

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

OR

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

Commission file number: 0-28104

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

Delaware
(State or other jurisdiction of incorporation or organization)

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

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

90265
(Zip Code)

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

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

Yes [X] No []

The number of shares outstanding of the issuer's common stock is 10,802,787 (as of November 2, 1999).

JAKKS PACIFIC, INC. AND SUBSIDIARIES
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QUARTER ENDED SEPTEMBER 30, 1999

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

JAKKS PACIFIC, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheet
September 30, 1999 (Unaudited)

ASSETS

Current assets	
Cash and cash equivalents	\$ 73,427,409
Accounts receivable, net	34,638,251
Inventory, net	9,437,805
Prepaid expenses and other current assets	1,584,854

Total current assets	119,088,319

Property and equipment, at cost	12,362,663
Less accumulated depreciation and amortization	3,627,662

Property and equipment, net	8,735,001

Goodwill, net	14,353,964
Trademarks, net	13,072,694
Investment in joint venture	1,053,852
Other	316,865

Total assets	\$156,620,695
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities	
Accounts payable and accrued expenses	\$ 30,049,883
Reserve for sales returns and allowances	12,063,447
Income taxes payable	3,227,346

Total current liabilities	45,340,676

Deferred income taxes	323,787

Total liabilities	45,664,463

Commitments	
Stockholders' equity	
Preferred stock, \$.001 par value; 1,000,000 shares authorized, no shares issued	--
Common stock, \$.001 par value; 25,000,000 shares authorized; 10,723,120 shares issued and outstanding	10,723
Additional paid-in capital	87,603,173
Retained earnings	23,342,336

Total stockholders' equity	110,956,232

Total liabilities and stockholders' equity	\$156,620,695
	=====

See accompanying notes to condensed consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

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

	Three Months Ended September 30, 1998	September 30, 1999	Nine Months Ended September 30, 1998	September 30, 1999
Net sales	\$34,218,151	\$60,235,407	\$61,379,402	\$121,176,908
Cost of sales	20,976,452	35,476,603	37,669,477	71,005,451
Gross profit	13,241,699	24,758,804	23,709,925	50,171,457
Selling, general and administrative expenses	8,173,172	14,866,324	16,447,200	33,310,912
Income from operations	5,068,527	9,892,480	7,262,725	16,860,545
Other (income) and expense:				
Other expense	319,838	--	319,838	--
Interest income	(47,868)	(535,646)	(98,917)	(1,066,497)
Interest expense	148,208	1,093	467,638	170,820
Income before provision for income taxes	4,648,349	10,427,033	6,574,166	17,756,222
Provision for income taxes	1,214,078	2,784,993	1,720,069	4,754,048
Net income	\$ 3,434,271	\$ 7,642,040	\$ 4,854,097	\$ 13,002,174
Net income per share - basic	\$ 0.58	\$ 0.71	\$ 0.87	\$ 1.47
Net income per share - diluted	\$ 0.45	\$ 0.65	\$ 0.68	\$ 1.29

See accompanying notes to condensed consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

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

	Nine Months Ended September 30, 1998	1999
Cash flows from operating activities:		
Net income	\$ 4,854,097	\$13,002,174
	-----	-----
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,643,930	2,363,609
Change in accounts receivable	(10,039,967)	(22,711,526)
Change in inventory	(1,082,166)	(6,518,864)
Change in accounts payable and accrued expenses	8,926,848	30,503,569
Net change in other operating assets and liabilities	(213,241)	(70,625)
	-----	-----
Total adjustments	235,404	3,566,163
	-----	-----
Net cash provided by operating activities	5,089,501	16,568,337
	-----	-----
Cash flows from investing activities:		
Purchase of property and equipment	(2,911,011)	(5,899,949)
Investment in joint venture	(1,044,708)	(9,144)
Acquisition cost of trademarks	(12,252)	--
Cash paid in excess of fair value of toy business assets acquired (goodwill)	--	(4,365,209)
(Increase) decrease in other assets	(75,350)	173,071
	-----	-----
Net cash used by investing activities	(4,043,321)	(10,101,231)
	-----	-----
Cash flows from financing activities:		
Repayment of bank debt	(114,700)	--
Repayment of acquisition debt	(2,006,376)	--
Proceeds from sale of common stock	--	51,898,066
Proceeds from sale of convertible preferred stock	4,792,430	--
Dividends paid on convertible preferred stock	--	(437,500)
Proceeds from warrants and stock options exercised	347,711	3,047,536
	-----	-----
Net cash provided by financing activities	3,019,065	54,508,102
	-----	-----
Net increase in cash and cash equivalents	4,065,245	60,975,208
Cash and cash equivalents, beginning of period	2,535,925	12,452,201
	-----	-----
Cash and cash equivalents, end of period	\$ 6,601,170	\$73,427,409
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	\$ 266,803	\$ 2,945,465
	=====	=====
Interest	\$ 505,245	\$ 170,820
	=====	=====

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

See accompanying notes to condensed consolidated financial statements.

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

Note 1 - Basis of presentation

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

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

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

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

JAKKS PACIFIC, INC. AND SUBSIDIARIES

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

Note 2 -- Earnings per share

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

	THREE MONTHS ENDED SEPTEMBER 30,					
	1998			1999		
	INCOME	WEIGHTED AVERAGE SHARES	PER-SHARE	INCOME	WEIGHTED AVERAGE SHARES	PER-SHARE
Net income per share - basic						
Net income available to common stockholders.....	\$3,434,271	5,932,673	\$0.58	\$7,642,040	10,691,361	\$0.71
Effect of dilutive securities						
Options and warrants.....	--	337,251	--	--	1,002,756	--
9% convertible debentures....	93,183	1,043,478	--	--	--	--
7% convertible preferred stock.....	--	558,658	--	--	--	--
Net income per share - diluted						
Income available to common stockholders plus assumed exercises and conversions...	\$3,527,454	7,872,060	\$0.45	\$7,642,040	11,694,117	\$0.65

	NINE MONTHS ENDED SEPTEMBER 30,					
	1998			1999		
	INCOME	WEIGHTED AVERAGE SHARES	PER-SHARE	INCOME	WEIGHTED AVERAGE SHARES	PER-SHARE
Net income per share - basic						
Net income.....	\$4,854,097			\$13,002,174		
Preferred stock dividends....	--			(437,500)		
Net income available to common stockholders.....	\$4,854,097	5,595,305	\$0.87	\$12,564,674	8,562,060	\$1.47
Effect of dilutive securities						
Options and warrants.....	--	267,910	--	--	825,662	--
9% convertible debentures....	279,549	1,043,478	--	116,867	416,240	--
4% convertible preferred stock.....	--	304,117	--	--	--	--
7% convertible preferred stock.....	--	373,808	--	437,500	361,895	--
Net income per share - diluted						
Income available to common stockholders plus assumed exercises and conversions...	\$5,133,646	7,584,618	\$0.68	\$13,119,041	10,165,857	\$1.29

Note 3 -- Preferred stock and common stock

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

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

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

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

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

Note 5 -- Acquisition

In June 1999, the Company purchased all of the outstanding shares of Berk Corporation, a producer of educational toy foam puzzle mats and activity sets, for approximately \$3.1 million in cash. In connection with this acquisition, the Company assumed liabilities of approximately \$300,000 and incurred acquisition costs of approximately \$158,000.

Note 6 -- Subsequent events

On October 5, 1999, the Company acquired all of the outstanding capital stock of Flying Colors Toys, Inc. (formerly Colorbok Paper Products, Inc.) effective October 1, 1999 for an aggregate purchase price of \$35.8 million, of which \$34.7 million was paid in cash on the closing of the transaction and \$1.1 million is to be paid out of cash collections of the pre-closing accounts receivable. In addition, the Company paid on the closing \$17.6 million in satisfaction of certain indebtedness of Flying Colors, assumed liabilities of approximately \$5.8 million and incurred estimated legal and other acquisition costs of \$0.5 million. The Company has also agreed to pay to the shareholders an earn-out in an amount up to \$4.5 million in each of the three 12-month periods following the closing if Gross Profit (as defined) of Flying Colors branded products achieves certain prescribed levels in each of such periods. Flying Colors designs, produces and markets licensed activity kits, play clay compound playsets and lunch boxes and other related toy products.

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

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

OVERVIEW

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

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

We acquired Road Champs in February 1997, and have included the results of operations of Road Champs from February 1, 1997, the effective date of the acquisition. We acquired the Child Guidance and Remco trademarks in October 1997, both of which contributed to operations nominally in 1997, but contributed more significantly to operations commencing in 1998. In June 1999, we acquired Berk Corporation with its lines of educational toy foam puzzle mats and activity sets. Berk began to contribute modestly beginning in the third quarter of 1999. In October 1999, we acquired Flying Colors Toys, Inc., whose product lines include licensed activity kits, play clay compound playsets and lunch boxes as well as other related products. We expect Flying Colors to contribute to operations beginning in the fourth quarter of 1999.

Our products currently include (1) action figures and accessories featuring licensed characters, including popular wrestling characters under our World Wrestling Federation license, (2) Flying Colors molded plastic activity sets, clay compound playsets and lunch boxes, (3) Road Champs die-cast collectible and toy vehicles and Remco toy vehicles and role-play toys and accessories, (4) Child Guidance infant and pre-school electronic toys, educational toy foam puzzle mats and activity sets, and (5) fashion and mini dolls and related accessories.

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

In June 1998, we formed a joint venture with THQ Inc., a developer, publisher and distributor of interactive entertainment software, and the joint venture licensed the rights from World Wrestling Federation Entertainment, Inc. (formerly Titan Sports, Inc.) to publish World Wrestling Federation electronic video game software on all platforms. We expect that the first game produced under this license will be released in November 1999. JAKKS will receive a guaranteed preferred return based on the sale of WWF video games, and THQ will be allocated the remaining profits generated by the joint venture.

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

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

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

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

RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1999	1998	1999
Net sales.....	100.0%	100.0%	100.0%	100.0%
Cost of sales.....	61.3	58.9	61.4	58.6
Gross profit.....	38.7	41.1	38.6	41.4
Selling, general and administrative expenses.....	23.9	24.7	26.8	27.5
Income from operations.....	14.8	16.4	11.8	13.9
Interest, net.....	(0.3)	0.9	(0.6)	0.7
Other expenses.....	(0.9)	--	(0.5)	--
Income before income taxes.....	13.6	17.3	10.7	14.6
Provision for income taxes.....	3.6	4.6	2.8	3.9
Net income.....	10.0%	12.7%	7.9%	10.7%

THREE MONTHS ENDED SEPTEMBER 30, 1999 AND 1998

Net Sales. Net sales increased \$26.0 million, or 76.0%, to \$60.2 million in 1999 from \$34.2 million in 1998. The significant growth in net sales was due primarily to the continuing growth of the World Wrestling Federation product line with its expanded product offerings in the action figures and accessories categories and frequent character releases, as well as to increasing sales of Child Guidance pre-school toys and the addition of Berk products, which contributed modestly to operations beginning in the third quarter of 1999. Contributions made by sales of Road Champs die-cast toy and collectible vehicles and Remco toy vehicles and fashion and holiday dolls were consistent with the prior year.

