.

(b) In case the Company shall distribute to all holders of its shares of Common Stock (including any such distribution made in connection with a consolidation or merger in which the Company is the surviving corporation) evidences of its indebtedness or assets (excluding cash dividends or distributions payable out of consolidated earnings or earned surplus and dividends or distributions referred to in paragraph (a) above or in the paragraph immediately following this paragraph) or rights, options or warrants, or convertible or exchangeable securities containing the right to subscribe for or purchase shares of Common Stock, then in each case the number of Warrant Shares thereafter purchasable upon the exercise of each Warrant shall be determined by multiplying the number of Warrant Shares theretofore purchasable upon the exercise of each Warrant by a fraction, the numerator of which shall be the then current market price per share of Common Stock (as defined in paragraph (c) below) on the date of such distribution, and the denominator of which shall be the then current market price per share of Common Stock, less the then fair value (as reasonably determined by the Board of Directors of the Company) of the portion of the assets or evidences of indebtedness so distributed or of such subscription rights, options or warrants, or of such convertible or exchangeable securities applicable to one share of Common Stock. Such adjustment shall be made whenever any such distribution is made and shall become effective on the date of distribution retroactive to the record date for the determination of stockholders entitled to receive such distribution.

In the event of a distribution by the Company to all holders of its shares of Common Stock of a subsidiary or securities convertible into or exercisable for such stock, then in lieu of an adjustment in the number of Warrant Shares purchasable upon the exercise of each Warrant, the Holder of each Warrant, upon the exercise thereof at any time after such distribution, shall be entitled to receive from the Company, such subsidiary or both, as the Company shall determine, the stock or other securities to which such Holder would have been entitled if such Holder had exercised such Warrant immediately prior thereto, all subject to further adjustment as provided in this Section 11.1; provided, however, that no adjustment in respect of dividends or interest on such stock or other securities shall be made during the term of a Warrant or upon the exercise of a Warrant.

(c) For the purpose of any computation under paragraph (b) of this Section, the current market price per share of Common Stock at any date shall be the average of the daily Closing Prices for 20 consecutive trading days commencing 30 trading days before the date of such computation. The selling price for each day (the "Closing Price") shall be the last such reported sales price regular way or, in case no such reported sale takes place on such day, the average of the closing bid and asked prices regular way for such day, in each case on the principal

national securities exchange on which the shares of Common Stock are listed or admitted to trading or, if not listed or admitted to trading, the average of the closing bid and asked prices of the Common Stock in the over-the counter market as reported by the Nasdaq National Market System or Nasdaq SmallCap System or if not approved for quotation on the Nasdaq National Market System or Nasdaq SmallCap System, the average of the closing bid and asked prices as furnished by two members of the National Association of Securities Dealers, Inc. selected from time to time by the Company for that purpose.

(d) No adjustment in the number of Warrant Shares purchasable hereunder shall be required unless such adjustment would require an increase or decrease of at least one percent (1%) in the number of Warrant Shares purchasable upon the exercise of each Warrant; provided, however, that any adjustments which by reason of this paragraph (d) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations shall be made to the nearest one-thousandth of a share.

(e) Whenever the number of Warrant Shares purchasable upon the exercise of each Warrant is adjusted, as herein provided, the Warrant Price payable upon exercise of each Warrant shall be adjusted by multiplying such Warrant Price immediately prior to such adjustment by a fraction, the numerator of which shall be the number of Warrant Shares purchasable upon the exercise of each Warrant immediately prior to such adjustment, and the denominator of which shall be the number of Warrant Shares purchasable immediately thereafter.

(f) No adjustment in the number of Warrant Shares purchasable upon the exercise of each Warrant need be made under paragraph (b) if the Company issues or distributes to each Holder of Warrants the rights, options, warrants or convertible or exchangeable securities, or evidences of indebtedness or assets referred to in those paragraphs which each Holder of Warrants would have been entitled to receive had the Warrants been exercised prior to the happening of such event or the record date with respect thereto. No adjustment need be made for a change in the par value of the Warrant Shares.

(g) In the event that at any time, as a result of an adjustment made pursuant to paragraph (a) above, the Holders shall become entitled to purchase any securities of the Company other than shares of Common Stock, thereafter the number of such other shares so purchasable upon exercise of each Warrant and the Warrant Price of such shares shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Warrant Shares contained in this Section 11, and the other provisions of this Agreement, with respect to the Warrant and Warrant Shares, shall apply as nearly equivalent as practicable on like terms to such other securities.

