

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

TRANSITION REPORT UNDER 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.
(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.)

22619 PACIFIC COAST HIGHWAY
MALIBU, CALIFORNIA
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

90265
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (310) 456-7799

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE EXCHANGE ACT:

TITLE OF EACH CLASS

NAME OF EACH EXCHANGE
ON WHICH REGISTERED

NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE EXCHANGE ACT:

TITLE OF CLASS

COMMON STOCK, \$.001 PAR VALUE

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 as the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K is not contained herein, and will not be contained, to the
best of registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K or any amendment to this
Form 10-K.

The aggregate market value of the voting and non-voting common equity (the
only such common equity being Common Stock, \$.001 par value) held by
non-affiliates of the registrant (computed by reference to the closing sale
price of the Common Stock on March 30, 2001) is \$185,963,149.

The number of shares outstanding of the registrant's Common Stock, \$.001
par value (being the only class of its common stock) is 18,017,455 (as of March
30, 2001).

DOCUMENTS INCORPORATED BY REFERENCE

None.

JAKKS PACIFIC, INC.

INDEX TO ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

ITEMS IN FORM 10-K

	PAGE

PART I	
Item 1. Business.....	2
Item 2. Properties.....	13
Item 3. Legal Proceedings.....	13
Item 4. Submission of Matters to a Vote of Security Holders.....	13
PART II	
Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.....	14
Item 6. Selected Financial Data.....	15
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	16
Item 7A. Quantitative and Qualitative Disclosures About Market Risk.....	23
Item 8. Consolidated Financial Statements and Supplementary Data....	24
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	47
PART III	
Item 10. Directors and Executive Officers of the Registrant.....	47
Item 11. Executive Compensation.....	49
Item 12. Security Ownership of Certain Beneficial Owners and Management.....	53
Item 13. Certain Relationships and Related Transactions.....	54
Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.....	54
Signatures.....	60

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 have disclosed certain important factors that could cause our actual results to differ materially from our current expectations elsewhere in this report. You should understand that forward-looking statements made in this report are necessarily qualified by these factors. 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.

ITEM 1. BUSINESS

In this report, "JAKKS," the "Company," "we," "us" and "our" refer to JAKKS Pacific, Inc. and its subsidiaries.

COMPANY OVERVIEW

JAKKS is a Delaware corporation which was formed in January 1995 and began operations as of April 1, 1995. We are a multi-line, multi-brand toy company that designs, develops, produces and markets toys and related products. Our principal products are (1) action figures and accessories featuring licensed characters, principally from the World Wrestling Federation, (2) Flying Colors molded plastic activity sets, compounds playsets and lunch boxes, (3) Wheels division products, including Road Champs die-cast collectible and toy vehicles and Remco toy vehicles and role-play toys and accessories, (4) Pentech writing instruments and activity products, (5) Child Guidance infant and pre-school electronic toys, toy foam puzzle mats and blocks, activity sets and outdoor products and (6) fashion dolls and related accessories. We focus our business on evergreen branded products that are less subject to market fads or trends and feature well-known brand names and simpler, lower-priced toys and accessories.

We formed our joint venture with THQ in June 1998 to develop, manufacture and market, under an exclusive license with World Wrestling Federation Entertainment, video games based on World Wrestling Federation characters and themes. The joint venture's first products were released in November 1999.

We have been successful at acquiring and capitalizing on evergreen brands, which are well-recognized trademarks or corporate, trade or brand names, some with long product histories. We continually review the marketplace to identify and evaluate evergreen brands that, for various reasons, we believe have potential for significant growth. We seek to acquire or license these brands and revitalize them by intensifying the marketing effort to restore and enhance consumer recognition and retailer interest. We reinforce brands by linking them with other evergreen brands on our products, adding to the branded product lines new items that we expect to enjoy greater popularity, eliminating products with fading popularity, adding new features and improving the functionality of products in the line. We also try to improve point-of-sale brand visibility through better shelf positioning and more eye-catching product packaging.

We license much of the intellectual property we use in our business. We license the World Wrestling Federation trademark, as well as numerous other trademarks, corporate, trade and brand names and logos, from third parties, including Car and Driver, Schwinn, GT, Haro, Rod & Custom, Nickelodeon, Rugrats, Blue's Clues, Mickey Mouse, Barney, Teletubbies, Sesame Street, Looney Tunes and Toy Story 2. This enables us to use high-profile marks at a lower cost than that which we would incur if we purchased these marks or developed comparable marks on our own. By licensing marks, we have access to a far greater range of marks than those that would be available for purchase, and we maintain the flexibility to acquire newly-popular marks and to discontinue our use of marks whose popularity or value has faded. We also license technology produced by unaffiliated inventors and product developers to improve the design and functionality of our products. We believe that our experience in the toy industry, our flexibility and our recent success in developing and marketing products make us more attractive to toy inventors and developers.

Most of our current products are relatively simple and inexpensive toys. We believe that these products have proven to have enduring appeal and are less subject to general economic conditions,

toy product fads and trends, changes in retail distribution channels and other factors. In addition, the simplicity of these products enables us to choose among a wider range of manufacturers and affords us greater flexibility in product design, pricing and marketing.

We sell our products through our in-house sales staff and independent sales representatives. Purchasers of our products include toy and mass-market retail chain stores, department stores, toy specialty stores and wholesalers. The Road Champs, Flying Colors and Pentech products are also sold to smaller hobby shops, specialty retailers and corporate accounts, among others. Our five largest customers are Target, Kmart, Toys 'R Us, Wal-Mart, and Kay Bee Toys, which accounted for approximately 63.2% of our net sales in 2000. No other customers accounted for more than 8% of our net sales in 2000. We also sell through e-commerce sites, including Toysrus.com.

INDUSTRY OVERVIEW

According to the Toy Manufacturers of America, Inc. (the TMA), the leading industry trade group, total manufacturers' shipments of toys, excluding video games, in the U.S., were approximately \$16.4 billion in 2000. According to the TMA, the United States is the world's largest toy market, followed by Japan and Western Europe. Sales by U.S. toy manufacturers to non-U.S. customers totaled approximately \$5.5 billion in 1998. We believe the two largest U.S. toy companies, Mattel and Hasbro, collectively hold a dominant share of the domestic non-video toy market. In addition, hundreds of smaller companies compete in the design and development of new toys, the procurement of character and product licenses, and the improvement and expansion of previously-introduced products and product lines. In the video game segment, manufacturers' shipments of video game software were approximately \$3.1 billion in 2000.

Over the past few years, the toy industry has experienced substantial consolidation among both toy companies and toy retailers. We believe that the ongoing consolidation of toy companies provides us with increased growth opportunities due to retailers' desire not to be entirely dependent on a few dominant toy companies. Retailer concentration also enables us to ship products, manage account relationships and track retail sales more effectively with a smaller staff.

OUR GROWTH STRATEGY

- EXPAND CORE PRODUCTS

We manage our existing and new brands through strong product development initiatives, including introducing new products, modifying existing products and extending existing product lines. Our product designers strive to develop new products or product lines to offer added technological, aesthetic and functional improvements to our product lines. In 2000, we introduced wrestling action figures manufactured using real-scan technology, which results in higher quality and better likenesses of the characters. In addition, we introduced action figures with significantly more points of articulation, and expanded our electronic recognition play sets.

- ENTER NEW PRODUCT CATEGORIES

We will continue to use our extensive experience in the toy industry to evaluate toys and licenses in new product categories and to develop additional product lines. We have entered the video game market through our participation in a joint venture with THQ. The joint venture launched its line of World Wrestling Federation licensed video games in November 1999.

- CONTINUE TO PURSUE STRATEGIC ACQUISITIONS

Since our inception, we have successfully concluded and integrated six acquisitions. These include our Road Champs, Remco, Child Guidance, Berk, Flying Colors and Pentech products. We will continue focusing our acquisition strategy on businesses or brands which offer valuable trademarks or brands and have compatible product lines.

- ACQUIRE ADDITIONAL CHARACTER AND PRODUCT LICENSES

We have acquired the rights to use many familiar corporate, trade and brand names and logos from third parties that we use with our primary trademarks and brands. Currently, we have license agreements with World Wrestling Federation Entertainment, Nickelodeon, Disney, Warner Bros., Caterpillar, Peterson Publishing Co. and B.A.S.S. Masters, as well as with the licensors of the many popular licensed children's characters previously mentioned. We intend to continue to pursue new licenses from these entertainment and media companies and other licensors. We also intend to continue to purchase additional inventions and product concepts through our existing network of product developers.

- EXPAND INTERNATIONAL SALES

We believe that foreign markets, especially Europe, Australia, Canada and Latin America, offer us the opportunity for growth. We intend to expand our international sales by capitalizing on our experience and our relationships with foreign distributors and retailers.

- CAPITALIZE ON OUR OPERATING EFFICIENCIES

We believe that our current infrastructure and low-overhead operating methods can accommodate significant growth without a proportionate increase in our operating and administrative expenses, thereby increasing our operating margins.

PRODUCTS

WORLD WRESTLING FEDERATION ACTION FIGURES AND ACCESSORIES

We have an extensive toy license with World Wrestling Federation Entertainment pursuant to which we have the exclusive right, until December 31, 2009, to develop and market a full line of toy products based on the popular World Wrestling Federation professional wrestlers throughout the world. These wrestlers perform throughout the year at live events that attract large crowds, many of which are broadcast on free and cable television, including pay-per-view specials. We launched this product line in 1996 with various series of six-inch articulated action figures that have movable body parts and feature real-life action sounds from our patented bone-crunching mechanism that allows the figures' "bones" to crack when they are bent. The six-inch figures currently make up a substantial portion of the overall World Wrestling Federation line, which has since grown to include many other new products. Our strategy has been to release new figures and accessories frequently to keep the line fresh and to retain the interest of the consumers.

Following the launch of the action figures, we marketed wrestling ring play sets and microphones with action background sounds to enhance the play value of the action figures. Since then, we have continually added new products, including action figures of varying sizes, such as three-inch sets with wrestling rings, amplifying microphones, seven-inch collector's editions, large soft body figures and small bean-bag figures with electronic sound chips of the popular wrestlers' catch phrases and in-ring banter. Building on the popularity of World Wrestling Federation and its

wrestlers, we have continued to develop the line with exciting and innovative technological and functional concepts to enhance the value of the line.

In 1999, we introduced a line of 12-inch interactive figures that has created a new category of toys in the industry. The line was launched with a figure based on a World Wrestling Federation World Champion, "Stone Cold Steve Austin." The figures in the line are capable of accepting daily downloads of sound bites from a World Wrestling Federation web site, to which we contribute content compatible with our toy products. Another technological innovation added in 1999 is the "Titan Tron," featuring sensor-based technology that enables this playset to recognize the character of specially-equipped wrestling figures in order to play the wrestler's unique theme music and display his picture with flashing lights. In 2000, the sensor-based technology was added to other products based on real elements of the live wrestling shows, like back stage, to further expand the play pattern of wrestling. Also in 2000, other technology was added to the figures giving them more realism with multiple sensed joints that when moved activate sound chips containing real sound bites of the wrestlers and real-scan technology was first used in the mold development process, which resulted in higher quality figures with better character likenesses. The various World Wrestling Federation products retail from \$5.99 to \$19.99.

FLYING COLORS ACTIVITY SETS, COMPOUND PLAYSETS AND LUNCH BOXES

Through our acquisition of Flying Colors Toys we entered into the toy activity category with plastic molded activity cases containing a broad range of activities, such as make and paint your own characters, jewelry making, art studios, posters, puzzles and other projects. These sets include all of the materials needed for each activity, including paints, markers, stampers and crayons. The cases, with molded and painted likenesses of popular characters, such as Nickelodeon's Rugrats and Blue's Clues, Powerpuff Girls, Looney Tunes, Hello Kitty and Scooby Doo, have immediate visual appeal. Using a related production technology, our lunch boxes complement this line with similarly-styled molded and painted likenesses featuring these and other popular characters. Through our acquisition of Pentech International in 2000, we expanded the other categories of products offered by Flying Colors, which now include stationery, back-to-school pens, pencils, markers and notebooks, party favors and compounds.

Our compounds represent a new area of emphasis for Flying Colors. Launched under the Blue's Clues license, this line has expanded from play clay in a bucket to an entire Blue's Clues playset featuring book molds, extrusion and other devices. We are continuing to expand the compound area and have introduced innovative compounds with and without licensed characters or marks. In early 2000, we expanded our offerings with the launch of Goooze, and followed it up late 2000 with our forming foam Zyrofoam, both under the Nickelodeon brand. These products come in assorted colors and in various uniquely shaped packages. In 2001, we expect to add higher volume packages and assorted play and activity sets.

WHEELS DIVISION PRODUCTS

- Road Champs die-cast collectible and toy vehicles

The Road Champs product line consists of highly-detailed, die-cast replicas of new and classic cars, trucks, motorcycles, emergency vehicles and service vehicles, primarily in 1/43 scale (including police cars, fire trucks and ambulances), buses and aircraft (including propeller planes, jets and

helicopters). As a part of the Road Champs acquisition in February 1997, we acquired the right to produce the Road Champs line of die-cast and collectible vehicle replicas, including various well-known vehicles from Ford, Chevrolet and Jeep, as well as the right to use familiar corporate names on the die-cast vehicles, such as Pepsi and Hershey. Later, we licensed the right to reproduce vehicles featured on the covers of automotive magazines, such as Rod & Custom and Car and Driver, and to market vehicles with the B.A.S.S. Masters logo and replicas of the World Wrestling Federation Attitude Racing NHRA Team. We believe that these licenses increase the perceived value of the products and enhance their marketability. Under the terms of these licenses (many of which include automatic annual extensions without affirmative action taken by either party), we pay the licensor a royalty based on our sales of each product bearing such licensed name. While we are not required to pay any royalty on some of the products, the royalties on a majority of the products range from 1% to 9% of sales. The Road Champs products are produced by unaffiliated foreign manufacturers. These products are sold individually, retailing from \$2.99 to \$7.99 each, and in playsets which retail from \$9.99 to \$24.99 each.

We have divided the markets of this product line into adult collectible and children's toy segments, recognizing the specific needs of these different consumers. Each collector product features a collector case in which to store and display the vehicle and a certificate of authenticity. We produce a limited number, generally not more than 10,000, of each distinctive product to enhance its collectibility. This line presently has numerous themes, including Anniversary Collection, Police, Then & Now, World War II Fighter Planes and Classics Scenes, with die-cast scenic accessories, such as 1950's soda machines or gas pumps. The toy segment is marketed by focusing on size and value with its slogan "Crankin' It Up." Our die-cast vehicles are 1/43 scale, which are larger than most other competing die-cast vehicles. The size appeals to collectors, since it enables us to show greater detail on the vehicles, and to children and their parents, who perceive a greater value in the larger size. The toys are packaged on two-pack blister cards, further highlighting the value. In addition, series were created to encourage children to collect our vehicles. Our toy vehicle line has been expanded to include 1/64 scale cars featuring new functionality that allows the consumer to adjust the vehicle's suspension for different terrain as well as track sets. These cars include new sports cars such as the 2000 Corvette, Ford GT 90 and Porsche 959.

- Extreme sports die-cast collectible and toy vehicles and action figures

In 1999, we launched our extreme sports category with a new line of die-cast bicycles called BXS. These BMX-style bicycles feature removable and interchangeable parts for complete customization by users as well as working cranks. To enhance collectibility, we created a patent-pending trickstick in several different styles which allows the user to perform signature moves like professional cyclists and to navigate stairs, half-pipes and ramps. Certain elements of the playsets contain pressure points that activate sound chips containing real BXS bike event sounds, such as crowd cheers, music riffs and announcers. We have licensed the Schwinn, GT and Haro brand names, among others, as well as the names of some of the top riders, such as Dave Mirra and Ryan Nyquist, for use in connection with this product line. In 2000, we added fully-articulated action figures of these and other free-style riders that "ride" their signature edition bikes. Bicycles are sold individually and in sets that include accessories.

Also in 2000, we expanded our extreme sports offerings with the introduction of our MXS line of motorcycles with riders featuring "click n grip" functionality which allows the user to release the rider from the motorcycle seat and perform the signature moves of the sport's top riders. Other additions included off-road vehicles, personal water craft, surfboards and skateboards, all sold individually and with play sets and accessories.

- Remco toy vehicles and role play

Our Remco toy line includes toy vehicles, role play and other toys. Our toy vehicle line is comprised of a large assortment of rugged die-cast and plastic vehicles. Marketed under a sub-brand called Tuff Ones, our toy vehicles range in size from 4 3/4 inch to big-wheeled 17 inch vehicles. We have revitalized them considerably by creating new packaging, redecorating the vehicles and adding highly-recognized licensed names, such as NASA, Pennzoil, U-Haul and Castrol, among others. The breadth of the line is extensive, with themes ranging from emergency, fire, farm and construction, to racing and jungle adventure.

We offer a variety of branded and non-branded role playsets in this new category under the Remco name. Themes include Caterpillar construction, B.A.S.S. Masters fishing, police, fire and NASA. Role play sets retail from \$6.99 to \$12.99 each. Additionally, capitalizing on the popularity of World Wrestling Federation, we introduced a World Wrestling Federation role play product which will give children the opportunity to dress like and imagine being their favorite wrestling superstars.

CHILD GUIDANCE

- Infant and pre-school toys

We acquired the Child Guidance trade name in 1997 to accelerate our entry into the infant/ pre-school toy category. This category has been recently dominated by higher-priced licensed products, which creates an opportunity for us to sell our lower price, high value line of pre-school toys. Our line of pre-school electronic toys features products that enhance sensory stimulation and learning through play, while offering value to the trade as well as to the consumer. Our products are designed for children ages two and under. We have combined the fun of music, lights, motion and sound with the early introduction of numbers, letters, shape and color recognition, all at a value price. The line consists of more than 50 products that are marketed in continually updated "try me" interactive packaging that allows the consumers to sample the product prior to purchase. We support the products with extensive advertising in popular magazines and other publications, focusing on parenting, women's and family publications, including Good Housekeeping. These products carry the Good Housekeeping Seal of Approval(R). In 2001, we will be introducing a line of musical toys in conjunction with Baby Genius, the marketer of a popular line of music-oriented CDs and home videos whose aim is to stimulate the development of young children through music. Distribution of the Child Guidance products include more upscale and specialty retailers. Child Guidance products are priced at retail from \$2.99 to \$14.99.

In addition to creating products internally, we often acquire products and concepts from numerous toy inventors with whom we have ongoing relationships. License agreements for products and concepts call for royalties ranging from 1% to 6% of net sales, and some may require minimum guarantees and advances. Both development of internally-created items and acquiring items are ongoing efforts. In either case, it may take as long as nine months for an item to reach the market. As part of an effort to keep the product line fresh and to extend the life of the item, we create new packaging, change sound chips and change product colors from time to time.

- Foam puzzle mats and playsets

The acquisition of Berk added the foam toy category to our business. We incorporated this new toy category into our Child Guidance product line, based on the demographics and target market for foam toy products. This new line further expands the breadth of our Child Guidance brand. The foam toy products include puzzle mats featuring licensed characters, such as Winnie the

Pooh, Blue's Clues, Barney, Teletubbies and Sesame Street, among others, as well as letters of the alphabet and numbers. The inter-locking puzzle pieces can also be used to build houses and other play areas. Other products include foam puzzles of the United States, foam vehicles and outdoor foam products. In 1999, we introduced three-dimension, mechanism and sound elements to this line.

FASHION DOLLS AND RELATED ACCESSORIES

We produce various proprietary and licensed fashion dolls and accessories for children between the ages of three and 10. The product lines include 11 1/2 inch fashion dolls customized with high-fashion designs that correspond with particular holidays, events or themes, such as Christmas, birthdays, Fairytale, Victorian Romance and Gibson Girl Romance and fashion dolls based on children's classic fairy tales and holidays. In 2000, we added to our doll line by producing additional dolls based on the fashion magazine Elle. These 15 1/2 inch dolls feature contemporary fashions.

Also in 2000, we launched our G.I.R.L. Force line of dolls with the release of 11 1/2 inch dolls based on the feature film, Charlie's Angels. These dolls feature our new patent-pending skeleton with more realistic features and movement. In 2001, we will be releasing a line of 11 1/2 inch dolls and accessories based on the feature film, Josie and the Pussycats.

Our in-house product developers originate the design and functionality of most of our fashion dolls. In many cases, they work with retailers and incorporate their input on doll characteristics, packaging and other design elements to create exclusive product lines for them.

WORLD WRESTLING FEDERATION VIDEO GAMES

In June 1998, we formed a joint venture with THQ, a developer, publisher and distributor of interactive entertainment software for the leading hardware game platforms in the home video game market. The joint venture entered into a license agreement with World Wrestling Federation Entertainment under which it acquired the exclusive worldwide right to publish World Wrestling Federation video games on all hardware platforms. The games are designed, developed, manufactured and marketed by the joint venture. We are entitled to receive a guaranteed preferred return, based on sales of the video games, and THQ is entitled to receive the balance of the profits. The term of the license agreement expires on December 31, 2009, subject to a right of the joint venture to renew the license for an additional five years under various conditions.

The joint venture publishes titles for the Sony PlayStation and Nintendo 64 consoles, hand-held Game Boy and personal computers (PCs). The joint venture launched its first products, a video game for the Nintendo 64 platform and a video game for GameBoy Color, in November 1999. It will also publish titles for new hardware platforms, such as Microsoft Xbox and Sony PlayStation 2, when and as they are introduced to the market and have established a sufficiently installed base to support new software. These titles are marketed to our existing customers as well as to game, electronics and other specialty stores, such as Electronics Boutique and Best Buy. The home video game software market consists both of (1) cartridge-based and CD-ROM-based software for use solely on dedicated hardware systems, such as Sony PlayStation and Nintendo 64, and (2) software distributed on CD-ROMs for use on PCs. According to NPD Group, a leading independent toy industry research firm, Nintendo 64 and Sony PlayStation accounted for a substantial portion of the installed base of all hardware platforms and software sales in 2000.

Under non-exclusive licenses with Sony, Nintendo and Sega held by THQ, the joint venture arranges for the manufacture of the CD-ROMs and cartridges. No other licenses are required for the manufacture of the PC titles. Profit margins for cartridge products can vary based on the cost of the memory chip used for a particular title. As software has grown more complex, the trend in the software industry has been to utilize chips with greater capacity and thus greater cost. CD-ROMs have significantly lower per unit manufacturing costs than cartridge-based products. However, these savings may be offset by typically higher development costs for titles published on CD-ROMs; these higher costs result from increasing and enhancing content to take advantage of the greater storage capacity of CD-ROMs.

Wrestling video games have demonstrated consistent popularity, with three of our wrestling-theme video games each having sold in excess of 1 million units in 1999 and 2000, at retail prices ranging from approximately \$42 to \$60. We believe that the success of the World Wrestling Federation titles is dependent on the graphic look and feel of the software, the depth and variation of game play and the popularity of the World Wrestling Federation. We believe that as a franchise property, the World Wrestling Federation titles will have brand recognition and sustainable consumer appeal, which may allow the joint venture to use titles over an extended period of time through the release of sequels and extensions and to re-release such products at different price points in the future. In 2001, our PlayStation title SmackDown was re-released as a greatest hit. Also, as new hardware platforms are introduced, software for these platforms requires new standards of design and technology to fully exploit these platforms' capabilities and requires that software developers devote substantial resources to product design and development.

The joint venture uses external software developers to conceptualize and develop titles. These developers receive advances based on specific development milestones and royalties in excess of the advances based on a fixed amount per unit sold or on a percentage, typically ranging from 8% to 12%, of net sales. Upon completion of development, each title is extensively play-tested by us and THQ and sent to the manufacturer for its review and approval.

SALES, MARKETING AND DISTRIBUTION

We sell all of our products through our own in-house sales staff and independent sales representatives. Purchasers of our products include toy and mass-market retail chain stores, department stores, toy specialty stores and wholesalers. The Road Champs, Flying Colors and Pentech product lines are also sold to smaller hobby shops, specialty retailers and corporate accounts, among others. Our five largest customers are Target, Kmart, Toys R' Us, Wal-Mart, and Kay Bee Toys, which accounted for approximately 70.2% of our net sales in 1999 and 63.2% of our net sales in 2000. Except for purchase orders relating to products on order, we do not have written agreements with our customers. Instead, we generally sell products to our customers pursuant to letters of credit or, in some cases, on open account with payment terms typically varying from 30 to 90 days. From time to time, we allow our customers credits against future purchases from us in order to facilitate their retail markdown and sales of slow-moving inventory. We also sell through e-commerce sites, including Toysrus.com.

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, Flying Colors and Pentech products, originate in the United States, so we hold certain inventory in our warehouse and fulfillment facilities. In addition, we hold inventory of other

products from time to time in support of promotions or other domestic programs with retailers. To date, substantially all of our sales have been to domestic customers. We intend to expand distribution of our products into foreign territories and, accordingly, we have (1) engaged representatives to oversee sales in certain territories, (2) engaged distributors in certain territories, and (3) established direct relationships with retailers in certain territories.

We establish reserves for sales allowances, including promotional allowances and allowances for anticipated defective product returns, 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.

We obtain, directly, or through our sales representatives, orders for our products from our customers and arrange for the manufacture of these products as discussed below. Cancellations are generally made in writing, and we take appropriate steps to notify our manufacturers of these cancellations.

We maintain a full-time sales and marketing staff, many of whom make on-site visits to customers for the purpose of showing product and soliciting orders for products. We also retain a number of independent sales representatives to sell and promote our products, both domestically and internationally. Together with retailers, we sometimes test the consumer acceptance of new products in selected markets before committing resources to large-scale production.

We advertise our products in trade and consumer magazines and other publications, market our products at major and regional toy trade shows, conventions and exhibitions and carry on cooperative advertising with toy retailers and other customers. We produce and broadcast television commercials for our World Wrestling Federation action figure line as well as for some of our Flying Colors and Road Champs extreme sports products. We may also advertise some of our other products on television, if we expect that the resulting increase in our net sales will justify the relatively high cost of television advertising.

Outside of the United States, we currently sell our products primarily in Canada, Great Britain, Latin America, Australia, Japan and South Africa. Sales of our products abroad accounted for approximately \$13.1 million, or 7.1% of our net sales, in 1999 and approximately \$22.5 million, or 8.9% of our net sales, in 2000. We believe that foreign markets present an attractive opportunity, and we plan to intensify our marketing efforts and expand our distribution channels abroad.

PRODUCT DEVELOPMENT

Each of our product lines has an in-house manager responsible for product development, including identifying and evaluating inventor products and concepts and other opportunities to enhance or expand existing product lines or to enter new product categories. In addition, we create proprietary products, the principal source of products for our fashion doll line, and products to more fully exploit our concept and character licenses. While we do have the capability to create and develop products from inception to production, we generally use third parties to provide a substantial portion of the sculpting, sample making, illustration and package design required for our products in order to accommodate our increasing product innovations and introductions. Typically, the development process takes from three to nine months to culminate in production of the products for shipment to our customers.

We employ a staff of approximately 20 designers for our Flying Colors product lines. We generally acquire our other product concepts from unaffiliated third parties. If we accept and

develop a third party's concept for new toys, we generally pay a royalty on the toys developed from this concept that are sold, and may, on an individual basis, guarantee a minimum royalty. Royalties payable to developers generally range from 1% to 6% of the wholesale sales price for each unit of a product sold by us. We believe that utilizing experienced third-party inventors gives us access to a wide range of development talent. We currently work with numerous toy inventors and designers for the development of new products and the enhancement of existing products. We believe that toy inventors and designers have come to appreciate our practice of acting quickly and decisively to acquire and market licensed products. In addition, we believe that our experience in the toy industry, our flexibility and our recent success in developing and marketing products make us more attractive to toy inventors and developers than some of our competitors.

Safety testing of our products is done at the manufacturers' facilities by an engineer employed by us or independent third-party contractors engaged by us, and is designed to meet safety regulations imposed by federal and state governmental authorities. We also monitor quality assurance procedures for our products for safety purposes.

MANUFACTURING AND SUPPLIES

Our products are currently produced by manufacturers which we choose on the basis of quality, reliability and price. Consistent with industry practice, the use of third-party manufacturers enables us to avoid incurring fixed manufacturing costs. All of the manufacturing services performed overseas for us are paid for either by letter of credit or on open account with the manufacturers. To date, we have not experienced any material delays in the delivery of our products; however, delivery schedules are subject to various factors beyond our control, and any delays in the future could adversely affect our sales. Currently, we have ongoing relationships with approximately 20 manufacturers. We believe that alternative sources of supply are available, although we cannot assure you that adequate supplies of manufactured products can be obtained.

Although we do not conduct the day-to-day manufacturing of our products, we participate in the design of the product prototype and production tooling and molds for our products and we seek to ensure quality control by actively reviewing the production process and testing the products produced by our manufacturers. We employ quality control inspectors who rotate among our manufacturers' factories to monitor production.

The principal raw materials used in the production and sale of our toy products are zinc alloy, plastics, plush, printed fabrics, paper products and electronic components, all of which are currently available at reasonable prices from a variety of sources. Although we do not manufacture our products, we own the molds and tooling used in the manufacturing process, and these are transferable among manufacturers if we choose to employ alternative manufacturers. Molds and tooling represents substantially all of our long-lived assets, and amounted to \$3.4 million in 1998, \$10.3 million in 1999 and \$14.4 million in 2000. Substantially all of these assets are located in China.

TRADEMARKS AND COPYRIGHTS

Most of our products are produced and sold under trademarks owned by or licensed to us. We typically register our properties, and seek protection under the trademark, copyright and patent laws of the United States and other countries where our products are produced or sold. These intellectual property rights can be significant assets. Accordingly, while we believe we are sufficiently protected, the loss of some of these rights could have an adverse effect on our business, financial condition and results of operations.

COMPETITION

Competition in the toy industry is intense. Many of our competitors have greater financial resources, larger sales and marketing and product development departments, stronger name recognition and longer operating histories and benefit from greater economies of scale. These factors, among others, may enable our competitors to market their products at lower prices or on terms more advantageous to customers than those we could offer for our competitive products. Competition often extends to the procurement of entertainment and product licenses, as well as to the marketing and distribution of products and the obtaining of adequate shelf space. Competition may result in price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on our business, financial condition and results of operations. In each of our product lines we compete against one or both of the toy industry's two dominant companies, Mattel and Hasbro. In addition, we compete, in our action figures line, with the Toy-Biz division of Marvel Enterprises, in our Flying Colors and Pentech product categories, with Rose Art Industries, Hasbro (Play-doh), Binney & Smith (Crayola) and, in our toy vehicle lines, with Racing Champions. We also compete with numerous smaller domestic and foreign toy manufacturers, importers and marketers in each of our product categories. We expect that the joint venture's principal competition in the video game market is Electronic Arts, which produces video games based on World Championship Wrestling characters, and Acclaim Entertainment.