Gross Profit. Gross profit increased \$11.6 million, or 87.0%, to \$24.8 million in 1999, or 41.1% of net sales, from \$13.2 million, or 38.7% of net sales, in 1998. The overall increase in gross profit was attributable to the significant increase in net sales. The increase in the gross profit margin of 2.4% of net sales was due in part to the changing product mix, which included products, such as World Wrestling Federation action figures, with higher margins than some of our other products, and the amortization expense of molds and tools used in the manufacture of our products, which decreased on a percentage basis due to the fixed nature of these costs. The higher margin resulting from lower product costs was offset in part by higher royalties.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$6.7 million, or 81.9%, to \$14.9 million, or 24.7% of net sales, in 1999, from \$8.2 million, or 23.9% of net sales, in 1998. Selling, general and administrative expenses increased nominally as a percentage of net sales due in part to increases in advertising expenses and product development costs of our various products in 1999 which were offset in part by a decrease as a percentage of net sales due to the fixed nature of certain of these expenses in conjunction with the significant increase in net sales. The overall dollar increase of \$6.7 million was due to the significant increase in net sales with their proportionate impact on variable selling costs, such as freight and shipping related expenses, sales commissions, cooperative advertising and travel expenses. We produced television commercials in support of several of our products, including World Wrestling Federation action figures, in 1998 and 1999. From time to time, we may increase our advertising efforts, including the use of more expensive advertising media, such as television, if we deem it appropriate for particular products.

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

Provision for Income Taxes. Provision for income taxes included Federal, state and foreign income taxes in 1998 and 1999, at effective tax rates of 26.1% in 1998 and 26.7% in 1999, benefiting from a flat 16.5% Hong Kong Corporation Tax on our income arising in, or derived from, Hong Kong. As of December 31, 1998, we had deferred tax assets of approximately \$493,000 for which no allowance has been provided since, in the opinion of management, realization of the future benefit is probable. In making this determination, management considered all available evidence, both positive and negative, as well as the weight and importance given to such evidence.

NINE MONTHS ENDED SEPTEMBER 30, 1999 AND 1998

Net Sales. Net sales increased \$59.8 million, or 97.4%, to \$121.2 million in 1999 from \$61.4 million in 1998. The significant growth in net sales was due primarily to the continuing growth of the World Wrestling Federation product line with its expanded product offerings in the action figures and accessories categories and frequent character releases, as well as to increasing sales of Child Guidance pre-school toys and the addition of Berk products, which contributed nominally to operations beginning in the third quarter of 1999. Contributions made by sales of Road Champs die-cast toy and collectible vehicles and Remco toy vehicles and fashion and holiday dolls were consistent with the prior year.

Gross Profit. Gross profit increased \$26.5 million, or 111.6%, to \$50.2 million in 1999, or 41.4% of net sales, from \$23.7 million, or 38.6% of net sales, in 1998. The overall increase in gross profit was attributable to the significant increase in net sales. The increase in the gross profit margin of 2.8% of net sales was due in part to the changing product mix, which included products, such as World Wrestling Federation action figures, with higher margins than some of our other products, and the amortization expense of molds and tools used in the manufacture of our products, which decreased on a percentage basis due to the fixed nature of these costs. The higher margin resulting from lower product costs was offset in part by higher royalties.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$16.9 million, or 102.5%, to \$33.3 million, or 27.5% of net sales, in 1999, from \$16.4 million, or 26.8% of net sales, in 1998. Selling, general and administrative expenses increased nominally as a percentage of net sales due in part to increases in advertising expenses and product development costs of our various products in 1999, which were offset in part by a decrease as a percentage of net sales due to the fixed nature of certain of these expenses in conjunction with the significant increase in net sales. The overall dollar increase of \$16.9 million was due to the significant increase in net sales with their proportionate impact on variable selling costs, such as freight and shipping related expenses, sales commissions, cooperative advertising and travel expenses. We produced television commercials in support of several of our products, including World Wrestling Federation action figures, in 1998 and 1999. From time to time, we may increase our advertising efforts, including the use of more expensive advertising media, such as television, if we deem it appropriate for particular products.

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

Provision for Income Taxes. Provision for income taxes included Federal, state and foreign income taxes in 1998 and 1999, at effective tax rates of 26.2% in 1998 and 26.8% in 1999, benefiting from a flat 16.5% Hong Kong Corporation Tax on our income arising in, or derived from, Hong Kong. As of December 31, 1998, we had deferred tax assets of approximately \$493,000 for which no allowance has been provided since, in the opinion of management, realization of the future benefit is probable. In making this determination, management

considered all available evidence, both positive and negative, as well as the weight and importance given to such evidence.

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

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 1999, we had working capital of \$73.8 million, as compared to \$13.7 million as of December 31, 1998. This increase was primarily attributable to the sale of our common stock in May 1999 as well as to our operating activities.

Operating activities provided net cash of \$16.6 million in 1999 as compared to \$5.1 million in 1998. Net cash was provided primarily by net income and non-cash charges, such as depreciation, amortization and recognition of compensation expense for options, as well as an increase in accounts payable and accrued liabilities, which were offset in part by increases in accounts receivable and inventory. As of September 30, 1999, we had cash and cash equivalents of \$73.4 million.

Our investing activities used net cash of \$10.1 million in 1999, as compared to \$4.0 million in 1998, consisting primarily of the purchase of molds and tooling used in the manufacture of our products in 1999 and 1998 and goodwill acquired in the Berk Acquisition in 1999. As part of our strategy to develop and market new products, we have entered into various character and product licenses with royalties ranging from 1% to 10% payable on net sales of such products. As of September 30, 1999, these agreements required future aggregate minimum guarantees of \$17.7 million, exclusive of \$0.9 million in advances already paid.

Our financing activities provided net cash of \$54.5 million in 1999, consisting primarily of the issuance of common stock pursuant to our public offering in May 1999 and the exercises of options and warrants, partially offset by dividends paid to holders of our Series A Cumulative Convertible Preferred Stock. In 1998, financing activities provided net cash of \$3.0 million, consisting primarily of the issuance of our 7% Series A Convertible Preferred Stock partially offset by the repayment of various notes and other debt issued in connection with our acquisitions in 1997.

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

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

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

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

In June 1999, we purchased all the outstanding capital stock of Berk Corporation for approximately \$3.1 million. We also agreed to pay an earn-out of up to \$500,000 if sales of Berk products achieve certain prescribed levels over the 12-month period ending June 30, 2000. Berk is a leading producer of educational toy foam puzzle mats and blocks featuring popular licensed characters, including Mickey Mouse, Minnie Mouse, Winnie the Pooh, Blue's Clues, Barney, Teletubbies, Sesame Street, Looney Tunes and Toy Story II characters, and non-licensed activity sets and outdoor products.

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

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

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

IMPACT OF THE YEAR 2000

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

We believe the financial reporting systems of our Hong Kong subsidiaries are Year 2000 compliant. Their systems were upgraded in 1998 in the normal course of business with software and hardware which the manufacturer has represented as being Year 2000 compliant. We implemented in October 1999 a new software package in our corporate office which the manufacturer has represented as being Year 2000 compliant. We estimate the cost of this new software, including implementation and data conversion costs, to be approximately \$120,000. Our other software is generally certified as Year 2000 compliant or is not considered critical to our operations. Other than the cost of the new software implemented in our corporate office, we have spent only nominal amounts on the Year 2000 issue, and we do not expect any significant future expenditures.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

INTEREST RATE RISK

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

FOREIGN CURRENCY RISK

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

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We held our most recent Annual Meeting of Stockholders on August 12, 1999. At the meeting, our stockholders considered and voted on several matters, as follows:

1. All five of our incumbent directors were nominated by management for reelection to the Board. Our stockholders voted in connection with the election of directors as follows:

Nominee - - - - -	For -----	Against -----	Withheld -----
Jack Friedman	8,405,972	0	146,225
Stephen G. Berman	8,405,972	0	146,225
Robert E. Glick	8,405,972	0	146,225
Michael G. Miller	8,405,972	0	146,225
Murray L. Skala	8,405,972	0	146,225

A plurality of the shares represented at the meeting having been voted for each of these nominees, each of them was elected as a director.

2. Our stockholders ratified the appointment of Pannell Kerr Forster, Certified Public Accountants, A Professional Corporation, as our independent auditors for our current fiscal year by a majority vote as follows:

For -----	Against -----	Abstain -----	Broker Non-Votes -----
8,534,490	10,370	7,340	0

3. Our stockholders ratified and approved the 1999 Amendment to our Third Amended and Restated 1995 Stock Option Plan by a majority vote as follows:

For -----	Against -----	Abstain -----	Broker Non-Votes -----
7,773,894	774,104	14,180	30,022

4. Our stockholders ratified and approved the employment agreements between us and Jack Friedman and Stephen G. Berman, respectively, by a majority vote as follows:

For -----	Against -----	Abstain -----	Broker Non-Votes -----
8,318,400	187,641	16,137	30,022

ITEM 5. OTHER INFORMATION

EXECUTIVE EMPLOYMENT AGREEMENTS

On July 1, 1999, we entered into employment agreements with Jack Friedman and Stephen G. Berman, respectively, pursuant to which Mr. Friedman serves as our Chairman and Chief Executive Officer and Mr. Berman serves as our President and Chief Operating Officer. Mr. Friedman's annual base salary in 1999 is \$521,000 and Mr. Berman's is \$496,000. Their annual base salaries are subject to annual increases in an amount, not less than \$25,000, determined by our Board of Directors. Each of them is also entitled to receive an annual bonus equal to 4% of our pre-tax income, but not more than \$1,000,000, if our pre-tax earnings are at least \$2,000,000. If we terminate Mr. Friedman's or Mr. Berman's employment other than "for cause" or if he resigns because of our material breach of the employment agreement or because we cause a material change in his employment, we are required to make a lump-sum severance payment in an amount equal to his base salary and 4% bonus during the balance of the term of the employment agreement, based on his then applicable annual base salary and 4% bonus. In the event of

the termination of his employment under certain circumstances after a "Change of Control" (as defined in the employment agreement), we are required to make to him a one-time payment of an amount equal to 2.99 times his "base amount" determined in accordance with the applicable provisions of the Internal Revenue Code.