(h) Upon the expiration of any rights, options, warrants or conversion or exchange privileges for which an adjustment was made hereunder, if any thereof shall not have been exercised, the Warrant Price and the number of shares of Common Stock purchasable upon the exercise of each Warrant shall, upon such expiration, be readjusted and shall thereafter be such as it would have been had it been originally adjusted (or had the original adjustment not been required, as the case may be) as if (i) the only shares of Common Stock so issued were the shares of Common Stock, if any, actually issued or sold upon the exercise of such rights, options,

warrants or conversion or exchange rights and (ii) such shares of Common Stock, if any, were issued or sold for the consideration actually received by the Company upon such exercise plus the aggregate consideration, if any, actually received by the Company for the issuance, sale or grant of all such rights, options, warrants or conversion or exchange rights whether or not exercised; provided, however, that no such readjustment shall have the effect of increasing the Warrant Price or decreasing the number of shares of Common Stock purchasable upon the exercise of each Warrant by an amount in excess of the amount of the adjustment initially made in respect to the issuance, sale or grant of such rights, options, warrants or conversion or exchange rights.

11.2 Notice of Adjustment. Whenever the number of Warrant Shares purchasable upon the exercise of each Warrant or the Warrant Price of such Warrant Shares is adjusted, as herein provided, the Company shall promptly mail by first class, postage prepaid, to each Holder notice of such adjustment or adjustments and a certificate of a firm of independent public accountants selected by the Board of Directors of the Company (who may be the regular accountants employed by the Company) setting forth the number of Warrant Shares purchasable upon the exercise of each Warrant and the Warrant Price of such Warrant Shares after such adjustment, setting forth a brief statement of the facts requiring such adjustment and setting forth the computation by which such adjustment was made.

11.3 No Adjustment for Dividends. Except as provided in Section 11.1, no adjustments in respect of any dividends shall be made during the term of a Warrant or upon the exercise of a Warrant.

11.4 Preservation of Purchase Rights Upon Merger, Consolidation etc. In case of any consolidation of the Company with or merger of the Company into another corporation or in case of any sale, transfer or lease to another corporation of all or substantially all the property of the Company, the Company or such successor or purchasing corporation, as the case may be, shall execute with each Holder an agreement that each Holder shall have the right thereafter upon payment of the Warrant Price in effect immediately prior to such action to purchase upon exercise of each Warrant the kind and amount of shares and other securities, cash and property which he would have owned or would have been entitled to receive after the happening of such consolidation, merger, sale, transfer or lease had such Warrant been exercised immediately prior to such action; provided, however, that no adjustment in respect of dividends, interest or other income on or from such shares or other securities, cash and property shall be made during the term of a Warrant or upon the exercise of a Warrant. Such agreement shall provide for adjustments, which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 11. The provisions of this Section 11.4 shall similarly apply to successive consolidations, mergers, sales transfer or leases.

11.5 Statements on Warrants. Irrespective of any adjustments in the Warrant Price or the number or kind of shares purchasable upon the exercise of the Warrants, Warrants theretofore or thereafter issued may continue to express the same price and number and kind of shares as are stated in the Warrants initially issuable pursuant to this Agreement.

12. Fractional Interests. The Company shall not be required to issue fractional Warrant Shares on the exercise of Warrants. If more than one Warrant shall be presented for

exercise in full at the same time by the same holder, the number of full Warrant Shares which shall be issuable upon the exercise thereof shall be computed on the basis of the aggregate number of Warrant Shares purchasable on exercise of the Warrants so presented. If any fraction of a Warrant Share would, except for the provisions of this Section 12, be issuable on the exercise of any Warrant (or specified portion thereof), the Company shall pay an amount in cash equal to the closing price for one share of the Common Stock, as defined in paragraph (c) of Section 11.1, on the trading day immediately preceding the date the Warrant is presented for exercise, multiplied by such fraction.

13. Registration Under the Securities Act of 1933. The Representative represents and warrants to the Company that it will not dispose of the Warrants or the Warrant Shares except pursuant to (i) an effective registration statement under the Securities Act of 1933, as amended (the "Act"), including a post-effective amendment to the Registration Statement, (ii) Rule 144 under the Act (or any similar rule under the Act relating to the disposition of securities), or (iii) an opinion of counsel, reasonably satisfactory to counsel of the Company, that an exemption from such registration is available.