SEASONALITY AND BACKLOG

Sales of toy products are seasonal. In 2000, approximately 59.8% our net sales were made in the third and fourth quarters. Generally, the first quarter is the period of lowest shipments and sales in our business and the toy industry generally and therefore the least profitable due to various fixed costs. Seasonality factors may cause our operating results to fluctuate significantly from quarter to quarter. However, Pentech's writing instrument and activity products may be counter-seasonal to the toy industry seasonality due to the higher volume generally shipped for back-to-school beginning in the second quarter. Our results of operations may also fluctuate as a result of factors such as the timing of new products (and expenses incurred in connection therewith) introduced by us or our competitors, the advertising activities of our competitors, delivery schedules set by our customers and the emergence of new market entrants. We believe, however, that the low retail price product lines that we sell may be less subject to seasonal fluctuations than higher priced toy products.

We ship products in accordance with delivery schedules specified by our customers, which usually request delivery of their products within three to six months of the date of their orders. Because customer orders may be canceled at any time without penalty, our backlog may not accurately indicate sales for any future period.

GOVERNMENT AND INDUSTRY REGULATION

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

laws. In addition, many of our Child Guidance products are sold under the Good Housekeeping Seal of Approval(R). To qualify for this designation, our products are tested by Good Housekeeping to ensure compliance with its product safety and quality standards.

EMPLOYEES

As of March 30, 2001, we employed 200 persons, all of whom are full-time employees, including three executive officers. One hundred and fifty-five of our employees were located in the United States, while the remaining 45 were located in Hong Kong. We believe that we have good relationships with our employees. None of our employees is represented by a union.

ENVIRONMENTAL ISSUES

We are subject to legal and financial obligations under environmental, health and safety laws in the United States and in other jurisdictions where we operate. We are not currently aware of any material environmental liabilities associated with any of our operations.

ITEM 2. PROPERTIES

Our principal executive offices occupy approximately 17,000 square feet of space in Malibu, California under a lease expiring on February 28, 2008. We have a lease, expiring August 31, 2002, for approximately 9,000 square feet of additional office space in Malibu, California which contains our design offices. We lease office space of approximately 5,000 square feet in Dexter, Michigan where certain design operations of Flying Colors Toys are based. We lease showroom and office space of approximately 8,000 square feet at the International Toy Center in New York City. We also have leased office and showroom space of approximately 5,000 square feet in Hong Kong from which we oversee our China-based third-party manufacturing operations, 318,000 square feet of warehouse space in Industry, California and approximately 100,000 square feet of warehouse space in New Brunswick, New Jersey. We believe that our facilities in the United States and Hong Kong are adequate for our reasonably foreseeable future needs.

ITEM 3. LEGAL PROCEEDINGS

On or about March 26, 2001, Rose Art Industries, Inc. and Licensing International, Ltd. commenced an action against us in the United States District Court for the District of New Jersey in which they allege our willful infringement of a patent owned by Licensing International and licensed to Rose Art through our production and sale of our Zyrofoam modeling compound. The plaintiffs seek injunctive relief, monetary damages in a unspecified amount, together with interest thereon, and reasonable attorneys' fees. We have not yet answered the plaintiff's first amended complaint, but we believe that their claims are without merit and we intend vigorously to defend against their action. At this early stage in these proceedings, we are unable to predict the likely outcome of the action or its impact on our business, financial condition or results of operations. We are a party to, and certain of our property is the subject of, various pending claims and legal proceedings that routinely arise in the ordinary course of our business, but we do not believe that any of these claims or proceedings will have a material effect on our business, financial condition or results of operations.

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

No matter was submitted during the fourth quarter of 2000 to a vote of our security holders.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

Our common stock is traded on the Nasdaq National Market under the symbol "JAKK." The following table sets forth, for the periods indicated, the range of high and low sales prices for our common stock on the Nasdaq National Market.

	PRICE RANGE OF COMMON STOCK	
	HIGH	LOW
1999:		
First quarter.....	\$13.67	\$ 7.00
Second quarter.....	19.92	12.17
Third quarter.....	26.83	15.50
Fourth quarter.....	29.33	16.13
2000:		
First quarter.....	25.19	13.94
Second quarter.....	25.00	13.25
Third quarter.....	20.75	9.00
Fourth quarter.....	10.56	7.00

On March 30, 2001, the last sale price of our common stock reported on the Nasdaq National Market was \$10.625 per share.

SECURITY HOLDERS

As of March 30, 2001, there were approximately 101 holders of record of our common stock.

DIVIDENDS

We have never paid any cash dividends on any of our common stock. We intend to retain our future earnings, if any, to finance the growth and development of our business, and, accordingly, we do not plan to pay any cash dividends on our common stock in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

You should read the financial data set forth below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes (included in Item 8).

	YEAR ENDED DECEMBER 31,				
	1996	1997	1998	1999	2000
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Net sales.....	\$12,052	\$41,945	\$85,253	\$183,685	\$252,288
Cost of sales.....	7,231	25,875	52,000	107,602	149,881
Gross profit.....	4,821	16,070	33,253	76,083	102,407
Selling, general and administrative expenses.....	3,612	11,895	24,007	51,154	80,435
Income from operations.....	1,209	4,175	9,246	24,929	21,972
Profit from Joint Venture.....	--	--	--	(3,605)	(15,906)
Interest, net.....	(134)	418	423	(1,588)	(3,833)
Other (income) expense.....	--	328	591	(182)	1,377
Income before provision for income taxes.....	1,343	3,429	8,232	30,304	40,334
Provision for income taxes.....	163	643	1,857	8,334	11,697
Net income.....	\$ 1,180	\$ 2,786	\$ 6,375	\$ 21,970	\$ 28,637
Basic earnings per share.....	\$ 0.24	\$ 0.40	\$ 0.75	\$ 1.55	\$ 1.50
Weighted average shares outstanding.....	4,927	6,932	8,539	13,879	19,060
Diluted earnings per share.....	\$ 0.22	\$ 0.35	\$ 0.59	\$ 1.39	\$ 1.41
Weighted average shares and equivalents outstanding.....	5,256	9,013	11,403	15,840	20,281

	AT DECEMBER 31,				
	1996	1997	1998	1999	2000
	(IN THOUSANDS)				
CONSOLIDATED BALANCE SHEET DATA:					
Cash and cash equivalents.....	\$ 6,355	\$ 2,536	\$12,452	\$ 57,546	\$ 29,275
Working capital.....	7,824	3,368	13,736	113,170	86,897
Total assets.....	14,200	43,605	58,736	232,878	248,722
Long-term debt, net of current portion.....	--	6,000	5,940	9	1,000
Total stockholders' equity.....	11,746	25,959	37,754	187,501	204,530

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors. You should read this section in conjunction with our consolidated financial statements and the related notes (included in Item 8).

OVERVIEW

JAKKS was founded to design, develop, produce and market children's toys and related products. We commenced business operations on July 1, 1995 when we assumed operating control over the toy business of Justin Products Limited (Justin) which consisted primarily of fashion dolls and accessories and electronic products for children.

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. We acquired Berk in June 1999 and have included the results of operations of Berk since June 29, 1999. In October 1999, we acquired Flying Colors Toys. The Flying Colors product lines contributed to operations beginning in the fourth quarter of 1999. In July 2000, we acquired Pentech International whose products include writing instruments and activity items. The Pentech products contributed nominally to operations beginning in the second quarter of 2000.

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

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

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.

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, Flying Colors and Pentech products, originate in the United States, so we hold certain inventory in our warehouse and fulfillment facility. In addition, we hold inventory of other products from time to time in support of promotions or other domestic programs with retailers. To date, substantially all of our sales have been to domestic customers. We intend to expand distribution of our products into foreign territories and, accordingly, we have (1) engaged representatives to oversee sales in certain territories, (2) engaged distributors in certain territories, and (3) established direct relationships with retailers in certain territories.

We establish reserves for sales allowances, including promotional allowances and allowances for anticipated defective product returns, 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 \$78.2 million and trademarks of approximately \$13.9 million in connection with acquisitions made to date. Goodwill is being amortized over a 30-year period, while trademark acquisition costs are being amortized over periods ranging from 5 to 30 years.

RESULTS OF OPERATION

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

	YEARS ENDED DECEMBER 31,				
	1996	1997	1998	1999	2000
Net sales.....	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales.....	60.0	61.7	61.0	58.6	59.4
Gross profit.....	40.0	38.3	39.0	41.4	40.6
Selling, general and administrative expenses.....	30.0	28.4	28.2	27.8	31.9
Income from operations.....	10.0	9.9	10.8	13.6	8.7
Profit from Joint Venture.....	--	--	--	(2.0)	(6.3)
Interest, net.....	(1.1)	1.0	0.4	(0.9)	(1.5)
Other (income) expense.....	--	0.7	0.7	--	0.5
Income before income taxes.....	11.1	8.2	9.7	16.5	16.0
Provision for income taxes.....	1.3	1.6	2.2	4.5	4.6
Net income.....	9.8%	6.6%	7.5%	12.0%	11.4%

YEARS ENDED DECEMBER 31, 2000 AND 1999

Net Sales. Net sales increased \$68.6 million, or 37.3% to \$252.3 million in 2000 from \$183.7 million in 1999. The significant growth in net sales was due primarily to the continuing growth in our Wheels division, consisting primarily of our Road Champs die-cast toy and collectible vehicles with the launch of the lines of extreme sports products, including our BXS die-cast bicycles, fashion and holiday dolls, as well as the addition of Flying Colors products, which began contributing to operations beginning in the fourth quarter of 1999, and Pentech products, which began contributing to operations in August 2000, offset by a decrease in sales of our World Wrestling Federation wrestling products.

Gross Profit. Gross profit increased \$26.3 million, or 34.6%, to \$102.4 million in 2000, or 40.6% of net sales, from \$76.1 million, or 41.4% of net sales, in 1999. The overall increase in gross profit was attributable to the significant increase in net sales. Gross profit margin decreased slightly mainly due to an increase in the amortization expense of molds and tools used in the manufacture of our products and royalty expense as a percentage of net sales due to changes in the product mix and the launch of a larger number of products in 2000.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were \$80.4 million in 2000 and \$51.1 million in 1999, constituting 31.9% and 27.8% of net sales, respectively. The overall significant increase of \$29.3 million in such costs was due to costs incurred in support of the Company's development, marketing and distribution of products under its recently acquired Flying Colors and Pentech brands. The overall dollar increase was due to the significant increase in net sales with its proportionate impact on variable selling costs such as freight and shipping related expenses, sales commissions, cooperative advertising and travel expenses, among others. We produced television commercials in support of several of our products, including World Wrestling Federation action figures, Flying Colors' Gooze and It's a Girl Thing in 1999 and 2000 and we increased our overall media buys in 2000. From time to time, we may increase our advertising efforts, including the use of more expensive advertising media, such as television, if we deem it appropriate for particular products.

Profit from Joint Venture. Beginning in the fourth quarter of 1999, we began to earn our preferred return on the sale of World Wrestling Federation video games by our joint venture with THQ with the release of two games, whereas in 2000, four titles were released plus sales continued on 1999 releases.

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

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

Provision for Income Taxes. Provision for income taxes included Federal, state and foreign income taxes in 1999 and 2000, at effective tax rates of 27.5% in 1999 and 29.0% in 2000, benefiting from a flat 16.5% Hong Kong Corporation Tax on our income arising in, or derived from, Hong Kong. As of December 31, 2000, we had deferred tax assets of approximately \$0.4 million for which no allowance has been provided since, in the opinion of management, realization of the future benefit is probable. In making this determination, management considered all available evidence, both positive and negative, as well as the weight and importance given to such evidence.

YEARS ENDED DECEMBER 31, 1999 AND 1998

Net Sales. Net sales increased \$98.4 million, or 115.5%, to \$183.7 million in 1999 from \$85.3 million in 1998. The significant growth in net sales was due primarily to the continuing growth of the World Wrestling Federation action figure product line with its expanded product offerings and frequent character releases, as well as to increasing sales in our Wheels division, consisting primarily of our Road Champs die-cast toy and collectible vehicles, fashion and holiday dolls and Child Guidance pre-school toys and the addition of Berk products, which contributed nominally to operations beginning in the third quarter of 1999 and Flying Colors products, which contributed moderately to operations beginning in the fourth quarter of 1999.

Gross Profit. Gross profit increased \$42.8 million, or 128.8%, to \$76.1 million, or 41.4% of net sales, in 1999 from \$33.3 million, or 39.0% 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 and BXS die-cast bicycles, 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 \$27.1 million, or 112.7%, to \$51.1 million, or 27.8% of net sales, in 1999 from \$24.0 million, or 28.2% of net sales, in 1998. Selling, general and administrative expenses decreased 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 \$27.1 million was due to the significant increase in net sales with their proportionate impact on variable selling costs, such as freight and shipping related expenses, sales commissions, cooperative advertising and travel expenses in addition to the costs added in connection with our acquisitions of Flying Colors and Berk in 1999. We produced television commercials in support of several of our products, including World Wrestling Federation action figures, in 1998 and 1999. 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.

Profit from Joint Venture. In 1999, we began to earn our preferred return on the sale of World Wrestling Federation video games by our joint venture with THQ.

Interest, Net. We had significantly lower interest-bearing obligations in 1999 than in 1998 with the conversion of our 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 and in December 1999.

Other (Income) Expense. In 1999, we recorded a nominal amount of Other Income, while in 1998, Other Expense resulted from the loss on the disposition of certain assets.

Provision for Income Taxes. Provision for income taxes included federal, state and foreign income taxes at effective tax rates of 27.3% and 22.6% in 1999 and 1998, respectively, benefiting from a flat 16.5% Hong Kong Corporation Tax on our income arising in, or derived from, Hong Kong. As of December 31, 1999, we had deferred tax assets of approximately \$1,460,000 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.

QUARTERLY FLUCTUATIONS AND SEASONALITY

We have experienced significant quarterly fluctuations in operating results and anticipate these fluctuations in the future. The operating results for any quarter are not necessarily indicative of results for any future period. Our first quarter is typically expected to be the least profitable as a result of lower net sales but substantially similar fixed operating expenses. This is consistent with the performance of many companies in the toy industry.

The following table presents our unaudited quarterly results for the years indicated. The seasonality of our business is reflected in this quarterly presentation.

	1998				1999	
	FIRST	SECOND	THIRD	FOURTH	FIRST	SECOND
	QUARTER	QUARTER	QUARTER	QUARTER	QUARTER	QUARTER
	(IN THOUSANDS, EXCEPT PER SHARE DATA)					
Net sales.....	\$11,030	\$16,131	\$34,218	\$23,873	\$24,960	\$35,981
As a % of full year.....	12.9%	18.9%	40.1%	28.0%	13.6%	19.6%
Gross profit.....	\$ 4,350	\$ 6,118	\$13,242	\$ 9,542	\$10,764	\$14,649
As a % of full year.....	13.1%	18.4%	39.8%	28.7%	14.2%	19.3%
As a % of net sales.....	39.4%	37.9%	38.7%	40.0%	43.1%	40.7%
Income from operations.....	\$ 768	\$ 1,427	\$ 5,069	\$ 1,983	\$ 2,743	\$ 4,225
As a % of full year.....	8.3%	15.4%	54.8%	21.4%	11.0%	17.0%
As a % of net sales.....	7.0%	8.8%	14.8%	8.3%	11.0%	11.7%
Income before income taxes.....	\$ 610	\$ 1,316	\$ 4,648	\$ 1,658	\$ 2,743	\$ 4,587
As a % of net sales.....	5.5%	8.2%	13.6%	6.9%	11.0%	12.7%
Net income.....	\$ 462	\$ 958	\$ 3,434	\$ 1,521	\$ 2,005	\$ 3,355
As a % of net sales.....	4.2%	5.9%	10.0%	6.4%	8.0%	9.3%
Diluted earnings per share.....	\$ 0.05	\$ 0.09	\$ 0.30	\$ 0.14	\$ 0.17	\$ 0.21
Weighted average shares and equivalents outstanding...	10,740	11,679	11,808	11,756	12,624	15,732
	1999			2000		
	THIRD	FOURTH	FIRST	SECOND	THIRD	FOURTH
	QUARTER	QUARTER	QUARTER	QUARTER	QUARTER	QUARTER
	(IN THOUSANDS, EXCEPT PER SHARE DATA)					
Net sales.....	\$60,236	\$62,508	\$50,782	\$50,578	\$91,838	\$59,090
As a % of full year.....	32.8%	34.0%	20.1%	20.0%	36.4%	23.4%
Gross profit.....	\$24,759	\$25,912	\$20,104	\$21,748	\$37,672	\$22,883
As a % of full year.....	32.5%	34.0%	19.6%	21.2%	36.8%	22.3%
As a % of net sales.....	41.1%	41.5%	8.0%	8.6%	14.9%	9.1%
Income from operations.....	\$ 9,893	\$ 8,068	\$ 4,004	\$ 6,716	\$11,201	\$ 51
As a % of full year.....	40.0%	32.0%	18.2%	30.6%	51.0%	0.2%
As a % of net sales.....	16.4%	13.1%	1.6%	2.7%	4.4%	0.0%
Income before income taxes.....	\$10,426	\$12,548	\$ 9,715	\$ 8,877	\$13,615	\$ 8,127
As a % of net sales.....	17.3%	19.9%	3.9%	3.5%	5.4%	3.2%
Net income.....	\$ 7,642	\$ 8,968	\$ 6,603	\$ 6,237	\$ 9,769	\$ 6,028
As a % of net sales.....	12.7%	14.4%	2.6%	2.5%	3.9%	2.4%
Diluted earnings per share.....	\$ 0.44	\$ 0.49	\$ 0.32	\$ 0.31	\$ 0.48	\$ 0.32
Weighted average shares and equivalents outstanding...	17,541	18,378	20,374	20,371	20,330	18,621

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2000, we had working capital of \$86.9 million, as compared to \$113.2 million as of December 31, 1999. This decrease was primarily attributable to the acquisition of Pentech International Inc. in July 2000 and the repurchase of our common stock throughout the year.

Operating activities provided net cash of \$30.0 million in the year ended December 31, 2000 as compared to having used \$30.4 million in 1999. Net cash was provided primarily by net income, non-cash charges, such as depreciation and amortization, and the sale of marketable securities, as well as the increase of accounts payable, income taxes payable, and deferred income taxes, which were offset in part by increases in profit from joint venture, accounts receivable, inventory, advance royalty payments, and prepaid expenses and other, and a decrease in accrued expenses, and reserve for sales returns and allowances. As of December 31, 2000, we had cash and cash equivalents of \$29.3 million and marketable securities of \$13.6 million.

Operating activities used net cash of \$30.4 million in the year ended December 31, 1999 as compared to having provided \$12.0 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 and the purchase of marketable securities.

Our investing activities used net cash of \$60.8 million in the year ended December 31, 2000, as compared to \$46.6 million in 1999, consisting primarily of the purchase of molds and tooling used in the manufacture of our products in 2000 and 1999, and goodwill acquired in the acquisition of Pentech, the repurchase of our common stock, and notes receivable from officers in 2000. As part of our strategy to develop and market new products, we have entered into various character and product licenses with royalties ranging from 1% to 12% payable on net sales of such products. As of December 31, 2000, these agreements required future aggregate minimum guarantees of \$13.4 million, exclusive of \$1.1 million in advances already paid. During 2000, we repurchased 1,493,600 shares of our common stock for a total of \$12,911,483.

Our investing activities used net cash of \$46.6 million in the year ended December 31, 1999, as compared to \$5.1 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 acquisitions of Flying Colors and Berk in 1999.

Our financing activities provided net cash of \$2.6 million in the year ended December 31, 2000 compared to \$122.1 million in 1999, consisting primarily of the proceeds from stock options and warrants exercised and the assumption of debt related to the acquisition of Pentech in 2000. Net cash provided in 1999 consisted primarily of proceeds from the issuance of our common stock and proceeds from stock options and warrants exercised.

Our financing activities provided net cash of \$122.1 million in the year ended December 31, 1999, consisting primarily of the issuance of our common stock in our public offerings in May and December 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 Series A Cumulative Convertible Preferred Stock partially offset by the repayment of various notes and other debt issued in connection with our acquisitions in 1997.

In October 1997, we acquired the Child Guidance and Remco trademarks for approximately \$13.4 million. Consideration paid at closing was \$10.6 million in cash plus the issuance of a 10% note payable in the amount of \$1.2 million, which was paid in five quarterly installments ended December 31, 1998. In addition, we incurred legal and accounting fees of approximately \$203,000 and assumed liabilities of \$1.4 million. The acquisition was funded in part by the issuance of shares of our 4% Redeemable Convertible Preferred Stock, which were converted into 939,998 shares of our common stock in March 1998.

In April 1998, we received \$4.7 million in net proceeds from the sale of shares of our Series A Cumulative Convertible Preferred Stock to two investors in a private placement, which were converted into 837,987 shares of our common stock at a conversion price of \$5.97 per share. 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 sale of 3,999,844 shares of our common stock. We used substantially all of these proceeds to fund our acquisition of Flying Colors Toys. In December 1999, we received \$65.9 million in net proceeds from the sale of 2,811,111 shares of our Common Stock. These proceeds, which we invested temporarily in marketable securities and cash equivalents, were applied to our product acquisition, development, working capital and general corporate needs.

In June 1999, we purchased all the outstanding capital stock of Berk for approximately \$3.1 million. 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 2 characters, and non-licensed activity sets and outdoor products.

On October 5, 1999, we completed the acquisition of the Flying Colors product line through the purchase of all the outstanding capital stock of Flying Colors Toys, a privately-held company based in Dexter, Michigan. At or shortly after the closing we paid approximately \$34.7 million for the stock and paid off approximately \$17.6 million of indebtedness. We also agreed to pay an earn-out of up to \$4.5 million in each of the three twelve-month periods following the closing if gross profit of Flying Colors products achieve certain targeted levels during these periods. The maximum

earn-out of \$4.5 million was earned in the initial earn-out period ended September 30, 2000. One of Flying Colors Toys' senior executives and most of its creative design and product development staff have remained with Flying Colors Toys. Flying Colors Toys' principal products include molded plastic activity kits, compound playsets and lunch boxes featuring licensed characters, including Rugrats, Blue's Clues and Looney Tunes characters. The kits cover a broad range of products and activities, such as make and paint your own characters, jewelry making, art studios, posters, puzzles and other projects.

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

We believe that our cash flows 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.

EXCHANGE RATES

We sell all of our products in U.S. dollars and pay for all of our manufacturing costs in either U.S. or Hong Kong dollars. Operating expenses of the Hong Kong office are paid in Hong Kong dollars. The exchange rate of the Hong Kong dollar to the U.S. dollar has been fixed by the Hong Kong government since 1983 at HK\$7.80 to US\$1.00 and, accordingly, has not represented a currency exchange risk to the U.S. dollar. We cannot assure you that the exchange rate between the United States and Hong Kong currencies will continue to be fixed or that exchange rate fluctuations will not have a material adverse effect on our business, financial condition or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE 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 December 31, 2000, we have not used derivative instruments or engaged in hedging activities to minimize our market risk.

INTEREST RATE RISK

As of December 31, 2000, we do not have any outstanding balances on our credit facility, nor do we expect to draw on the facility prior to its termination or expiration, and we have only nominal interest-bearing obligations. 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.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEPENDENT AUDITORS' REPORT

The Stockholders
JAKKS Pacific, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of JAKKS Pacific, Inc. and Subsidiaries as of December 31, 1999 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows and the financial statement schedule for each of the three years in the period ended December 31, 2000. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements and schedule referred to above present fairly, in all material respects, the financial position of JAKKS Pacific, Inc. and Subsidiaries as of December 31, 1999 and 2000, and the results of their operations and cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ PANNELL KERR FORSTER

PANNELL KERR FORSTER
Certified Public Accountants
A Professional Corporation

February 16, 2001, except note 18
for which the date is March 26, 2001

JAKKS PACIFIC, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	1999	2000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents.....	\$ 57,546,406	\$ 29,275,424
Marketable securities.....	39,333,944	13,617,912
Accounts receivable, net of allowance for uncollectible accounts of \$1,887,374 and \$3,011,702 for 1999 and 2000, respectively.....	38,024,903	47,053,699
Inventory, net of reserves of \$2,942,606 and \$7,321,637 for 1999 and 2000, respectively.....	19,863,508	30,534,826
Prepaid expenses and other.....	1,617,692	5,655,480
Advanced royalty payments.....	1,137,238	2,495,027
Total current assets.....	157,523,691	128,632,368
PROPERTY AND EQUIPMENT		
Office furniture and equipment.....	1,233,068	3,779,585
Molds and tooling.....	15,283,211	23,929,329
Leasehold improvements.....	344,263	1,927,805
Total.....	16,860,542	29,636,719
Less accumulated depreciation and amortization.....	5,320,103	10,653,467
Property and equipment, net.....	11,540,439	18,983,252
Notes Receivable - Officers.....	--	2,450,000
Intangibles and deposits, net.....	1,502,147	2,203,679
Investment in joint venture.....	3,658,339	9,758,359
Goodwill, net.....	46,020,232	74,590,189
Trademarks, net.....	12,633,248	12,104,546
Total assets.....	\$232,878,096	\$248,722,393
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable.....	\$ 9,962,655	\$ 14,619,519
Accrued expenses.....	15,856,505	12,539,290
Reserve for sales returns and allowances.....	15,318,001	6,553,231
Current portion of long-term debt.....	4,967	400,000
Income taxes payable.....	3,211,926	7,623,355
Total current liabilities.....	44,354,054	41,735,395
Long-term debt, net of current portion.....	8,713	1,000,000
Deferred income taxes.....	1,013,834	1,456,817
Total liabilities.....	45,376,601	44,192,212
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock, \$.001 par value; 25,000,000 shares authorized; 19,272,692 and 19,485,582 shares issued, respectively.....	19,273	19,485
Additional paid-in capital.....	155,172,781	156,475,343
Treasury Stock, at cost, nil and 1,493,600 shares, respectively.....	--	(12,911,483)
Retained earnings.....	32,309,441	60,946,836
Total stockholders' equity.....	187,501,495	204,530,181
Total liabilities and stockholders' equity.....	\$232,878,096	\$248,722,393

See notes to consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	YEARS ENDED DECEMBER 31,		
	1998	1999	2000
Net sales.....	\$85,252,563	\$183,685,124	\$252,287,943
Cost of sales.....	52,000,135	107,601,639	149,880,804
Gross profit.....	33,252,428	76,083,485	102,407,139
Selling, general and administrative expenses.....	24,006,497	51,154,627	80,434,872
Income from operations.....	9,245,931	24,928,858	21,972,267
Profit from Joint Venture.....	--	(3,604,487)	(15,905,860)
Interest, net.....	422,553	(1,588,043)	(3,833,359)
Other (income) expense.....	590,948	(182,305)	1,377,128
Income before provision for income taxes.....	8,232,430	30,303,693	40,334,358
Provision for income taxes.....	1,857,404	8,333,844	11,696,963
Net income.....	\$ 6,375,026	\$ 21,969,849	\$ 28,637,395
Basic earnings per share.....	\$ 0.75	\$ 1.55	\$ 1.50
Diluted earnings per share.....	\$ 0.59	\$ 1.39	\$ 1.41

See notes to consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
DECEMBER 31, 1998, 1999 AND 2000

	COMMON SHARES OUTSTANDING	CONVERTIBLE PREFERRED SHARES OUTSTANDING	PAR VALUE PER SHARE	STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK	RETAINED EARNINGS
Balance, December 31, 1997.....	7,413,141	3,525	\$0.001	\$ 7,417	\$ 21,690,590	\$ --	\$ 4,402,636
Conversion of preferred stock.....	--	(3,525)	0.001	(4)	4	--	--
Issuance of common stock from conversion of preferred stock.....	1,409,997	--	0.001	1,410	(1,410)	--	--
Issuance of 7% convertible preferred stock for cash.....	--	1,000	0.001	1	4,731,151	--	--
Exercise of options.....	215,925	--	0.001	216	647,176	--	--
Earned compensation from grant of options.....	--	--	--	--	--	--	--
Cancellation of options, unearned compensation.....	--	--	--	--	(25,988)	--	--
Net income.....	--	--	--	--	--	--	6,375,026
Balance, December 31, 1998.....	9,039,063	1,000	0.001	9,040	27,041,523	--	10,777,662
Conversion of preferred stock.....	--	(1,000)	0.001	(1)	1	--	--
Issuance of common stock from conversion of preferred stock.....	837,987	--	0.001	838	(838)	--	--
Issuance of common stock for cash.....	6,810,955	--	0.001	6,811	117,785,304	--	--
Issuance of common stock from conversion of convertible debentures.....	1,565,218	--	0.001	1,565	5,598,685	--	--
Dividends paid.....	--	--	--	--	--	--	(438,070)
Exercise of options and warrants.....	1,019,469	--	0.001	1,020	4,748,106	--	--
Earned compensation from grant of options.....	--	--	--	--	--	--	--
Net income.....	--	--	--	--	--	--	21,969,849
Balance, December 31, 1999.....	19,272,692	--	0.001	19,273	155,172,781	--	32,309,441
Exercise of options and warrants.....	212,890	--	0.001	212	1,171,031	--	--
Earned compensation for fully vested stock options.....	--	--	--	--	131,531	--	--
Repurchase of common stock.....	(1,493,600)	--	--	--	--	(12,911,483)	--
Net income.....	--	--	--	--	--	--	28,637,395
Balance, December 31, 2000.....	17,991,982	--	\$0.001	\$19,485	\$156,475,343	\$(12,911,483)	\$60,946,836

	UNEARNED COMPENSATION FROM GRANT OF OPTIONS	TOTAL STOCKHOLDERS' EQUITY
Balance, December 31, 1997.....	\$(141,937)	\$ 25,958,706
Conversion of preferred stock.....	--	--
Issuance of common stock from conversion of preferred stock.....	--	--
Issuance of 7% convertible preferred stock for cash.....	--	4,731,152
Exercise of options.....	--	647,392
Earned compensation from grant of options.....	41,677	41,677
Cancellation of options, unearned compensation.....	25,988	--
Net income.....	--	6,375,026
Balance, December 31, 1998.....	(74,272)	37,753,953
Conversion of preferred stock.....	--	--
Issuance of common stock from conversion of preferred stock.....	--	--
Issuance of common stock for cash.....	--	117,792,115
Issuance of common stock from conversion of convertible debentures.....	--	5,600,250
Dividends paid.....	--	(438,070)
Exercise of options and warrants.....	--	4,749,126
Earned compensation from grant of options.....	74,272	74,272
Net income.....	--	21,969,849
Balance, December 31, 1999.....	--	187,501,495
Exercise of options and warrants.....	--	1,171,243
Earned compensation for fully vested stock options.....	--	131,531
Repurchase of common stock.....	--	(12,911,483)
Net income.....	--	28,637,395
Balance, December 31, 2000.....	\$ --	\$204,530,181

See notes to consolidated financial statements.