1999 AMENDMENT TO THIRD AMENDED AND RESTATED 1995 STOCK OPTION PLAN

On August 12, 1999, the 1999 Amendment to our Third Amended and Restated 1995 Stock Option Plan became effective. As so amended, our plan provides for up to 1,750,000 shares of our common stock to be available for issuance upon the exercise of options granted under the plan; for each of our non-employee directors to receive in 2000 and subsequent years automatic annual grants of options to purchase 6,250 shares of our common stock; and, subject to certain conditions, for accelerated vesting of options granted under our plan if we are involved in a merger, consolidation, reorganization, sale of assets or certain other transactions.

STOCK DIVIDEND

On November 4, 1999, we will distribute to holders of record at the close of business on October 27, 1999 a dividend of 1/2 share of our common stock for each share of our common stock outstanding on such date (except that cash will be paid in lieu of fractional shares at the rate of \$40 5/8 per share).

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

NUMBER - - - - -	DESCRIPTION - - - - -
3.1	Restated Certificate of Incorporation of the Company(1)
3.1.1	Certificate of Designation and Preferences of Series A Cumulative Convertible Preferred Stock of the Company(2)
3.1.2	Certificate of Elimination of All Shares of 4% Redeemable Convertible Preferred Stock of the Company(2)
3.1.3	Certificate of Amendment of Restated Certificate of Incorporation of the Company(3)
3.2.1	By-Laws of the Company(1)
3.2.2	Amendment to By-Laws of the Company(4)
10.1*	Employment Agreement dated as of July 1, 1999 between the Company and Jack Friedman(5)
10.2*	Employment Agreement dated as of July 1, 1999 between the Company and Stephen G. Berman(5)
10.3*	1999 Amendment to Third Amended and Restated 1995 Stock Option Plan of the Company(6)
27	Financial Data Schedule(5)

* Compensatory plan, contract or arrangement.

- (1) Filed previously as an exhibit to the Company's Registration Statement on Form SB-2 (File No. 333-2048-LA), effective May 1, 1996, and incorporated herein by reference.
- (2) Filed previously as an exhibit to the Company's Current Report on Form 8-K, filed April 7, 1998, and incorporated herein by reference.
- (3) Filed previously as exhibit 4.1.2 of the Company's Registration Statement on Form S-3 (File No. 333-74717), filed on March 9, 1999, and incorporated herein by reference.
- (4) Filed previously as an exhibit to the Company's Registration Statement on Form SB-2 (File No. 333-22583), effective May 1, 1997, and incorporated herein by reference.
- (5) Filed herewith.
- (6) Filed previously as exhibit 4.1 to the Company's Registration Statement on Form S-8 (File No. 333-90055), filed on November 1, 1999 and incorporated herein by reference.
- (b) Reports on Form 8-K

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

SIGNATURES

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

Registrant:

JAKKS PACIFIC, INC.

Date: November 2, 1999

By: /s/ Joel M. Bennett

Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

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EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT dated as of July 1, 1999 by and between JAKKS Pacific, Inc., a Delaware corporation (the "Company"), and Jack Friedman ("Executive")

W I T N E S S E T H :

WHEREAS, the Company desires to employ Executive on the terms and subject to the conditions hereinafter set forth, and Executive desires so to be employed;

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter set forth, the parties agree as follows:

1. Offices and Duties. The Company hereby employs Executive during the Term (as hereinafter defined) to serve as the Company's Chief Executive Officer and to perform such executive and supervisory duties on behalf of the Company as the Company's Board of Directors may from time to time reasonably direct. The Company's Board of Directors shall elect Executive to serve as the Company's Chairman, and may elect or designate Executive to serve in such other corporate offices of the Company or a subsidiary of the Company as the Company's Board of Directors from time to time may deem necessary, proper or advisable. Executive hereby accepts such employment and agrees that throughout the Term he shall faithfully, diligently and to the best of his ability, in furtherance of the business of the Company, perform the duties assigned to him or incidental to the offices assumed by him pursuant to this Section. Executive shall devote substantially all of his business time and attention to the business and affairs of the Company, but Executive shall not be required to devote any minimum amount of time or report or perform his duties hereunder on a fixed or periodic basis, and Executive may engage or participate in such other activities incidental to any other employment, occupation or business venture or enterprise as do not materially interfere with or compromise his ability to perform his duties hereunder. Executive shall at all times be subject to the direction and control of the Company's Board of Directors, and observe and comply with such rules, regulations, policies and practices as the Company's Board of Directors may from time to time establish.

2. Term. The employment of Executive hereunder shall commence on the date hereof and continue for a term of ten (10) years ending on June 30, 2009, subject to earlier termination upon the terms and conditions provided elsewhere herein (the "Term"). As used herein, "Termination Date" means the last day of the Term.

3. Compensation.

(a) As compensation for his services hereunder, the Company shall pay to Executive during the Term:

(i) a base salary in 1999 at the rate of \$521,000 per annum, and in each subsequent year during the Term at a rate to be

determined by the Company's Board of Directors, but that is at least \$25,000 more than the rate in the immediately preceding year (the "Base Salary"), such Base Salary to be paid in substantially equal installments no less often than twice monthly;

(ii) a bonus (the "4% Bonus") in respect of each Bonus Period (as hereinafter defined) in which Pre-Tax Income (as hereinafter defined) equals or exceeds the Bonus Target (as hereinafter defined) for such Bonus Period, payable within 90 days after the end of such Bonus Period, in an amount equal to the lesser of (A) 4% of such Pre-Tax Income and (B) \$1,000,000; and

(iii) such additional incentive or bonus compensation as the Company's Board of Directors may from time to time determine.

(b) For the purposes of Section 3(a):

(i) A "Bonus Period" is either a fiscal year of the Company ending during the Term or, if the Term ends on a day other than the last day of a fiscal year of the Company, the portion of such fiscal year ending on the last day of the last full month ending during the Term.

(ii) The "Bonus Target" for any Bonus Period is (A) \$2 million, if such Bonus Period consists of 12 calendar months, or (B) in any other case, the product of (I) \$5,479.45 and (II) the number of days included in such Bonus Period.

(iii) The "Pre-Tax Income" in any Bonus Period is the Company's income before any deduction or reserve for income taxes and without adjustment for any extraordinary item.

The determination of the Bonus Target, Pre-Tax Income and the 4% Bonus for any Bonus Period, including all estimates, allocations or prorations required to be made in connection therewith, shall be made by the Company's regularly-engaged independent certified public accounts in accordance with generally accepted accounting principles applied on a basis consistent with past periods, which determination, absent manifest error, shall be conclusive and binding upon the Company and Executive. If a Bonus Period ends prior to the end of a fiscal year of the Company, and any year-end adjustment is subsequently made that affects the determination of the 4% Bonus for such Bonus Period, the Company shall promptly give written notice to Executive of any change proposed to be made to such 4% Bonus, setting forth in reasonable detail therein the amount of and basis for such change. If such change involves an increase to such 4% Bonus, the Company shall pay such increase to Executive concurrently with the delivery of such notice; and if such change involves a decrease to such 4% Bonus, Executive shall repay the amount of such decrease to the Company promptly, and in any event within 60 days, after receipt of such notice.

(c) At his request, the Company shall use its best efforts to procure major medical, hospitalization, dental and disability insurance for the

benefit of Executive and life insurance in the amount of \$500,000 in favor of such beneficiary or beneficiaries as Executive may from time to time designate, and the Company shall pay all premiums and any other costs or expenses incurred to maintain such policies in effect during the term of Executive's employment hereunder.

(d) In addition to his Base Salary and other compensation provided herein, Executive shall be entitled to participate, to the extent he is eligible under the terms and conditions thereof, in any stock, stock option or other equity participation plan and any profit-sharing, pension, retirement, insurance, medical service or other employee benefit plan generally available to the executive officers of the Company, and to receive any other benefits or perquisites generally available to the executive officers of the Company pursuant to any employment policy or practice, which may be in effect from time to time during the Term. Except as otherwise expressly provided herein, the Company shall be under no obligation hereunder to institute or to continue any such employee benefit plan or employment policy or practice.

(e) No provision hereof is intended, or shall be deemed, to impair or limit Executive's eligibility to receive, or any right he may now or at any time hereafter have to receive, hold or dispose of any common stock, par value \$.001 per share, of the Company (the "Common Stock") or other securities of the Company or to receive, hold or exercise any options, warrants or other rights to acquire any Common Stock or other securities of the Company.

(f) During the Term, Executive shall not be entitled to additional compensation for serving in any office of the Company (or any subsidiary thereof) to which he is elected or appointed, except that, throughout any period or periods during which he shall serve as a director of the Company (or such subsidiary), Executive shall be entitled to directors' fees in accordance with the policies and practices of the Company (or such subsidiary) then in effect.

4. Expense Allowance.

(a) The Company shall pay directly, or advance funds to Executive or reimburse Executive for, all expenses reasonably incurred by him in connection with the performance of his duties hereunder and the business of the Company, upon the submission to the Company of itemized expense reports, receipts or vouchers in accordance with its then customary policies and practices.

(b) The Company shall provide to Executive a suitable automobile or other vehicle for his exclusive use and the Company shall pay the entire cost thereof, including without limitation purchase price or lease payments, insurance premiums, repair charges, and maintenance and operating expenses, or if, in lieu thereof, Executive uses his own automobile or other vehicle, the Company shall grant him a monthly allowance in an amount sufficient to pay all such costs therefor.

5. Location. Except for routine travel and temporary accommodation reasonably required to perform his services hereunder, Executive shall not be

required to perform his services hereunder at any location other than the principal executive office of the Company, which office shall be located throughout the Term at its location on the date hereof, or, if relocated, at a location within a distance of 30 miles from its location on the date hereof, or at such other office or site to which Executive may, in his sole discretion, consent; nor shall he be required to relocate his principal residence to, or otherwise to reside at, any location specified by the Company.

6. Office. The Company shall provide Executive with suitable office space, furnishings and equipment, secretarial and clerical services and such other facilities and office support as Executive may reasonably request.

7. Vacation. Executive shall be entitled to four weeks paid vacation during each year of his employment hereunder, such vacation to be taken at such time or times as shall be agreed upon by Executive and the Company. Vacation time shall be cumulative from year to year, except that Executive shall not be entitled to take more than eight weeks vacation during any consecutive 12-month period during the Term.