14. Certificate to Bear Legends. The Warrant shall be subject to a stop-transfer order and the certificate or certificates therefore shall bear the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAW. SAID SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SAID ACT.

The Warrant Shares or other securities issued upon exercise of the Warrant shall be subject to a stop-transfer order and the certificate or certificates evidencing any such Warrant Shares or securities shall bear the following legend:

THE SHARES OR OTHER SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAW. SAID SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SAID ACT.

15. Registration Rights.

15.1 Demand Registration Rights. The Company covenants and agrees with the Representative and any subsequent Holders of the Warrants and/or Warrant Shares that, on one occasion, within 60 days after receipt of a written request from the Representative or from Holders of more than 25% in interest of the aggregate of Warrants and/or Warrant Shares issued pursuant to this Agreement that the Representative or such Holders of the Warrants and/or Warrant Shares desires and intends to transfer more than 25% in interest of the aggregate number of the Warrants and/or Warrant Shares under such circumstances that a public offering, within the

meaning of the Act, will be involved, the Company shall, on that one occasion, file a registration statement (and use its best efforts to cause such registration statement to become effective under the Act at the Company's expense) with respect to the offering and sale or other disposition of the Warrant Shares (the "Offered Warrant Shares"); provided, however, that the Company shall have no obligation to comply with the foregoing provisions of this Section 15.1 if in the opinion of counsel to the Company reasonably acceptable to the Holder or Holders, from whom such written requests have been received, registration under the Act is not required for the transfer of the Offered Warrant Shares in the manner proposed by such person or persons or that a post-effective amendment to an existing registration statement would be legally sufficient for such transfer (in which latter event the Company shall promptly file such post-effective amendment (and use its best efforts to cause such amendment to become effective under the Act)). Notwithstanding the foregoing, the Company shall not be obligated to file a registration statement with respect to the Offered Warrant Shares on more than one occasion.

The Company may defer the preparation and filing of a registration statement for up to 90 days after the request for registration is made if the Board of Directors determines in good faith that such registration or post-effective amendment would materially adversely affect or otherwise materially interfere with a proposed or pending transaction by the Company, including without limitation a material financing or a corporate reorganization, or during any period of time in which the Company is in possession of material inside information concerning the Company or its securities, which information the Company determines in good faith is not ripe for disclosure.

The Company shall not honor any request to register Warrant Shares pursuant to this Section 15.1 received later than five (5) years from the effective date of the Company's Registration Statement on Form SB-2 (File No. 333-22583) (the "Effective Date"). The Company shall not be required (i) to maintain the effectiveness of the registration statement beyond the earlier to occur of 90 days after the effective date of the registration statement or the date on which all of the Offered Warrant Shares have been sold (the "Termination Date"); provided, however, that if at the Termination Date the Offered Warrant Shares are covered by a registration statement which also covers other securities and which is required to remain in effect beyond the Termination Date, the Company shall maintain in effect such registration statement as it relates to Offered Warrant Shares for so long as such registration statement (or any substitute registration statement) remains or is required to remain in effect for any such other securities, or (ii) to cause any registration statement with respect to the Warrant Shares to become effective prior to the Initiation Date. All expenses of registration pursuant to this Section 15.1 shall be borne by the Company (excluding underwriting discounts and commissions on Warrant Shares not sold by the Company).

The Company shall be obligated pursuant to this Section 15.1 to include in the registration statement Warrant Shares that have not yet been purchased by a Holder of Warrants so long as such Holder of Warrants submits an undertaking to the Company that such Holder intends to exercise Warrants representing the number of Warrant Shares to be included in such registration statement prior to the consummation of the public offering with respect to such Warrant Shares. In addition, such Holder of Warrants is permitted to pay the Company the Warrant Price for such Warrant Shares upon the consummation of the public offering with respect to such Warrant Shares.