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

	YEARS ENDED DECEMBER 31,		
	1998	1999	2000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income.....	\$ 6,375,026	\$ 21,969,849	\$ 28,637,395
Adjustments to reconcile net income to net cash provided (used) by operating activities			
Depreciation and amortization.....	2,986,137	4,571,374	9,272,917
Earned compensation from stock option grants.....	41,677	74,272	131,531
Profit from joint venture.....	--	(3,604,487)	(6,100,020)
Loss on disposal of property and equipment.....	719,331	12,081	--
Sale (purchase) of marketable securities....	--	(39,333,944)	25,716,032
Changes in operating assets and liabilities			
Accounts receivable.....	(3,191,197)	(26,098,178)	(9,028,796)
Inventory.....	(970,691)	(16,944,567)	(10,671,318)
Advance royalty payments.....	(54,939)	(829,696)	(1,357,789)
Prepaid expenses and other.....	412,313	(586,337)	(4,037,788)
Accounts payable.....	(561,340)	6,257,539	4,656,864
Accrued expenses.....	1,904,465	11,484,794	(3,317,215)
Income taxes payable.....	815,149	1,793,163	4,411,429
Reserve for sales returns and allowances.....	3,480,696	9,976,484	(8,764,770)
Deferred income taxes.....	57,809	869,129	442,983
Total adjustments.....	5,639,410	(52,358,373)	1,354,060
Net cash provided (used) by operating activities.....	12,014,436	(30,388,524)	29,991,455
CASH FLOWS FROM INVESTING ACTIVITIES			
Property and equipment.....	(3,875,852)	(10,397,828)	(13,787,805)
Due from officers.....	15,112	--	--
Other assets.....	(197,928)	(763,249)	(1,134,864)
Trademarks.....	(12,252)	--	--
Investment in joint venture.....	(1,044,708)	990,856	--
Cash paid in excess of cost over toy business assets acquired (goodwill).....	--	(36,446,401)	(30,535,848)
Repurchase of common shares.....	--	--	(12,911,483)
Notes Receivable -- Officers.....	--	--	(2,450,000)
Net cash used by investing activities.....	(5,115,628)	(46,616,622)	(60,820,000)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from sale of common stock.....	--	117,792,115	--
Proceeds from sale of convertible preferred stock.....	4,731,152	--	--
Conversion of convertible debentures.....	--	(17,500)	--
Proceeds from debt.....	--	13,680	--
Proceeds from stock options and warrants exercised.....	647,392	4,749,126	1,171,243
Dividends paid.....	--	(438,070)	--
Repayments of debt.....	(2,361,076)	--	(13,680)
Acquired debt.....	--	--	1,400,000
Net cash provided by financing activities.....	3,017,468	122,099,351	2,557,563
Net increase (decrease) in cash and cash equivalents.....	9,916,276	45,094,205	(28,270,982)
Cash and cash equivalents, beginning of year.....	2,535,925	12,452,201	57,546,406
Cash and cash equivalents, end of year.....	\$ 12,452,201	\$ 57,546,406	\$ 29,275,424
Cash paid during the period for:			
Interest.....	\$ 647,404	\$ 176,688	\$ 189,630
Income taxes.....	\$ 1,042,255	\$ 4,742,351	\$ 8,600,895

See note 15 for additional supplemental information to consolidated statements of cash flows.

See notes to consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2000

NOTE 1--PRINCIPAL INDUSTRY

JAKKS Pacific, Inc. (the Company), a Delaware corporation, is engaged in the development, production and marketing of toys and related products, some of which are based on highly-recognized entertainment properties and character licenses. The Company commenced its primary business operations in July 1995 through the purchase of substantially all of the assets of a Hong Kong toy company. The Company markets its product lines domestically and internationally.

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

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include accounts of the Company and its wholly-owned subsidiaries. In consolidation, all significant inter-company balances and transactions are eliminated.

CASH AND CASH EQUIVALENTS

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

USE OF ESTIMATES

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

REVENUE RECOGNITION

Revenue is recognized upon the shipment of goods to customers. Provisions for estimated defective products, markdowns and other allowances are made at the time of sale.

COMPREHENSIVE INCOME

In March 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." This statement establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. This statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. This standard requires that an enterprise classify items of other comprehensive income by their nature in a financial statement and display the accumulated balances of other comprehensive income separately from retained earnings and additional paid-in

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2000

capital in the equity section of a statement of financial position. The adoption of this statement did not have any impact on the Company's results of operations, financial position, or cash flows.

INVENTORY

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

MARKETABLE SECURITIES

In 1999 the Company adopted SFAS No. 115 (Accounting for Certain Investments in Debt Securities). The marketable securities have been categorized as trading and as a result are stated at fair value, with unrealized holding gains and losses included in earnings. At December 31, 1999 and 2000, such gains and losses were not material.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

PROPERTY AND EQUIPMENT

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

Personal computers.....	5 years
Office equipment.....	5 years
Furniture and fixtures.....	5 - 7 years
Molds and tooling.....	2 - 4 years
Leasehold improvements.....	Shorter of length of lease or 10 years

ADVERTISING

Production costs of commercials and programming are charged to operations in the year during which the production is first aired. The costs of other advertising, promotion and marketing programs are charged to operations in the year incurred. Advertising expense for the years ended December 31, 1998, 1999 and 2000, was approximately \$3,903,000, \$7,038,000, and \$14,416,000 respectively.

INCOME TAXES

The Company does not file a consolidated return with its foreign subsidiaries. The Company files Federal and state returns and its foreign subsidiaries each file Hong Kong returns. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized as deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by

JAKKS PACIFIC, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2000

a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

TRANSLATION OF FOREIGN CURRENCIES

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

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

BUSINESS SEGMENTS

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement requires public business enterprises to report financial and descriptive information about reportable segments. This statement also establishes standards for related disclosures about products and services, geographic areas and major customers. The Company operates in one reportable segment: the development, production and marketing of toys and related products, which include our Pentech writing instrument and activity products.

RECLASSIFICATIONS

Certain reclassifications have been made to the 1999 consolidated financial statements to conform to the current year presentation.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess purchase price paid over the fair market value of the assets of acquired toy companies. Goodwill is being amortized over 30 years on a straight-line basis. Accumulated amortization at December 31, 1999 and 2000 totaled \$1,381,585 and \$3,569,811, respectively.

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

Intangible assets other than goodwill consist of product technology rights and trademarks. Intangible assets are amortized on a straight-line basis, over five to thirty years, the estimated economic lives of the related assets. Accumulated amortization as of December 31, 1999 and 2000 was \$1,528,893 and \$2,490,926, respectively.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2000

STOCK SPLIT

The Board of Directors approved a common stock dividend of 1/2 share for each share of common stock outstanding to effect a three-for-two stock split of the Company's common stock, which was paid on November 4, 1999. All common stock and common stock equivalent shares and per share amounts have been adjusted retroactively to give effect to the split.

EARNINGS PER SHARE (EPS)

In February 1997, the FASB 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 disclosures of the calculation of each EPS amount.

	1998		
	INCOME	WEIGHTED AVERAGE SHARES	PER SHARE
Basic EPS			
Income available to common stockholders.....	\$ 6,375,026	8,538,901	\$0.75 =====
Effect of dilutive securities			
Options and warrants.....	--	326,847	
9% convertible debentures.....	372,732	1,565,219	
4% convertible preferred stock.....	--	340,878	
7% convertible preferred stock.....	--	630,792	
	-----	-----	
Diluted EPS			
Income available to common stockholders plus assumed exercises and conversions.....	\$ 6,747,758 =====	11,402,637 =====	\$0.59 =====

	1999		
	INCOME	WEIGHTED AVERAGE SHARES	PER SHARE
Basic EPS			
Net income.....	\$21,969,849		
Preferred dividends declared/paid.....	(438,070)		

Income available to common stockholders.....	21,531,779	13,879,304	\$1.55 =====
Effect of dilutive securities			
Options and warrants.....	--	1,088,179	
9% convertible debentures.....	116,867	466,556	
7% convertible preferred stock.....	437,500	405,640	
	-----	-----	
Diluted EPS			
Income available to common stockholders plus assumed exercises and conversions.....	\$22,086,146 =====	15,839,679 =====	\$1.39 =====

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2000

	2000		
	INCOME	WEIGHTED AVERAGE SHARES	PER SHARE
Basic EPS			
Income available to common stockholders.....	\$28,637,395	19,059,544	\$1.50 =====
Effect of dilutive securities			
Options and warrants.....	--	1,221,931	
Diluted EPS			
Income available to common stockholders plus assumed exercises.....	\$28,637,395 =====	20,281,475 =====	\$1.41 =====

NOTE 3--ACQUISITIONS AND JOINT VENTURE

In June 1998, the Company formed a joint venture with a company that develops, publishes and distributes interactive entertainment software for the leading hardware game platforms in the home video game market. The joint venture has entered into a license agreement under which it acquired the exclusive worldwide right to publish video games on all hardware platforms. The joint venture agreement provides for the Company to receive preferred returns based on the joint venture's sales. The joint venture's profit and loss will be allocated at 100% to the Company to the extent any preferred return is distributed, accrued or distributable for such fiscal year. Losses shall be allocated in accordance with membership interests for so long as the Company has a positive capital account and thereafter shall be allocated solely to the other partner. During 2000 the Company earned \$15,905,860 in profit from the joint venture.

In October 1999, the Company acquired all of the stock of Flying Colors Toys, Inc. for \$52,879,182. Consideration paid at closing was in cash. Professional fees totaling \$310,667 were incurred as part of the acquisition costs. Contingent consideration includes an earn-out in an amount of up to \$4,500,000 in each of the three 12-month periods following the closing, if gross profits of Flying Colors Toys branded products achieve certain prescribed levels in each of such periods. The maximum earn-out of \$4,500,000 was earned by the sellers in the initial earn-out period ended September 30, 2000.

The assets acquired and liabilities assumed from Flying Colors Toys, Inc. were as follows:

Cash.....	\$	23,534
Accounts receivable, net of reserve of \$686,222.....		12,816,573
Inventory, net of reserve of \$2,774,017.....		11,052,983
Prepaid expenses.....		194,840
Property and equipment.....		1,943,025
Deferred income taxes.....		1,460,000
Non-compete agreement.....		1,000,000
Goodwill.....		32,081,192
Liabilities assumed.....		(7,692,965)

Net assets acquired.....		\$52,879,182 =====

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2000

In June 1999, the Company purchased all of the outstanding shares of Berk Corporation, for \$3,269,450, consideration paid at closing was in cash. Professional fees totaling \$112,768 were incurred as part of the acquisition costs.

The assets acquired and liabilities assumed from Berk Corporation were as follows:

Cash.....	\$ 478,972
Accounts receivable.....	869,050
Inventory.....	549,720
Prepays and deposits.....	73,367
Property and equipment.....	31,186
Goodwill.....	4,365,208
Liabilities assumed.....	(3,098,053)

	\$ 3,269,450
	=====

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

The following unaudited pro forma information represents the Company's consolidated results of operations as if the acquisition of Pentech had occurred on January 1, 2000 and after giving effect to certain adjustments including the elimination of other income and expense items not attributable to on-going operations, interest and depreciation expense, and related tax effects. Such

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2000

pro forma information does not purport to be indicative of operating results that would have been reported had the acquisition of Pentech occurred on January 1, 2000 or future operating results.

	YEAR ENDED DECEMBER 31, 2000
Net Sales.....	\$291,578,787
	=====
Net income.....	\$ 24,390,573
	=====
Basic earnings per share.....	\$ 1.28
	=====
Weighted average shares outstanding.....	19,059,544
	=====
Diluted earnings per share.....	\$ 1.20
	=====
Weighted average shares and equivalents outstanding.....	20,281,475
	=====

NOTE 4--CONCENTRATION OF CREDIT RISK

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

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

Included in the Company's consolidated balance sheets at December 31, 1999 and 2000 are its operating net assets, most of which are located in facilities in Hong Kong and China and which totaled approximately \$14,510,000, and \$40,014,000 for 1999 and 2000, respectively.

NOTE 5--ACCRUED EXPENSES

Accrued expenses consist of the following:

	1999	2000
Bonuses.....	\$ 2,747,710	\$ 2,230,563
Trademarks acquisition reserve.....	177,245	177,245
Royalties and sales commissions.....	6,667,598	3,713,634
Hong Kong subsidiaries accruals.....	3,436,335	3,886,757
Other.....	2,827,617	2,531,091
	-----	-----
	\$15,856,505	\$12,539,290
	=====	=====

NOTE 6--RELATED PARTY TRANSACTIONS

A director of the Company is a partner in the law firm that acts as counsel to the Company. The Company incurred legal fees and expenses to the law firm in the amount of approximately \$510,000 in 1998, \$1,037,000 in 1999 and \$975,000 in 2000.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2000

As of December 31, 2000, there were two notes receivable from officers totaling \$2,200,000 issued at interest rates of 6.5% each, with interest payable on each April 28 and October 28 of each year, and principal payable at a maturity date of April 28, 2003. Additionally, there is a third note receivable from an officer for \$250,000 issued at an interest rate of 7.0%, with interest and principal payable at a maturity date of May 12, 2002.

NOTE 7--LONG-TERM DEBT

Long-term debt consists of the following:

	1999	2000
Note Payable due in twenty-six quarterly payments with the final payment due April 1, 2004, with interest at 7% per annum.....	\$ --	\$1,400,000
Loan Payable, due in sixty monthly payments with the final payment due December 29, 2002, with interest at 6.9% per annum.....	13,680	--
	-----	-----
	13,680	1,400,000
Less current portion of long-term debt.....	4,967	400,000
	-----	-----
Long-term debt, net of current portion.....	\$ 8,713	\$1,000,000
	=====	=====

The following is a schedule of payments for the note payable:

2001.....	\$ 400,000
2002.....	400,000
2003.....	400,000
2004.....	200,000

	\$1,400,000
	=====

NOTE 8--INCOME TAXES

The provision differs from the expense that would result from applying Federal statutory rates to income before taxes because of the inclusion of a provision for state income taxes and the income of the Company's foreign subsidiaries is taxed at a rate of 16.5% applicable in Hong Kong. In addition, the provision includes deferred income taxes resulting from adjustments in the amount of temporary differences. Temporary differences arise primarily from differences in timing in the deduction of state income taxes and the use of the straight-line method of depreciation for financial reporting purposes and accelerated methods of depreciation for tax purposes.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2000

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

	1998	1999	2000
Federal.....	\$ 715,000	\$4,280,650	\$ 4,979,188
State and local.....	210,000	1,350,000	1,112,798
Hong Kong.....	874,595	1,834,065	5,161,994
	-----	-----	-----
Deferred.....	1,799,595	7,464,715	11,253,980
	57,809	869,129	442,983
	-----	-----	-----
	\$1,857,404	\$8,333,844	\$11,696,963
	=====	=====	=====

As of December 31, 1999, the Company has utilized all net operating loss carry-forwards.

	1999	2000
Deferred tax assets resulting from deductible temporary differences from loss carry-forwards, noncurrent.....	\$ 1,460,000	\$ 351,761
Deferred tax liabilities resulting from taxable temporary differences, noncurrent.....	(2,473,834)	(1,808,578)
	-----	-----
	\$(1,013,834)	\$(1,456,817)
	=====	=====

The Company's management concluded that a deferred tax asset valuation allowance as of December 31, 1998 and 1999 was not necessary.

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

	1998	1999	2000
Statutory income tax rate.....	35%	35%	40%
State and local income taxes, net of Federal income tax effect.....	1	4	3
Effect of temporary differences and Hong Kong's lower tax rate.....	(22)	(28)	(30)
Effect of net operating loss carry-forwards.....	(11)	--	--
Income taxes on foreign earnings at rates other than the United States Statutory rate not subject to United States income taxes.....	19	16	16
	---	---	---
	22%	27%	29%
	===	===	===

The components of income before provision for income taxes are as follows:

	1998	1999	2000
Domestic.....	\$3,681,456	\$13,105,423	\$ 8,480,038
Foreign.....	4,550,974	17,198,270	31,854,320
	-----	-----	-----
	\$8,232,430	\$30,303,693	\$40,334,358
	=====	=====	=====

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2000

NOTE 9--LEASES

The Company leases office, warehouse and showroom facilities and certain equipment under operating leases. The following is a schedule of minimum annual lease payments. Rent expense for the years ended December 31, 1998, 1999 and 2000 totaled \$550,360, \$737,340, and \$769,070, respectively.

2001.....	\$ 2,460,629
2002.....	2,538,829
2003.....	2,379,842
2004.....	2,438,535
2005.....	2,468,139
Thereafter.....	3,064,773

	\$15,350,747
	=====

NOTE 10--COMMON STOCK AND PREFERRED STOCK

The Company has 26,000,000 authorized shares of stock consisting of 25,000,000 shares of \$.001 par value common stock and 1,000,000 shares of \$.001 par value preferred stock.

During 2000, the Company issued 212,890 shares of common stock on exercise of options and warrants for a total of \$1,171,243. The Company repurchased 1,493,600 shares of common stock for a total of \$12,911,483. In addition, as of December 31, 2000, 256,355 shares were reserved for issuance upon exercise of outstanding warrants granted in connection with the Company's initial public offering, follow-on public offering, private placement of convertible debentures and certain license agreements, at exercise prices ranging from \$4.50 to \$6.67 per share.

Warrant activity is summarized as follows:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, December 31, 1997.....	540,000	\$ 5.52
Issued.....	412,500	6.67
Exercised.....	--	--
Canceled.....	--	--
	-----	-----
Outstanding, December 31, 1998.....	952,500	6.02
Exercised.....	(434,368)	5.16
Canceled.....	(225,000)	6.67
	-----	-----
Outstanding, December 31, 1999.....	293,132	5.92
Exercised.....	(36,777)	5.79
Canceled.....	--	--
	-----	-----
Outstanding, December 31, 2000.....	256,355	\$ 5.94
	=====	=====

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2000

During 1999, 6,810,955 shares of the Company's stock were issued in two separate offerings for a total of \$117,792,115. Additionally, the Company issued 1,019,469 shares of common stock on exercise of options and warrants for a total of \$4,749,126.

In 1999, the Company issued 1,565,218 shares of common stock upon conversion of convertible debentures totaling \$5,600,250.

On April 1, 1998, the Company sold 1,000 shares of its Series A 7% cumulative convertible preferred stock to two investors for \$4,731,152, net of issuance costs. In 1999, the holders of these shares converted such shares into 837,987 shares of common stock. Preferred stockholders received cumulative cash dividends of \$438,070 in 1999.

During 1998, 215,925 shares of the Company's common stock were issued on exercise of options and warrants for a total of \$647,392.

During 1997, in a private placement, the Company issued 3,525 shares of its 4% redeemable convertible preferred stock at a purchase price of \$2,000 per share. In March 1998, all of the 3,525 shares of such issue were converted into an aggregate of 1,409,997 shares of the Company's common stock based on a conversion price of \$5.00 per share.

NOTE 11--COMMITMENTS

The Company has entered into various license agreements whereby the Company may use certain characters and properties in conjunction with its products. Such license agreements call for royalties to be paid at 1% to 12% of net sales with minimum guarantees and advance payments. Additionally, under one such license, the Company has committed to spend 12.5% of related net sales, not to exceed \$1,000,000, on advertising per year.

Future annual minimum royalty guarantees as of December 31, 2000 are as follows:

2001.....	\$ 3,673,002
2002.....	3,003,877
2003.....	1,122,500
2004.....	955,000
2005.....	925,000
Thereafter.....	3,700,000

	\$13,379,379
	=====

NOTE 12--STOCK OPTION PLAN

Under its Third Amended and Restated 1995 Stock Option Plan (the Plan), the Company has reserved 3,275,000 shares of its common stock for issuance upon exercise of options granted under the Plan. In 2000, stockholders approved an increase of 650,000 shares in the number of shares available for grant. Under the Plan, employees (including officers), non-employee directors and independent consultants may be granted options to purchase shares of common stock. Prior to the adoption of the Plan in 1995, options for 414,750 shares were granted at an exercise price of \$1.33 per share. The Company recorded deferred compensation costs and a related increase in paid-

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2000

in capital of \$212,905 for the difference between the grant price and the deemed fair market value of the common stock of \$1.85 per share at the date of grant. Such compensation costs were recognized on a straight-line basis over the four-year vesting period of the options. In 1998, 1999 and 2000, the fair value of each employee option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used: risk-free rate of interest of 6%; dividend yield of 0%; and expected lives of five years.

As of December 31, 2000, 558,775 shares were available for future grant. Additional shares may become available to the extent that options presently outstanding under the Plan terminate or expire unexercised.

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

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, December 31, 1997.....	795,750	\$ 6.08
Granted.....	726,750	5.59
Exercised.....	(47,700)	5.45
Canceled.....	(109,500)	5.85
	-----	-----
Outstanding, December 31, 1998.....	1,365,300	5.86
Granted.....	1,198,125	16.07
Exercised.....	(374,608)	5.20
Canceled.....	(50,499)	5.50
	-----	-----
Outstanding, December 31, 1999.....	2,138,318	11.70
Granted.....	2,036,497	10.49
Exercised.....	(91,177)	6.88
Canceled.....	(1,880,898)	15.82
	-----	-----
Outstanding, December 31, 2000.....	2,202,740	\$ 7.15
	=====	=====

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2000

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

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, December 31, 1997.....	513,562	\$2.71
Granted.....	--	--
Exercised.....	(151,350)	2.62
Canceled.....	(50,625)	1.33

Outstanding, December 31, 1998.....	311,587	2.98
Granted.....	--	--
Exercised.....	(210,525)	2.64
Canceled.....	--	--

Outstanding, December 31, 1999.....	101,062	3.69
Granted.....	--	--
Exercised.....	(84,936)	3.96
Canceled.....	--	--

Outstanding, December 31, 2000.....	16,126	\$2.24
	=====	=====

The weighted average fair value of options granted to employees in 1998, 1999 and 2000 was \$4.10, \$9.12 and \$7.23 per share, respectively.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2000:

OPTION PRICE RANGE	OUTSTANDING			EXERCISABLE	
	NUMBER OF SHARES	WEIGHTED AVERAGE LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
\$1.33 - \$26.00.....	2,218,866	4.3 years	\$7.15	906,185	\$6.47

Had the compensation cost for the Company's Plan been determined on a basis consistent with SFAS No. 123, the Company's net income and earnings per share (EPS) for 1998, 1999 and 2000 would approximate the pro forma amounts below, which are not indicative of future amounts:

	YEARS ENDED DECEMBER 31,					
	1998		1999		2000	
	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA
SFAS No. 123 charge, net of tax...	\$ --	\$ 551,541	\$ --	\$1,178,025	\$ --	\$ 1,806,108
Net income.....	6,375,026	5,823,485	21,969,849	20,791,824	28,637,395	26,831,287
Basic EPS.....	0.75	0.68	1.55	1.47	1.50	1.41
Diluted EPS.....	\$ 0.59	\$ 0.55	\$ 1.39	\$ 1.32	\$ 1.41	\$ 1.32

NOTE 13 -- PROFIT SHARING PLAN

Effective January 1, 1997, the Company adopted a 401(k) profit sharing plan and trust (Plan). The Plan is for the exclusive benefit of eligible employees and beneficiaries. Under the Plan,

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2000

employees may elect to defer a portion of their compensation and have those amounts contributed to the Plan on their behalf. Contributions made to the Plan will be held and invested by the Plan's trustee. The Company acts as the Plan's administrator. The Plan year begins on January 1st and ends on December 31st. Employees may be eligible to participate in the Plan after they have completed three months of service. The Company makes matching contributions equal to 50% of the amount of salary deferral up to a maximum of 10% of compensation. The Company may also make discretionary contributions to the Plan each year. Participants may defer up to 15% of their compensation each year. However, deferrals in any taxable year may not exceed a dollar limit which is set by law. The limit for 2000 was \$10,500. Participants are immediately 100% vested in their salary reduction amounts contributed to the Plan. Vesting of the Company contributions made to the Plan is based on years of service, as follows:

YEARS OF SERVICE	CUMULATIVE PERCENT VESTED
1.....	20%
2.....	40
3.....	60
4.....	80
5.....	100

The Company has the right to amend or terminate the Plan at any time. Upon termination of the Plan, all amounts credited to participants accounts will become 100% vested.

As of December 31, 2000, the Plan has not been "qualified" under the provisions of the Internal Revenue Code, and for the year then ended, the Company contributed \$212,212 in matching contributions to the Plan.

NOTE 14--MAJOR CUSTOMERS AND INTERNATIONAL SALES

Net sales to major customers were as follows:

1998		1999		2000	
AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE
\$23,604,000	27.7%	\$ 45,270,000	24.6%	\$ 43,505,000	17.2%
11,103,000	13.0	27,684,000	15.1	36,321,000	14.4
10,944,000	12.8	22,739,000	12.4	30,481,000	12.1
9,951,000	11.7	17,938,000	9.8	27,338,000	10.8
3,717,000	4.4	15,229,000	8.3	21,875,000	8.7
-----	-----	-----	-----	-----	-----
\$59,319,000	69.6%	\$128,860,000	70.2%	\$159,520,000	63.2%
=====	=====	=====	=====	=====	=====

Net sales to international customers totaled approximately \$6,309,000, \$13,056,000 and \$22,495,000 in 1998, 1999 and 2000, respectively.

NOTE 15--SUPPLEMENTAL INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS

In 1999, the holders of the Company's 9% convertible debentures converted all \$6,000,000 principal amount of the debentures into 1,565,218 shares of the Company's common stock.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2000

Additionally, all 1,000 outstanding shares of 7% cumulative convertible preferred stock with a total stockholders' equity value of \$4,731,152 were converted into an aggregate of 837,987 shares of the Company's common stock.

In 1998, the 3,525 shares of 4% redeemable convertible preferred stock with a total stockholders' equity value of \$6,818,350 were converted into an aggregate of 1,409,997 shares of the Company's common stock.

NOTE 16--SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected unaudited quarterly financial data for the years 1999 and 2000 are summarized below:

	1999				2000			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	(IN THOUSANDS, EXCEPT PER SHARE DATA)							
Net sales.....	\$24,960	\$35,981	\$60,236	\$62,508	\$50,782	\$50,578	\$91,838	\$59,090
Gross profit.....	\$10,764	\$14,649	\$24,759	\$25,912	\$20,104	\$21,748	\$37,672	\$22,883
Income from operations.....	\$ 2,743	\$ 4,225	\$ 9,893	\$ 8,068	\$ 4,004	\$ 6,716	\$11,201	\$ 51
Income before income taxes.....	\$ 2,743	\$ 4,587	\$10,426	\$12,548	\$ 9,715	\$ 8,877	\$13,615	\$ 8,127
Net income.....	2,005	\$ 3,355	\$ 7,642	\$ 8,968	\$ 6,603	\$ 6,237	\$ 9,769	\$ 6,028
Basic earnings per share.....	\$ 0.18	\$ 0.35	\$ 0.48	\$ 0.53	\$ 0.34	\$ 0.32	\$ 0.50	\$ 0.33
Weighted average shares outstanding.....	9,171	13,243	16,037	16,952	19,290	19,379	19,389	18,178
Diluted earnings per share.....	\$ 0.17	\$ 0.21	\$ 0.44	\$ 0.49	\$ 0.32	\$ 0.31	\$ 0.48	\$ 0.32
Weighted average shares and equivalents outstanding.....	12,624	15,732	17,541	18,378	20,374	20,371	20,330	18,621

NOTE 17--RECENT ACCOUNTING PRONOUNCEMENTS

In July 2000, the EITF reached a consensus on EITF Issue 00-10, "Accounting for Shipping and Handling Fees and Costs" ("Issue 00-10"). Specifically, Issue 00-10 addresses in a sale transaction for goods, how the seller should classify amounts billed and incurred for shipping and handling in the income statement, and the composition or types of costs that would be required to be classified as costs of sales. The EITF concluded that all shipping and handling billings to a customer in a sale transaction represent the fees earned for the goods provided and, accordingly, amounts billed related to shipping and handling should be classified as revenue. The consensus does not address how costs incurred by the seller for shipping and handling should be classified. The adoption of this consensus will not impact the Company's financial position or results of operations as the Company already records all charges for outbound shipping and handling as revenue. All outbound shipping costs are classified as costs of sales. All other fulfillment costs incurred for handling by the Company are classified within marketing and sales expenses.

NOTE 18--LITIGATION

On or about March 26, 2001, Rose Art Industries, Inc. and Licensing International, Ltd. commenced an action against the Company in the United States District Court for the District of New Jersey in which they allege the Company's willful infringement of a patent owned by Licensing International and licensed to Rose Art through the Company's production and sale of Zyrofoam modeling compound. The plaintiffs seek injunctive relief, monetary damages in a unspecified amount, together with interest thereon, and reasonable attorneys' fees. The Company

JAKKS PACIFIC, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2000

has not yet answered the plaintiff's first amended complaint but believes that their claims are without merit and intends vigorously to defend against their action. At this early state in these proceedings, the Company is unable to predict the likely outcome of the action or its impact on its business, financial condition or results of operations. The Company is a party to, and certain property is the subject of, various pending claims and legal proceedings that routinely arise in the ordinary course of business, but the Company does not believe that any of these claims or proceedings will have a material effect on its business, financial condition or results of operations.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS
 YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000

Allowances are deducted from the assets to which they apply, except for sales returns and allowances.