8. Key-Man Insurance. The Company shall have the right from time to time to purchase, increase, modify or terminate insurance policies on the life of Executive for the benefit of the Company in such amounts as the Company may determine in its sole discretion. In connection therewith, Executive shall, at such time or times and at such place or places as the Company may reasonably direct, submit himself to such physical examinations and execute and deliver such documents as the Company may deem necessary or appropriate.

9. Trade Secrets. Executive shall hold in a fiduciary capacity for the benefit of the Company all information relating to or concerned with its operations, business and affairs, and he shall not, at any time hereafter, use or disclose any such information to any person other than to the Company or its designees or except as may otherwise be required in connection with the business and affairs of the Company.

10. Intellectual Property. Subject to Sections 2870 and 2871 of the California Labor Code:

(a) Any idea, invention, design, process, system, procedure, improvement, development or discovery conceived, developed, created or made by Executive, alone or with others, during the Term and applicable to the business of the Company, whether or not patentable or registrable, shall become the sole and exclusive property of the Company.

(b) Executive shall disclose the same promptly and completely to the Company and shall, during the Term or thereafter, (i) execute all documents requested by the Company for vesting in the Company the entire right, title and interest in and to the same, (ii) execute all documents requested by the Company for filing and procuring such applications for patents, trademarks, service marks or copyrights as the Company, in its sole discretion, may desire to prosecute, and (iii) give the Company all assistance it may reasonably require, including the giving of testimony in any Proceeding (as hereinafter defined), in order to obtain, maintain and protect the Company's right therein and thereto.

11. No Competition.

(a) During the Term, and if his employment terminates because he is discharged by the Company "for cause" pursuant to Section 13 or he voluntarily resigns pursuant to Section 14(c), for a further period of one year thereafter, Executive shall not, directly or indirectly:

(i) own, control, manage, operate, participate or invest in, or otherwise be connected with, in any manner, any business activity, venture or enterprise which is engaged in any business in the United States in which the Company (or any subsidiary thereof) is currently engaged or is engaged at the time of termination of Executive's employment hereunder, or

(ii) for himself or on behalf of any other person, employ or engage any person who at the time shall have been within the preceding 12-month period an employee of the Company (or such subsidiary) or contact any supplier, customer or employee of the Company (or such subsidiary) for the purpose of soliciting or diverting any supplier, customer or employee from the Company (or such subsidiary) .

(b) The provisions of Section 11(a) notwithstanding, Executive may invest his funds in securities of an issuer if the securities of such issuer are listed for trading on a registered securities exchange or actively traded in an over-the-counter market and Executive's holdings therein represent less than 1% of the total number of shares or principal amount of the securities of such issuer outstanding.

(c) Executive acknowledges that the provisions of this Section, and the period of time, geographic area and scope and type of restrictions on his activities set forth herein, are reasonable and necessary for the protection of the Company.

12. Termination Upon Disability. In the event that Executive is unable to perform his duties hereunder by reason of any disability or incapacity (due to any physical or mental injury, illness or defect) for an aggregate of 180 days in any consecutive 12-month period, the Company shall have the right to terminate Executive's employment hereunder within 60 days after the 180th day of his disability or incapacity by giving Executive notice to such effect at least 30 days prior to the date of termination set forth in such notice, and on such date such employment shall terminate.

13. Termination for Cause.

(a) In addition to any other rights or remedies provided by law or in this Agreement, the Company may terminate Executive's employment under this Agreement if:

(i) Executive is convicted of, or enters a plea of guilty or nolo contendere (which plea is not withdrawn prior to its approval by the court) to, a felony offense and either Executive fails to perfect an appeal of such conviction prior to the expiration of the maximum period of time within which, under applicable law or rules of court, such appeal may be perfected or, if Executive does perfect such an appeal, his conviction of a felony offense is sustained on appeal; or

(ii) the Company's Board of Directors determines, after due inquiry, based on convincing evidence, that Executive has:

- (A) committed fraud against, or embezzled or misappropriated funds or other assets of, the Company (or any subsidiary thereof);
- (B) violated, or caused the Company (or any subsidiary thereof) or any officer, employee or other agent thereof, or any other person to violate, any material law, regulation or ordinance or any material rule, regulation, policy or practice established by the Company's Board of Directors;
- (C) willfully, or because of gross or persistent negligence, (A) failed properly to perform his duties hereunder or (B) acted in a manner detrimental to, or adverse to the interests of, the Company; or
- (D) violated, or failed to perform or satisfy any material covenant, condition or obligation required to be performed or satisfied by Executive hereunder;

and that, in the case of any violation or failure referred to in clause (B), (C) or (D) of this paragraph (ii) of Section 13(a), such violation or failure has caused, or is reasonably likely to cause, the Company to suffer or incur a substantial casualty, loss, penalty, expense or other liability or cost.

(b) The Company may effect such termination for cause by giving Executive notice to such effect, setting forth in reasonable detail the factual basis for such termination, at least five days prior to the date of termination set forth therein; provided however that Executive may avoid such termination if Executive, prior to the date of termination set forth in such notice, cures or explains to the reasonable satisfaction of the Company's Board of Directors the factual basis for termination set forth therein.

(c) In making any determination pursuant to Section 13(a) as to the occurrence of any act or event described in clauses (A) to (D) of paragraph (ii) thereof (each, a "For Cause Event"), each of the following shall constitute convincing evidence of such occurrence:

(i) if Executive is made a party to, or target of, any Proceeding arising under or relating to any For Cause Event, Executive's failure to defend against such Proceeding or to answer any complaint filed against him therein, or to deny any claim, charge, averment, or allegation thereof asserting or based upon the occurrence of a For Cause Event;

(ii) any judgment, award, order, decree or other adjudication or ruling in any such Proceeding finding or based upon the occurrence of a For Cause Event (that is not reversed or vacated on appeal); or

(iii) any settlement or compromise of, or consent decree issued in, any such Proceeding in which Executive expressly admits the occurrence of a For Cause Event;

provided that none of the foregoing shall be dispositive or create an irrebuttable presumption of the occurrence of such For Cause Event; and provided further that the Company's Board of Directors may rely on any other factor or event as convincing evidence of the occurrence of a For Cause Event.

(d) In determining and assessing the detrimental effect of any For Cause Event on the Company and whether such For Cause Event warrants the termination of Executive's employment hereunder, the Company's Board of Directors shall take the following factors, to the extent applicable and material, into account:

(i) whether the Company's Board of Directors directed or authorized Executive to take, or to omit to take, any action involved in such For Cause Event, or approved, consented to or acquiesced in his taking or omitting to take such action;

(ii) any award of damages, penalty or other sanction, remedy or relief granted or imposed in any Proceeding based upon or relating to such For Cause Event, and whether such sanction, remedy or relief is sufficient to recompense the Company or any other injured person, or to prevent or to deter the recurrence of such For Cause Event;

(iii) whether any lesser sanction would be appropriate and effective; and

(iv) any adverse effect that the loss of Executive's services would have, or be reasonably likely to have, upon the Company.

14. Termination by Executive. In addition to any other rights or remedies provided by law or in this Agreement, Executive may terminate his employment hereunder:

(a) if (i) the Company violates, or fails to perform or satisfy any material covenant, condition or obligation required to be performed or satisfied by it hereunder or, (ii) as a result of any action or failure to act by the Company, there is a material change in the nature or scope of the duties, obligations, rights or powers of Executive's employment, by giving the Company notice to such effect, setting forth in reasonable detail the factual

basis for such termination, at least five days prior to the date of termination set forth therein; provided however that the Company may avoid such termination if it, prior to the date of termination set forth in such notice, cures or explains to the reasonable satisfaction of Executive the factual basis for termination set forth therein;

(b) if a Change of Control (as hereinafter defined) occurs during the Term, at any time within the two-year period thereafter, by giving the Company notice to such effect, setting forth the event or circumstance constituting such Change of Control, such termination to be effective upon the date of termination, not more than 30 days after the date of such notice, set forth therein or, if no such date is set forth therein, immediately upon delivery of such notice to the Company; or

(c) at any time by giving the Company written notice to such effect at least 60 days prior to the date of termination set forth therein, such termination to be irrevocable upon receipt of such notice by the Company.

The termination by Executive of his employment hereunder pursuant to Section 14(a) or 14(b) shall not constitute or be deemed to constitute for any purpose a "voluntary resignation" of his employment.

15. Compensation upon Termination.

(a) Upon termination of Executive's employment hereunder, he shall be entitled to receive, in any case, any compensation or other amount due to him pursuant to Section 3 or 4 in respect of his employment prior to the Termination Date.

(b) If Executive is discharged "for cause" pursuant to Section 13, except for the payment of any amount required to be made by Section 15(a), from and after the Termination Date, the Company shall have no further obligation to Executive hereunder, including without limitation any obligation pursuant to Section 17.

(c) If his employment is terminated by Executive pursuant to Section 14(a) or by the Company other than "for cause" pursuant to Section 13, he shall be entitled to receive an amount equal to the product of (i) the sum of (A) his Base Salary in effect on the Termination Date and (B) his 4% Bonus for the last Bonus Period ending before the Termination Date (annualized if such Bonus Period is other than a 12-month fiscal year of the Company), and (ii) a fraction, the numerator of which is the number of full months remaining in the balance of the Term after the Termination Date and the denominator of which is 120.

(d) If his employment terminates pursuant to Section 14(b) and, if at the time Executive gives the Company the notice of termination referred to therein, the Company has not given to Executive a notice of termination upon his disability pursuant to Section 12 or "for cause" pursuant to Section 13, he shall be entitled to receive, upon the terms and subject to the conditions set forth in Section 16, the Parachute Amount (as hereinafter defined).

(e) Any amount payable to Executive upon termination of his employment hereunder shall be paid promptly, and in any event within 30 days, after the Termination Date.

(f) Executive shall have no obligation hereunder to seek or to accept any other employment after the Termination Date or otherwise to mitigate the payments required to be made by this Section. No compensation or other amount received or receivable by Executive on account of any employment or engagement after the Termination Date shall be offset against or deducted from any payment required to be made by this Section.

16. Change of Control.

(a) For the purposes of this Section 16:

(i) The "Act" is the Securities Exchange Act of 1934, as amended.

(ii) A "person" includes a "group" within the meaning of Section 13(d)(3) of the Act.

(iii) "Control" is used herein as defined in Rule 12b-2 under the Act.

(iv) "Beneficially owns" and "acquisition" are used herein as defined in Rules 13d-3 and 13d-5, respectively, under the Act.