15.2 Piggy-back Registration Rights. The Company covenants and agrees with the Holders and any subsequent Holders of the Warrants and/or Warrant Shares that in the event the Company proposes to file a registration statement under the Act with respect to any class of security (other than in connection with an exchange offer, a non-cash offer or a registration statement on Form S-8 or other unsuitable registration statement form) which becomes or which the Company believes will become effective at any time after the Initiation Date then the Company shall in each case give written notice of such proposed filing to the Holders of Warrants and Warrant Shares at least 30 days before the proposed filing date and such notice shall offer to such Holders the opportunity to include in such registration statement such number of Warrant Shares as they may request, unless, in the opinion of counsel to the Company reasonably acceptable to any such holder of Warrants or Warrant Shares who wishes to have Warrant Shares included in such registration statement, registration under the Act is not required for the transfer of such Warrants and/or Warrant Shares in the manner proposed by such Holders. The Company shall not honor any such request to register any such Warrant Shares if the request is received later than six (6) years from the Effective Date, and the Company shall not be required to honor any request (a) to register any such Warrant Shares if the Company is not notified in writing of any such request pursuant to this Section 15.2 within at least 20 days after the Company has given notice to the Holders of the filing, or (b) to register Warrant Shares that represent in the aggregate fewer than 25% of the aggregate number of Warrant Shares. The Company shall permit, or shall cause the managing underwriter of a proposed offering to permit, the Holders of Warrant Shares requested to be included in the registration (the "Piggy-back Shares ") to include such Piggy-back Shares in the proposed offering on the same terms and conditions as applicable to securities of the Company included therein or as applicable to securities of any person other than the Company and the Holders of Piggy-back Shares if the securities of any such person are included therein. Notwithstanding the foregoing, if any such managing underwriter shall advise the Company in writing that it believes that the distribution of all or a portion of the Piggy-back Shares requested to be included in the registration statement concurrently with the securities being registered by the Company would materially adversely affect the distribution of such securities by the Company for its own account, then the Holders of such Piggy-back Shares shall delay their offering and sale of Piggyback Shares (or the portion thereof so designated by such managing underwriter) for such period, not to exceed 120 days, as the managing underwriter shall request provided that no such delay shall be required as to Piggy-back Shares if any securities of the Company are included in such registration statement for the account of any person other than the Company and the Holders of Piggy-back Shares. In the event of such delay, the Company shall file such supplements, post-effective amendments or separate registration statement, and take any such other steps as may be necessary to permit such Holders to make their proposed offering and sale for a period of 90 days immediately following the end of such period of delay ("Piggy-back Termination Date"); provided, however, that if at the Piggy-back Termination Date the Piggyback Shares are covered by a registration statement which is, or required to remain, in effect beyond the Piggy-back Termination Date, the Company shall maintain in effect the registration statement as it relates to the Piggy-back Shares for so long as such registration statement remains or is required to remain in effect for any of such other securities. All expenses of registration pursuant to this Section 15.2 shall be borne by the Company, except that underwriting commissions and expenses attributable to the Piggy-back Shares and fees and disbursements of counsel (if any) to the Holders requesting that such Piggy-



back Shares be offered will be borne by such Holders.

The Company shall be obligated pursuant to this Section 15.2 to include in the Piggy-back Offering, Warrant Shares that have not yet been purchased by a holder of Warrants so long as such Holder of Warrants submits an undertaking to the Company that such Holder intends to exercise Warrants representing the number of Warrant Shares to be included in such Piggy-back Offering prior to the consummation of such Piggy-back Offering. In addition, such Holder of Warrants is permitted to pay the Company the Warrant Price for such Warrant Shares upon the consummation of the Piggy-back Offering.

If the Company decides not to proceed with a Piggy-back Offering, the Company has no obligation to proceed with the offering of the Piggy-back Shares, unless the Holders of the Warrants and/or Warrant Shares otherwise comply with the provisions of Section 15.1 hereof (without regard to the 60 days' written request required thereby). Notwithstanding any of the foregoing contained in this Section 15.2, the Company's obligation to offer registration rights to the Piggy-back Shares pursuant to this Section 15.2 shall terminate two (2) years after the Expiration Date.

15.3 In connection with the registration of Warrants Shares in accordance with Section 15.1 and 15.2 above, the Company agrees to:

(a) Use its best efforts to register or qualify the Warrant Shares for offer or sale under the state securities or Blue Sky laws of such states which the Holders of such Warrant Shares shall designate, until the dates specified in Section 15.1 and 15.2 above in connection with registration under the Act; provided, however, that in no event shall the Company be obligated to qualify to do business in any jurisdiction where it is not now so qualified or to take any action which would subject it to general service of process in any jurisdiction where it is not now so subject or to register or get a license as a broker or dealer in securities in any jurisdiction where it is not so registered or licensed or to register or qualify the Warrant Shares for offer or sale under the state securities or Blue Sky laws of any state other than the states in which some or all of the shares offered or sold in the Public Offering were registered or qualified for offer and sale.