	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD
Year ended December 31, 1998:					
Allowance for:					
Uncollectible accounts.....	\$ 51,153	\$ 82,833	\$ --	\$ --	\$ 133,986
Reserve for potential product obsolescence.....	129,695	334,438	--	--	464,133
Reserve for sales returns and allowances.....	1,860,821	6,525,867	--	3,045,171	5,341,517
	<u>\$ 2,041,669</u>	<u>\$ 6,943,138</u>	<u>\$ --</u>	<u>\$ 3,045,171</u>	<u>\$ 5,939,636</u>
	=====	=====	=====	=====	=====
Year ended December 31, 1999:					
Allowance for:					
Uncollectible accounts.....	\$ 133,986	\$ 1,287,208	\$ 686,222	\$ 220,042	\$ 1,887,374
Reserve for potential product obsolescence.....	464,133	2,775,340	--	296,867	2,942,606
Reserve for sales returns and allowances.....	5,341,517	17,036,875	334,464	\$ 7,394,855	15,318,001
	<u>\$ 5,939,636</u>	<u>\$21,099,423</u>	<u>\$ 1,020,686</u>	<u>\$ 7,911,764</u>	<u>\$20,147,981</u>
	=====	=====	=====	=====	=====
Year ended December 31, 2000:					
Allowance for:					
Uncollectible accounts.....	\$ 1,887,374	\$ 2,270,611	\$ 2,773,744(a)	\$ 3,920,027	\$ 3,011,702
Reserve for potential product obsolescence.....	2,942,606	1,318,730	4,095,771(b)	1,035,470	7,321,637
Reserve for sales returns and allowances.....	15,318,001	17,296,039	1,360,000(c)	27,420,809	6,553,231
	<u>\$20,147,981</u>	<u>\$20,885,380</u>	<u>\$ 8,229,515</u>	<u>\$32,376,306</u>	<u>\$16,886,570</u>
	=====	=====	=====	=====	=====

(a) Obligations assumed in conjunction with the acquisitions of Flying Colors Toys and Pentech International.

(b) Fair market value adjustment for inventory acquired in connection with the acquisition of Pentech International.

(c) Obligation assumed in conjunction with the acquisition of Pentech International.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

DIRECTORS AND EXECUTIVE OFFICERS

Our directors and executive officers are as follows:

NAME ----	AGE ---	POSITIONS WITH THE COMPANY -----
Jack Friedman	61	Chairman and Chief Executive Officer
Stephen G. Berman	36	Chief Operating Officer, President, Secretary and Director
Joel M. Bennett	39	Executive Vice President and Chief Financial Officer
David C. Blatte	37	Director
Robert E. Glick	55	Director
Michael G. Miller	53	Director
Murray L. Skala	55	Director

Jack Friedman has been our Chairman and Chief Executive Officer since co-founding JAKKS with Mr. Berman in January 1995. Until December 31, 1998, he was also our President. From January 1989 until January 1995, Mr. Friedman was Chief Executive Officer, President and a director of THQ. From 1970 to 1989, Mr. Friedman was President and Chief Operating Officer of LJM Toys, Ltd., a toy and software company. After LJM was acquired by MCA/Universal, Inc. in 1986, Mr. Friedman continued as President until his departure in late 1988.

Stephen G. Berman has been our Chief Operating Officer and Secretary and one of our directors since co-founding JAKKS with Mr. Friedman in January 1995. Since January 1, 1999, he has also served as our President. From our inception until December 31, 1998, Mr. Berman was also our Executive Vice President. From October 1991 to August 1995, Mr. Berman was a Vice President and Managing Director of THQ International, Inc., a subsidiary of THQ. From 1988 to 1991, he was President and an owner of Balanced Approach, Inc., a distributor of personal fitness products and services.

Joel M. Bennett joined us in September 1995 as Chief Financial Officer and was given the additional title of Executive Vice President in May 2000. From August 1993 to September 1995, he served in several financial management capacities at Time Warner Entertainment Company, L.P., including as Controller of Warner Brothers Consumer Products Worldwide Merchandising and Interactive Entertainment. From June 1991 to August 1993, Mr. Bennett was Vice President and Chief Financial Officer of TTI Technologies, Inc., a direct-mail computer hardware and software distribution company. From 1986 to June 1991, Mr. Bennett held various financial management positions at The Walt Disney Company, including Senior Manager of Finance for its international television syndication and production division. Mr. Bennett holds a Master of Business Administration degree and is a Certified Public Accountant.

David C. Blatte has been one of our directors since January 2001. From January 1993 to May 2000, Mr. Blatte was a Senior Vice President in the specialty retail group of the investment banking division of Donaldson, Lufkin and Jenrette Securities Corporation. Since May 2000, Mr. Blatte has

been a principal in Catterton Partners, a private equity fund. Mr. Blatte is a director of Case Logic, Inc., a privately-held consumer products company.

Robert E. Glick has been one of our directors since October 1996. For more than 20 years, Mr. Glick has been an officer, director and principal stockholder in a number of privately-held companies which manufacture and market women's apparel.

Michael G. Miller has been one of our directors since February 1996. From 1979 until May 1998, Mr. Miller was President and a director of several privately-held affiliated companies, including a list brokerage and list management consulting firm, a database management consulting firm, and a direct mail graphic and creative design firm. Mr. Miller's interests in such companies were sold in May 1998. Since 1991, he has been President of an advertising company.

Murray L. Skala has been one of our directors since October 1995. Since 1976, Mr. Skala has been a partner of the law firm Feder, Kaszovitz, Isaacson, Weber, Skala & Bass LLP, our general counsel. Mr. Skala is a director of Traffix, Inc., a publicly-held company in the business of telecommunications services and entertainment.

Our directors hold office until the next annual meeting of stockholders and until their successors are elected and qualified.

COMMITTEES OF THE BOARD OF DIRECTORS

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

Audit Committee. The primary functions of the Audit Committee are to select or to recommend to our Board the selection of outside auditors; to monitor our relationships with our outside auditors and their interaction with our management in order to ensure their independence and objectivity; to review, and to assess the scope and quality of, our outside auditor's services, including the audit of our annual financial statements; to review our financial management and accounting procedures; and to review our financial statements with our management and outside auditors. Messrs. Blatte, Glick and Miller are the current members of the Audit Committee.

Compensation Committee. The functions of the Compensation Committee are to make recommendations to the Board regarding compensation of management employees and to administer plans and programs relating to employee benefits, incentives and compensation, other than our Third Amended and Restated 1995 Stock Option Plan (the "Option Plan"). Messrs. Friedman, Miller and Skala are the current members of the Compensation Committee.

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

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

To the best of our knowledge, all Forms 3, 4 or 5 required to be filed pursuant to Section 16(a) of the Exchange Act during or with respect to the fiscal year ended December 31, 2000 were filed on a timely basis, except that Forms 4 reporting the increase in the number of shares of our common stock beneficially owned by Messrs. Friedman, Berman, Glick, Miller, Skala

and Bennett as a result of the 3-for-2 stock split which became effective on November 4, 1999 were not filed until January 7, 2000; amended Forms 4 reporting the grant of options to Messrs. Glick, Miller and Skala (correcting earlier filed Forms 4 to reflect the 3-for-2 stock split) were filed on February 15, 2000; and Forms 4 reporting the changes in beneficial ownership of our common stock by Messrs. Friedman, Berman, Glick, Miller, Skala and Bennett effected by option repricing in December 2000 and, as to Mr. Friedman, two charitable gifts of 10,000 and 500 shares, respectively, in December 2000 were not filed until January 16, 2001.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth the compensation we paid for our fiscal years ended December 31, 1998, 1999 and 2000 to our Chief Executive Officer and to each of our other executive officers whose compensation exceeded \$100,000 on an annual basis (collectively, the "Named Officers").

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION			LONG-TERM AWARDS	
		SALARY (\$)	BONUS (\$)	OTHER ANNUAL COMPENSATION (\$)	RESTRICTED STOCK AWARDS (\$)	OPTIONS (#)
Jack Friedman.....	2000	771,000	1,613,401	--	--	207,254(1)
Chairman and Chief	1999	521,000	1,750,000	--	--	232,500
Executive Officer	1998	446,000	550,000	--	--	187,500
Stephen G. Berman.....	2000	746,000	1,613,401	--	--	346,024(2)
Chief Operating Officer,	1999	496,000	1,750,000	--	--	394,500
President and Secretary	1998	421,000	550,000	--	--	187,500
Joel M. Bennett.....	2000	225,000	140,000	--	--	211,700(3)
Executive Vice President and	1999	155,000	130,000	--	--	42,500
Chief Financial Officer	1998	135,000	45,000	--	--	--

(1) Includes options to purchase 182,254 shares issued in replacement of options to purchase 257,500 shares pursuant to a reset in the price of those options.

(2) Includes options to purchase 321,024 shares issued in replacement of options to purchase 419,500 shares pursuant to a reset in the price of those options.

(3) Includes options to purchase 110,874 shares issued in replacement of options to purchase 143,326 shares pursuant to a reset in the price of those options.

- - Employment Agreements

On July 1, 1999, we entered into 10-year 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 2001 is \$821,000 and Mr. Berman's is \$796,000. 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 \$2,000,000, if our pre-tax earnings are at least \$2,000,000. On May 8, 2000, we entered into an employment agreement with Joel M. Bennett pursuant to which Mr. Bennett serves as our Executive Vice President and Chief Financial Officer during a

four-year term from January 1, 2000 to December 31, 2003. Mr. Bennett's annual base salary in 2001 is \$247,500. His annual base salary is subject to annual increases in an amount determined by our Board of Directors. He is also entitled to receive an annual bonus equal to the product of his base salary and the percentage year-over-year increase in our pre-tax income, but not less than \$75,000 nor more than his base salary. If we terminate Mr. Friedman's, Mr. Berman's, or Mr. Bennett'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 bonus during the balance of the term of the employment agreement, based on his then applicable annual base salary and 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.

- - Third Amended and Restated 1995 Stock Option Plan

Our Third Amended and Restated 1995 Stock Option Plan (the "Option Plan") was originally adopted and approved by the stockholders and directors in July 1998 and amended in August 1999. Options to purchase, in the aggregate, up to 3,275,000 shares of our common stock may be granted under the Option Plan. The Option Plan allows us to grant options that are intended to qualify as incentive stock options ("Incentive Stock Options") within the meaning of Section 422 of the Internal Revenue Code or as options that are not intended to meet the requirements of such section ("Nonstatutory Stock Options"). Under the Option Plan, Incentive Stock Options may only be granted to our employees (including officers), while Nonstatutory Stock Options may be granted to employees (including officers), non-employee directors, consultants or advisors.

The Option Plan is administered by the Stock Option Committee, whose members are non-employee directors chosen by our Board. Subject to the restrictions prescribed in the Option Plan, this committee has discretionary authority to select the persons to whom, the number of shares for which, the times and the exercise price at which options will be granted.

Options granted to an employee expire immediately upon the termination of employment voluntarily by such employee or for cause. Employee options may be exercised up to one year after the termination of employment due to death or disability, or up to three months after termination for any other reason.

Upon the occurrence of a merger, consolidation or other reorganization, or a sale of all or substantially all of the assets, of JAKKS, or a transaction giving any person the right to elect a majority of our Board, as a result of which a distribution of cash, securities or other property is to be made to our stockholders, the options held by any consultant or any person who shall have been an employee for at least one year will vest and become immediately exercisable by such holder, even if such options would not otherwise then be exercisable under any applicable vesting schedule or other condition to the exercise thereof.

Incentive Stock Options must have an exercise price greater than or equal to the fair market value of the shares underlying the option on the date of grant (or, if granted to a holder of 10% or more of our common stock, an exercise price of at least 110% of the underlying shares' fair market value on the date of grant). The maximum exercise period of Incentive Stock Options is 10 years from the date of grant (or five years in the case of a holder of 10% or more of our common stock). The aggregate fair market value (determined at the date the option is granted) of shares with

respect to which Incentive Stock Options are exercisable for the first time by the holder of the option during any calendar year may not exceed \$100,000. If that amount exceeds \$100,000, our Board or the Stock Option Committee may designate those shares that will be treated as Nonstatutory Stock Options.

The Option Plan provides for the inclusion in any grant of options to one of our employees of a provision requiring the optionee, for a period of one year after the optionee's employment is terminated, not to disclose certain of our confidential information and, under certain circumstances, not to compete with us or be employed by an individual or entity that competes with us.

As of March 30, 2001, options to purchase 528,983 shares of our common stock under the Option Plan have been exercised, and options to purchase 2,071,530 shares of our common stock under the Option Plan remain outstanding. All the shares issuable upon exercise of outstanding options granted under the Option Plan are currently registered under the Securities Act.

The following table sets forth certain information regarding options granted to the Named Officers in 2000.

OPTION/SAR GRANTS IN LAST FISCAL YEAR
INDIVIDUAL GRANTS

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED (#)	% OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR(1)	EXERCISE OR BASE PRICE (\$/SHARE)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK APPRECIATION FOR OPTION TERM	
					5%(\$)	10%(\$)
Jack Friedman.....	55,308	2.9%	7.875	8/11/05	148,225	336,273
	107,991	5.6%	7.875	9/13/05	289,416	656,585
	18,955	1.0%	7.875	6/22/06	50,799	115,246
	25,000(2)	1.3%	15.25	6/22/06	129,650	294,250
Stephen G. Berman....	138,770	7.2%	7.875	2/8/05	371,904	843,722
	55,308	2.9%	7.875	8/11/05	148,225	336,273
	107,991	5.6%	7.875	9/13/05	289,416	656,585
	18,955	1.0%	7.875	6/22/06	50,799	115,246
Joel M. Bennett.....	25,000(2)	1.3%	15.25	6/22/06	129,650	294,250
	25,698	1.3%	7.875	2/8/05	68,871	156,244
	8,858	0.5%	7.875	12/29/05	23,739	53,857
	3,531	0.2%	7.875	5/07/06	9,463	21,468
	72,787	3.8%	7.875	6/22/06	195,069	442,545
	4,826(2)	0.3%	17.00	5/7/06	27,894	63,317
	96,000(2)	5.0%	15.25	6/22/06	497,856	1,129,920

(1) Options to purchase a total of 1,917,559 shares of our common stock were granted to our employees, including the Named Officers, during 2000, which includes options to purchase 1,202,983 shares that reprice previously granted options.

(2) Replaced pursuant to price reset.

The following table sets forth certain information regarding options exercised and exercisable during 2000, and the value of options held as of December 31, 2000 by the Named Officers:

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR END OPTION/SAR VALUES

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT FISCAL YEAR END		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS AT FISCAL YEAR END(2)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Jack Friedman.....	--	--	336,996	220,258	888,429	440,951
Stephen G. Berman.....	--	--	232,826	338,212	659,565	618,081
Joel M. Bennett.....	29,311	394,585	25,185	105,690	58,983	132,113

(1) The difference between (x) the product of the number of exercised options and the average sale price per share of the common stock sold on the exercise dates and (y) the aggregate exercise price of such options.

(2) The difference between (x) the product of the number of unexercised options and \$9.125 (the closing sale price of the common stock on December 31, 2000) and (y) the aggregate exercise price of such options.

- - Compensation of Directors

Directors currently receive an annual cash stipend in the amount of \$10,000 for serving on the Board, and are reimbursed for reasonable expenses incurred in attending meetings. In addition, our Option Plan provides for each newly elected non-employee director to receive at the commencement of his term an option to purchase 37,500 shares of our common stock at their then current fair market value, and for grants to our non-employee directors on January 1 of each year of an option to purchase 9,375 shares of our common stock at their then current fair market value. Options granted to a non-employee director expire upon the termination of the director's services for cause, but may be exercised at any time during a one-year period after such person ceases to serve as a director for any other reason.

- - Compensation Committee Interlocks and Insider Participation

Mr. Jack Friedman, our Chairman and Chief Executive Officer, is the only member of our Compensation Committee who is or formerly was an officer or employee of JAKKS or any of its subsidiaries. Our Board believes that Mr. Friedman's assessment of the performance and contribution of our other employees and his views on the appropriate manner and level of compensation for their services are essential to the Compensation Committee's ability to evaluate and make determinations with respect to compensation matters. However, Mr. Friedman does not participate in any deliberations or determinations by the Compensation Committee or our Board with respect to his own compensation.

None of our executive officers has served as a director or member of a compensation committee (or other board committee performing equivalent functions) of any other entity, one of whose executive officers served as a director or a member of our Compensation Committee.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of March 30, 2001 with respect to the beneficial ownership of our common stock by (1) each person known by us to own beneficially more than 5% of the outstanding shares of our common stock, (2) each of our directors, (3) each Named Officer, and (4) all our directors and executive officers as a group.

NAME OF BENEFICIAL OWNER -----	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP -----	PERCENT OF OUTSTANDING SHARES -----
Scudder Kemper Investments, Inc. (1).....	1,288,650(2)	7.2
Jack Friedman.....	821,226(3)(4)	4.5
Stephen G. Berman.....	253,642(3)(5)	1.4
Joel M. Bennett.....	59,851(3)(6)	*
David C. Blatte.....	37,500(3)(7)	*
Robert E. Glick.....	76,431(3)(8)	*
Michael G. Miller.....	65,931(3)(9)	*
Murray L. Skala.....	123,564(3)(10)	*
All directors and executive officers as a group (7 persons).....	1,375,337(11)	7.3

* Less than 1% of our outstanding shares.

(1) The address of Scudder Kemper Investments, Inc. is 345 Park Avenue, New York, New York 10154. All the information presented in this Item with respect to this beneficial owner was extracted solely from its Schedule 13G filed on February 14, 2001.

(2) Exercises sole dispositive power over all such shares, exercises sole voting power over 1,122,150 shares and shared voting power over 15,300 shares.

(3) Exercises sole voting power and sole investment power with respect to such shares.

(4) Includes 25,308 shares held in trusts for the benefit of children of Mr. Friedman. Also includes 336,996 shares which Mr. Friedman may purchase upon the exercise of certain stock options.

(5) Represents shares which Mr. Berman may purchase upon the exercise of certain stock options.

(6) Includes 29,040 shares which Mr. Bennett may purchase upon the exercise of certain stock options.

(7) Represents shares which Mr. Blatte may purchase upon the exercise of certain stock options.

(8) Represents shares which Mr. Glick may purchase upon the exercise of certain stock options.

(9) Represents shares which Mr. Miller may purchase upon the exercise of certain stock options.

(10) Includes 98,256 shares which Mr. Skala may purchase upon the exercise of certain stock options and 25,308 shares held by Mr. Skala as trustee under trusts for the benefit of children of Mr. Friedman.

(11) Includes 25,308 shares held in trusts for the benefit of children of Mr. Friedman and an aggregate of 860,296 shares which the directors and executive officers may purchase upon the exercise of certain stock options.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

One of our directors, Murray L. Skala, is a partner in the law firm of Feder, Kaszovitz, Isaacson, Weber, Skala & Bass LLP, which has performed, and is expected to continue to perform, legal services for us. In 2000, we incurred approximately \$975,000 for legal fees and reimbursable expenses payable to that firm.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(1) Financial Statements (included in Item 8):

- Independent Auditors' Report
- Consolidated Balance Sheets as of December 31, 1999 and 2000
- Consolidated Statements of Operations for the years ended December 31, 1998, 1999 and 2000
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 1998, 1999 and 2000
- Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1999 and 2000
- Notes to Consolidated Financial Statements

(2) Financial Statement Schedules (included in Item 8)

- Schedule II -- Valuation and Qualifying Accounts

(3) Exhibits

EXHIBIT NUMBER -----	DESCRIPTION -----
3.1	Restated Certificate of Incorporation of the Company (1)
3.1.1	Certificate of Designation of 4% Redeemable Convertible Preferred Stock of the Company (6)
3.1.2	Certificate of Designation and Preferences of Series A Cumulative Convertible Preferred Stock of the Company (7)
3.1.3	Certificate of Elimination of All Shares of 4% Redeemable Convertible Preferred Stock of the Company (7)
3.1.4	Certificate of Amendment of Restated Certificate of Incorporation of the Company (11)
3.2	By-Laws of the Company (1)
3.2.1	Amendment to By-Laws of the Company (2)
10.1	Third Amended and Restated 1995 Stock Option Plan (9)(*)
10.1A	1999 Amendment to Third Amended and Restated 1995 Stock Option Plan (15)(*)

EXHIBIT NUMBER -----	DESCRIPTION -----
10.1B	2000 Amendment to Third Amended and Restated 1995 Stock Option Plan (18)(*)
10.2	Employment Agreement between the Company and Jack Friedman dated January 1, 1998 (8)(*)
10.2.1	Amendment, dated January 1, 1999, to Employment Agreement between the Company and Jack Friedman (12)(*)
10.3	Employment Agreement between the Company and Stephen G. Berman dated January 1, 1998 (8)(*)
10.3.1	Amendment, dated January 1, 1999, to Employment Agreement between the Company and Stephen G. Berman (12)(*)
10.4	Employment Agreement between the Company and Jack Friedman dated as of July 1, 1999 (16)(*)
10.4.1	Amendment, dated as of February 7, 2000, to Employment Agreement between the Company and Jack Friedman (17)
10.5	Employment Agreement between the Company and Stephen G. Berman dated as of July 1, 1999 (16)(*)
10.5.1	Amendment, dated as of February 7, 2000, to Employment Agreement between the Company and Stephen G. Berman (17)
10.6	Purchase Agreement among the Company, JAKKS Acquisition Corp., Road Champs, Inc., Road Champs Ltd., Die Cast Associates, Inc. and the shareholders of Road Champs, Inc. dated January 21, 1997 (3)
10.7.1	Office Lease dated June 18, 1997 between the Company and Malibu Vista Partners (8)(P)
10.7.2	Supplemental Lease dated August 10, 1998 between Malibu Vista Partners and the Company (10)
10.7.3	Third Amendment dated January 25, 1999 to Lease between the Company and Malibu Vista Partners (12)
10.8	Lease of the Company's warehouse space at 7 Patton Drive, West Caldwell, New Jersey and amendment thereto (3)
10.8A	Office Lease dated March 27, 1998 between the Company and Hundal of Union L.P. (8)(P)
10.9	Lease of the Company's showroom at the Toy Center South, 200 Fifth Avenue, New York, New York (1)
10.10	Lease of the Company's showroom at the Toy Center North, 1107 Broadway, New York, New York (3)
10.11	Tenancy Agreement dated March 14, 1998 between the Company and Astoria Investment Company, Ltd. (8)(P)
10.11A	Office Lease dated September 24, 1998 between Astoria Investment Company Limited and Road Champs Ltd. (10)
10.11B	Lease Agreement dated June 2, 1999 between Astoria Investment Company Limited and Road Champs Limited (13)
10.12	License Agreement with Titan Sports, Inc. dated October 24, 1995 (1)
10.12.1	Amendment to License Agreement with Titan Sports, Inc. dated April 22, 1996 (4)
10.12.2	Amendment to License Agreement with Titan Sports, Inc. dated January 21, 1997 (4)
10.12.3	Amendment to License Agreement with Titan Sports, Inc. dated December 3, 1997 (8)
10.12.4	Amendment to License Agreement with Titan Sports, Inc. dated January 29, 1998 (8)

EXHIBIT NUMBER -----	DESCRIPTION -----
10.12.5	Amendment to License Agreement with Titan Sports, Inc. dated June 24, 1998 (12)
10.12.6	Amendment to License Agreement with Titan Sports, Inc. dated February 11, 1999 (12)
10.13	International License Agreement with Titan Sports, Inc. dated February 10, 1997 (4)
10.13.1	Amendment to International License Agreement with Titan Sports, Inc. dated December 3, 1997 (8)
10.13.2	Amendment to International License Agreement with Titan Sports, Inc. dated January 29, 1998 (8)
10.17	Employment Agreement dated as of October 1, 1999 between the Company and Michael Bianco (15)(*)
10.18	Employment Agreement dated as of October 1, 1999 between the Company and Joshua H. Pokempner (15)(*)
10.18A	Letter Agreement dated June 26, 2000 between the Company and Joshua H. Pokempner (35)
10.19	Warrant to purchase 150,000 shares of Common Stock dated January 8, 1997 issued to Joseph Charles & Associates, Inc. (8)
10.20	Office Lease dated November 18, 1999 between the Company and Winco Maliview Partners (17)
10.21	Option Agreement dated August 28, 1997 between the Company and Silverman Heller Associates (8)
10.22	Consulting Agreement dated July 30, 1997 between the Company and Silverman Heller Associates (8)
10.23	Option Agreement dated August 28, 1997 between the Company and Joseph Charles & Associates, Inc. (5)
10.24	Engagement Letter dated August 28, 1997 between the Company and Joseph Charles & Associates, Inc. (5)
10.25	Consulting Agreement between the Company and Sheldon Weiner Sales Organization, Inc. dated June 18, 1996 (5)
10.26.1	Stock Option Agreement between the Company and Sheldon Weiner Sales Organization, Inc. dated June 18, 1996 (5)
10.26.2	Restated Stock Option Agreement between the Company and Sheldon Weiner Sales Organization, Inc. dated June 18, 1996 (5)
10.27	Restated Option Agreement between the Company and Murray Bass dated September 1, 1995 (5)
10.28	Restated Option Agreement between the Company and Joel Bennett dated September 1, 1995 (5)
10.29	Restated Option Agreement between the Company and Gina Hancock dated September 1, 1995 (5)
10.30	Restated Option Agreement between the Company and Wills Hon dated September 1, 1995 (5)
10.31	Restated Option Agreement between the Company and Bruce Katz dated September 1, 1995 (5)
10.36	Stock Purchase Agreement dated as of September 22, 1999 among the Company, Flying Colors Toys, Inc. and its Shareholders (15)

EXHIBIT NUMBER -----	DESCRIPTION -----
10.36.1	First Amendment dated as of September 30, 1999 to Stock Purchase Agreement (15)
10.37	Escrow Agreement dated as of September 30, 1999 among Joshua H. Pokempner, as agent, the Company and Bank One Trust Company, NA, as escrow agent (15)
10.38	Transition Services Agreement dated as of October 1, 1999 between Colorbok LLC and Flying Colors Toys, Inc. (15)
10.39	Lease dated as of October 1, 1999 between Shore Properties LLC and Flying Colors Toys, Inc. (15)
10.40	Stock Purchase Warrant for 111,250 shares issued to Titan Sports, Inc. (13)
10.41	Stock Purchase Warrant for 13,750 shares issued to Stanley Shenker Associates, Inc. (13)
10.42	Agreement of Merger dated as of May 22, 2000 among the Company, JAKKS Acquisition II, Inc. and Pentech International Inc. (19)
10.43	First Amendment dated as of July 13, 2000 to Agreement of Merger (20)
10.44	Voting and Lock-Up Agreement dated May 22, 2000 among the Company and certain stockholders of Pentech International Inc. (21)
10.45	Term Note dated April 13, 2000 in the principal amount of \$1,500,000 made by Jack Friedman payable to the order of the Company (22)
10.46	Installment Note dated April 26, 2000 in the principal amount of \$1,500,000 made by Stephen Berman and Ana Berman payable to the order of the Company (23)
10.47	Deed of Trust dated April 26, 2000 made by Stephen Berman and Ana Berman in favor of First American Title Insurance Company, as Trustee (24)
10.48	Term Note dated May 12, 2000 in the principal amount of \$250,000 made by Joel M. Bennett payable to the Company (25)
10.49	Employment Agreement dated as of January 1, 2000 between the Company and Joel M. Bennett (26)(*)
10.50	Loan and Security Agreement dated as of January 13, 1997 among Pentech International Inc., certain subsidiaries thereof and Bank of America, N.A. (formerly BankAmerica Business Credit, Inc.) (27)
10.51	Waiver and First Amendment dated as of January 11, 1999 to Loan and Security Agreement (28)
10.52	Waiver, Consent and Second Amendment dated as of December 20, 1999 to Loan and Security Agreement (29)
10.53	Consent, Waiver and Third Amendment dated as of July 27, 2000 to Loan and Security Agreement (30)
10.54	Lease dated February 1993 between Edison Equities and Pentech International Inc. (31)
10.55	Agreement of Lease dated August 28, 1995 between 1101 CR NB, L.L.C. (successor in interest to Pensud Company Limited Partnership) and Pentech International Inc. (32)
10.56	First Amendment to Lease dated April 19, 2000 between 1101 CR NB, L.L.C. and Pentech International Inc. (33)
10.57	Second Amendment effective May 1, 2000 to Stock Purchase Agreement dated as of September 22, 1999 among the Company, Flying Colors Toys, Inc. and the former shareholders thereof (34)
10.58	Lease dated as of November 21, 2000 between Grand Avenue Venture, LLC and JP Ferrero Parkway, Inc. (35)

EXHIBIT NUMBER -----	DESCRIPTION -----
21	Subsidiaries of the Company (35)
23	Consent of Pannell Kerr Forster, Certified Public Accountants, A Professional Corporation, Los Angeles, California (35)

-
- (1) Filed previously as an exhibit to the Company's Registration Statement on Form SB-2 (Reg. No. 333-2048-LA), effective May 1, 1996, and incorporated herein by reference.
 - (2) Filed previously as an exhibit to the Company's Registration Statement on Form SB-2 (Reg. No. 333-22583), effective May 1, 1997, and incorporated herein by reference.
 - (3) Filed previously as an exhibit to the Company's Current Report on Form 8-K, filed February 21, 1997, or as schedule 4.2(iii) thereto, and incorporated herein by reference.
 - (4) Filed previously as an exhibit to the Company's Annual Report on Form 10-KSB for its fiscal year ended December 31, 1996, and incorporated herein by reference.
 - (5) Filed previously as an exhibit to the Company's Registration Statement on Form S-8 (Reg. No. 333-35053), effective September 5, 1997, and incorporated herein by reference.
 - (6) Filed previously as an exhibit to the Company's Current Report on Form 8-K, filed November 7, 1997, and incorporated herein by reference.
 - (7) Filed previously as an exhibit to the Company's Current Report on Form 8-K, filed April 7, 1998, and incorporated herein by reference.
 - (8) Filed previously as an exhibit to the Company's Annual Report on Form 10-KSB for its fiscal year ended December 31, 1997, and incorporated herein by reference.
 - (9) Filed previously as Appendix A to the Company's definitive Proxy Statement for its 1998 Annual Meeting of Stockholders, filed June 23, 1998, and incorporated herein by reference.
 - (10) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 1998, filed November 16, 1998, and incorporated herein by reference.
 - (11) Filed previously as exhibit 4.1.2 to the Company's Registration Statement on Form S-3 (Reg. No. 333-74717), filed March 19, 1999, and incorporated herein by reference.
 - (12) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999, filed April 22, 1999, and incorporated herein by reference.
 - (13) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, filed August 9, 1999, and incorporated herein by reference.
 - (14) Filed previously as an exhibit to the Company's Current Report on Form 8-K, filed October 19, 1999, and incorporated herein by reference.
 - (15) Filed previously as an exhibit to the Company's Registration Statement on Form S-8 (Reg. No. 333-90055), filed November 1, 1999, and incorporated herein by reference.
 - (16) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999, filed November 3, 1999, and incorporated herein by reference.
 - (17) Filed previously as an exhibit to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 1999, filed March 30, 2000, and incorporated herein by reference.
 - (18) Filed previously as exhibit 4.1 to the Company's Registration Statement on Form S-8 (Reg. No. 333-40392), filed June 29, 2000, and incorporated herein by reference.