(v) "Non-Affiliated Person" means any person, other than Executive, an employee stock ownership trust of the Company (or any trustee thereof for the benefit of such trust), or any person controlled by Executive, the Company or such a trust.

(vi) "Voting Securities" includes Common Stock and any other securities of the Company that ordinarily entitle the holders thereof to vote, together with the holders of Common Stock or as a separate class, with respect to matters submitted to a vote of the holders of Common Stock, but securities of the Company as to which the consent of the holders thereof is required by applicable law or the terms of such securities only with respect to certain specified transactions or other matters, or the holders of which are entitled to vote only upon the occurrence of certain specified events (such as default in the payment of a mandatory dividend on preferred stock or a scheduled installment of principal or interest of any debt security), shall not be Voting Securities.

(vii) "Right" means any option, warrant or other right to acquire any Voting Security (other than such a right of conversion or exchange included in a Voting Security).

(viii) The "Code" is the Internal Revenue Code of 1986, as amended.

(ix) "Base amount," "present value" and "parachute payment" are used herein as defined in Section 280G of the Code.

(b) A "Change of Control" occurs when:

(i) a Non-Affiliated Person acquires control of the Company;

(ii) upon an acquisition of Voting Securities or Rights by a Non-Affiliated Person or any change in the number or voting power of outstanding Voting Securities, such Non-Affiliated Person beneficially owns Voting Securities or Rights entitling such person to cast a number of votes (determined in accordance with Section 16(g)) equal to or greater than 25% of the sum of (A) the number of votes that may be cast by all other holders of outstanding Voting Securities and (B) the number of votes that may be cast by such Non-Affiliated Person (determined in accordance with Section 16(g)); or

(iii) upon any change in the membership of the Company's Board of Directors, a majority of the directors are persons who are not nominated or appointed by the Company's Board of Directors as constituted prior to such change.

(c) The "Parachute Amount" to which Executive shall be entitled pursuant to Section 15(d) shall equal 2.99 times Executive's base amount.

(d) It is intended that the present value of any payments or benefits to Executive, whether hereunder or otherwise, that are includable in the computation of parachute payments shall not exceed 2.99 times the base amount. Accordingly, if Executive receives any payment or benefit from the Company prior to payment of the Parachute Amount which, when added to the Parachute Amount, would subject any of the payments or benefits to Executive to the excise tax imposed by Section 4999 of the Code, the Parachute Amount shall be reduced by the least amount necessary to avoid such tax. The Company shall have no obligation hereunder to make any payment or provide any benefit to Executive after the payment of the Parachute Amount which would subject any of such payments or benefits to the excise tax imposed by Section 4999 of the Code.

(e) Any other provision hereof notwithstanding, Executive may, prior to his receipt of the Parachute Amount pursuant to Section 15(d), waive the payment thereof, or, after his receipt of the Parachute Amount thereunder, treat some or all of such amount as a loan from the Company which Executive shall repay to the Company within 180 days after the receipt thereof, together with interest thereon at the rate provided in Section 7872 of the Code, in either case, by giving the Company notice to such effect.

(f) Any determination of the base amount, the Parachute Amount, any liability for excise tax under Section 4999 of the Code or other matter required to be made pursuant to this Section 18, shall be made by the Company's regularly-engaged independent certified public accountants, whose determination shall be conclusive and binding upon the Company and Executive; provided that such accountants shall give to Executive, on or before the date on which payment of the Parachute Amount or any later payment or benefit would be made, a notice setting forth in reasonable detail such determination and the basis therefor, and stating expressly that Executive is entitled to rely thereon.

(g) The number of votes that may be cast by holders of Voting Securities or Rights upon the issuance or grant thereof shall be deemed to be the largest number of votes that may be cast by the holders of such securities or the holders of any other Voting Securities into which such Voting Securities or Rights are convertible or for which they are exchangeable or exercisable, determined as though such Voting Securities or Rights were immediately convertible, exchangeable or exercisable and without regard to any anti-dilution or other adjustments provided for therein.

17. Other Termination Provisions.

(a) Upon request by Executive, on the Termination Date or as soon as practicable thereafter, the Company shall assign to Executive, and Executive shall assume, the purchase agreement or lease relating to any automobile or other vehicle that the Company provides for his use on the Termination Date pursuant to Section 4(b) (other than an automobile or other vehicle owned or leased by Executive), if and to the extent assignable under the terms and conditions thereof, and thereafter Executive shall be liable for, and the Company shall be relieved of all liability for, any amount or other obligation required to be paid or performed thereunder in respect of any period commencing after the date of assignment.

(b) Throughout the 10-year period following the Termination Date, the Company shall indemnify Executive, and hold him harmless from, any loss, damages, liability, obligation or expense that he may suffer or incur in connection with any claim made or Proceeding commenced during such period relating to his service as a director, officer, employee or agent of the Company (or any subsidiary thereof) to the same extent and in same manner as the Company shall be obligated so to indemnify Executive immediately prior to the Termination Date; provided that, if during such 10-year period the Company adopts or assumes any indemnification policy or practice with respect to its directors, officers, employees or agents that is more favorable than that in effect on the Termination Date, Executive shall be entitled to such more favorable indemnification.

(c) Throughout the 10-year period following the Termination Date, the Company shall maintain for the benefit of Executive directors' and officers' liability insurance (on a "claims made" basis) providing coverage at least as favorable to Executive (including with respect to limits of liability, exclusions, and deductible and retention amounts) as that in effect on the Termination Date.

18. Limitation of Authority. Except as expressly provided herein, no provision hereof shall be deemed to authorize or empower either party hereto to act on behalf of, obligate or bind the other party hereto.

19. Notices. Any notice or demand required or permitted to be given or made hereunder to or upon either party hereto shall be deemed to have been duly given or made for all purposes if (a) in writing and sent by (i) messenger or an overnight courier service against receipt, or (ii) certified or registered mail, postage paid, return receipt requested, or (b) sent by telegram, telecopy, telex

or similar electronic means, provided that a written copy thereof is sent on the same day by postage-paid first-class mail, to such party at the following address:

to the Company at: 22761 Pacific Coast Highway, Suite 226
Malibu, California 90265
Attn: President
Fax: (310) 317-8527

with a copy to: Feder, Kaszovitz, Isaacson, Weber, Skala & Bass LLP
750 Lexington Avenue
New York, New York 10022
Attn: Murray L. Skala, Esq.
Fax: (212) 888-7776

to Executive at: 6351 Kanan Dume Road
Malibu, California 90265
Fax: (310) 589-9371

or such other address as either party hereto may at any time, or from time to time, direct by notice given to the other party in accordance with this Section. The date of giving or making of any such notice or demand shall be, in the case of clause (a) (i), the date of the receipt; in the case of clause (a) (ii), five business days after such notice or demand is sent; and, in the case of clause (b), the business day next following the date such notice or demand is sent.

20. Amendment. Except as otherwise provided herein, no amendment of this Agreement shall be valid or effective, unless in writing and signed by or on behalf of the parties hereto.

21. Waiver. No course of dealing or omission or delay on the part of either party hereto in asserting or exercising any right hereunder shall constitute or operate as a waiver of any such right. No waiver of any provision hereof shall be effective, unless in writing and signed by or on behalf of the party to be charged therewith. No waiver shall be deemed a continuing waiver or waiver in respect of any other or subsequent breach or default, unless expressly so stated in writing.

22. Governing Law. This Agreement shall be governed by, and interpreted and enforced in accordance with, the laws of the State of California without regard to principles of choice of law or conflict of laws.

23. Jurisdiction. Each of the parties hereto hereby irrevocably consents and submits to the jurisdiction of the courts of the State of California and the United States District Court for the Southern District of California in connection with any suit, action or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby, waives any objection to venue in the County of Los Angeles, State of California, or such District, and agrees that service of any summons, complaint, notice or other process relating to such proceeding may be effected in the manner provided by clause (a) (ii) of Section 19.

24. Remedies. In the event of any actual or prospective breach or default by either party hereto, the other party shall be entitled to equitable relief, including remedies in the nature of rescission, injunction and specific performance. All remedies hereunder are cumulative and not exclusive, and nothing herein shall be deemed to prohibit or limit either party from pursuing any other remedy or relief available at law or in equity for such actual or prospective breach or default, including the recovery of damages.

25. Severability. The provisions hereof are severable and in the event that any provision of this Agreement shall be determined to be invalid or unenforceable in any respect by a court of competent jurisdiction, the remaining provisions hereof shall not be affected, but shall, subject to the discretion of such court, remain in full force and effect, and any invalid or unenforceable provision shall be deemed, without further action on the part of the parties hereto, amended and limited to the extent necessary to render the same valid and enforceable.

26. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original and which together shall constitute one and the same agreement.

27. Assignment. This Agreement, and each right, interest and obligation hereunder, may not be assigned by either party hereto without the prior written consent of the other party hereto, and any purported assignment without such consent shall be void and without effect, except that this Agreement shall be assigned to, and assumed by, any person with or into which the Company merges or consolidates, or which acquires all or substantially all of its assets, or which otherwise succeeds to and continues the Company's business substantially as an entirety. Except as otherwise expressly provided herein or required by law, Executive shall not have any power of anticipation, assignment or alienation of any payments required to be made to him hereunder, and no other person may acquire any right or interest in any thereof by reason of any purported sale, assignment or other disposition thereof, whether voluntary or involuntary, any claim in a bankruptcy or other insolvency proceeding against Executive, or any other ruling, judgment, order, writ or decree.

28. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. This Agreement is not intended, and shall not be deemed, to create or confer any right or interest for the benefit of any person not a party hereto.

29. Titles and Captions. The titles and captions of the Articles and Sections of this Agreement are for convenience of reference only and do not in any way define or interpret the intent of the parties or modify or otherwise affect any of the provisions hereof.

30. Grammatical Conventions. Whenever the context so requires, each pronoun or verb used herein shall be construed in the singular or the plural sense and each capitalized term defined herein and each pronoun used herein shall be construed in the masculine, feminine or neuter sense.

31. References. The terms "herein," "hereto," "hereof," "hereby," and "hereunder," and other terms of similar import, refer to this Agreement as a whole, and not to any Article, Section or other part hereof.

32. No Presumptions. Each party hereto acknowledges that it has had an opportunity to consult with counsel and has participated in the preparation of this Agreement. No party hereto is entitled to any presumption with respect to the interpretation of any provision hereof or the resolution of any alleged ambiguity herein based on any claim that the other party hereto drafted or controlled the drafting of this Agreement.