(b) (i) In the event of any post-effective amendment or other registration with respect to any Warrant Shares pursuant to Section 15.1 or 15.2 above, the Company will indemnify and hold harmless any Holder whose Warrant Shares are being so registered, and each person, if any, who controls such Holder within the meaning of the Act, against any losses, claims, damages or liabilities, joint or several, to which such Holder or such controlling person may be subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained, on the effective date thereof, in any such registration statement, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; and will reimburse each such Holder and each such controlling person for

any legal or other expenses reasonably incurred by such Holder or such controlling person in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company will not be liable in such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission made in any such registration statement, any preliminary prospectus or final prospectus, or any amendment or supplement thereto, in reliance upon and in conformity with written information furnished by such Holder expressly for use in the preparation thereof. The Company will not be liable to a claimant to the extent of any misstatement corrected or remedied in any amended prospectus if the Company timely delivers a copy of such amended prospectus to such indemnified person and such indemnified person does not timely furnish such amended prospectus to such claimant. The Company shall not be required to indemnify any Holder or controlling person for any payment made to any claimant in settlement of any suit or claim unless such payment is approved by the Company.

(ii) Each Holder of Warrants and/or Warrant Shares who participates in a registration pursuant to Section 15.1 or 15.2 will indemnify and hold harmless the Company, each of its directors, each of its officers who have signed any such registration statement, and each person, if any, who controls the Company within the meaning of the Act, against any losses, claims, damages or liabilities to which the Company, or any such director, officer or controlling person may become subject under the Act, or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue or alleged untrue statement of any material fact contained in any such registration statement, any preliminary prospectus or final prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in any such registration statement, any preliminary prospectus or final prospectus, or any amendment or supplement thereto, in reliance upon and in conformity with written information furnished by such Holder expressly for use in the preparation thereof; and will reimburse any legal or other expenses reasonably incurred by the Company, or any such director, officer or controlling person in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this subparagraph (ii) shall not apply to amounts paid to any claimant in settlement of any suit or claim unless such payment is first approved by such Holder.

(iii) In order to provide for just and equitable contribution in any action in which a claim for indemnification is made pursuant to this clause (b)(iii) of Section 15.3 but is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case notwithstanding the fact that this clause (b)(iii) of Section 15.3 provides for indemnification in such case, all the parties hereto shall contribute to the aggregate losses, claims, damages or liabilities to which they may be subject (after contribution from others) in such proportion so that each

Holder whose Warrant Shares are being registered is responsible pro rata for the portion represented by the public offering price received by such Holder from the sale of such Holder's Warrant Shares, and the Company is responsible for the remaining portion; provided, however, that (i) no Holder shall be required to contribute any amount in excess of the public offering price received by such Holder from the sale of such Holder's Warrant Shares and (ii) no person guilty of a fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation. This subsection (b)(iii) shall not be operative as to any Holder of Warrant Shares to the extent that the Company has received indemnity under this clause (b)(iii) of Section 15.3.

16. No Rights as Stockholder; Notices to Holders. Nothing contained in this Agreement or in any of the Warrants shall be construed as conferring upon the Holders or their transferee(s) the right to vote or to receive dividends or to consent to or receive notice as stockholders in respect of any meeting of stockholders for the election of directors of the Company or any other matter or any rights whatsoever as stockholders of the Company. If, however, at any time prior to the expiration of the Warrants and prior to their exercise, any of the following events shall occur:

(a) the Company shall declare any dividend payable in any securities upon its shares of Common Stock or make any distribution (other than a cash dividend) to the holders of its shares of Common Stock; or

(b) the Company shall offer to the holders of its shares of Common Stock any additional shares of Common Stock or securities convertible into or exchangeable for shares of Common Stock or any right to subscribe to or purchase any thereof; or

(c) a dissolution, liquidation or winding up of the Company (other than in connection with a consolidation, merger, sale, transfer or lease of all or substantially all of its property, assets and business as an entirety) shall be proposed,

then in any one or more of said events the Company shall (i) give notice in writing of such event to the Holders, as provided in Section 17 hereof and (ii) if there are more than 100 Holders, cause notice of such event to be published once in The Wall Street Journal (national edition), such giving of notice and publication to be completed at least 20 days prior to the date fixed as a record date or the date of closing the transfer books for the determination of the stockholders entitled to such dividend, distribution or subscription rights, or for the determination of stockholders entitled to vote on such proposed dissolution, liquidation or winding up. Such notice shall specify such record date or the date of closing the transfer books, as the case may be. Failure to publish, mail or receive such notice or any defect therein or in the publication or mailing thereof shall not affect the validity of any action taken in connection with such dividend, distribution or subscription rights, or such proposed dissolution, liquidation or winding up.