- (19) Incorporated by reference to exhibit 2.1 of the Company's Current Report on Form 8-K, filed August 11, 2000.
- (20) Incorporated by reference to exhibit 2.2 of the Company's Current Report on Form 8-K, filed August 11, 2000.
- (21) Incorporated by reference to exhibit 2.3 of the Company's Current Report on Form 8-K, filed August 11, 2000.
- (22) Incorporated by reference to exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
- (23) Incorporated by reference to exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
- (24) Incorporated by reference to exhibit 10.3 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
- (25) Incorporated by reference to exhibit 10.4 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
- (26) Incorporated by reference to exhibit 10.5 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
- (27) Incorporated by reference to exhibit 10.7 of the Annual Report on Form 10-K of Pentech International Inc. for its fiscal year ended September 30, 1996.
- (28) Incorporated by reference to exhibit 10.5 of the Annual Report on Form 10-K of Pentech International Inc. for its fiscal year ended September 30, 1998.
- (29) Incorporated by reference to exhibit 10.6 of the Annual Report on Form 10-K of Pentech International Inc. for its fiscal year ended September 30, 1999.
- (30) Incorporated by reference to exhibit 10.4 of the Company's Current Report on Form 8-K, filed August 11, 2000.
- (31) Incorporated by reference to exhibit 10.10 of the Annual Report on Form 10-K of Pentech International Inc. for its fiscal year ended September 30, 1993.
- (32) Incorporated by reference to exhibit 10.7 of the Annual Report on Form 10-K of Pentech International Inc. for its fiscal year ended September 30, 1995.
- (33) Incorporated by reference to exhibit 10.15 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
- (34) Incorporated by reference to exhibit 10.16 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
- (35) Filed herewith.
- (P) Filed in paper format pursuant to a hardship exemption under Regulation 232.202 of Regulation S-T.
- (*) Management contract or compensatory plan, contract or arrangement.

(b) Reports on Form 8-K

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: March 30, 2001

JAKKS PACIFIC, INC.

By: /s/ JACK FRIEDMAN

 Jack Friedman
 Chairman and
 Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE -----	TITLE -----	DATE ----
/s/ JACK FRIEDMAN ----- Jack Friedman	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	March 30, 2001
/s/ JOEL M. BENNETT ----- Joel M. Bennett	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 30, 2001
/s/ STEPHEN G. BERMAN ----- Stephen G. Berman	Director	March 30, 2001
/s/ DAVID C. BLATTE ----- David C. Blatte	Director	March 30, 2001
/s/ MICHAEL G. MILLER ----- Michael G. Miller	Director	March 30, 2001
/s/ MURRAY L. SKALA ----- Murray L. Skala	Director	March 30, 2001

EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----
3.1	Restated Certificate of Incorporation of the Company (1)
3.1.1	Certificate of Designation of 4% Redeemable Convertible Preferred Stock of the Company (6)
3.1.2	Certificate of Designation and Preferences of Series A Cumulative Convertible Preferred Stock of the Company (7)
3.1.3	Certificate of Elimination of All Shares of 4% Redeemable Convertible Preferred Stock of the Company (7)
3.1.4	Certificate of Amendment of Restated Certificate of Incorporation of the Company (11)
3.2	By-Laws of the Company (1)
3.2.1	Amendment to By-Laws of the Company (2)
10.1	Third Amended and Restated 1995 Stock Option Plan (9)(*)
10.1A	1999 Amendment to Third Amended and Restated 1995 Stock Option Plan (15)(*)
10.1B	2000 Amendment to Third Amended and Restated 1995 Stock Option Plan (18)(*)
10.2	Employment Agreement between the Company and Jack Friedman dated January 1, 1998 (8)(*)
10.2.1	Amendment, dated January 1, 1999, to Employment Agreement between the Company and Jack Friedman (12)(*)
10.3	Employment Agreement between the Company and Stephen G. Berman dated January 1, 1998 (8)(*)
10.3.1	Amendment, dated January 1, 1999, to Employment Agreement between the Company and Stephen G. Berman (12)(*)
10.4	Employment Agreement between the Company and Jack Friedman dated as of July 1, 1999 (16)(*)
10.4.1	Amendment, dated as of February 7, 2000, to Employment Agreement between the Company and Jack Friedman (17)
10.5	Employment Agreement between the Company and Stephen G. Berman dated as of July 1, 1999 (16)(*)
10.5.1	Amendment, dated as of February 7, 2000, to Employment Agreement between the Company and Stephen G. Berman (17)
10.6	Purchase Agreement among the Company, JAKKS Acquisition Corp., Road Champs, Inc., Road Champs Ltd., Die Cast Associates, Inc. and the shareholders of Road Champs, Inc. dated January 21, 1997 (3)
10.7.1	Office Lease dated June 18, 1997 between the Company and Malibu Vista Partners (8)(P)
10.7.2	Supplemental Lease dated August 10, 1998 between Malibu Vista Partners and the Company (10)
10.7.3	Third Amendment dated January 25, 1999 to Lease between the Company and Malibu Vista Partners (12)
10.8	Lease of the Company's warehouse space at 7 Patton Drive, West Caldwell, New Jersey and amendment thereto (3)
10.8A	Office Lease dated March 27, 1998 between the Company and Hundal of Union L.P. (8)(P)

EXHIBIT NUMBER -----	DESCRIPTION -----
10.9	Lease of the Company's showroom at the Toy Center South, 200 Fifth Avenue, New York, New York (1)
10.10	Lease of the Company's showroom at the Toy Center North, 1107 Broadway, New York, New York (3)
10.11	Tenancy Agreement dated March 14, 1998 between the Company and Astoria Investment Company, Ltd. (8)(P)
10.11A	Office Lease dated September 24, 1998 between Astoria Investment Company Limited and Road Champs Ltd. (10)
10.11B	Lease Agreement dated June 2, 1999 between Astoria Investment Company Limited and Road Champs Limited (13)
10.12	License Agreement with Titan Sports, Inc. dated October 24, 1995 (1)
10.12.1	Amendment to License Agreement with Titan Sports, Inc. dated April 22, 1996 (4)
10.12.2	Amendment to License Agreement with Titan Sports, Inc. dated January 21, 1997 (4)
10.12.3	Amendment to License Agreement with Titan Sports, Inc. dated December 3, 1997 (8)
10.12.4	Amendment to License Agreement with Titan Sports, Inc. dated January 29, 1998 (8)
10.12.5	Amendment to License Agreement with Titan Sports, Inc. dated June 24, 1998 (12)
10.12.6	Amendment to License Agreement with Titan Sports, Inc. dated February 11, 1999 (12)
10.13	International License Agreement with Titan Sports, Inc. dated February 10, 1997 (4)
10.13.1	Amendment to International License Agreement with Titan Sports, Inc. dated December 3, 1997 (8)
10.13.2	Amendment to International License Agreement with Titan Sports, Inc. dated January 29, 1998 (8)
10.17	Employment Agreement dated as of October 1, 1999 between the Company and Michael Bianco (15)(*)
10.18	Employment Agreement dated as of October 1, 1999 between the Company and Joshua H. Pokempner (15)(*)
10.18A	Letter Agreement dated June 26, 2000 between the Company and Joshua H. Pokempner (35)
10.19	Warrant to purchase 150,000 shares of Common Stock dated January 8, 1997 issued to Joseph Charles & Associates, Inc. (8)
10.20	Office Lease dated November 18, 1999 between the Company and Winco Maliview Partners (17)
10.21	Option Agreement dated August 28, 1997 between the Company and Silverman Heller Associates (8)
10.22	Consulting Agreement dated July 30, 1997 between the Company and Silverman Heller Associates (8)
10.23	Option Agreement dated August 28, 1997 between the Company and Joseph Charles & Associates, Inc. (5)
10.24	Engagement Letter dated August 28, 1997 between the Company and Joseph Charles & Associates, Inc. (5)
10.25	Consulting Agreement between the Company and Sheldon Weiner Sales Organization, Inc. dated June 18, 1996 (5)

EXHIBIT NUMBER -----	DESCRIPTION -----
10.26.1	Stock Option Agreement between the Company and Sheldon Weiner Sales Organization, Inc. dated June 18, 1996 (5)
10.26.2	Restated Stock Option Agreement between the Company and Sheldon Weiner Sales Organization, Inc. dated June 18, 1996 (5)
10.27	Restated Option Agreement between the Company and Murray Bass dated September 1, 1995 (5)
10.28	Restated Option Agreement between the Company and Joel Bennett dated September 1, 1995 (5)
10.29	Restated Option Agreement between the Company and Gina Hancock dated September 1, 1995 (5)
10.30	Restated Option Agreement between the Company and Wills Hon dated September 1, 1995 (5)
10.31	Restated Option Agreement between the Company and Bruce Katz dated September 1, 1995 (5)
10.36	Stock Purchase Agreement dated as of September 22, 1999 among the Company, Flying Colors Toys, Inc. and its Shareholders (15)
10.36.1	First Amendment dated as of September 30, 1999 to Stock Purchase Agreement (15)
10.37	Escrow Agreement dated as of September 30, 1999 among Joshua H. Pokempner, as agent, the Company and Bank One Trust Company, NA, as escrow agent (15)
10.38	Transition Services Agreement dated as of October 1, 1999 between Colorbok LLC and Flying Colors Toys, Inc. (15)
10.39	Lease dated as of October 1, 1999 between Shore Properties LLC and Flying Colors Toys, Inc. (15)
10.40	Stock Purchase Warrant for 111,250 shares issued to Titan Sports, Inc. (13)
10.41	Stock Purchase Warrant for 13,750 shares issued to Stanley Shenker Associates, Inc. (13)
10.42	Agreement of Merger dated as of May 22, 2000 among the Company, JAKKS Acquisition II, Inc. and Pentech International Inc. (19)
10.43	First Amendment dated as of July 13, 2000 to Agreement of Merger (20)
10.44	Voting and Lock-Up Agreement dated May 22, 2000 among the Company and certain stockholders of Pentech International Inc. (21)
10.45	Term Note dated April 13, 2000 in the principal amount of \$1,500,000 made by Jack Friedman payable to the order of the Company (22)
10.46	Installment Note dated April 26, 2000 in the principal amount of \$1,500,000 made by Stephen Berman and Ana Berman payable to the order of the Company (23)
10.47	Deed of Trust dated April 26, 2000 made by Stephen Berman and Ana Berman in favor of First American Title Insurance Company, as Trustee (24)
10.48	Term Note dated May 12, 2000 in the principal amount of \$250,000 made by Joel M. Bennett payable to the Company (25)
10.49	Employment Agreement dated as of January 1, 2000 between the Company and Joel M. Bennett (26)(*)
10.50	Loan and Security Agreement dated as of January 13, 1997 among Pentech International Inc., certain subsidiaries thereof and Bank of America, N.A. (formerly BankAmerica Business Credit, Inc.) (27)

EXHIBIT NUMBER -----	DESCRIPTION -----
10.51	Waiver and First Amendment dated as of January 11, 1999 to Loan and Security Agreement (28)
10.52	Waiver, Consent and Second Amendment dated as of December 20, 1999 to Loan and Security Agreement (29)
10.53	Consent, Waiver and Third Amendment dated as of July 27, 2000 to Loan and Security Agreement (30)
10.54	Lease dated February 1993 between Edison Equities and Pentech International Inc. (31)
10.55	Agreement of Lease dated August 28, 1995 between 1101 CR NB, L.L.C. (successor in interest to Pensud Company Limited Partnership) and Pentech International Inc. (32)
10.56	First Amendment to Lease dated April 19, 2000 between 1101 CR NB, L.L.C. and Pentech International Inc. (33)
10.57	Second Amendment effective May 1, 2000 to Stock Purchase Agreement dated as of September 22, 1999 among the Company, Flying Colors Toys, Inc. and the former shareholders there (34)
10.58	Lease dated as of November 21, 2000 between Grand Avenue Venture, LLC and JP Ferrero Parkway, Inc. (35)
21	Subsidiaries of the Company (35)
23	Consent of Pannell Kerr Forster, Certified Public Accountants, A Professional Corporation, Los Angeles, California (35)

-
- (1) Filed previously as an exhibit to the Company's Registration Statement on Form SB-2 (Reg. No. 333-2048-LA), effective May 1, 1996, and incorporated herein by reference.
 - (2) Filed previously as an exhibit to the Company's Registration Statement on Form SB-2 (Reg. No. 333-22583), effective May 1, 1997, and incorporated herein by reference.
 - (3) Filed previously as an exhibit to the Company's Current Report on Form 8-K, filed February 21, 1997, or as schedule 4.2(iii) thereto, and incorporated herein by reference.
 - (4) Filed previously as an exhibit to the Company's Annual Report on Form 10-KSB for its fiscal year ended December 31, 1996, and incorporated herein by reference.
 - (5) Filed previously as an exhibit to the Company's Registration Statement on Form S-8 (Reg. No. 333-35053), effective September 5, 1997, and incorporated herein by reference.
 - (6) Filed previously as an exhibit to the Company's Current Report on Form 8-K, filed November 7, 1997, and incorporated herein by reference.
 - (7) Filed previously as an exhibit to the Company's Current Report on Form 8-K, filed April 7, 1998, and incorporated herein by reference.
 - (8) Filed previously as an exhibit to the Company's Annual Report on Form 10-KSB for its fiscal year ended December 31, 1997, and incorporated herein by reference.
 - (9) Filed previously as Appendix A to the Company's definitive Proxy Statement for its 1998 Annual Meeting of Stockholders, filed June 23, 1998, and incorporated herein by reference.
 - (10) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 1998, filed November 16, 1998, and incorporated herein by reference.
 - (11) Filed previously as exhibit 4.1.2 to the Company's Registration Statement on Form S-3 (File No. 333-74717), filed March 19, 1999, and incorporated herein by reference.

- (12) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999, filed April 22, 1999, and incorporated herein by reference.
- (13) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, filed August 9, 1999, and incorporated herein by reference.
- (14) Filed previously as an exhibit to the Company's Current Report on Form 8-K, filed October 19, 1999, and incorporated herein by reference.
- (15) Filed previously as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-90055), filed November 1, 1999, and incorporated herein by reference.
- (16) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999, filed November 3, 1999, and incorporated herein by reference.
- (17) Filed previously as an exhibit to the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 1999, filed March 30, 2000, and incorporated herein by reference.
- (18) Filed previously as exhibit 4.1 to the Company's Registration Statement on Form S-8 (Reg. No. 333-40392), filed June 29, 2000, and incorporated herein by reference.
- (19) Incorporated by reference to exhibit 2.1 of the Company's Current Report on Form 8-K, filed August 11, 2000.
- (20) Incorporated by reference to exhibit 2.2 of the Company's Current Report on Form 8-K, filed August 11, 2000.
- (21) Incorporated by reference to exhibit 2.3 of the Company's Current Report on Form 8-K, filed August 11, 2000.
- (22) Incorporated by reference to exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
- (23) Incorporated by reference to exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
- (24) Incorporated by reference to exhibit 10.3 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
- (25) Incorporated by reference to exhibit 10.4 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
- (26) Incorporated by reference to exhibit 10.5 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
- (27) Incorporated by reference to exhibit 10.7 of the Annual Report on Form 10-K of Pentech International Inc. for its fiscal year ended September 30, 1996.
- (28) Incorporated by reference to exhibit 10.5 of the Annual Report on Form 10-K of Pentech International Inc. for its fiscal year ended September 30, 1998.
- (29) Incorporated by reference to exhibit 10.6 of the Annual Report on Form 10-K of Pentech International Inc. for its fiscal year ended September 30, 1999.
- (30) Incorporated by reference to exhibit 10.4 of the Company's Current Report on Form 8-K, filed August 11, 2000.
- (31) Incorporated by reference to exhibit 10.10 of the Annual Report on Form 10-K of Pentech International Inc. for its fiscal year ended September 30, 1993.

- (32) Incorporated by reference to exhibit 10.7 of the Annual Report on Form 10-K of Pentech International Inc. for its fiscal year ended September 30, 1995.
- (33) Incorporated by reference to exhibit 10.15 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
- (34) Incorporated by reference to exhibit 10.16 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, filed August 14, 2000.
- (35) Filed herewith.
- (P) Filed in paper format pursuant to a hardship exemption under Regulation 232.202 of Regulation S-T.
- (*) Management contract or compensatory plan, contract or arrangement.

JAKKS PACIFIC, INC.
22761 Pacific Coast Highway
Malibu, CA 90265
(310) 456-7799

June 26, 2000

Mr. Joshua H. Pokempner
2908 West Delhi Road
Ann Arbor, MI 48103

Dear Mr. Pokempner:

Please refer to the Employment Agreement dated as of October 1, 1999 between the Company and you (the "Employment Agreement"). Capitalized terms are used herein as defined in the Employment Agreement. This letter will confirm our agreement with respect to the termination of the Employment Agreement as follows:

1. The Employment Agreement was terminated effective as of the close of business on April 30, 2000 (the "Termination Time"), and Executive's employment and all obligations of the parties thereto were thereupon terminated; provided that such termination shall not relieve either party thereto of any obligation which was or is required to be performed by such party prior to, or in respect of any period ending prior to, the Termination Time nor deprive any party of any right, claim or cause of action that such party may have thereunder.

2. Executive acknowledges that all amounts owed to him under the Employment Agreement, including without limitation amounts payable to him pursuant to Section 15(a) of the Employment Agreement, have been paid to and received by him, and that no other payment is required to be made to him by the Company under the Employment Agreement, including without limitation pursuant to Section 15(b).

3. The Company and Executive acknowledge and agree that:

(a) the Employment Agreement was terminated by mutual consent and that the provisions of Sections 12, 13 and 14 of the Employment Agreement do not apply hereto;

(b) in light of the termination of Executive's employment pursuant hereto, all options heretofore granted to Executive under the Company's Third Amended and Restated 1995 Stock Option Plan shall terminate forthwith; and

Mr. Joshua H. Pokempner
June 26, 2000
Page 2

(c) concurrently herewith the Company is granting to Executive an option under such Plan in the form of Exhibit A hereto.

To confirm your agreement with the foregoing, please countersign this letter where indicated below and return it to the Company at its address set forth in the Employment Agreement.

Very truly yours,

JAKKS PACIFIC, INC.

By: /s/ JOEL M. BENNETT

Joel M. Bennett,
Executive Vice President

AGREED AND ACCEPTED:

/s/ JOSHUA H. POKEMPNER

Joshua H. Pokempner

cc: Howard Rice, Esq.
Murray L. Skala, Esq.

EXHIBIT A

JAKKS PACIFIC, INC.

CERTIFICATE OF STOCK OPTION AGREEMENT

To purchase 6,750 shares of Common Stock

June 26, 2000

JAKKS Pacific, Inc., a Delaware corporation (the "Company"), hereby certifies that Joshua H. Pokempner has been granted an Option to purchase 6,750 shares of Common Stock, pursuant to and subject to the terms and conditions of the Company's Third Amended and Restated 1995 Stock Option Plan, as amended (the "Plan"), exercisable as follows:

1. Date of Grant: June 26, 2000
2. Exercise Price: \$26.00
3. Vesting: This Option is exercisable to the extent of the following number of shares commencing on the following dates:

Date on or after which shares can be purchased -----	Number of Shares -----
October 1, 2000	2,250
October 1, 2001	additional 2,250
October 1, 2002	additional 2,250

4. Termination: This Option shall not be exercisable after 5:00 p.m. Pacific Time on September 30, 2005.
5. Method of Exercise of Option: The Optionee shall notify the Company by written notice, substantially in the form of the Option Exercise Form annexed hereto, sent by registered or certified mail, return receipt request, addressed to its principal office, or by hand delivery to such office, attention Secretary, properly receipted, as to the number of shares of Common Stock which the Optionee desires to purchase under this Option, which written notice shall be accompanied by the Optionee's check payable to the order of the Company for the full option price of such shares of Common Stock, unless payment of the option price is to be made in accordance with, and subject to the conditions of, the proviso to Section 12(b) of the Plan. As soon as practicable after the

receipt of such written notice, the Company shall, at its principal office, deliver to the Optionee a certificate or certificates issued in the Optionee's name evidencing the shares of Common Stock so purchased by the Optionee hereunder.

PLEASE REFER TO THE COMPLETE PLAN TO SEE THE TERMS AND CONDITIONS THEREOF APPLICABLE TO THIS OPTION.

JAKKS PACIFIC, INC.

By: /s/ JOEL M. BENNETT

Name: Joel M. Bennett
Title: Executive Vice President

OPTIONEE:

/s/ JOSHUA H. POKEMPNER

Name: Joshua H. Pokempner

OPTION EXERCISE FORM

JAKKS PACIFIC, INC.
22761 Pacific Coast Highway
Malibu, CA 90265

The undersigned hereby exercises the right to purchase _____ shares of Common Stock pursuant to and in accordance with the terms and conditions of the Option granted June 26, 2000, and herewith makes payment of \$_____ therefor, and requests that a certificate for such shares be issued in the name of the undersigned and be delivered to the undersigned at the address stated below, and, if such number of shares shall not be all of the shares subject to such Option, that a new Certificate of Stock Option Agreement of like tenor for the balance of the shares purchasable thereunder be delivered to the undersigned at the address stated below.

Dated: _____

Address: _____

Name: Joshua H. Pokempner

LEASE
(Multi Tenant)

between

GRAND AVENUE VENTURE, LLC,
a California limited liability company

and

JP FERRERO PARKWAY, INC.,
a California corporation

TABLE OF CONTENTS

	Page

1. Parties	1
2. Premises, Parking and Common Areas	1
2.1 Premises	1
2.2 Vehicle Parking	1
2.3 Common Areas -- Definition	2
2.4 Common Areas -- Tenant's Rights	2
2.5 Common Areas -- Rules and Regulations	2
2.6 Common Areas -- Changes	3
3. Term	4
3.1 Term	4
3.2 Delay in Possession	4
3.3 Early Possession	4
4. Rent	5
4.1 Base Rent	5
4.2 Operating Expenses	5
4.3 Certain Capital Items	9
4.4 Capital Items Incurred by Tenant for Compliance Work	10
4.5 Effect of Exercise of Option to Extend on Payment of Certain Amounts Under Sections 4.3 and 4.4	10
5. Security Deposit	10
6. Use	12
6.1 Use	12
6.2 Compliance with Law	12
6.3 Conditions of Premises	13
7. Maintenance, Repairs, Alterations and Common Area Services	14
7.1 Landlord's Obligations	14
7.2 Tenant's Obligations	14
7.3 Alterations and Additions	15
7.4 Utility Additions	20
7.5 Condition of Premises Upon Termination; Additional Use Provisions	20
8. Insurance; Indemnity	21

	Page	

9.	Damage or Destruction	25
9.1	Definitions	25
9.2	Premises Partial Damage; Premises Building Partial Damage	26
9.3	Premises Total Destruction; Premises Building Total Destruction; Industrial Center Buildings Total Destruction	27
9.4	Damage Near End of Term	27
9.5	Abatement of Rent; Tenant's Remedies	28
9.6	Termination -- Advance Payments	28
9.7	Waiver	28
10.	Real Property Taxes	28
10.1	Payment of Taxes	28
10.2	Additional Improvements	29
10.3	Definition of "Real Property Tax"	29
10.4	Joint Assessment	29
10.5	Personal Property Taxes	29
10.6	Additional Provisions Regarding Real Property Taxes.	30
11.	Utilities	30
12.	Assignment and Subletting	30
12.1	Landlord's Consent Required	30
12.2	Tenant Affiliate	32
12.3	Tenants Other Than Individuals	32
12.4	Terms and Conditions of Assignment	33
12.5	Terms and Conditions Applicable to Subletting	33
12.6	Attorney's Fees	35
12.7	Permitted Truck Yard Occupants	35
13.	Default Remedies	36
13.1	Default	36
13.2	Remedies	37
13.3	Default by Landlord	39
13.4	Late Charges	39
14.	Condemnation	40
15.	Broker's Commissions	40
16.	Estoppel Certificate	41
17.	Landlord's Liability	42

	Page

18. Severability	42
19. Interest on Past-due Obligations	42
20. Time of Essence	42
21. Additional Rent	42
22. Incorporation of Prior Agreements; Amendments	42
23. Notices	43
24. Waivers	44
25. No Recording	44
26. Holding Over	44
27. Cumulative Remedies	44
28. Covenants and Conditions	44
29. Binding Effect; Choice of Law	45
30. Subordination	45
31. Attorney's Fees	46
32. Landlord's Access	46
33. Auctions	46
34. Signs	47
35. Merger	47
36. Consents	47
37. Guarantor	47
38. Quiet Possession	47

	Page	

39.	Options	48
39.1	Definition	48
39.2	Options Personal	48
39.3	Multiple Options	48
39.4	Effect of Default on Options	48
39.5	First Option	49
39.6	Second Option	50
39.7	Fair Market Rent	51
40.	Security Measures	53
41.	Easements	53
42.	Performance Under Protest	54
43.	Authority	54
44.	Cashier's Checks	54
45.	Amendments to Lease	54
46.	Storage Tanks	54
47.	Hazardous Materials	55
47.1	Tenant's Covenants Regarding Hazardous Materials	55
47.2	Indemnification of Landlord	57
48.	Landlord's Default	58
49.	Recovery of Concessions Upon Early Termination	58
50.	Easements and Restrictions of Record	58
51.	Offer	58
52.	Waiver of Trial by Jury	58
53.	ERISA	59
54.	Guaranty	59

LEASE

1. Parties. This Lease (the "Lease"), dated, for reference purposes only, November 21, 2000, is made by and between GRAND AVENUE VENTURE, LLC, a California limited liability company ("Landlord") and JP FERRERO PARKWAY, INC., a California corporation ("Tenant").

2. Premises, Parking and Common Areas.

2.1 Premises. Landlord hereby leases to Tenant and Tenant leases from Landlord for the term, at the rental, and upon all of the conditions set forth herein, that certain real property situated in the County of Los Angeles, State of California, commonly known as 21558 Ferrero Parkway, City of Industry, California and described as all of the space in the 318,497 square foot building (the "Building") located on the property shown on Exhibit "A" hereto, said 318,497 square feet herein referred to as the "Premises," and cross-hatched on Exhibit "A" attached hereto, including rights to the Common Areas as hereinafter specified but not including any rights to the roof of the Premises or to any Building in the Industrial Center. The Premises, the Building, the Common Areas, the land upon which the same are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "Industrial Center." Landlord shall construct certain tenant improvements (the "Tenant Improvements") in the Premises pursuant to Exhibit "C" attached hereto.

2.2 Vehicle Parking. Tenant shall be entitled to exclusive use of all of the vehicle parking spaces, on those portions of the Common Areas shown as Tenant's Parking on Exhibit "B" hereto ("Tenant's Parking Area"). Tenant shall not use parking spaces outside of Tenant's Parking Area. Said parking spaces shall be used only for parking by vehicles no larger than full size passenger automobiles or pick-up trucks, herein called "Permitted Size Vehicles." Vehicles other than Permitted Size Vehicles are herein referred to as "Oversized Vehicles."

2.2.1 Tenant shall not permit or allow any vehicles that belong to or are controlled by Tenant or Tenant's employees, suppliers, shippers, customers, or invitees to be loaded, unloaded, or parked in any area other than Tenant's Parking area and the Exclusive Truck Yard Area (as defined below).

2.2.2 If Tenant permits or allows any of the prohibited activities described in paragraph 2.2 of this Lease, then Landlord shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow

away the vehicle involved and charge the cost to Tenant, which cost shall be immediately payable upon demand by Landlord.

2.2.3 The Exclusive Truck Yard Area shall be for the exclusive use of Tenant. Tenant may park Oversized Vehicles in the Exclusive Truck Yard Area.

2.3 Common Areas -- Definition. The term "Common Areas" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Industrial Center that are provided and designated by the Landlord from time to time for the general non-exclusive use of Landlord, Tenant and of other Tenants of the Industrial Center and their respective employees, suppliers, shippers, customers and invitees, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways and landscaped areas.

2.4 Common Areas -- Tenant's Rights. Landlord hereby grants to Tenant, for the benefit of Tenant and its employees, suppliers, shippers, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Landlord under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Industrial Center. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Landlord or Landlord's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur then Landlord shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Tenant, which cost shall be immediately payable upon demand by Landlord.

2.5 Common Areas -- Rules and Regulations. Landlord or such other person(s) as Landlord may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable rules and regulations with respect thereto. Tenant agrees to abide by and conform to all such rules and regulations, and to cause its employees, suppliers, shippers, customers, and invitees to so abide and conform. Landlord shall not be responsible to Tenant for the non-compliance with said rules and regulations by other tenants of the Industrial Center.

2.6 Common Areas -- Changes. Landlord shall have the right, in Landlord's sole discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas and walkways;

(b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available;

(c) To designate other land outside the boundaries of the Industrial Center to be a part of the Common Areas;

(d) To add additional buildings and improvements to the Common Areas;

(e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Industrial Center, or any portion thereof;

(f) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Industrial Center as Landlord may, in the exercise of sound business judgment, deem to be appropriate.