33. Certain Definitions. As used herein:

(a) "Person" includes without limitation a natural person, corporation, joint stock company, limited liability company, partnership, joint venture, association, trust, government or governmental authority, agency or instrumentality, or any group of the foregoing acting in concert.

(b) A "Proceeding" is any suit, action, arbitration, audit, investigation or other proceeding before or by any court, magistrate, arbitration panel or other tribunal, or any governmental agency, authority or instrumentality of competent jurisdiction.

34. Entire Agreement. This Agreement embodies the entire agreement of the parties hereto with respect to the subject matter hereof and supersedes any prior agreement, commitment or arrangement relating thereto, including without limitation the Employment Agreement dated as of January 1, 1998 between the Company and Executive, as amended, which shall terminate, notwithstanding any contrary provision thereof, immediately upon the commencement of the Term, except that each party thereto shall (a) remain required to perform any act and to satisfy any obligation or condition that such party is required to perform or satisfy thereunder with respect to any event occurring or circumstance existing during the term thereof (including without limitation the payment or delivery to Executive of any compensation, reimbursable expense or employee benefit or perquisite to which he may be entitled, but which has not yet been paid to him, on account of his employment thereunder) that has not been so performed or satisfied, and (b) retain its right thereunder to assert or to allege any claim or cause of action relating to or based upon, or otherwise to enforce, any provision thereof with respect to any event occurring or circumstance existing during the term thereof.

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

THE COMPANY:

JAKKS PACIFIC, INC.

By: /s/ Stephen G. Berman

Name: Stephen G. Berman
Title: President

EXECUTIVE:

/s/ Jack Friedman

Jack Friedman

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT dated as of July 1, 1999 by and between JAKKS Pacific, Inc., a Delaware corporation (the "Company"), and Stephen G. Berman ("Executive")

W I T N E S S E T H :

WHEREAS, the Company desires to employ Executive on the terms and subject to the conditions hereinafter set forth, and Executive desires so to be employed;

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter set forth, the parties agree as follows:

1. Offices and Duties. The Company hereby employs Executive during the Term (as hereinafter defined) to serve as the Company's Chief Operating Officer and to perform such executive and supervisory duties on behalf of the Company as the Company's Board of Directors may from time to time reasonably direct. The Company's Board of Directors shall elect Executive to serve as the Company's President, and may elect or designate Executive to serve in such other corporate offices of the Company or a subsidiary of the Company as the Company's Board of Directors from time to time may deem necessary, proper or advisable. Executive hereby accepts such employment and agrees that throughout the Term he shall faithfully, diligently and to the best of his ability, in furtherance of the business of the Company, perform the duties assigned to him or incidental to the offices assumed by him pursuant to this Section. Executive shall devote substantially all of his business time and attention to the business and affairs of the Company, but Executive shall not be required to devote any minimum amount of time or report or perform his duties hereunder on a fixed or periodic basis, and Executive may engage or participate in such other activities incidental to any other employment, occupation or business venture or enterprise as do not materially interfere with or compromise his ability to perform his duties hereunder. Executive shall at all times be subject to the direction and control of the Company's Board of Directors, and observe and comply with such rules, regulations, policies and practices as the Company's Board of Directors may from time to time establish.

2. Term. The employment of Executive hereunder shall commence on the date hereof and continue for a term of ten (10) years ending on June 30, 2009, subject to earlier termination upon the terms and conditions provided elsewhere herein (the "Term"). As used herein, "Termination Date" means the last day of the Term.

3. Compensation.

(a) As compensation for his services hereunder, the Company shall pay to Executive during the Term:

(i) a base salary in 1999 at the rate of \$496,000 per annum, and in each subsequent year during the Term at a rate to be determined by the Company's Board of Directors, but that is at least \$25,000 more than the rate in the immediately preceding year (the "Base Salary"), such Base Salary to be paid in substantially equal installments no less often than twice monthly;

(ii) a bonus (the "4% Bonus") in respect of each Bonus Period (as hereinafter defined) in which Pre-Tax Income (as hereinafter defined) equals or exceeds the Bonus Target (as hereinafter defined) for such Bonus Period, payable within 90 days after the end of such Bonus Period, in an amount equal to the lesser of (A) 4% of such Pre-Tax Income and (B) \$1,000,000; and

(iii) such additional incentive or bonus compensation as the Company's Board of Directors may from time to time determine.

(b) For the purposes of Section 3(a):

(i) A "Bonus Period" is either a fiscal year of the Company ending during the Term or, if the Term ends on a day other than the last day of a fiscal year of the Company, the portion of such fiscal year ending on the last day of the last full month ending during the Term.

(ii) The "Bonus Target" for any Bonus Period is (A) \$2 million, if such Bonus Period consists of 12 calendar months, or (B) in any other case, the product of (I) \$5,479.45 and (II) the number of days included in such Bonus Period.

(iii) The "Pre-Tax Income" in any Bonus Period is the Company's income before any deduction or reserve for income taxes and without adjustment for any extraordinary item.

The determination of the Bonus Target, Pre-Tax Income and the 4% Bonus for any Bonus Period, including all estimates, allocations or prorations required to be made in connection therewith, shall be made by the Company's regularly-engaged independent certified public accounts in accordance with generally accepted accounting principles applied on a basis consistent with past periods, which determination, absent manifest error, shall be conclusive and binding upon the Company and Executive. If a Bonus Period ends prior to the end of a fiscal year of the Company, and any year-end adjustment is subsequently made that affects the determination of the 4% Bonus for such Bonus Period, the Company shall promptly give written notice to Executive of any change proposed to be made to such 4% Bonus, setting forth in reasonable detail therein the amount of and basis for such change. If such change involves an increase to such 4% Bonus, the Company shall pay such increase to Executive concurrently with the delivery of such notice; and if such change involves a decrease to such 4% Bonus, Executive shall repay the amount of such decrease to the Company promptly, and in any event within 60 days, after receipt of such notice.

(c) At his request, the Company shall use its best efforts to procure major medical, hospitalization, dental and disability insurance for the benefit of Executive and life insurance in the amount of \$500,000 in favor of such beneficiary or beneficiaries as Executive may from time to time designate, and the Company shall pay all premiums and any other costs or expenses incurred to maintain such policies in effect during the term of Executive's employment hereunder.

(d) In addition to his Base Salary and other compensation provided herein, Executive shall be entitled to participate, to the extent he is eligible under the terms and conditions thereof, in any stock, stock option or other equity participation plan and any profit-sharing, pension, retirement, insurance, medical service or other employee benefit plan generally available to the executive officers of the Company, and to receive any other benefits or perquisites generally available to the executive officers of the Company pursuant to any employment policy or practice, which may be in effect from time to time during the Term. Except as otherwise expressly provided herein, the Company shall be under no obligation hereunder to institute or to continue any such employee benefit plan or employment policy or practice.

(e) No provision hereof is intended, or shall be deemed, to impair or limit Executive's eligibility to receive, or any right he may now or at any time hereafter have to receive, hold or dispose of any common stock, par value \$.001 per share, of the Company (the "Common Stock") or other securities of the Company or to receive, hold or exercise any options, warrants or other rights to acquire any Common Stock or other securities of the Company.

(f) During the Term, Executive shall not be entitled to additional compensation for serving in any office of the Company (or any subsidiary thereof) to which he is elected or appointed, except that, throughout any period or periods during which he shall serve as a director of the Company (or such subsidiary), Executive shall be entitled to directors' fees in accordance with the policies and practices of the Company (or such subsidiary) then in effect.

4. Expense Allowance.

(a) The Company shall pay directly, or advance funds to Executive or reimburse Executive for, all expenses reasonably incurred by him in connection with the performance of his duties hereunder and the business of the Company, upon the submission to the Company of itemized expense reports, receipts or vouchers in accordance with its then customary policies and practices.

(b) The Company shall provide to Executive a suitable automobile or other vehicle for his exclusive use and the Company shall pay the entire cost thereof, including without limitation purchase price or lease payments, insurance premiums, repair charges, and maintenance and operating expenses, or if, in lieu thereof, Executive uses his own automobile or other vehicle, the Company shall grant him a monthly allowance in an amount sufficient to pay all such costs therefor.

5. Location. Except for routine travel and temporary accommodation reasonably required to perform his services hereunder, Executive shall not be required to perform his services hereunder at any location other than the principal executive office of the Company, which office shall be located throughout the Term at its location on the date hereof, or, if relocated, at a location within a distance of 30 miles from its location on the date hereof, or at such other office or site to which Executive may, in his sole discretion, consent; nor shall he be required to relocate his principal residence to, or otherwise to reside at, any location specified by the Company.

6. Office. The Company shall provide Executive with suitable office space, furnishings and equipment, secretarial and clerical services and such other facilities and office support as Executive may reasonably request.

7. Vacation. Executive shall be entitled to four weeks paid vacation during each year of his employment hereunder, such vacation to be taken at such time or times as shall be agreed upon by Executive and the Company. Vacation time shall be cumulative from year to year, except that Executive shall not be entitled to take more than eight weeks vacation during any consecutive 12-month period during the Term.

8. Key-Man Insurance. The Company shall have the right from time to time to purchase, increase, modify or terminate insurance policies on the life of Executive for the benefit of the Company in such amounts as the Company may determine in its sole discretion. In connection therewith, Executive shall, at such time or times and at such place or places as the Company may reasonably direct, submit himself to such physical examinations and execute and deliver such documents as the Company may deem necessary or appropriate.

9. Trade Secrets. Executive shall hold in a fiduciary capacity for the benefit of the Company all information relating to or concerned with its operations, business and affairs, and he shall not, at any time hereafter, use or disclose any such information to any person other than to the Company or its designees or except as may otherwise be required in connection with the business and affairs of the Company.

10. Intellectual Property. Subject to Sections 2870 and 2871 of the California Labor Code:

(a) Any idea, invention, design, process, system, procedure, improvement, development or discovery conceived, developed, created or made by Executive, alone or with others, during the Term and applicable to the business of the Company, whether or not patentable or registrable, shall become the sole and exclusive property of the Company.

(b) Executive shall disclose the same promptly and completely to the Company and shall, during the Term or thereafter, (i) execute all documents requested by the Company for vesting in the Company the entire right, title and interest in and to the same, (ii) execute all documents requested by the Company for filing and procuring such applications for patents, trademarks, service marks or copyrights as the Company, in its sole discretion, may desire to prosecute, and (iii) give the Company all assistance it may reasonably require, including the giving of testimony in any Proceeding (as hereinafter defined), in order to obtain, maintain and protect the Company's right therein and thereto.