17. Notices. Any notice pursuant to this Agreement to be given or made by the registered Holder of any Warrant to or on the Company shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed as follows:

JAKKS PACIFIC, INC.  
24955 Pacific Coast Highway, #B202  
Malibu, California 90265  
Attn: President

Notices or demands authorized by this Agreement to be given or made by the Company to the registered Holder of any Warrant shall be sufficiently given or made (except as otherwise provided in this Agreement) if sent by first-class mail, postage prepaid, addressed to such Holder at the address of such Holder as shown on the Warrant Register.

18. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California without giving effect to principles of conflicts of laws.

19. Supplements and Amendments. The Company and the Representative may from time to time supplement or amend this Agreement in order to cure any ambiguity or to correct or supplement any provision contained herein which may be defective or inconsistent with any other provision herein, or to make any other provisions in regard to matters or questions arising hereunder which the Company and the Representative may deem necessary or desirable and which shall not be inconsistent with the provisions of the Warrants and which shall not adversely affect the interests of the Holders. This Agreement may also be supplemented or amended from time to time by a writing executed by or on behalf of the Company and all of the Holders.

20. Successor. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Holders shall bind and inure to the benefit of their respective successors and assigns hereunder. Assignments by the Holders of their rights hereunder shall be made in accordance with Section 4 hereof.

21. Merger or Consolidation of the Company. So long as Warrants remain outstanding, the Company will not merge or consolidate with or into, or sell, transfer or lease all or substantially all of its property to, any other corporation unless the successor or purchasing corporation, as the case may be (if not the Company), shall expressly assume, by supplemental agreement executed and delivered to the Holders, the due and punctual performance and observance of each and every covenant and condition of this Agreement to be performed and observed by the Company.

22. Benefits of this Agreement. Nothing in this Agreement shall be construed to give to any person or corporation other than the Company and the Holders, any legal or equitable right, remedy or claim under this Agreement, but this Agreement shall be for the sole and exclusive benefit of the Company and the Holders of the Warrants and Warrant Shares.

23. Captions. The captions of the sections and subsections of this Agreement have been inserted for convenience only and shall have no substantive effect.

24. Counterparts. This Agreement may be executed in any number of counterparts each of which when so executed shall be deemed to be an original; but such counterparts together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day, month and year first above written.

CRUTTENDEN ROTH INCORPORATED

Attest:

- - - - -

By: \_\_\_\_\_  
Name:  
Title:

JAKKS PACIFIC, INC.

Attest:

- - - - -

By: \_\_\_\_\_  
Name:  
Title:

[Form of Warrant Certificate]

EXERCISABLE ON OR BEFORE APRIL \_\_, 2002

No. 70,000 Warrants

Warrant Certificate

JAKKS PACIFIC, INC.

This Warrant Certificate certifies that Cruttenden Roth Incorporated, or registered assigns, is the registered holder of Warrants expiring April \_\_, 2002 (the "Warrants") to purchase Common Stock, \$0.001 par value per share (the "Common Stock"), of JAKKS Pacific, Inc., a Delaware corporation (the "Company"). Each Warrant entitles the holder upon exercise to receive from the Company from 10:00 a.m., Pacific time, on April \_\_, 1998 through and until 6:00 p.m., Pacific time, on April \_\_, 2002, one fully paid and nonassessable share of Common Stock (a "Warrant Share") at the initial exercise price (the "Warrant Price") of [\$\_\_\_\_] payable in lawful money of the United States of America upon surrender of this Warrant Certificate and payment of the Warrant Price at the office of the Company designated for such purpose, but only subject to the conditions set forth herein and in the Warrant Agreement referred to on the reverse hereof. The Warrant Price and number of Warrant Shares issuable upon exercise of the Warrants are subject to adjustment upon the occurrence of certain events set forth in the Warrant Agreement.