2.6.1 Landlord shall at all times provide the parking facilities required by applicable law and in no event shall the number of parking spaces that Tenant is entitled to under paragraph 2.2 be reduced.

2.7 Truck Yard. The truck yard area shall be enclosed with fencing as shown on Exhibit "B" (the "Exclusive Truck Yard Area"). In the event the Exclusive Truck Yard Area is so separately fenced, then thereafter through the term of this Lease Tenant shall maintain, repair and replace all improvements (including without limitation the fencing) in the Exclusive Truck Yard Area at its sole cost and expense in accordance with the standards of maintenance provided for herein.

3. Term.

3.1 Term. The term of this Lease shall be for sixty-one (61) months commencing on the Commencement Date (as defined below) and ending on the Expiration Date (as defined below) unless sooner terminated pursuant to any provision hereof. The term "Commencement Date" means the later of (a) January 1, 2001, or (b) the date that is 15 days after the date upon which Substantial Completion (as

defined below) of the Tenant Improvements (as defined in Exhibit C hereto) occurs. The initial term of this Lease shall expire at 5:00 p.m. on the day (the "Expiration Date") preceding the date that is 61 months after the Commencement Date. Landlord and Tenant shall promptly execute an amendment to the Lease confirming the commencement and expiration dates of the initial term as soon as the Commencement Date is determined, but failure to execute that Amendment shall not affect the Commencement Date. If the Commencement Date falls on a day that is other than the first day of a calendar month, the number of months for purposes of rent adjustments under this Lease shall be measured from the first day of the calendar month in which the Commencement Date falls. As used in this Lease, the term "Substantial Completion" means the substantial completion of the Tenant Improvements, as determined by Landlord's architect, subject to completion of punch list items.

3.2 Delay in Possession. Notwithstanding the Commencement Date, if for any reason Landlord cannot deliver possession of the Premises to Tenant on or before April 1, 2001 (the "Outside Commencement Date") Landlord shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or the obligations of Tenant hereunder or extend the term hereof, but in such case, Tenant may at Tenant's option, by notice in writing to Landlord within ten (10) days thereafter, cancel this Lease, in which event the parties shall be discharged from all obligations hereunder; provided, further, that if such written notice of Tenant is not received by Landlord within said ten (10) day period, Tenant's right to cancel this Lease hereunder shall terminate and be of no further force or effect. The Outside Commencement Date shall be delayed for one day for each day of delay in Substantial Completion due to Tenant Delays (as defined in Exhibit C) or by strikes, shortages of materials, bad weather, acts of God or any other event beyond Landlord's reasonable control.

3.3 Early Possession. If Tenant occupies the Premises prior to the Commencement Date, such occupancy shall be subject to all provisions of this Lease, such occupancy shall not advance the termination date. Tenant shall be permitted to enter the Premises on the first business day after full execution and delivery of this Lease by Landlord and Tenant without the obligation for payment of Base Rent for the purpose of installing fixtures, telecommunications equipment, equipment, furniture and trade fixtures and to occupy the Premises for its business purposes; provided that (a) Tenant will not interfere with Landlord's construction of the Tenant Improvements, (b) Tenant first provides Landlord with all insurance required by the terms of this Lease, (c) Tenant pays Landlord the second month's Base Rent as provided in paragraph 4.1, (d) all construction by Tenant shall be performed in accordance with the terms of this Lease, including without limitation paragraph 7.3., and (e) Tenant has obtained the necessary governmental approvals required for such early occupancy. Without limiting any other provision of this Lease, Landlord shall not be responsible

for damages or loss to any work performed by Tenant or to Tenant's personal property or the personal property of Tenant's contractor's, employees or agents which occurs during such period of early access.

4. Rent.

4.1 Base Rent. Tenant shall pay to Landlord, as base rent (the "Base Rent") for the Premises, without any offset or deduction, except as may be otherwise expressly provided in this Lease, on the first day of each month of the term hereof, monthly payments in advance in accordance with the following schedule:

Period -----	Monthly Base Rent -----
Months 1-30	\$114,658.92
Months 31 - Expiration of initial Term	\$121,028.86

Tenant shall pay Landlord upon the execution hereof \$114,658.92 as Base Rent for the second month of the term. Rent for any period during the term hereof which is for less than one month shall be a pro rata portion of the Base Rent. Rent shall be payable in lawful money of the United States to Landlord at the address stated herein or to such other persons or at such other places as Landlord may designate in writing.

4.1.1 Free Rent. As an inducement to Tenant's entering into this Lease, Landlord agrees that Base Rent for the first month of the term shall be abated. Landlord and Tenant agree that for tax reporting purposes, none of the Base Rent due in periods in which the Base Rent is not being abated shall be allocated to any other period.

4.2 Operating Expenses. Tenant shall pay to Landlord during the term hereof, in addition to the Base Rent, Tenant's Share, as hereinafter defined, of all Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) "Tenant's Share" is defined, for purposes of this Lease, as follows:

(i) 53.7121% with respect to Operating Expenses applicable to the Industrial Center;

(ii) 100% with respect to Operating Expenses applicable solely to the Building in which the Premises are located.

The percentages set forth above have been determined by dividing the approximate rentable square footage of the Premises by the total approximate square footage of rentable space contained in the Industrial Center, and the Building, as applicable. It is understood and agreed that the square footage figure set forth in paragraph 2.1 is an approximation which Landlord and Tenant agree is reasonable and shall not be subject to revision except in connection with an actual change in the size of the Premises or a change in the space available for lease in the Building, the tax parcel or the Industrial Center.

(b) "Operating Expenses" is defined, for purposes of this Lease, as all costs incurred by Landlord relating to the ownership and operation of the Industrial Center, including but not limited to the following:

(i) The operation, repair and maintenance, in neat, clean, good order and condition, of the following:

(aa) The Common Areas, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities, and fences and gates, elevators and roof.

(bb) Tenant directories and exterior signs;

(cc) Fire detection systems including sprinkler system maintenance and repair.

(dd) Any other service to be provided by Landlord that is elsewhere in this Lease stated to be an "Operating Expense."

(ii) Trash disposal, property management and security services and the cost of any environmental inspections;

(iii) Any deductible portion of an insured loss concerning the Building or the Common Areas;

(iv) The cost of the premiums for the liability and property insurance policies maintained by Landlord under paragraph 8 hereof; provided that if Landlord elects to self-insure or includes the Premises under blanket insurance policies covering multiple properties,

then the cost included in Operating Expenses shall include the portion of the reasonable cost of such self-insurance or blanket insurance that is allocated to the Premises;

(v) The amount of the real property tax to be paid by Landlord under paragraph 10.1 hereof;

(vi) The cost of water, gas, electricity and telephone to service the Common Areas;

(vii) the cost of Landlord's performing the maintenance obligations described in paragraph 7.1, including replacements;

(viii) the cost of operating, repairing, replacing and maintaining (including without limitation exterior painting) the Building, the roof, and any other utilities or equipment, wherever situated, that are for the common use of the tenants of the Building or Industrial Center;

(ix) Reserves set aside for maintenance and repairs of the Common Area, Building and Industrial Center;

(x) the cost of a Commercial General Liability policy of insurance, insuring Landlord, but not Tenant, against liability arising out of the ownership, use, occupancy or maintenance of the Industrial Center, in amounts determined by Landlord, if Landlord determines to obtain such insurance; and

(xi) any charges or fees applicable to the Industrial Center imposed or assessed by any master association or pursuant to any covenants, conditions and restrictions and/or Reciprocal Easement Agreement affecting the Industrial Center and other property in the project of which the Industrial Center is a part.

(c) The inclusion of the improvements, facilities and services set forth in paragraph 4.2(b) of the definition of Operating Expenses shall not be deemed to impose an obligation upon Landlord to either have said improvements or facilities or to provide those services unless the Industrial Center already has the same, Landlord already provides the services, or Landlord has agreed elsewhere in this Lease to provide the same or some of them.

(d) Tenant's Share of Operating Expenses shall be payable by Tenant within thirty (30) days after a reasonably detailed statement of actual

expenses is presented to Tenant by Landlord. Real property tax shall be billed semiannually upon receipt of tax bills and property insurance premiums shall be billed annually. At Landlord's option, however, an amount may be estimated by Landlord from time to time of Tenant's Share of annual Operating Expenses (other than real property taxes and insurance) and the same shall be payable monthly or quarterly, as Landlord shall designate, during each twelve-month period of the Lease term, on the same day as the Base Rent is due hereunder. In the event that Tenant pays Landlord's estimate of Tenant's Share of Operating Expenses as aforesaid, Landlord shall deliver to Tenant within sixty (60) days after the expiration of each calendar year, or as soon thereafter as practicable, a reasonably detailed statement showing Tenant's Share of the actual Operating Expenses incurred during the preceding year. If Tenant's payments under this paragraph 4.2(d) during said preceding year exceed Tenant's Share as indicated on said statement, Tenant shall be entitled to credit the amount of such overpayment against Tenant's Share of Operating Expenses next falling due. If Tenant's payments under this paragraph during said preceding year were less than Tenant's Share as indicated on said statement, Tenant shall pay to Landlord the amount of the deficiency within thirty (30) days after delivery by Landlord to Tenant of said statement.

(e) Landlord and Tenant shall promptly adjust between them by appropriate cash payment any balance determined to exist with respect to Tenant's Share of Operating Expenses after the end of the calendar year in which this Lease terminates, prorating for any partial year involved.

(f) Notwithstanding anything to the contrary in this paragraph 4.2, (i) the property management fee payable by Tenant shall be calculated solely based on the gross rentals under this Lease, (ii) Tenant's Share with respect to such property management fee shall be deemed to be 100% to reflect that only the portion of the property management fee attributable to the gross rentals under this Lease are payable by Tenant, and (iii) Tenant shall not be obligated to pay any property management fee attributable to the gross rentals under any other lease in the Industrial Center.

(g) Special Limitation on Operating Expenses. Anything to the contrary herein notwithstanding, Landlord, at Landlord's cost and not as a part of Operating Expenses, shall be responsible for the maintenance of the roof structure (excluding the roof membrane) and structural elements of exterior walls and foundations of the Building (the "Landlord Structural Elements"), except for repairs arising from damage caused by Tenant or any employee, agent, contractor, subtenant, or invitee of Tenant.

(h) Exclusions from Operating Expenses. Operating Expenses shall exclude improvements made for the exclusive or restricted use of any other tenant in the Industrial Center and any costs incurred in connection with disputes with other tenants of the Industrial Center.

4.3 Certain Capital Items. As used herein, the term "Capital Item" means an item, the cost of which under generally accepted accounting principles, consistently applied, must be capitalized and not expensed. As used herein, the term "Amortized Capital Cost" means a repair, maintenance, replacement, alteration or improvement which (a) is a Capital Item, and (b) either (i) costs \$5,000.00 or more with respect to a single Capital Item or (ii) has a cost that when added to other Capital Items which are not Amortized Capital Costs would cause the amount of costs for Capital Items that are not Amortized Capital Costs and that are paid by Tenant as Operating Expenses to exceed \$25,000.00 in any calendar year. As used herein, the term "Useful Life" means the useful life of the particular Capital Item determined under generally accepted industry standards. As to each Operating Cost otherwise payable by Tenant pursuant to this Lease that is an Amortized Capital Cost, the Amortized Capital Cost shall be included in Operating Expenses in a monthly amount (the "Monthly Recovery Amount") which equals the monthly amount that would fully amortize a loan having a principal balance equal to the Amortized Capital Cost and an interest rate equal to the Amortization Interest Rate (as defined below) in equal monthly payments over the number of months in the Useful Life of the applicable Capital Item. Commencing on the first day of the calendar month after the calendar month in which the applicable Capital Item is completed and on the first day of each month thereafter until the earlier of (A) the expiration of the term of the Lease, or (B) the expiration of the number of months in the item's Useful Life used to calculate the Monthly Recovery Amount, Tenant shall pay Landlord as part of Operating Expenses an amount equal to the Monthly Recovery Amount as to each Amortized Capital Cost. As used herein, the term "Amortization Interest Rate" means an interest rate equal to the LIBOR Rate plus 425 basis points, where the "LIBOR Rate" means, for each month, the one (1) month LIBOR (London Interbank Offered Rate) Rate published in The Wall Street Journal (the "Reported Rate") on the first Publication Date (as defined below) of the applicable month. If The Wall Street Journal (i) publishes more than one (1) Reported Rate on any Publication Date, the average of such rates shall apply or (ii) publishes a retraction or correction of any Reported Rate, the corrected rate reported in such retraction or correction shall apply. If the Reported Rate is no longer published at least monthly, the LIBOR Rate shall be deemed to be such other London Interbank Offered Rate published in The Wall Street Journal as most reasonably approximates the Reported Rate. As used herein, the term "Publication Date" means any date on which the LIBOR Rate is published in The Wall Street Journal.

4.4 Capital Items Incurred by Tenant for Compliance Work. With respect to any Capital Item which is the obligation of Tenant pursuant to paragraph 6.2(b) of the Lease (other than Capital Items that are related to or part of the Tenant Improvements or any alterations by Tenant) and which is not required due to Tenant's particular use of the Premises, Tenant's breach of the Lease or any alterations or other improvements to the Premises by Tenant (each, a "Tenant Capital Cost"), Tenant may give notice to Landlord of the amount of the Tenant Capital Cost and Tenant's opinion as to the Useful Life of the Capital Item and that Tenant requires that Landlord reimburse Tenant for the entire cost of the Tenant Capital Cost and agrees to repay Landlord on a monthly basis in the same manner as if the Tenant Capital Cost were an Amortized Capital Cost under paragraph 4.3. If Tenant makes the election under this paragraph 4.4, Landlord shall reimburse Tenant for the entire cost of such Capital Item within thirty (30) days after Tenant's notice. As a condition to Landlord's obligation to make the payments to Tenant described in paragraphs 4.3 and 4.4, Tenant shall provide Landlord with reasonable evidence that the costs of such Capital Item was paid and unconditional mechanic's lien releases in the form required under California law from the contractor and subcontractors who installed the Capital Item.

4.5 Effect of Exercise of Option to Extend on Payment of Certain Amounts Under Sections 4.3 and 4.4. In the event that Tenant exercises an option pursuant to paragraph 39, then with respect to Amortized Capital Costs under paragraph 4.3 and Tenant Capital Costs under paragraph 4.4, as to which it has not made a Monthly Recovery Amount payment for the number of months in the Useful Life of the applicable Capital Item, Tenant shall pay during the applicable Lease Option a Monthly Recovery Amount until it has made monthly payments for the number of months in the Useful Life of the applicable Capital Item, taking into account all prior Monthly Recovery Amount payments.

5. Security Deposit. Subject to paragraph 5.1 Tenant shall deposit with Landlord upon execution hereof \$114,658.92 as security for Tenant's faithful performance of Tenant's obligations hereunder. If Tenant fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Landlord may use, apply or retain all or any portion of said deposit for the payment of any rent or other charge in default or for the payment of any other sum to which Landlord may become obligated by reason of Tenant's default, or to compensate Landlord for any loss or damage which Landlord may suffer thereby. If Landlord so uses or applies all or any portion of said deposit, Tenant shall within ten (10) days after written demand therefor deposit cash with Landlord in an amount sufficient to restore said deposit to the full amount then required of Tenant and Tenant's failure to do so shall be a material breach of this Lease. If the monthly rent shall, from time to time, increase during the term of this Lease, Tenant shall, at the time of such increase, deposit with Landlord additional money as a security deposit so that the total amount

of the security deposit held by Landlord shall at all times bear the same proportion to the then current Base Rent as the initial security deposit bears to the initial Base Rent set forth in paragraph 4. Landlord shall not be required to keep said security deposit separate from its general accounts. If Tenant performs all of Tenant's obligations hereunder, said deposit, or so much thereof as has not theretofore been applied by Landlord, shall be returned, without payment of interest or other increment for its use, to Tenant (or, at Landlord's option, to the last assignee, if any, of Tenant's interest hereunder) at the expiration of the term hereof, and after Tenant has vacated the Premises. No trust relationship is created herein between Landlord and Tenant with respect to said Security Deposit.

5.1 Conditional Waiver of Security Deposit. Subject to the terms of this Paragraph, Landlord waives the requirement of a Security Deposit. During the term of this Lease, Tenant shall deliver to Landlord annual financial statements of Guarantor (as defined below) and Tenant, including a balance sheet, income statement and statement of changes in financial position for the prior 12-month period. Each such annual report shall (a) include a schedule of all material contingent liabilities and all other notes and schedules relating thereto, (b) be in a form reasonably satisfactory to Landlord, (c) be prepared in accordance with generally accepted accounting principles consistently applied, and (d) be audited by independent certified public accountants satisfactory to Landlord. Landlord agrees that so long as Guarantor is then making 10-K filings with the Securities and Exchange Commission, the form of financial statement filed by Guarantor on Form 10-K with the Securities and Exchange Commission shall be an acceptable form of financial statements of Guarantor and that the auditors regularly employed by Guarantor to audit those financial statements will be acceptable to Landlord for purposes of this Paragraph 5.1. In the event that, upon review of that annual statement, Landlord determines in its sole and absolute discretion that Guarantor's and Tenant's aggregate tangible net worth is less than \$100,000,000.00, Landlord may give Tenant written notice that this waiver is rescinded and that a Security Deposit will be required for the balance of the term of the Lease and Tenant shall deposit with Landlord within 15 days after that written notice an amount equal to one month's Base Rent payable at that time and that deposit will be held as a Security Deposit pursuant to, and thereafter be subject to all of the requirements of, the terms of Paragraph 5 of this Lease. This waiver is for the benefit of, and is personal to, the original Tenant named in this Lease.

6. Use.

6.1 Use. The Premises shall be used and occupied only for packing, assembly, warehousing and distribution of consumer and household products and office uses and for no other purpose. Tenant shall be solely responsible for (a) determining if and to the extent Tenant's use is permitted by applicable laws and

regulations and (b) obtaining and maintaining all permits and licenses required by applicable laws and regulations for such use.

6.2 Compliance with Law.

(a) Landlord warrants to Tenant to Landlord's actual knowledge that the Premises, in the state existing on the date that the Lease term commences, but without regard to alterations by Tenant or to the use for which Tenant will occupy the Premises, does not violate any covenants or restrictions of record, or any applicable building code, regulation or ordinance in effect on such Lease term commencement date. In the event it is determined that this warranty has been violated, then it shall be the obligation of the Landlord, after written notice from Tenant, to promptly, at Landlord's sole cost and expense, rectify any such violation. In the event Tenant does not give to Landlord written notice of the violation of this warranty within six months from the date that the Lease term commences, the correction of same shall be the obligation of Tenant at Tenant's sole cost.

(b) Except as provided in paragraph 6.2(a) Tenant shall, at Tenant's expense, promptly comply with all applicable statutes, ordinances, rules, regulations, orders, covenants and restrictions of record, and requirements of any fire insurance underwriters or rating bureaus, now in effect or which may hereafter come into effect, whether or not they reflect a change in policy from that now existing, during the term or any part of the term hereof, relating in any manner to the Premises and the occupation and use by Tenant of the Premises and of the Common Areas. Tenant shall not use nor permit the use of the Premises or the Common Areas in any manner that will tend to create waste or a nuisance or shall tend to disturb other occupants of the Industrial Center. Tenant shall also be responsible for the cost of compliance with all laws and requirements that impose any obligation, order or duty on Landlord or Tenant in respect of the Common Area, the Industrial Center, or the Building, arising from or related to: (i) Tenant's particular use of the Premises; (ii) the manner of conduct of Tenant's business or operation of its installations, equipment or other property (for other than general warehouse and distribution uses); (iii) any cause or condition created by or at the instance of Tenant; or (iv) breach of any of Tenant's obligations hereunder; and Tenant shall pay all costs, expenses, fines, penalties and damages imposed upon Landlord by reason of or arising out of Tenant's failure to fully and promptly comply with and observe the provision of this Paragraph 6.2. Where Tenant's compliance as required by this Paragraph 6.2 necessitates action by Tenant for which this Lease requires Landlord's consent, Tenant shall obtain such consent before taking such actions.

6.3 Conditions of Premises.

(a) Landlord shall deliver the Premises to Tenant vacant, clean and free of debris on the Commencement Date (unless Tenant is already in possession) and Landlord warrants to Tenant that the plumbing, mechanical and electrical (from the property line to the central distribution point in the Building) systems in the Premises other than those portions constructed by Tenant and the air-conditioning and ventilating system constructed by Landlord as part of the Tenant Improvements shall be in good operating condition on the Commencement Date. In the event that it is determined that this warranty has been violated, then it shall be the obligation of Landlord, after receipt of written notice from Tenant setting forth with specificity the nature of the violation, to promptly, at Landlord's sole cost, rectify such violation. Tenant's failure to give such written notice to Landlord within twelve (12) months after the Lease Commencement Date shall cause the conclusive presumption that Landlord has complied with all of Landlord's obligations hereunder.

(b) Except as otherwise provided in this Lease, Tenant hereby accepts the Premises in their condition existing as of the Lease commencement date or the date that Tenant takes possession of the Premises, whichever is earlier, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises, and any covenants, easements or restrictions of record and accepts this Lease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Tenant acknowledges that neither Landlord nor Landlord's agent has made any representation or warranty as to the present or future suitability of the Premises for the conduct of Tenant's business.

7. Maintenance, Repairs, Alterations and Common Area Services.

7.1 Landlord's Obligations. Subject to the provisions of paragraph 4.2 (Operating Expenses), 6 (Use), 7.2 (Tenant's Obligations) 7.5, (Condition of Premises Upon Termination) and 9 (Damage or Destruction) and except for damage caused by any negligent or intentional act or omission of Tenant, Tenant's employees, suppliers, shippers, customers, or invitees, in which event Tenant shall repair the damage, Landlord, at Landlord's expense, subject to reimbursement pursuant to paragraph 4.2 (for other than the costs related to the Landlord Structural Elements for which Landlord is responsible under paragraph 4.2(g)), shall keep in good condition and repair the foundations, exterior walls, structural condition of interior bearing walls, and roof of the Premises, as well as the parking lots, walkways, driveways, landscaping, fences, signs and utility installations of the Common Areas and all parts thereof, including without limitation, repairs of electrical, mechanical and

plumbing (water and sewer) lines serving the Industrial Center and the Building, up to their central distribution point within the Building. Landlord shall not, however, be obligated to paint the exterior or interior surface of exterior walls, nor shall Landlord be required to maintain, repair or replace windows, doors or plate glass of the Premises, or to maintain or repair anything required to be maintained by Tenant under paragraph 7.2. Landlord shall have no obligation to make repairs under this paragraph 7.1 until a reasonable time after receipt of written notice from Tenant of the need for such repairs. Tenant expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Tenant the right to make repairs at Landlord's expense or to terminate this Lease because of Landlord's failure to keep the Premises in good order, condition and repair. Landlord shall not be liable for damages or loss of any kind or nature by reason of Landlord's failure to furnish any Common Area services when such failure is caused by accident, breakage, repairs, strikes, lockout, or other labor disturbances or disputes of any character or by any other cause beyond the reasonable control of Landlord.

7.2 Tenant's Obligations.

(a) Subject to the provisions of paragraphs 6 (Use), 7.1 (Landlord's Obligations), and 9 (Damage or Destruction), Tenant, at Tenant's expense, shall keep in good order, condition and repair the Premises and every part thereof (whether or not the damaged portion of the Premises or the means of repairing the same are reasonably or readily accessible to Tenant) including, without limiting the generality of the foregoing, any plumbing, heating, ventilating and air conditioning systems (Tenant shall procure and maintain, at Tenant's expense, a ventilating and air conditioning system maintenance contract), electrical and lighting facilities and equipment within the Premises, or that serves only the Premises wherever situated, fixtures, interior walls and interior surfaces of exterior walls, ceilings, windows, doors, plate glass, and skylights located within the Premises. Landlord reserves the right to procure and maintain the ventilating and air conditioning system maintenance contract and if Landlord so elects, Tenant shall reimburse Landlord, upon demand for the cost thereof.

(b) If Tenant fails to perform Tenant's obligations under this paragraph 7.2 or under any other paragraph of this Lease, Landlord may enter upon the Premises after ten (10) days' prior written notice to Tenant (except in the case of emergency, in which no notice shall be required) perform such obligations on Tenant's behalf and put the Premises in good order, condition and repair, and the cost thereof together with interest thereon at the maximum rate then allowable by law shall be due and payable as additional rent to Landlord together with Tenant's next Base Rent installment.

(c) On the last day of the term hereof, or on any sooner termination, Tenant shall surrender the Premises to Landlord in the same condition as received, ordinary wear and tear excepted, clean and free of debris. Any damage or deterioration of the Premises shall not be deemed ordinary wear and tear if the same could have been prevented by good maintenance practices. Tenant shall repair any damage to the Premises occasioned by the installation or removal of Tenant's trade fixtures, alterations, furnishings and equipment. Notwithstanding anything to the contrary otherwise stated in this Lease, Tenant shall leave the air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing and fencing on the Premises in good operating condition.

7.3 Alterations and Additions.

(a) Tenant shall not, without Landlord's prior written consent make any alterations, improvements, additions, or Utility Installations in, on or about the Premises, or the Industrial Center, except for nonstructural alterations to the Premises not exceeding \$25,000.00 in cumulative costs, during the term of this Lease. In any event, whether or not in excess of \$25,000.00 in cumulative cost, Tenant shall make no change or alteration to the exterior of the Premises nor the exterior of the Building nor the Industrial Center without Landlord's prior written consent. As used in this paragraph 7.3 the term "Utility Installation" shall mean carpeting, window coverings, air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing, and fencing. Landlord may require that Tenant remove any or all of said alterations, improvements, additions or Utility Installations at the expiration or earlier termination of the term, and restore the Premises and the Industrial Center to their prior condition. Landlord may require Tenant to provide Landlord, at Tenant's sole cost and expense, a lien and completion bond in an amount equal to one and one-half times the estimated cost of such improvements, to insure Landlord against any liability for mechanic's and materialmen's liens and to insure completion of the work. Should Tenant make any alterations, improvements, additions or Utility Installations without the prior approval of Landlord, Landlord may, at any time during the term of the Lease, require that Tenant remove any or all of the same.

(b) Any alterations, improvements, additions, or Utility Installations made by Tenant during the term of this Lease shall be done in a good and workmanlike manner and of good and sufficient materials, and Tenant shall, within thirty (30) days after completion of such alteration, improvements, addition or Utility Installation, provide Landlord with as-built plans and

specifications for same. Notwithstanding anything contained in this Lease to the contrary, Paragraphs 7.3(d)(i)(bb) and (cc) shall apply to non-structural alterations, improvements, additions or Utility Installations not exceeding \$25,000.00 in cost.

(c) Any alterations, improvements, additions or Utility Installations in or about the Premises or the Industrial Center that Tenant shall desire to make and which requires the consent of the Landlord shall be presented to Landlord in written form, with proposed detailed plans. If Landlord shall give its consent, the consent shall be deemed conditioned upon Tenant acquiring a permit to do so from appropriate governmental agencies, the furnishing of a copy thereof to Landlord prior to the commencement of the work and the compliance by Tenant of all conditions of said permit in a prompt and expeditious manner.

(d) For any additions, alterations, improvements, or Utility Installations requiring Landlord's prior written consent:

(i) Tenant shall:

(aa) Request Landlord's approval in writing at least fifteen (15) days prior to proposed construction.

(bb) Employ a California licensed architect, contractor and structural engineer in connection with the proposed construction.

(cc) Be fully responsible for the acts of Tenant's consultants, employees, contractors, subcontractors, invitees and agents, and cause them to fully comply with any applicable terms of this Lease and documents referred to by this Lease and all applicable laws, rules and regulations.

(dd) Enter into written agreements with an architect and general contractor on standard American Institute of Architects (AIA) form or reasonable equivalent for the contract itself as well as payment schedules, change orders, etc. Copies of executed agreements will be forwarded to Landlord within five (5) days of execution.

(ee) Cause to be obtained an applicable building permit for any and all construction and modifications, and

construct the additions and alterations and perform the construction work in accordance with all applicable laws, including without limitation the Americans With Disabilities Act.

(ii) Tenant's Architect Shall:

(aa) Be licensed by the State of California.

(bb) Design and specify within the parameters of the building work letter (if any) and approved building specifications (if any) or have received specific written exceptions from Landlord.

(cc) Secure Landlord's written approval before submitting plans to the general contractor for bidding or to governmental agencies for approval.

(dd) Secure Landlord's written approval of any changes or alternates to the plans recommended by the general contractor or required by governmental agencies.

(ee) Submit a copy of the final application for permit and issued permit to Landlord.

(ff) Incorporate the building standard details (if any) supplied by Landlord onto the drawings.

(gg) Submit final plans for Landlord's written approval prior to construction.

(hh) Be available for final inspection with Landlord at job completion.

(ii) Secure Landlord's written approval of details of any changes in specifications or finishes during construction.

(jj) Provide samples and specifications as required by Landlord.

(kk) Sign off on the as-built drawings as the Architect's certification that the improvements have, in fact, been built as per the Architect's design.

(iii) Tenant's General Contractor and/or Subcontractors Shall:

(aa) Be licensed by the State of California.

(bb) Have substantial experience providing similar quality and quantity of improvements. Work history shall be provided to Landlord prior to being awarded contract.

(cc) Have a bonding capacity equal to or exceeding the valuation of the job. Landlord may, at its sole option, require the job to be bonded.

(dd) Maintain in full force and effect, throughout the duration of its performance under the contract with the Tenant, a Worker's Compensation insurance policy and a Commercial General Liability insurance policy issued by an insurer satisfactory to Landlord with liability coverage of not less than \$1,000,000.00 for personal injury and \$500,000.00 to cover property damage. The Commercial General Liability insurance policy shall include assumption of contractual liability. Certificates of insurance containing a thirty (30) day cancellation clause shall be furnished to Landlord prior to commencement of performance under the construction contract naming Landlord and its managing agent as additional insureds.

(ee) Provide a construction schedule to Landlord prior to commencement of work and weekly written progress reports.

(ff) Warrant the General Contractor's work and that of the General Contractor's subcontractors, for a minimum of one (1) year.

(gg) Provide Landlord with as-built drawings of all improvements.

(iv) All approvals by Landlord, as herein provided for, shall not be unreasonably withheld or delayed. All requests to be submitted to Landlord shall be submitted through Landlord's managing agent.