11. No Competition.

(a) During the Term, and if his employment terminates because he is discharged by the Company "for cause" pursuant to Section 13 or he voluntarily resigns pursuant to Section 14(c), for a further period of one year thereafter, Executive shall not, directly or indirectly:

(i) own, control, manage, operate, participate or invest in, or otherwise be connected with, in any manner, any business activity, venture or enterprise which is engaged in any business in the United States in which the Company (or any subsidiary thereof) is currently engaged or is engaged at the time of termination of Executive's employment hereunder, or

(ii) for himself or on behalf of any other person, employ or engage any person who at the time shall have been within the preceding 12-month period an employee of the Company (or such subsidiary) or contact any supplier, customer or employee of the Company (or such subsidiary) for the purpose of soliciting or diverting any supplier, customer or employee from the Company (or such subsidiary) .

(b) The provisions of Section 11(a) notwithstanding, Executive may invest his funds in securities of an issuer if the securities of such issuer are listed for trading on a registered securities exchange or actively traded in an over-the-counter market and Executive's holdings therein represent less than 1% of the total number of shares or principal amount of the securities of such issuer outstanding.

(c) Executive acknowledges that the provisions of this Section, and the period of time, geographic area and scope and type of restrictions on his activities set forth herein, are reasonable and necessary for the protection of the Company.

12. Termination Upon Disability. In the event that Executive is unable to perform his duties hereunder by reason of any disability or incapacity (due to any physical or mental injury, illness or defect) for an aggregate of 180 days in any consecutive 12-month period, the Company shall have the right to terminate Executive's employment hereunder within 60 days after the 180th day of his disability or incapacity by giving Executive notice to such effect at least 30 days prior to the date of termination set forth in such notice, and on such date such employment shall terminate.

13. Termination for Cause.

(a) In addition to any other rights or remedies provided by law or in this Agreement, the Company may terminate Executive's employment under this Agreement if:

(i) Executive is convicted of, or enters a plea of guilty or nolo contendere (which plea is not withdrawn prior to its approval by the court) to, a felony offense and either Executive fails to perfect an appeal of such conviction prior to the expiration of the maximum period of time within which, under applicable law or rules of court, such appeal may be perfected or, if Executive does perfect such an appeal, his conviction of a felony offense is sustained on appeal; or

(ii) the Company's Board of Directors determines, after due inquiry, based on convincing evidence, that Executive has:

- (A) committed fraud against, or embezzled or misappropriated funds or other assets of, the Company (or any subsidiary thereof);
- (B) violated, or caused the Company (or any subsidiary thereof) or any officer, employee or other agent thereof, or any other person to violate, any material law, regulation or ordinance or any material rule, regulation, policy or practice established by the Company's Board of Directors;
- (C) willfully, or because of gross or persistent negligence, (A) failed properly to perform his duties hereunder or (B) acted in a manner detrimental to, or adverse to the interests of, the Company; or
- (D) violated, or failed to perform or satisfy any material covenant, condition or obligation required to be performed or satisfied by Executive hereunder;

and that, in the case of any violation or failure referred to in clause (B), (C) or (D) of this paragraph (ii) of Section 13(a), such violation or failure has caused, or is reasonably likely to cause, the Company to suffer or incur a substantial casualty, loss, penalty, expense or other liability or cost.

(b) The Company may effect such termination for cause by giving Executive notice to such effect, setting forth in reasonable detail the factual basis for such termination, at least five days prior to the date of termination set forth therein; provided however that Executive may avoid such termination if Executive, prior to the date of termination set forth in such notice, cures or explains to the reasonable satisfaction of the Company's Board of Directors the factual basis for termination set forth therein.

(c) In making any determination pursuant to Section 13(a) as to the occurrence of any act or event described in clauses (A) to (D) of paragraph (ii) thereof (each, a "For Cause Event"), each of the following shall constitute convincing evidence of such occurrence:

(i) if Executive is made a party to, or target of, any Proceeding arising under or relating to any For Cause Event, Executive's failure to defend against such Proceeding or to answer any complaint filed against him therein, or to deny any claim, charge, averment, or allegation thereof asserting or based upon the occurrence of a For Cause Event;

(ii) any judgment, award, order, decree or other adjudication or ruling in any such Proceeding finding or based upon the occurrence of a For Cause Event (that is not reversed or vacated on appeal); or

(iii) any settlement or compromise of, or consent decree issued in, any such Proceeding in which Executive expressly admits the occurrence of a For Cause Event;

provided that none of the foregoing shall be dispositive or create an irrebuttable presumption of the occurrence of such For Cause Event; and provided further that the Company's Board of Directors may rely on any other factor or event as convincing evidence of the occurrence of a For Cause Event.

(d) In determining and assessing the detrimental effect of any For Cause Event on the Company and whether such For Cause Event warrants the termination of Executive's employment hereunder, the Company's Board of Directors shall take the following factors, to the extent applicable and material, into account:

(i) whether the Company's Board of Directors directed or authorized Executive to take, or to omit to take, any action involved in such For Cause Event, or approved, consented to or acquiesced in his taking or omitting to take such action;

(ii) any award of damages, penalty or other sanction, remedy or relief granted or imposed in any Proceeding based upon or relating to such For Cause Event, and whether such sanction, remedy or relief is sufficient to recompense the Company or any other injured person, or to prevent or to deter the recurrence of such For Cause Event;

(iii) whether any lesser sanction would be appropriate and effective; and

(iv) any adverse effect that the loss of Executive's services would have, or be reasonably likely to have, upon the Company.

14. Termination by Executive. In addition to any other rights or remedies provided by law or in this Agreement, Executive may terminate his employment hereunder:

(a) if (i) the Company violates, or fails to perform or satisfy any material covenant, condition or obligation required to be performed or satisfied by it hereunder or, (ii) as a result of any action or failure to act by the Company, there is a material change in the nature or scope of the duties, obligations, rights or powers of Executive's employment, by giving the Company notice to such effect, setting forth in reasonable detail the factual basis for such termination, at least five days prior to the date of termination set forth therein; provided however that the Company may avoid such termination if it, prior to the date of termination set forth in such notice, cures or explains to the reasonable satisfaction of Executive the factual basis for termination set forth therein;

(b) if a Change of Control (as hereinafter defined) occurs during the Term, at any time within the two-year period thereafter, by giving the Company notice to such effect, setting forth the event or circumstance constituting such Change of Control, such termination to be effective upon the date of termination, not more than 30 days after the date of such notice, set forth therein or, if no such date is set forth therein, immediately upon delivery of such notice to the Company; or

(c) at any time by giving the Company written notice to such effect at least 60 days prior to the date of termination set forth therein, such termination to be irrevocable upon receipt of such notice by the Company.

The termination by Executive of his employment hereunder pursuant to Section 14(a) or 14(b) shall not constitute or be deemed to constitute for any purpose a "voluntary resignation" of his employment.

15. Compensation upon Termination.

(a) Upon termination of Executive's employment hereunder, he shall be entitled to receive, in any case, any compensation or other amount due to him pursuant to Section 3 or 4 in respect of his employment prior to the Termination Date.

(b) If Executive is discharged "for cause" pursuant to Section 13, except for the payment of any amount required to be made by Section 15(a), from and after the Termination Date, the Company shall have no further obligation to Executive hereunder, including without limitation any obligation pursuant to Section 17.

(c) If his employment is terminated by Executive pursuant to Section 14(a) or by the Company other than "for cause" pursuant to Section 13, he shall be entitled to receive an amount equal to the product of (i) the sum of (A) his Base Salary in effect on the Termination Date and (B) his 4% Bonus for the last Bonus Period ending before the Termination Date (annualized if such Bonus Period is other than a 12-month fiscal year of the Company), and (ii) a fraction, the numerator of which is the number of full months remaining in the balance of the Term after the Termination Date and the denominator of which is 120.

(d) If his employment terminates pursuant to Section 14(b) and, if at the time Executive gives the Company the notice of termination referred to therein, the Company has not given to Executive a notice of termination upon his disability pursuant to Section 12 or "for cause" pursuant to Section 13, he shall be entitled to receive, upon the terms and subject to the conditions set forth in Section 16, the Parachute Amount (as hereinafter defined).

(e) Any amount payable to Executive upon termination of his employment hereunder shall be paid promptly, and in any event within 30 days, after the Termination Date.

(f) Executive shall have no obligation hereunder to seek or to accept any other employment after the Termination Date or otherwise to mitigate the payments required to be made by this Section. No compensation or other amount received or receivable by Executive on account of any employment or engagement after the Termination Date shall be offset against or deducted from any payment required to be made by this Section.

16. Change of Control.

(a) For the purposes of this Section 16:

(i) The "Act" is the Securities Exchange Act of 1934, as amended.

(ii) A "person" includes a "group" within the meaning of Section 13(d)(3) of the Act.

(iii) "Control" is used herein as defined in Rule 12b-2 under the Act.

(iv) "Beneficially owns" and "acquisition" are used herein as defined in Rules 13d-3 and 13d-5, respectively, under the Act.

(v) "Non-Affiliated Person" means any person, other than Executive, an employee stock ownership trust of the Company (or any trustee thereof for the benefit of such trust), or any person controlled by Executive, the Company or such a trust.

(vi) "Voting Securities" includes Common Stock and any other securities of the Company that ordinarily entitle the holders thereof to vote, together with the holders of Common Stock or as a separate class, with respect to matters submitted to a vote of the holders of Common Stock, but securities of the Company as to which the consent of the holders thereof is required by applicable law or the terms of such securities only with respect to certain specified transactions or other matters, or the holders of which are entitled to vote only upon the occurrence of certain specified events (such as default in the payment of a mandatory dividend on preferred stock or a scheduled installment of principal or interest of any debt security), shall not be Voting Securities.

(vii) "Right" means any option, warrant or other right to acquire any Voting Security (other than such a right of conversion or exchange included in a Voting Security).

(viii) The "Code" is the Internal Revenue Code of 1986, as amended.

(ix) "Base amount," "present value" and "parachute payment" are used herein as defined in Section 280G of the Code.

(b) A "Change of Control" occurs when:

(i) a Non-Affiliated Person acquires control of the Company;

(ii) upon an acquisition of Voting Securities or Rights by a Non-Affiliated Person or any change in the number or voting power of outstanding Voting Securities, such Non-Affiliated Person beneficially owns Voting Securities or Rights entitling such person to cast a number of votes (determined in accordance with Section 16(g)) equal to or greater than 25% of the sum of (A) the number of votes that may be cast by all other holders of outstanding Voting Securities and (B) the number of votes that may be cast by such Non-Affiliated Person (determined in accordance with Section 16(g)); or

(iii) upon any change in the membership of the Company's Board of Directors, a majority of the directors are persons who are not nominated or appointed by the Company's Board of Directors as constituted prior to such change.