No Warrant may be exercised after 6:00 p.m., Pacific time, on April \_\_, 2002 (the "Expiration Date"). Notwithstanding the foregoing, if at 6:00 p.m., Pacific time on the Expiration Date, any Holder or Holders of the Warrants have not exercised their Warrants and the Closing Price (as defined in the Warrant Agreement) for the Common Stock on the Expiration Date is greater than the Warrant Price, then each such unexercised Warrant shall be automatically converted into a number of shares of Common Stock of the Company equal to: (A) the number of shares of Common Stock then issuable upon exercise of a Warrant multiplied by (B) a fraction (1) the numerator of which is the difference between the Closing Price for the Common Stock on the Expiration Date and the Warrant Price and (2) the denominator of which is the Closing Price for the Warrant Stock on the Expiration Date.

Reference is hereby made to the further provisions of this Warrant Certificate set forth on the reverse hereof and such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Warrant Certificate shall not be valid unless countersigned by the Company.

IN WITNESS WHEREOF, JAKKS Pacific, Inc. has caused this Warrant Certificate to be signed by its President and by its Secretary and has caused its corporate seal to be affixed hereunto or imprinted hereon.

Dated: \_\_\_\_\_, 1997

JAKKS PACIFIC, INC.

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

Title: \_\_\_\_\_

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

Title: \_\_\_\_\_

[Form of Warrant Certificate]

[Reverse]

The Warrants evidenced by this Warrant Certificate are part of a duly authorized issue of Warrants expiring April \_\_, 2002 entitling the holder on exercise to receive shares of Common Stock, \$0.001 par value per share, of the Company (the "Common Stock"), and are issued or to be issued pursuant to a Warrant Agreement, dated as of April \_\_, 1997 (the "Warrant Agreement"), duly executed and delivered by the Company, which Warrant Agreement is hereby incorporated by reference in and made a part of this instrument and is hereby referred to for a description of the rights, limitation of rights, obligations, duties and immunities thereunder of the Company and the holders (the words "holders" or "holder" meaning the registered holders or registered holder) of the Warrants. A copy of the Warrant Agreement may be obtained by the holder hereof upon written request to the Company.

The Warrants may be exercised at any time on or before April \_\_, 2002. The holder of Warrants evidenced by this Warrant Certificate may exercise them by surrendering this Warrant Certificate, with the form of election to purchase set forth hereon properly completed and executed, together with payment of the Warrant Price in cash at the office of the Company designated for such purpose. In the event that upon any exercise of Warrants evidenced hereby the number of Warrants exercised shall be less than the total number of Warrants evidenced hereby, there shall be issued to the holder hereof or his assignee a new Warrant Certificate evidencing the number of Warrants not exercised. No adjustment shall be made for any dividends on any Common Stock issuable upon exercise of this Warrant.

The Warrant Agreement provides that upon the occurrence of certain events the number of shares of Common Stock issuable upon the exercise of each Warrant shall be adjusted. If the number of shares of Common Stock issuable upon such exercise is adjusted, the Warrant Agreement provides that the Warrant Price set forth on the face hereof may, subject to certain conditions, be adjusted. No fractions of a share of Common Stock will be issued upon the exercise of any Warrants but the Company will pay the cash value thereof determined as provided in the Warrant Agreement.

The holders of the Warrants are entitled to certain registration rights with respect to the Common Stock purchasable upon exercise thereof. Said registration rights are set forth in full in the Warrant Agreement.

Warrant Certificates, when surrendered at the office of the Company by the registered holder thereof in person or by legal representative or attorney duly authorized in writing, may be exchanged, in the manner and subject to the limitations provided in the Warrant Agreement, but without payment of any service charge, for another Warrant Certificate or Warrant Certificates of like tenor evidencing in the aggregate a like number of Warrants.

Upon due presentation for registration of transfer of this Warrant certificate at the office of the Company, a new Warrant certificate or Warrant certificates of like tenor and evidencing in the aggregate a like number of Warrants shall be issued to other transferee(s) in exchange for this



Warrant Certificate, subject to the limitations provided in the Warrant Agreement, without charge except for any tax or other governmental charge imposed in connection therewith.

The Company may deem and treat the registered holder(s) thereof as the absolute owner(s) of this Warrant Certificate (notwithstanding any notation of ownership or other writing hereon made by anyone), for the purpose of any exercise hereof, of any distribution to the holder(s) hereof and for all other purposes, and the Company shall not be affected by any notice to the contrary. Neither the Warrants nor this Warrant Certificate entitles any holder hereof to any rights of a stockholder of the Company.