(e) Tenant shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Tenant at or for use in the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises, or the Industrial Center, or any interest therein. Tenant shall give Landlord not less than thirty (30) days' notice prior to the commencement of any work in the Premises, and Landlord shall have the right to post notices of non-responsibility in or on the Premises or the Building as provided by law. If Tenant shall, in good faith, contest the validity of any such lien, claim or demand, then Tenant shall, at its sole expense defend itself and Landlord against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Landlord or the Premises or the Industrial Center, upon the condition that if Landlord shall require, Tenant shall furnish to Landlord a surety bond satisfactory to Landlord in an amount equal to such contested lien claim or demand indemnifying Landlord against liability for the same and holding the Premises and the Industrial Center free from the effect of such lien or claim. In addition, Landlord may require Tenant to pay Landlord's attorneys fees and costs in participating in such action if Landlord shall decide it is to Landlord's best interest to do so.

(f) All alterations, improvements, additions and Utility Installations (whether or not such Utility Installations constitute trade fixtures of Tenant), which may be made on the Premises, shall be the property of Landlord and shall remain upon and be surrendered with the Premises at the expiration or earlier termination of the Lease term, unless Landlord requires their removal pursuant to paragraph 7.3(a). Notwithstanding the provisions of this paragraph 7.3(f), Tenant's machinery and equipment, other than that which is affixed to the Premises so that it cannot be removed without material damage to the Premises, and other than Utility Installations, shall remain the property of Tenant and may be removed by Tenant subject to the provisions of paragraph 7.2.

7.4 Utility Additions. Landlord reserves the right to install new or additional utility facilities throughout the Building and the Common Areas for the benefit of Landlord or Tenant, or any other tenant of the Industrial Center, including, but not by way of limitation, such utilities as plumbing, electrical systems, security systems, communication systems, and fire protection and detection systems, so long as such installations do not unreasonably interfere with Tenant's use of the Premises.

7.5 Condition of Premises Upon Termination; Additional Use Provisions.

7.5.1 Tenant shall maintain the Premises as provided in Paragraph 7.2 and in accordance with the requirements of any covenants or restrictions as may from time to time be applicable to the Premises. Tenant, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices and any damage or deterioration shall not be deemed "ordinary wear and tear" if the same could have been prevented by good maintenance practice. Tenant's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair. Notwithstanding anything contained in the Lease to the contrary, Tenant shall make all repairs whatsoever on the Premises necessitated by the negligence, misconduct or fault of Tenant, or its agents, licensees, contractors or invitees.

7.5.2 If the term of this Lease, as the same may be extended or renewed, exceeds five (5) years, Landlord shall have the right to require Tenant to repaint the interior of the improvements every four (4) to six (6) years, but not more often than once every five (5) years, as reasonably necessary.

7.5.3 Notwithstanding anything to the contrary in paragraph 7.2 of this Lease, upon termination of this Lease, Tenant shall leave all plumbing, heating (including space heaters), air conditioning, electrical and mechanical systems, on the Premises and in good condition and operating order, reasonable wear and tear and damage by the elements excepted, and Tenant shall upon demand pay to Landlord that portion of the cost to restore such items to good condition and operating order as may be reasonably allocable to Tenant's tenancy.

7.5.4 Notwithstanding anything to the contrary contained in this Lease, the Premises shall not be used for the warehousing or distribution of hazardous or explosive products, substances or materials, or of products, substances or materials that are detrimental to the Premises, the Industrial Center or other tenants thereof.

8. Insurance; Indemnity.

8.1 Tenant hereby agrees to indemnify, defend and hold harmless Landlord, its successors, assigns, subsidiaries, directors, officers, agents and employees from and against any and all damage, loss, liability or expense including, but not limited to, reasonable attorney's fees and legal costs suffered by same directly or by reason of any claim, suit or judgment brought by or in favor of any person or persons for damage, loss or expense due to, but not limited to, bodily injury, including death resulting anytime therefrom, and property damage sustained by such person or persons which arises out of, is occasioned by or in any way attributable to the use or

occupancy of the Premises by the Tenant, the acts or omission of the Tenant, its agents, employees or any other contractors or invitees brought onto said Premises by the Tenant, or any breach or default in the performance of any obligation on Tenant's part to be performed under the terms of this Lease, except to the extent caused by the gross negligence or wilful misconduct of Landlord, its employees, and agents. If any action or proceeding is brought against Landlord by reason of any such claim, Tenant, upon notice from Landlord, shall defend same at Tenant's expense by counsel satisfactory to Landlord. Such loss or damage shall include, but not be limited to, any injury or damage to Landlord's personnel (including death resulting anytime therefrom) on the Premises. Landlord shall not be liable for any damages arising from any act or neglect of any other tenant, if any, of the building or industrial park in which the Premises are located. Tenant agrees that the obligations assumed herein shall survive the termination of this Lease.

8.2 Tenant hereby agrees to maintain in full force and effect at all times during the term of this Lease, at Tenant's own expense, for the protection of Tenant, Landlord and Landlord's property manager, as their interest may appear, policies of insurance issued by a responsible carrier or carriers which afford the following coverages:

(a) Workers' Compensation with statutory limits.

(b) Employers' Liability insurance with the following minimum limits:

Bodily injury by disease per person	\$1,000,000
Bodily injury by accident policy limit	\$1,000,000
Bodily injury by disease policy limit	\$1,000,000

(c) Property insurance on a special causes of loss insurance form covering any and all personal property of Tenant including but not limited to improvements, betterments, furniture, fixtures, Utility Installations, and equipment in an amount not less than their full replacement cost, with a deductible not to exceed \$10,000. This policy should contain a waiver of subrogation.

(d) Commercial General Liability Insurance including Broad Form Property Damage and Contractual Liability with the following minimum limits:

General Aggregate	\$2,000,000
Products/Completed Operations Aggregate	\$2,000,000

Each Occurrence	\$1,000,000
Personal & Advertising Injury	\$1,000,000
Medical Payments	\$5,000 per person

(e) Umbrella/Excess Liability on a following form basis with the following minimum limits:

General Aggregate	\$10,000,000
Each Occurrence	\$10,000,000

The limits of said insurance in this Paragraph 8.2 shall not, however, limit the liability of Tenant hereunder.

8.3 If Landlord is providing property insurance on the Premises, then Landlord shall, at all times during the term of this Lease, maintain the following insurance:

(a) a policy or policies of all-risk property insurance, issued by and binding upon some solvent insurance company, insuring for the full replacement cost of the building on the Premises. Landlord shall not be obligated to insure, and shall not assume any liability or risk of loss for, any of Tenant's furniture, equipment, machinery, goods, supplies, utility installations, improvements, or alterations upon the Premises. This policy shall contain an agreed amount endorsement and be written with no coinsurance. Landlord may, but shall not be obligated to, obtain earthquake and flood insurance.

(b) Rent insurance on an all-risk basis in an amount equal to all that is called for under Paragraph 4 of this Lease (Base Rent and any additional rents payable under this Lease including tax and insurance costs) for a period of at least twelve (12) months commencing with the date of loss.

(c) Boiler and machinery insurance in an amount satisfactory to Landlord on a comprehensive coverage form.

8.4 The Tenant shall deliver to Landlord prior to taking possession of the Premises, and thereafter at least thirty (30) days prior to expiration of such policy, certificates of insurance evidencing the above coverage with limits not less than those specified above. Insurance required hereunder shall be in companies holding a "General Policyholders Rating" of at least A-VIII as set forth in the most current issue of "Best's Insurance Guide". Such Certificates with the exception of Worker's Compensation, shall name Landlord, its subsidiaries, directors, agents and employees,

and its property manager as additional insureds and shall expressly provide that the interest of same herein shall not be affected by a breach by Tenant of any insurance policy provision for which such Certificates evidence coverage. Further, all Certificates shall expressly provide that no less than thirty (30) days prior written notice shall be given to Landlord in the event of material alteration to or cancellation of the coverage evidenced by such Certificates.

8.5 Landlord may secure and maintain, at Tenant's expense, increased amounts of insurance and other insurance coverage in such limits, as Landlord may require in its sole judgment to afford Landlord adequate protection.

8.6 Landlord makes no representation that the limits of liability specified to be carried by Tenant under the term of this Lease are adequate to protect Tenant against Tenant's undertaking under this Paragraph 8 and in the event Tenant believes that any such insurance coverage called for under this Lease is insufficient, Tenant shall provide, at its own expense, such additional insurance as Tenant deems adequate.

8.7 Anything in this Lease to the contrary notwithstanding, Landlord and Tenant hereby waive and release each other of and from any and all rights of recovery, claims, action or cause of action, against each other, their agents, officers and employees, for any loss or damage that may occur to the Premises, improvements to the building of which the Premises are a part, personal property (building contents) within the building on the Premises, any furniture, equipment, machinery, goods or supplies not covered by this Lease which Tenant may bring or obtain upon the Premises or any additional improvements which Tenant may construct on the Premises, by reason of fire, the elements or any other cause which could be insured against under the terms of all risk property insurance policies, regardless of cause or origin, including negligence of Landlord or Tenant and their agents, officers and employees. Because this Paragraph will preclude the assignment of any claim mentioned in it by way of subrogation (or otherwise) to an insurance company (or any other person) each party to this Lease agrees immediately to give to each insurance company, written notice of the terms of the mutual waivers contained in this Paragraph, and to have the insurance policies properly endorsed if necessary to prevent the invalidation of the insurance coverages by reason of the mutual waivers contained in this Paragraph. Tenant also waives and releases Landlord, its agents, officers and employees of and from any and all rights of recovery, claim, action or cause of action for any loss or damage insured against under any other policies of insurance carried by Tenant.

8.8 Payment of Premium Increase.

(a) After the term of this Lease has commenced, Tenant shall not be responsible for paying Tenant's Share of any increase in the property insurance premium for the Industrial Center specified by Landlord's insurance carrier as being caused by the use, acts or omissions of any other Tenant of the Industrial Center, or by the nature of such other Tenant's occupancy which create an extraordinary or unusual risk.

(b) Tenant, however, shall pay the entirety of any increase in the property insurance premium for the Industrial Center over what it was immediately prior to the commencement of the term of this Lease if the increase is specified by Landlord's insurance carrier as being caused by the nature of Tenant's occupancy or any act or omission of Tenant.

8.9 Exemption of Landlord from Liability. Tenant hereby agrees that Landlord shall not be liable for injury to Tenant's business or any loss of income therefrom or for damage to the goods, wares, merchandise or other property of Tenant, Tenant's employees, invitees, customers, or any other person in or about the Premises or the Industrial Center, nor shall Landlord be liable for injury to the person of Tenant, Tenant's employees, agents or contractors, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning, or lighting fixtures, or from any other cause, whether said damage or injury results from conditions arising upon the Premises or upon other portions of the Industrial Center, or from other sources or places and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Tenant, Landlord shall not be liable for any damages arising from any act or neglect of any other Tenant, occupant or user of the Industrial Center, nor from the failure of Landlord to enforce the provisions of any other lease of the Industrial Center. Notwithstanding Landlord's negligence or breach of this Lease, Landlord shall under no circumstances be liable for injury to Tenant's business or for any loss of income or profit therefrom.

9. Damage or Destruction.

9.1 Definitions.

(a) "Premises Partial Damage" shall mean if the Premises are damaged or destroyed to the extent that the cost of repair is less than fifty percent of the then replacement cost of the Premises.

(b) "Premises Total Destruction" shall mean if the Premises are damaged or destroyed to the extent that the cost of repair is fifty percent or more of the then replacement cost of the Premises.

(c) "Premises Building Partial Damage" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is less than fifty percent of the then replacement cost of the Building.

(d) "Premises Building Total Destruction" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is fifty percent or more of the then replacement cost of the Building.

(e) "Industrial Center Buildings" shall mean all of the buildings on the Industrial Center site.

(f) "Industrial Center Buildings Total Destruction" shall mean if the Industrial Center Buildings are damaged or destroyed to the extent that the cost of repair is fifty percent or more of the then replacement cost of the Industrial Center Buildings.

(g) "Insured Loss" shall mean damage or destruction which was caused by an event required to be covered by the insurance described in paragraph 8. The fact that an Insured Loss has a deductible amount shall not make the loss an uninsured loss.

(h) "Replacement Cost" shall mean the amount of money necessary to be spent in order to repair or rebuild the damaged area to the condition that existed immediately prior to the damage occurring excluding all improvements made by tenants.

9.2 Premises Partial Damage; Premises Building Partial Damage.

(a) Insured Loss: Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage which is an Insured Loss and which falls into the classification of either Premises Partial Damage or Premises Building Partial Damage, then Landlord shall, at Landlord's expense, repair such damage to the Premises, but not Tenant's fixtures, equipment, tenant improvements or Utility Installations, as soon as reasonably possible and this Lease shall continue in full force and effect.

(b) Uninsured Loss: Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage which is not an Insured Loss and which falls within the classification of Premises Partial Damage or Premises Building Partial Damage, unless caused by a negligent or willful act of Tenant or its agents, contractors or invitees (in which event Tenant shall make the repairs at Tenant's expense), which damage prevents Tenant from using the Premises, Landlord may at Landlord's option either (i) repair such damage as soon as reasonably possible at Landlord's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Tenant within thirty (30) days after the date of the occurrence of such damage of Landlord's intention to cancel and terminate this Lease as of the date of the occurrence of such damage. In the event Landlord elects to give such notice of Landlord's intention to cancel or terminate this Lease, Tenant shall have the right within ten (10) days after the receipt of such notice to give written notice to Landlord of Tenant's intention to repair such damage at Tenant's expense, without reimbursement from Landlord, in which event this Lease shall continue in full force and effect, and Tenant shall proceed to make such repairs as soon as reasonably possible. If Tenant does not give such notice within such 10-day period this Lease shall be canceled and terminated as of the date of the occurrence of such damage.

9.3 Premises Total Destruction; Premises Building Total Destruction; Industrial Center Buildings Total Destruction.

(a) Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage, whether or not it is an Insured Loss, and which falls into the classifications of either (i) Premises Total Destruction, or (ii) Premises Building Total Destruction, or (iii) Industrial Center Buildings Total Destruction, then Landlord may at Landlord's option either (i) repair such damage or destruction, but not Tenant's fixtures, equipment, tenant improvements or Utility Installations as soon as reasonably possible at Landlord's expense, and this Lease shall continue in full force and effect, or (ii) give written notice to Tenant within thirty (30) days after the date of occurrence of such damage of Landlord's intention to cancel and terminate this Lease, in which case this Lease shall be canceled and terminated as of the date of the occurrence of such damage.

9.4 Damage Near End of Term.

(a) Subject to paragraph 9.4(b), if at any time during the last six months of the term of this Lease there is substantial damage, whether or not an Insured Loss, which falls within the classification of Premises Partial

Damage, Landlord may at Landlord's option cancel and terminate this Lease as of the date of occurrence of such damage by giving written notice to Tenant of Landlord's election to do so within 30 days after the date of occurrence of such damage.

(b) Notwithstanding paragraph 9.4(a), in the event that Tenant has an option to extend or renew this Lease, and the time within which said option may be exercised has not yet expired, Tenant shall exercise such option, if it is to be exercised at all, no later than twenty (20) days after the occurrence of an Insured Loss falling within the classification of Premises Partial Damage during the last six months of the term of this Lease. If Tenant duly exercises such option during said twenty (20) day period, Landlord shall, at Landlord's expense, repair such damage, but not Tenant's fixtures, equipment or tenant improvements, as soon as reasonably possible and this Lease shall continue in full force and effect provided Tenant first deposits with Landlord any shortfall in necessary funds. If Tenant fails to exercise such option during said twenty (20) day period, then Landlord may at Landlord's option terminate and cancel this Lease as of the expiration of said twenty (20) day period by giving written notice to Tenant of Landlord's election to do so within ten (10) days after the expiration of said twenty (20) day period, notwithstanding any term or provision in the grant of option to the contrary.

9.5 Abatement of Rent; Tenant's Remedies.

(a) In the event Landlord repairs or restores the Premises pursuant to the provisions of this paragraph 9, the rent payable hereunder for the period during which such damage, repair or restoration continues shall be abated in proportion to the degree to which Tenant's use of the Premises is impaired. Except for abatement of rent, if any, Tenant shall have no claim against Landlord for any damage suffered by reason of any such damage, destruction, repair or restoration.

(b) If Landlord shall be obligated to repair or restore the Premises under the provisions of this paragraph 9 and shall not commence such repair or restoration within ninety (90) days after such obligation shall accrue, Tenant may at Tenant's option cancel and terminate this Lease by giving Landlord written notice of Tenant's election to do so at any time prior to the commencement of such repair or restoration. In such event this Lease shall terminate as of the date of such notice. In the event that Landlord shall be obligated to repair or restore the Premises pursuant to Paragraph 9 of this Lease and shall not commence such repair or restoration within ninety (90) days after such obligation shall accrue, the right of Tenant to terminate this Lease

pursuant to this Paragraph 9.5(b) shall be the sole right and remedy of Tenant against Landlord, and Landlord shall have no other liability to Tenant, for damages, specific performance or otherwise, in connection with any such failure.

9.6 Termination -- Advance Payments. Upon termination of this Lease pursuant to this paragraph 9, an equitable adjustment shall be made concerning advance rent and any advance payments made by Tenant to Landlord. Landlord shall, in addition, return to Tenant so much of Tenant's security deposit as has not theretofore been applied by Landlord.

9.7 Waiver. Landlord and Tenant waive the provisions of any statute which relate to termination of leases when leased property is destroyed and agree that such event shall be governed by the terms of this Lease.

10. Real Property Taxes.

10.1 Payment of Taxes. Landlord shall pay the real property tax, as defined in paragraph 10.3, applicable to the Industrial Center subject to reimbursement by Tenant of Tenant's Share of such taxes in accordance with the provisions of paragraph 4.2, except as otherwise provided in paragraph 10.2.

10.2 Additional Improvements. Tenant shall not be responsible for paying Tenant's Share of any increase in real property tax specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Industrial Center by other Tenants or by Landlord for the exclusive enjoyment of such other Tenants. Tenant shall, however, pay to Landlord at the time that Operating Expenses are payable under paragraph 4.2(c) the entirety of any increase in real property tax if assessed solely by reason of additional improvements placed upon the Premises by Tenant or at Tenant's request.

10.3 Definition of "Real Property Tax". As used herein, the term "real property tax" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed on the Industrial Center or any portion thereof by any authority having the direct or indirect power to tax, including any city, county, state or federal government, or any school, agricultural, sanitary, fire, street, drainage or other improvement district thereof, as against any legal or equitable interest of Landlord in the Industrial Center or in any portion thereof, as against Landlord's right to rent or other income therefrom, and as against Landlord's business of leasing the Industrial Center. The term "real property tax" shall also include any tax, fee, levy, assessment or charge (i) in

substitution of, partially or totally, any tax, fee, levy, assessment or charge hereinabove included within the definition of "real property tax," or (ii) the nature of which was hereinbefore included within the definition of "real property tax" or (iii) which is imposed for a service or right not charged prior to June 1, 1978, or, if previously charged, has been increased since June 1, 1978 or (iv) which is imposed as a result of a transfer, either partial or total, of Landlord's interest in the Industrial Center or which is added to a tax or charge hereinbefore included within the definition of real property tax by reason of such transfer, or (v) which is imposed by reason of this transaction, any modifications or changes hereto, or any transfers hereof.

10.4 Joint Assessment. If the Industrial Center is not separately assessed, Tenant's Share of the real property tax liability shall be an equitable proportion of the real property taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Landlord from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available, Landlord's reasonable determination thereof, in good faith, shall be conclusive.

10.5 Personal Property Taxes.

(a) Tenant shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Tenant contained in the Premises or elsewhere. When possible, Tenant shall cause said trade fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Landlord.

(b) If any of Tenant's said personal property shall be assessed with Landlord's real property, Tenant shall pay to Landlord the amounts attributable to Tenant within ten (10) days after receipt of a written statement setting forth the taxes applicable to Tenant's property.

10.6 Additional Provisions Regarding Real Property Taxes. Landlord shall have the sole right to contest or appeal any real property taxes or assessments applicable to all or any portion of the Industrial Center and to seek a reduction in the assessed valuation of all or any portion of the Industrial Center (collectively, "Tax Contests"). Any refund of real property taxes resulting from any such Tax Contest shall be applied first to reimburse Landlord for its costs and expenses in connection with the Tax Contest (including, without limitation attorneys' fees and the costs of consultants) and then, out of and to the extent of the balance of such refund, Landlord shall reimburse to Tenant the portion of such reduction attributable to the Premises and the term of this Lease, as and to the extent previously paid by Tenant as part of

Tenant's Share of Operating Expenses. Fees payable to tax consultants and attorneys for consultation and contesting real property taxes shall be an Operating Expense. Landlord's obligation to refund tax reductions attributable to the real property taxes and assessments paid by Tenant shall survive termination of this Lease. Landlord agrees to provide a reasonably detailed statement of the calculation of the net refund due Tenant which shall indicate the expenses of obtaining the refund and the calculation of the portion of the tax refund payable to Tenant.

11. Utilities. Tenant shall pay for all water, gas, heat, light, power, telephone and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to the Premises, Tenant shall pay at Landlord's option, either Tenant's Share or a reasonable proportion to be determined by Landlord of all charges jointly metered with other premises in the Building.

12. Assignment and Subletting.

12.1 Landlord's Consent Required. Tenant shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, or otherwise transfer or encumber all or any part of Tenant's interest in the Lease or in the Premises, without Landlord's prior written consent, which Landlord shall not unreasonably withhold. Landlord shall respond to Tenant's request for consent hereunder in a timely manner and any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be void, and shall constitute a noncurable breach of this Lease without the need for notice to Tenant under paragraph 13.1. If at any time or from time to time during the term of this Lease, Tenant desires to assign or sublet all or any part of Tenant's interest in this Lease or in the Premises, Tenant shall give prior written notice to Landlord setting forth the terms of the proposed assignment or subletting and the space so proposed to be assigned or sublet. Such assignment or sublease shall be subject to, without limitation, all the conditions in this Paragraph 12 and the following conditions:

(a) The assignment or sublease shall be on the terms set forth in the notice given to Landlord. Any subsequent changes or modifications will require Landlord's prior written consent.

(b) Tenant acknowledges that Landlord's agreement to lease these Premises to Tenant at the rent and terms stated herein is made in material reliance upon Landlord's evaluation of this particular Tenant's background, experience and ability, as well as the nature of the use of the Premises by this Tenant as set forth in Paragraph 6. In the event that Tenant shall request Landlord's written consent to assign or sublease the Premises as required in this

Paragraph 12.1, then each such request for consent shall be accompanied by the following:

(i) Financial statements of the proposed assignee or subtenant;

(ii) A statement of the specific uses for which the Premises will be utilized by the proposed assignee or subtenant; and

(iii) Preliminary plans prepared by an architect or civil engineer for all alterations to the Premises that are contemplated to be made by Tenant, the proposed assignee or subtenant.

(c) No assignment or sublease shall be valid and no assignee or subtenant shall take possession of the Premises assigned or subleased until an executed counterpart of such assignment or sublease has been delivered to Landlord.

(d) No subtenant or assignee shall have a right further to sublet or assign.

(e) In the case of an assignment, 50% of any sums or other economic consideration received by Tenant as a result of such assignment shall be paid to Landlord after first deducting the unamortized cost of leasehold improvements paid for by Tenant in connection with such assignment and the cost of any real estate commissions incurred by Tenant in connection with such assignment.

(f) In the case of a subletting (other than to a Permitted Truck Yard Occupant), 50% of any sums or economic consideration received by Tenant as a result of such subletting shall be paid to Landlord after first deducting (i) the rent due hereunder prorated to reflect only rent allocable to the sublet portion of the Premises, (ii) the cost of tenant improvements made to the sublet portion of the Premises at Tenant's cost in connection with such sublease, which shall be amortized over the term of the applicable sublease and (iii) the cost of any real estate commissions incurred by Tenant in connection with such subletting, amortized over the term of the sublease.

12.2 Tenant Affiliate. Notwithstanding the provisions of paragraph 12.1 hereof, Tenant may assign or sublet the Premises, or any portion thereof, without Landlord's consent, to any corporation which controls, is controlled by or is under common control with Tenant, or to any corporation resulting from the

merger or consolidation with Tenant, or to any person or entity which acquires all the assets of Tenant as a going concern of the business that is being conducted on the Premises, all of which are referred to as "Tenant Affiliate," provided that (a) before such assignment shall be effective said assignee shall assume, in full, the obligations of Tenant under this Lease, (b) such Tenant Affiliate has a tangible net worth at least equal to Tenant's tangible net worth on the date of the assignment or sublease, and (c) the use of the Premises does not change. Any such assignment shall not, in any way, affect or limit the liability of Tenant under the terms of this Lease, even if after such assignment or subletting the terms of this Lease are materially changed or altered without the consent of Tenant, the consent of whom shall not be necessary.

12.3 Tenants Other Than Individuals.

(a) If Tenant is a partnership, a transfer of any interest of a general partner, a withdrawal of any general partner from the partnership, or the dissolution of the partnership, shall be deemed to be an assignment of this Lease.

(b) If Tenant is a corporation, unless Tenant is a public corporation whose stock is regularly traded on a national stock exchange, or is regularly traded in the over-the-counter market and quoted on NASDAQ, any sale or other transfer of a percentage of capital stock of Tenant which results in a change of controlling persons, or the sale or other transfer of substantially all of the assets of Tenant, shall be deemed to be an assignment of this Lease.

12.4 Terms and Conditions of Assignment. Regardless of Landlord's consent, no assignment shall release Tenant of Tenant's obligations hereunder or alter the primary liability of Tenant to pay the Base Rent and Tenant's Share of Operating Expenses, and to perform all other obligations to be performed by Tenant hereunder. Landlord may accept rent from any person other than Tenant pending approval or disapproval of such assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of rent shall constitute a waiver or estoppel of Landlord's right to exercise its remedies for the breach of any of the terms or conditions of this paragraph 12 of this Lease. Consent to one assignment shall not be deemed consent to any subsequent assignment. In the event of default by any assignee of Tenant or any successor of Tenant, in the performance of any of the terms hereof, Landlord may proceed directly against Tenant without the necessity of exhausting remedies against said assignee, Landlord may consent to subsequent assignments of this Lease or amendments or modifications to this Lease with assignees of Tenant, without notifying Tenant, or any successor of Tenant, and without obtaining its or their consent thereto and such action shall not relieve Tenant of liability under this Lease.

12.5 Terms and Conditions Applicable to Subletting. Regardless of Landlord's consent, the following terms and conditions shall apply to any subletting by Tenant of all or any part of the Premises and shall be included in subleases:

(a) Tenant hereby assigns and transfers to Landlord all of Tenant's interest in all rentals and income arising from any sublease heretofore or hereafter made by Tenant, and Landlord may collect such rent and income and apply same toward Tenant's obligations under this Lease; provided, however, that until a default shall occur in the performance of Tenant's obligations under this Lease, Tenant may, subject to paragraphs 12.1(e) and 12.1(f) receive, collect and enjoy the rents accruing under such sublease. Landlord shall not, by reason of this or any other assignment of such sublease to Landlord nor by reason of the collection of the rents from a subtenant, be deemed liable to the subtenant for any failure of Tenant to perform and comply with any of Tenant's obligations to such subtenant under such sublease. Tenant hereby irrevocably authorizes and directs any such subtenant, upon receipt of a written notice from Landlord stating that a default exists in the performance of Tenant's obligations under this Lease, to pay to Landlord the rents due and to become due under the sublease, Tenant agrees that such subtenant shall have the right to rely upon any such statement and request from Landlord, and that such subtenant shall pay such rents to Landlord without any obligation or right to inquire as to whether such default exists and notwithstanding any notice from or claim from Tenant to the contrary. Tenant shall have no right or claim against such subtenant or Landlord for any such rents so paid by said subtenant to Landlord.

(b) No sublease entered into by Tenant shall be effective unless and until it has been approved in writing by Landlord. In entering into any sublease, Tenant shall use only such form of sublease as is satisfactory to Landlord, and once approved by Landlord, such sublease shall not be changed or modified without Landlord's prior written consent. Any subtenant shall, by reason of entering into a sublease under this Lease, be deemed, for the benefit of Landlord, to have assumed and agreed to conform and comply with each and every obligation herein to be performed by Tenant other than such obligations as are contrary to or inconsistent with provisions contained in a sublease to which Landlord has expressly consented in writing.

(c) If Tenant's obligations under this Lease have been guaranteed by third parties, then a sublease, and Landlord's consent thereto, shall not be effective unless said guarantors give their written consent to such sublease and the terms thereof.

(d) The consent by Landlord to any subletting shall not release Tenant from its obligations or alter the primary liability of Tenant to pay the rent and perform and comply with all of the obligations of Tenant to be performed under this Lease.

(e) The consent by Landlord to any subletting shall not constitute a consent to any subsequent subletting by Tenant or to any assignment or subletting by the subtenant. However, Landlord may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Tenant or anyone else liable on the Lease or sublease and without obtaining their consent and such action shall not relieve such persons from liability.

(f) In the event of any default under this Lease, Landlord may proceed directly against Tenant, any guarantors or any one else responsible for the performance of this Lease, including the subtenant, without first exhausting Landlord's remedies against any other person or entity responsible therefor to Landlord, or any security held by Landlord or Tenant.

(g) In the event Tenant shall default in the performance of its obligations under this Lease, Landlord, at its option and without any obligation to do so, may require any subtenant to attorn to Landlord, in which event Landlord shall undertake the obligations of Tenant under such sublease from the time of the exercise of said option to the termination of such sublease; provided, however, Landlord shall not be liable for any prepaid rents or security deposit paid by such subtenant to Tenant or for any other prior defaults of Tenant under such sublease.

(h) Each and every consent required of Tenant under a sublease shall also require the consent of Landlord.

(i) No subtenant shall further assign or sublet all or any part of the Premises without Landlord's prior written consent.

(j) Landlord's written consent to any subletting of the Premises by Tenant shall not constitute an acknowledgment that no default then exists under this Lease of the obligations to be performed by Tenant nor shall such consent be deemed a waiver of any then existing default, except as may be otherwise stated by Landlord at the time.