(c) The "Parachute Amount" to which Executive shall be entitled pursuant to Section 15(d) shall equal 2.99 times Executive's base amount.

(d) It is intended that the present value of any payments or benefits to Executive, whether hereunder or otherwise, that are includable in the computation of parachute payments shall not exceed 2.99 times the base amount. Accordingly, if Executive receives any payment or benefit from the Company prior to payment of the Parachute Amount which, when added to the Parachute Amount, would subject any of the payments or benefits to Executive to the excise tax imposed by Section 4999 of the Code, the Parachute Amount shall be reduced by the least amount necessary to avoid such tax. The Company shall have no obligation hereunder to make any payment or provide any benefit to Executive after the payment of the Parachute Amount which would subject any of such payments or benefits to the excise tax imposed by Section 4999 of the Code.

(e) Any other provision hereof notwithstanding, Executive may, prior to his receipt of the Parachute Amount pursuant to Section 15(d), waive the payment thereof, or, after his receipt of the Parachute Amount thereunder, treat some or all of such amount as a loan from the Company which Executive shall repay to the Company within 180 days after the receipt thereof, together with interest thereon at the rate provided in Section 7872 of the Code, in either case, by giving the Company notice to such effect.

(f) Any determination of the base amount, the Parachute Amount, any liability for excise tax under Section 4999 of the Code or other matter required to be made pursuant to this Section 18, shall be made by the Company's regularly-engaged independent certified public accountants, whose determination shall be conclusive and binding upon the Company and Executive; provided that such accountants shall give to Executive, on or before the date on which payment of the Parachute Amount or any later payment or benefit would be made, a notice setting forth in reasonable detail such determination and the basis therefor, and stating expressly that Executive is entitled to rely thereon.

(g) The number of votes that may be cast by holders of Voting Securities or Rights upon the issuance or grant thereof shall be deemed to be the largest number of votes that may be cast by the holders of such securities or the holders of any other Voting Securities into which such Voting Securities or Rights are convertible or for which they are exchangeable or exercisable, determined as though such Voting Securities or Rights were immediately convertible, exchangeable or exercisable and without regard to any anti-dilution or other adjustments provided for therein.

17. Other Termination Provisions.

(a) Upon request by Executive, on the Termination Date or as soon as practicable thereafter, the Company shall assign to Executive, and Executive shall assume, the purchase agreement or lease relating to any automobile or other vehicle that the Company provides for his use on the Termination Date pursuant to Section 4(b) (other than an automobile or other vehicle owned or leased by Executive), if and to the extent assignable under the terms and conditions thereof, and thereafter Executive shall be liable for, and the Company shall be relieved of all liability for, any amount or other obligation required to be paid or performed thereunder in respect of any period commencing after the date of assignment.

(b) Throughout the 10-year period following the Termination Date, the Company shall indemnify Executive, and hold him harmless from, any loss, damages, liability, obligation or expense that he may suffer or incur in connection with any claim made or Proceeding commenced during such period relating to his service as a director, officer, employee or agent of the Company (or any subsidiary thereof) to the same extent and in same manner as the Company shall be obligated so to indemnify Executive immediately prior to the Termination Date; provided that, if during such 10-year period the Company adopts or assumes any indemnification policy or practice with respect to its directors, officers, employees or agents that is more favorable than that in effect on the Termination Date, Executive shall be entitled to such more favorable indemnification.

(c) Throughout the 10-year period following the Termination Date, the Company shall maintain for the benefit of Executive directors' and officers' liability insurance (on a "claims made" basis) providing coverage at least as favorable to Executive (including with respect to limits of liability, exclusions, and deductible and retention amounts) as that in effect on the Termination Date.

18. Limitation of Authority. Except as expressly provided herein, no provision hereof shall be deemed to authorize or empower either party hereto to act on behalf of, obligate or bind the other party hereto.

19. Notices. Any notice or demand required or permitted to be given or made hereunder to or upon either party hereto shall be deemed to have been duly given or made for all purposes if (a) in writing and sent by (i) messenger or an overnight courier service against receipt, or (ii) certified or registered mail,

postage paid, return receipt requested, or (b) sent by telegram, telecopy, telex or similar electronic means, provided that a written copy thereof is sent on the same day by postage-paid first-class mail, to such party at the following address:

to the Company at: 22761 Pacific Coast Highway, Suite 226
Malibu, California 90265
Attn: President
Fax: (310) 317-8527

with a copy to: Feder, Kaszovitz, Isaacson, Weber, Skala & Bass LLP
750 Lexington Avenue
New York, New York 10022
Attn: Murray L. Skala, Esq.
Fax: (212) 888-7776

to Executive at: 27086 Malibu Cove Colony Drive
Malibu, California 90265
Fax: (310) 457-3311

or such other address as either party hereto may at any time, or from time to time, direct by notice given to the other party in accordance with this Section. The date of giving or making of any such notice or demand shall be, in the case of clause (a) (i), the date of the receipt; in the case of clause (a) (ii), five business days after such notice or demand is sent; and, in the case of clause (b), the business day next following the date such notice or demand is sent.

20. Amendment. Except as otherwise provided herein, no amendment of this Agreement shall be valid or effective, unless in writing and signed by or on behalf of the parties hereto.

21. Waiver. No course of dealing or omission or delay on the part of either party hereto in asserting or exercising any right hereunder shall constitute or operate as a waiver of any such right. No waiver of any provision hereof shall be effective, unless in writing and signed by or on behalf of the party to be charged therewith. No waiver shall be deemed a continuing waiver or waiver in respect of any other or subsequent breach or default, unless expressly so stated in writing.

22. Governing Law. This Agreement shall be governed by, and interpreted and enforced in accordance with, the laws of the State of California without regard to principles of choice of law or conflict of laws.

23. Jurisdiction. Each of the parties hereto hereby irrevocably consents and submits to the jurisdiction of the courts of the State of California and the United States District Court for the Southern District of California in connection with any suit, action or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby, waives any objection to venue in the County of Los Angeles, State of California, or such District, and agrees that service of any summons, complaint, notice or other process relating to such proceeding may be effected in the manner provided by clause (a) (ii) of Section 19.

24. Remedies. In the event of any actual or prospective breach or default by either party hereto, the other party shall be entitled to equitable relief, including remedies in the nature of rescission, injunction and specific performance. All remedies hereunder are cumulative and not exclusive, and nothing herein shall be deemed to prohibit or limit either party from pursuing any other remedy or relief available at law or in equity for such actual or prospective breach or default, including the recovery of damages.

25. Severability. The provisions hereof are severable and in the event that any provision of this Agreement shall be determined to be invalid or unenforceable in any respect by a court of competent jurisdiction, the remaining provisions hereof shall not be affected, but shall, subject to the discretion of such court, remain in full force and effect, and any invalid or unenforceable provision shall be deemed, without further action on the part of the parties hereto, amended and limited to the extent necessary to render the same valid and enforceable.

26. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original and which together shall constitute one and the same agreement.

27. Assignment. This Agreement, and each right, interest and obligation hereunder, may not be assigned by either party hereto without the prior written consent of the other party hereto, and any purported assignment without such consent shall be void and without effect, except that this Agreement shall be assigned to, and assumed by, any person with or into which the Company merges or consolidates, or which acquires all or substantially all of its assets, or which otherwise succeeds to and continues the Company's business substantially as an entirety. Except as otherwise expressly provided herein or required by law, Executive shall not have any power of anticipation, assignment or alienation of any payments required to be made to him hereunder, and no other person may acquire any right or interest in any thereof by reason of any purported sale, assignment or other disposition thereof, whether voluntary or involuntary, any claim in a bankruptcy or other insolvency proceeding against Executive, or any other ruling, judgment, order, writ or decree.

28. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. This Agreement is not intended, and shall not be deemed, to create or confer any right or interest for the benefit of any person not a party hereto.

29. Titles and Captions. The titles and captions of the Articles and Sections of this Agreement are for convenience of reference only and do not in any way define or interpret the intent of the parties or modify or otherwise affect any of the provisions hereof.

30. Grammatical Conventions. Whenever the context so requires, each pronoun or verb used herein shall be construed in the singular or the plural sense and each capitalized term defined herein and each pronoun used herein shall be construed in the masculine, feminine or neuter sense.

31. References. The terms "herein," "hereto," "hereof," "hereby," and "hereunder," and other terms of similar import, refer to this Agreement as a whole, and not to any Article, Section or other part hereof.

32. No Presumptions. Each party hereto acknowledges that it has had an opportunity to consult with counsel and has participated in the preparation of this Agreement. No party hereto is entitled to any presumption with respect to the interpretation of any provision hereof or the resolution of any alleged ambiguity herein based on any claim that the other party hereto drafted or controlled the drafting of this Agreement.

33. Certain Definitions. As used herein:

(a) "Person" includes without limitation a natural person, corporation, joint stock company, limited liability company, partnership, joint venture, association, trust, government or governmental authority, agency or instrumentality, or any group of the foregoing acting in concert.

(b) A "Proceeding" is any suit, action, arbitration, audit, investigation or other proceeding before or by any court, magistrate, arbitration panel or other tribunal, or any governmental agency, authority or instrumentality of competent jurisdiction.

34. Entire Agreement. This Agreement embodies the entire agreement of the parties hereto with respect to the subject matter hereof and supersedes any prior agreement, commitment or arrangement relating thereto, including without limitation the Employment Agreement dated as of January 1, 1998 between the Company and Executive, as amended, which shall terminate, notwithstanding any contrary provision thereof, immediately upon the commencement of the Term, except that each party thereto shall (a) remain required to perform any act and to satisfy any obligation or condition that such party is required to perform or satisfy thereunder with respect to any event occurring or circumstance existing during the term thereof (including without limitation the payment or delivery to Executive of any compensation, reimbursable expense or employee benefit or perquisite to which he may be entitled, but which has not yet been paid to him, on account of his employment thereunder) that has not been so performed or satisfied, and (b) retain its right thereunder to assert or to allege any claim or cause of action relating to or based upon, or otherwise to enforce, any provision thereof with respect to any event occurring or circumstance existing during the term thereof.

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

THE COMPANY:

JAKKS PACIFIC, INC.

By: /s/ Jack Friedman

Name: Jack Friedman
Title: Chairman

EXECUTIVE:

/s/ Stephen G. Berman

Stephen G. Berman

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