[Form of Election to Purchase]

(To be Executed upon Exercise of Warrant)

The undersigned hereby irrevocably elects to exercise the right, represented by this Warrant Certificate, to receive \_\_\_\_\_ shares of Common Stock and herewith tenders payment for such shares to the order of JAKKS Pacific, Inc., in the amount of \$\_\_\_\_\_ in accordance with the terms hereof. The undersigned requests that a certificate for such shares be registered in the name of \_\_\_\_\_, whose address is \_\_\_\_\_ and that such shares be delivered to \_\_\_\_\_ whose address is \_\_\_\_\_.

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

Signature:

Date:

Signature Guaranteed:

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

April 16, 1997

JAKKS Pacific, Inc.  
24955 Pacific Coast Highway  
Suite B202  
Malibu, CA 90265

Re: Registration Statement on Form SB-2

Gentlemen:

We have acted as counsel for JAKKS Pacific, Inc., a Delaware corporation (the "Company") in connection with the preparation and filing by the Company of a registration statement (the "Registration Statement") on Form SB-2, File No. 333-22583, under the Securities Act of 1933, relating to the public offering of 1,150,000 shares of Common Stock, par value \$.001 per share (the "Registered Shares"), including 150,000 shares which the underwriters have an option to purchase solely for the purpose of covering over-allotments. Of the 1,150,000 Registered Shares, 1,000,000 are to be sold by the Company (the "Company Shares"), and 150,000 may be sold by certain Selling Stockholders pursuant to the over-allotment option as the "Selling Stockholder Shares") to underwriters ("the Underwriters") of which Cruttenden Roth Incorporated is the representative (the "Representative"). The offering also involves the sale to the Representative of the Underwriters of a warrant to purchase up to 70,000 shares of the Company's Common Stock (the "Representative's Warrant").

We have examined the Certificate of Incorporation and the By-Laws of the Company, the minutes of the various meetings and consents of the Board of Directors of the Company, drafts of the Underwriting Agreement relating to the offering of the Common Stock, drafts of the Representative's Warrant and such other documents, certificates, records, authorizations, proceedings, statutes and judicial decisions as we have deemed necessary to form the basis of the opinion expressed below. In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to originals of all documents submitted to us as copies thereof.

As to various questions of fact material to such opinion, we have relied upon statements and certificates of officers and representatives of the Company and others.

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

1. When the Underwriting Agreement between the Underwriters and the Company is completed (including the insertion therein of pricing terms) and executed by the Company and the Underwriters, and the Company Shares are sold to the underwriters and paid for pursuant to the terms of such Underwriting Agreement, the Company Shares will be duly authorized, legally issued, fully paid and non-assessable by the Company.

2. The Selling Stockholder Shares are duly authorized, legally issued, fully paid and non-assessable by the Company.

We hereby consent to be named in the Registration Statement and the Prospectus as attorneys who have passed upon legal matters in connection with the offering of the securities offered thereby under the caption "Legal Matters."

We further consent to your filing a copy of this opinion as an exhibit to the Registration Statement.

/s/ Feder, Kaszovitz, Isaacson, Weber, Skala & Bass, LLP  
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Feder, Kaszovitz, Isaacson, Weber, Skala & Bass, LLP

## CONSENT OF PANNELL KERR FORSTER

We hereby consent to the inclusion in the Amendment No. 5 to Registration Statement on Form SB-2 of JAKKS Pacific, Inc. of our report dated January 23, 1997, except for note 15, for which the date is February 6, 1997, on our audits of the consolidated financial statements of JAKKS Pacific, Inc. as of December 31, 1996 and 1995, and for the year and nine months then ended.

We also hereby consent to the reference to our firm as "Experts" in the Registration Statement.

/s/ PANNELL KERR FORSTER

PANNELL KERR FORSTER  
Certified Public Accountants  
A Professional Corporation

Los Angeles, California  
April 16, 1997

## CONSENT OF PANNELL KERR FORSTER PC

We hereby consent to the inclusion in the Amendment No. 5 to Registration Statement on Form SB-2 of JAKKS Pacific, Inc. of our report dated February 12, 1997 on our audit of the combined financial statements of Road Champs, Inc. and Subsidiary and Die Cast Associates, Inc. as of December 31, 1996 and December 31, 1995 and for the years then ended.

We also hereby consent to the reference to our firm under the caption "Experts" in the Registration Statement.

/s/ PANNELL KERR FORSTER PC

PANNELL KERR FORSTER PC

New York, New York  
April 16, 1997