(k) With respect to any subletting to which Landlord has consented, Landlord agrees to deliver a copy of any notice of default by Tenant

to the subtenant. Such subtenant shall have the right to cure a default of Tenant within ten (10) days after service of said notice of default upon such subtenant, and the subtenant shall have a right of reimbursement and offset from and against Tenant for any such defaults cured by the subtenant.

12.6 Attorney's Fees. In the event Tenant shall assign or sublet the Premises or request the consent of Landlord to any assignment or subletting or if Tenant shall request the consent of Landlord for any act Tenant proposes to do then Tenant shall pay Landlord's reasonable attorney's and/or consultants' fees incurred in connection therewith, such attorney's fees not to exceed \$350.00 for each such request. Notwithstanding anything to the contrary in this Paragraph 12.6, the parties agree that a payment of \$750.00 is a reasonable fee for Landlord's review of Tenant's request to assign or sublet.

12.7 Permitted Truck Yard Occupants. Landlord hereby consents to Tenant from time to time subleasing portions of the Exclusive Truck Yard Area to Permitted Truck Yard Occupants (as defined below). As used herein, "Permitted Truck Yard Occupant" means a trucking contractor who subleases a portion of the Permitted Truck Yard Area solely in connection with providing distribution and trucking services to Tenant in the Premises.

13. Default Remedies.

13.1 Default. The occurrence of any one or more of the following events shall constitute a material default of this Lease by Tenant:

(a) The vacating or abandonment of the Premises by Tenant.

(b) The failure by Tenant to make any payment of rent or any other payment required to be made by Tenant hereunder, as and when due, where such failure shall continue for a period of five (5) days after written notice thereof from Landlord to Tenant. In the event that Landlord serves Tenant with a Notice to Pay Rent or Quit pursuant to applicable Unlawful Detainer statutes such Notice to Pay Rent or Quit shall also constitute the notice required by this subparagraph.

(c) Except as otherwise provided in this Lease, the failure by Tenant to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Tenant, other than described in paragraph (b) above, where such failure shall continue for a period of thirty (30) days after written notice thereof from Landlord to Tenant; provided, however, that if the nature of Tenant's noncompliance is such that more than thirty (30)

days are reasonably required for its cure, then Tenant shall not be deemed to be in default if Tenant commenced such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion. To the extent permitted by law, such thirty (30) day notice shall constitute the sole and exclusive notice required to be given to Tenant under applicable Unlawful Detainer statutes.

(d) (i) The making by Tenant of any general arrangement or general assignment for the benefit of creditors; (ii) Tenant becomes a "debtor" as defined in 11 U.S.C. Section 101 or any successor statute thereto (unless, in the case of a petition filed against Tenant, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where such seizure is not discharged within thirty (30) days. In the event that any provision of this paragraph 13.1(d) is contrary to any applicable law, such provision shall be of no force or effect.

(e) The discovery by Landlord that any financial statement given to Landlord by Tenant, any assignee of Tenant, any subtenant of Tenant, any successor in interest of Tenant or any guarantor of Tenant's obligations hereunder, was materially false.

(f) If the performance of Tenant's obligations under this Lease is guaranteed: (i) the dissolution of a guarantor, (ii) the termination of a guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty, (iii) a guarantor's becoming insolvent or the subject of a bankruptcy filing, (iv) a guarantor's refusal to honor the guaranty, or (v) a guarantor's breach of its guaranty obligation on an anticipatory breach basis, and Tenant's failure, within sixty (60) days following written notice by or on behalf of Landlord to Tenant of any such event, to provide Landlord with written alternative assurance or security, which, when coupled with the then existing resources of Tenant, equals or exceeds the combined financial resources of Tenant and the guarantors that existed at the time of execution of this Lease.

13.2 Remedies. If Tenant fails to perform any affirmative duty or obligation of Tenant under this Lease, within thirty (30) days after written notice to Tenant (or in case of an emergency, without notice), Landlord may at its option (but without obligation to do so), perform such duty or obligation on Tenant's behalf

including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. The costs and expenses of any such performance by Landlord shall be due and payable by Tenant to Landlord upon invoice therefor. In the event of a breach of this Lease by Tenant, as defined in Paragraph 13.1, with or without further notice or demand, and without limiting Landlord in the exercise of any right or remedy which Landlord may have by reason of such breach, Landlord may:

(a) Terminate Tenant's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Tenant shall immediately surrender possession of the Premises to Landlord. In such event Landlord shall be entitled to recover from Tenant: (i) the worth at the time of the award of the unpaid rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Tenant proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Tenant proves could be reasonably avoided; and (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by the Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of the leasing commission paid by Landlord applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provisions (i) and (ii) of the prior sentence shall be calculated based on an interest rate equal to the highest rate permitted by applicable law. The worth at the time of award of the amount referred to in provision (iii) of the prior sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent. Efforts by Landlord to mitigate damages caused by Tenant's breach of this Lease shall not waive Landlord's right to recover damages under this Paragraph. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Landlord shall have the right to recover in such proceeding the unpaid rent and damages as are recoverable therein, or Landlord may reserve therein the right to recover all or any part thereof in a separate suit for such rent and/or damages. If a notice and grace period required under subparagraphs 13.1(b), (c) or (d) was not previously given, a notice to pay rent or quit, or to perform or quit, as the case may be, given to Tenant under any statute authorizing the forfeiture of leases for unlawful detainer shall also

constitute the applicable notice for grace period purposes required by subparagraphs 13.1(b), (c) or (d). In such case, the applicable grace period under subparagraphs 13.1(b), (c) or (d) and under the unlawful detainer statute shall run concurrently after the one such statutory notice, and the failure of Tenant to cure the default within the greater of the two such grace periods shall constitute both an unlawful detainer and breach of this Lease entitling Landlord to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Tenant's right to possession in effect (in California under California Civil Code Section 1951.4) after Tenant's breach and abandonment and recover the rent as it becomes due, provided Tenant has the right to sublet or assign, subject only to reasonable limitations. See Paragraphs 12 and 36 for the limitations on assignment and subletting which limitations Tenant and Landlord agree are reasonable. Acts of maintenance or preservation, efforts to relet the Premises, or the appointment of a receiver to protect the Landlord's interest under the Lease, shall not constitute a termination of the Tenant's right to possession.

(c) Pursue any other remedy now or hereafter available to Landlord under the laws or judicial decisions of the State of California. Unpaid installments of rent and other unpaid monetary obligations of Tenant under the terms of this Lease shall bear interest from the date due at the maximum rate allowed by law.

(d) The expiration or termination of this Lease and/or the termination of Tenant's right to possession shall not relieve Tenant from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Tenant's occupancy of the Premises.

13.3 Default by Landlord. Landlord shall not be in default unless Landlord fails to perform obligations required of Landlord within a reasonable time, but in no event later than thirty (30) days after written notice by Tenant to Landlord and to the holder of any first mortgage or deed of trust covering the Premises whose name and address shall have theretofore been furnished to Tenant in writing, specifying wherein Landlord has failed to perform such obligation; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for performance then Landlord shall not be in default if Landlord commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion.

13.4 Late Charges. Tenant hereby acknowledges that late payment by Tenant to Landlord of Base Rent, Tenant's Share of Operating Expenses or other sums due hereunder will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Landlord by the terms of any mortgage or trust deed covering the Premises. Accordingly, if any installment of Base Rent, Operating Expenses or any other sum due from Tenant shall not be received by Landlord or Landlord's designee within ten (10) days after such amount shall be due, then, without any requirement for notice to Tenant, Tenant shall pay to Landlord a late charge equal to 6% of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of late payment by Tenant. Acceptance of such late charge by Landlord shall in no event constitute a waiver of Tenant's default with respect to such overdue amount, nor prevent Landlord from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of any of the aforesaid monetary obligations of Tenant, then Base Rent shall automatically become due and payable quarterly in advance, rather than monthly, notwithstanding paragraph 4.1 or any other provision of this Lease to the contrary.

14. Condemnation. If the Premises or any portion thereof or the Industrial Center are taken under the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than ten percent of the floor area of the Premises, or more than twenty-five percent of that portion of the Common Area designated as parking for the Industrial Center is taken by condemnation, Tenant may, at Tenant's option, to be exercised in writing only within ten (10) days after Landlord shall have given Tenant written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Tenant does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the rent shall be reduced in the proportion that the floor area of the Premises taken bears to the total floor area of the Premises. No reduction of rent shall occur if the only area taken is that which does not have the Premises located thereon. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Landlord, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Tenant shall be entitled to any award for loss of or damage to Tenant's

trade fixtures and removable personal property. In the event that this Lease is not terminated by reason of such condemnation, Landlord shall to the extent of severance damages received by Landlord in connection with such condemnation, repair any damage to the Premises caused by such condemnation except to the extent that Tenant has been reimbursed therefor by the condemning authority. Tenant shall pay any amount in excess of such severance damages required to complete such repair.

15. Broker's Commissions.

Tenant and Landlord each represent and warrant to the other that neither has had any dealings with any person, firm, broker or finder (other than those persons, if any, whose names are set forth at the end of this paragraph 15) in connection with the negotiation of this Lease and/or the consummation of the transaction contemplated hereby, and no other broker or other person, firm or entity is entitled to any commission or finder's fee in connection with said transaction and Tenant and Landlord do each hereby indemnify and hold the other harmless from and against any costs, expenses, attorneys' fees or liability for compensation, commission or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying party. Named brokers:

Landlord's Broker: CB Richard Ellis, Inc.

Tenant's Broker: CB Richard Ellis, Inc.

The commission payable to Landlord's Broker and Tenant's Broker with respect to this Lease shall be pursuant to the terms of the separate commission agreements in effect between Landlord and Landlord's Broker and Tenant's Broker. Nothing in this Lease shall impose any obligation on Landlord to pay a commission or fee to any party other than Landlord's Broker and Tenant's Broker.

16. Estoppel Certificate.

(a) Each party (as "responding party") shall at any time upon not less than ten (10) days' prior written notice from the other party, ("requesting party") execute, acknowledge and deliver to the requesting party a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to the responding party's knowledge, any uncured defaults on the part of the requesting party, or specifying such defaults if any are claimed.

Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premises or of the business of the requesting party.

(b) At the requesting party's option, the failure to deliver such statement within such time shall be conclusive upon the party failing to respond that (i) this Lease is in full force and effect, without modification except as may be represented by the requesting party, (ii) there are no uncured defaults in the requesting party's performance, and (iii) if Landlord is the requesting party, not more than one month's rent has been paid in advance.

(c) If Landlord desires to finance, refinance, or sell the Industrial Center, or any part thereof, Tenant hereby agrees to deliver to any lender or purchaser designated by Landlord such financial statements of Tenant as may be reasonably required by such lender or purchaser. Such statements shall include the past three (3) years' financial statements of Tenant. All such financial statements shall be received by Landlord and such lender or purchaser in confidence and shall be used only for the purposes herein set forth. So long as the initially-named Tenant under this Lease is a subsidiary of the Guarantor and remains the Tenant under this Lease, the Guaranty is in full force and effect and the Guarantor is then making 10-K filings with the Securities and Exchange Commission, Guarantor's most recent 10-K containing its consolidated financial statements for Guarantor and its subsidiaries shall be deemed to satisfy the requirements of this section for delivery of financial statements.

17. Landlord's Liability. The term "Landlord" as used herein shall mean only the owner or owners, at the time in question, of the fee title or a Tenant's interest in a ground lease of the Industrial Center, in the event of any transfer of such title or interest. Landlord herein named (and in case of any subsequent transfers then the grantor) shall be relieved from and after the date of such transfer of all liability as respects Landlord's obligations thereafter to be performed, provided that any funds in the hands of Landlord or the then grantor at the time of such transfer, in which Tenant has an interest, shall be delivered to the grantee. The obligations contained in this Lease to be performed by Landlord shall, subject as aforesaid, be binding on Landlord's successors and assigns, only during their respective periods of ownership.

18. Severability. The invalidity of any provision of this Lease as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. Interest on Past-due Obligations. Except as expressly herein provided, any amount due to Landlord not paid when due shall bear interest at the maximum rate then allowable by law from the date due. Payment of such interest shall not excuse or

cure any default by Tenant under this Lease; provided, however, that interest shall not be payable on late charges incurred by Tenant nor on any amounts upon which late charges are paid by Tenant.

20. Time of Essence. Time is of the essence with respect to the obligations to be performed under this Lease.

21. Additional Rent. All monetary obligations of Tenant to Landlord under the terms of this Lease, including but not limited to Tenant's Share of Operating Expenses and insurance and tax expenses payable shall be deemed to be rent.

22. Incorporation of Prior Agreements; Amendments. This Lease contains all agreements of the parties with respect to any matter mentioned herein. No prior or contemporaneous agreement or understanding pertaining to any such matter shall be effective. This Lease may be modified in writing only, signed by the parties in interest at the time of the modification. Except as otherwise stated in this Lease, Tenant hereby acknowledges that neither the real estate broker listed in paragraph 15 hereof nor any cooperating broker on this transaction nor the Landlord or any employee or agents of any of said persons has made any oral or written warranties or representations to Tenant relative to the condition or use by Tenant of the Premises or the Industrial Center and Tenant acknowledges that Tenant assumes all responsibility regarding the Occupational Safety Health Act, the legal use and adaptability of the Premises and the compliance thereof with all applicable laws and regulations in effect during the term of this Lease except as otherwise specifically stated in this Lease.

23. Notices. Any notice required or permitted to be given hereunder shall be in writing and shall be delivered by Federal Express or comparable overnight courier, providing written evidence of delivery, or delivered by U.S. registered or certified mail, return receipt requested, postage prepaid and if given personally or by mail, shall be deemed sufficiently given if addressed to Tenant or to Landlord at the addresses noted below. Either party may by notice to the other specify a different address for notice purposes except that upon Tenant's taking possession of the Premises, the Premises shall constitute Tenant's address for notice purposes. A copy of all notices required or permitted to be given to Landlord hereunder shall be concurrently transmitted to such party or parties at such addresses as Landlord may from time to time hereafter designate by notice to Tenant.

Landlord:

c/o The Prudential Insurance Company of America
8 Campus Drive, 4th Floor
Parsippany, New Jersey 07054
Attn: Victor Del Pizzo

With a copy by the same method to:

c/o The Prudential Insurance Company of America
8 Campus Drive, 4th Floor
Parsippany, New Jersey 07054
Attn: Joan Hayden

With a copy by the same method to:

Experien Property Solutions
3000 E. Birch Street, Suite 109
Brea, California 92821
Attn: Mark Harryman

Tenant:

JP FERRERO PARKWAY, INC.,
a California corporation
22761 Pacific Coast Highway Suite 226
Malibu, CA 90265
Attn: Stephen Berman, President

With a copy to:

Feder, Kaszovitz, Isaacson, Weber, Skala & Bass LLP
750 Lexington Avenue
New York, NY 10022-1200
Attn: Geoffrey A. Bass

or such other address as either party may from time to time designate as its notice address by notifying the other party thereof. Notice so sent shall be deemed given (a) when personally delivered, or (b) on the first business day following deposit with Federal Express or a comparable overnight courier service providing written evidence of delivery, or (c) five business days following deposit in the United States mail, if notice is sent by registered or certified mail, return receipt requested, postage prepaid.

24. Waivers. No waiver by Landlord of any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by Tenant of the same or any other provision. Landlord's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Landlord's consent to or approval of any subsequent act by Tenant. The acceptance of rent hereunder by

Landlord shall not be a waiver of any preceding breach by Tenant of any provision hereof, other than the failure of Tenant to pay the particular rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such rent.

25. No Recording. Tenant shall not record this Lease.

26. Holding Over. If Tenant, with Landlord's consent, remains in possession of the Premises or any part thereof after the expiration of the term hereof, such occupancy shall be a tenancy from month to month upon all of the provisions of this Lease pertaining to the obligations of Tenant, except that the monthly rent shall be 150% of the rent payable in the last month of the lease term but all Options, if any, granted under the terms of this Lease shall be deemed terminated and be of no further effect during said month to month tenancy.

27. Cumulative Remedies. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. Covenants and Conditions. Each provision of this Lease performable by Tenant shall be deemed both a covenant and condition.

29. Binding Effect; Choice of Law. Subject to any provisions hereof restricting assignment or subletting by Tenant and subject to the provisions of paragraph 17, this Lease shall bind the parties, their personal representatives, successors and assigns. This Lease shall be governed by the laws of the State where the Industrial Center is located and any litigation concerning this Lease between the parties hereto shall be initiated in the county in which the Industrial Center is located.

30. Subordination.

(a) This Lease, and any Option granted hereby, at Landlord's option, shall be subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation or security now or hereafter placed upon the Industrial Center and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. Notwithstanding such subordination, Tenant's right to quiet possession of the Premises shall not be disturbed if Tenant is not in default and so long as Tenant shall pay the rent and observe and perform all of the provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms. If any mortgagee, trustee or ground Landlord shall elect to have this Lease and any Options granted hereby prior to the lien of its mortgage, deed of trust or ground

lease, and shall give written notice thereof to Tenant, this Lease and such Options shall be deemed prior to such mortgage, deed of trust, or ground lease, whether this Lease or such Options are dated prior or subsequent to the date of said mortgage, deed of trust or ground lease or the date of recording thereof.

(b) Tenant agrees to execute any documents required to effectuate an attornment, a subordination or to make this Lease or any Option granted herein prior to the lien of any mortgage, deed of trust or ground lease, as the case may be, Tenant's failure to execute such documents within ten (10) days after written demand shall constitute a material default by Tenant hereunder without further notice to Tenant or, at Landlord's option, Landlord shall execute such documents on behalf of Tenant as Tenant's attorney-in-fact. Tenant does hereby make, constitute and irrevocably appoint Landlord as Tenant's attorney-in-fact and in Tenant's name, place and stead, to execute such documents in accordance with this paragraph 30(b).

(c) Landlord shall use commercially reasonable efforts to provide appropriate subordination, non-disturbance and attornment agreements from any present or future mortgage holders and holders of other superior interests, if any. Landlord shall provide Tenant with a non-disturbance agreement from any ground lessor or mortgagee existing on the date of this Lease prior to or within ten (10) days after execution of this Lease by Landlord and Tenant. Landlord represents that there are no ground lessors or mortgagees existing on the date of this Lease.

31. Attorney's Fees.

31.1 If either party brings an action or proceeding to enforce the terms hereof or declare rights hereunder, the prevailing party in any such proceeding, action, or appeal thereon, shall be entitled to its reasonable attorney's fees and such fees as may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, "prevailing party" shall include, without limitation, a party who obtains legal counsel or brings an action against the other by reason of the other's breach or default, or who defends such action, and substantially obtains or defeats the relief sought, whether by compromise, settlement, judgment, or abandonment of the claim or defense by the other party.

31.2 The attorney's fee award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorney's fees reasonably incurred in good faith.

31.3 Landlord shall be entitled to attorney's fees, costs and expenses incurred in the preparation and service of notices of default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such default. Landlord and Tenant agree that \$350.00 is a reasonable sum per occurrence for legal services and costs per preparation and service of a notice of default and that Landlord may include \$350.00 as additional rent due in each such notice of default as an amount that must be paid to cure said default.

32. Landlord's Access. Landlord and Landlord's agents shall have the right to enter the Premises at reasonable times for the purpose of inspecting same, showing the same to prospective purchasers, lenders, or tenants, and making such alterations, repairs, improvements or additions to the Premises or to the building of which they are part as Landlord may deem necessary or desirable. Landlord may at any time place on or about the Premises or the Building not more than two (2) ordinary "For Sale" signs and Landlord may at any time during the last 120 days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All activities of Landlord pursuant to this paragraph shall be without abatement of rent, nor shall Landlord have any liability to Tenant for the same.

33. Auctions. Tenant shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises or the Common Areas without first having obtained Landlord's prior written consent. Notwithstanding anything to the contrary in this Lease, Landlord shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

34. Signs. Tenant shall not place any sign upon the Premises or the Industrial Center without Landlord's prior written consent. Under no circumstances shall Tenant place a sign on any roof of the Industrial Center. Tenant shall have the right, at its sole cost and expense, to install a sign on the exterior of the Building identifying its name and logo. The graphics, materials, color, design, lettering, size, location and specifications of Tenant's signage shall be subject to the prior written approval of Landlord, which approval shall not be unreasonably withheld or delayed, and the approval of the City of Industry. The sign shall be installed and maintained, at Tenant's sole cost and expense, pursuant to an installation and maintenance program approved and supervised by Landlord. At the expiration or earlier termination of this Lease, Landlord shall, at Tenant's sole cost and expense, cause the sign to be removed and the exterior of the Building affected by the sign to be restored to the condition existing prior to the installation of the sign. Landlord may disapprove any signage that contains a name which relates to an entity or individual which is of a character or reputation, or is associated with a political orientation or faction, which is materially inconsistent with the quality of the Industrial Center, or which would otherwise reasonably offend the landlord of a comparable building or that would conflict with

any covenants in leases of space in the Industrial Center. This signage right is personal to the initially named Tenant under this Lease.

35. Merger. The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, or a termination by Landlord, shall not work a merger, and shall, at the option of Landlord, terminate all or any existing subtenancies or may, at the option of Landlord, operate as an assignment to Landlord of any or all of such subtenancies.

36. Consents. Except for paragraphs 33, 34 (except as otherwise provided therein), 46 and 47 hereof, wherever in this Lease the consent of one party is required to an act of the other party, such consent shall not be unreasonably withheld or delayed.

37. Guarantor. In the event that there is a guarantor of this Lease, said guarantor shall have the same obligations as Tenant under this Lease.

38. Quiet Possession. Upon Tenant paying the rent for the Premises and observing and performing all of the covenants, conditions and provisions on Tenant's part to be observed and performed hereunder, Tenant shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease and all easements, covenants, conditions and restrictions of record. The individuals executing this Lease on behalf of Landlord represent and warrant to Tenant that they are fully authorized and legally capable of executing this Lease on behalf of Landlord and that such execution is binding upon all parties holding an ownership interest in the Industrial Center.

39. Options.

39.1 Definition. As used in this paragraph, the word "Option" has the following meaning: (1) the right or option to extend the term of this Lease or to renew this Lease or to extend or renew any lease that Tenant has on other property of Landlord; (2) the option or right of first refusal to lease the Premises or the right of first offer to lease the Premises or the right of first refusal to lease other space within the Industrial Center or other property of Landlord or the right of first offer to lease other space within the Industrial Center or other property of Landlord; (3) the right or option to purchase the Premises or the Industrial Center, or the right of first refusal to purchase the Premises or the Industrial Center, or the right of first offer to purchase the Premises or the Industrial Center, or the right or option to purchase other property of Landlord, or the right of first refusal to purchase other property of Landlord or the right of first offer to purchase other property of Landlord.

39.2 Options Personal. Each Option granted to Tenant in this Lease is personal to Tenant and may not be exercised or be assigned, voluntarily or involuntarily, by or to any person or entity other than Tenant, provided, however, the Option may be exercised by or assigned to any Tenant Affiliate as defined in Paragraph 12.2 of this Lease. The Options herein granted to Tenant are not assignable separate and apart from this Lease.

39.3 Multiple Options. In the event that Tenant has any multiple options to extend or renew this Lease a later option cannot be exercised unless the prior option to extend or renew this Lease has been so exercised.

39.4 Effect of Default on Options.

(a) Tenant shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary, (i) during the time commencing from the date Landlord gives to Tenant a notice of default pursuant to Paragraphs 13.1(b) or 13.1(c) and continuing until the default alleged in said notice of default is cured, or (ii) during the period of time commencing on the day after a monetary obligation to Landlord is due from Tenant and unpaid (without any necessity for notice thereof to Tenant) continuing until the obligation is paid, or (iii) at any time after an event of default described in Paragraphs 13.1(a), 13.1(d), 13.1(e) or 13.1(f) (without any necessity of Landlord to give notice of such default to Tenant), or (iv) in the event that Landlord has given to Tenant three or more notices of default under Paragraph 13.1(b), where a late charge has become payable under Paragraph 13.4 for each of such defaults, or Paragraph 13.1(c), whether or not the defaults are cured, during the 12 month period prior to the time that Tenant intends to exercise the subject Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Tenant's inability to exercise an Option because of the provisions of Paragraph 39.4(a).

(c) All rights of Tenant under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Tenant's due and timely exercise of the Option, if, after such exercise and during the term of this Lease, (i) Tenant fails to cure defaults specified in Paragraph 13.1(b) prior to the expiration of the notice and cure period provided for therein, or (ii) Tenant fails to commence to cure a default specified in Paragraph 13.1(a) or 13.1(c) within 30 days after the date that Landlord gives notice to Tenant of such default and/or Tenant fails thereafter to diligently prosecute said cure to completion, or (iii) Tenant commits a default described in Paragraphs 13.1(d),

13.1(e) or 13.1(f) (without any necessity of Landlord to give notice of such default to Tenant).

39.5 First Option. Landlord hereby grants to Tenant the option to extend the term of this Lease for a five (5) year period commencing on the date the prior term expires (the "First Option Period") upon each and all of the following terms and conditions:

(a) Tenant gives to Landlord, and Landlord actually receives, on a date which is prior to the date that the First Option Period would commence (if exercised) by at least six (6) and not more than nine (9) months, a written notice of exercise of the option to extend this Lease for said additional term, time being of the essence. If said notification of the exercise of said option is not so given and received, this option shall automatically expire;

(b) The provisions of Paragraph 39, including the provision relating to default of Tenant set forth in Paragraph 39.4, of this Lease are conditions of this option;

(c) All of the terms and conditions of this Lease except where specifically modified by this option shall apply, except that Tenant shall have no further option to extend the term of this Lease other than for the Second Option Period;

(d) Any prior Tenant that has not been expressly released from liability under this Lease, and any guarantor of the Tenant's performance hereunder, expressly reaffirms in writing the extension of their liability for the term of the option; and

(e) The monthly Base Rent for each month of the First Option Period shall be the Fair Market Rent (as defined below) of the Premises as of the commencement of the First Option Period, but in no event less than the monthly Base Rent scheduled to be paid during the month prior to the commencement of the First Option Period.

39.6 Second Option. Landlord hereby grants to Tenant the option to extend the term of this Lease for a five (5) year period commencing on the date the First Option Period expires (the "Second Option Period") upon each and all of the following terms and conditions:

(a) Tenant gives to Landlord, and Landlord actually receives, on a date which is prior to the date that the Second Option Period would

commence (if exercised) by at least six (6) and not more than nine (9) months, a written notice of exercise of the option to extend this Lease for said additional term, time being of the essence. If said notification of the exercise of said option is not so given and received, this option shall automatically expire;

(b) The provisions of Paragraph 39, including the provision relating to default of Tenant set forth in Paragraph 39.4 of this Lease are conditions of this option;

(c) All of the terms and conditions of this Lease except where specifically modified by this option shall apply, except that Tenant shall have no further option to extend the term of this Lease;

(d) Any prior Tenant that has not been expressly released from liability under this Lease, and any guarantor of the Tenant's performance hereunder, expressly reaffirms in writing the extension of their liability for the term of the option; and

(e) The monthly Base Rent for each month of the Second Option Period shall be the Fair Market Rent of the Premises as of the commencement of the Second Option Period, but in no event less than the monthly Base Rent scheduled to be paid during the month prior to the commencement of the Second Option Period.

39.7 Fair Market Rent.

(a) The term "Fair Market Rent" as used in this Lease is defined to mean the rent, including all escalations, at which tenants are leasing non-sublease, non-encumbered, non-equity space comparable in size and quality to the Premises for uses comparable to the uses permitted under this Lease for the Option Period as to which Fair Market Rent is being determined in the San Gabriel Valley, giving appropriate consideration to the annual rental rates per square foot and the standard of measurement by which the square footage is measured. In determining Fair Market Rent it shall be assumed that:

(i) The Premises are in excellent condition and repair and there shall be no deduction for depreciation, obsolescence or deferred maintenance (but less reasonable wear and tear as long as well maintained by Tenant).

(ii) The Premises would be leased for the period of the option being exercised by a tenant with the credit standing of Tenant, as the same exists at that time.

(iii) The Premises would be leased on the same terms of this Lease insofar as the obligations for repair, maintenance, insurance and real estate taxes existed as of the expiration of the original term of this Lease.

(iv) No deduction shall be given nor consideration given to allowances for real estate brokerage commissions or free rent.

(v) The Premises will be used packing, assembly, warehousing, distribution and office uses.

(b) Determination By Landlord. Landlord shall initially determine the Fair Market Rent in each instance, and shall give Tenant notice (the "Market Rent Notice") of such determination and the basis on which such determination was made on or before the 60th day prior to the date on which such determination is to take effect, or as soon thereafter as is reasonably practicable.

(c) Disputes re Fair Market Rent. In the event that Tenant notifies Landlord in writing, on or before the 20th business day following any Market Rent Notice, that Tenant disagrees with the applicable determination, Landlord and Tenant shall negotiate in good faith to resolve such dispute within 10 business days thereafter (The 30th business day after any Market Rent Notice is referred to herein as the "Outside Agreement Date.") If not resolved by the Outside Agreement Date each party shall submit to the other its determination of Fair Market Rent and the dispute shall be submitted to arbitration in accordance with the following paragraph titled "Arbitration Procedures." Until any such dispute is resolved, any applicable payments due under this Lease shall correspond to Landlord's determination and, if Tenant's determination becomes the final determination, Landlord shall refund any overpayments to Tenant, within 5 business days following the final resolution of the dispute.

(d) Arbitration Procedures.

(i) Landlord and Tenant shall each appoint one arbitrator who shall by profession be a real estate broker who shall have been active over the 5-year period ending on the date of such

appointment in the leasing of properties similar to the Premises in the surrounding area of Los Angeles County. The determination of the arbitrators shall be limited solely to the issue of whether Landlord's or Tenant's submitted Fair Market Rent for the Premises is the closest to the actual Fair Market Rent for the Premises as determined by the arbitrators, taking into account the requirements of this subparagraph regarding the same. Each such arbitrator shall be appointed within 15 days after the Outside Agreement Date. Landlord and Tenant may not consult with either such arbitrator prior to resolution.

(ii) The two arbitrators so appointed shall within 15 days of the date of the appointment of the last appointed arbitrator, meet and attempt to reach a decision as to whether the parties shall use Landlord's or Tenant's submitted Fair Market Rent, and shall notify Landlord and Tenant of their decision, if any.

(iii) If the two arbitrators are unable to reach a decision, the two arbitrators shall, within 30 days of the date of the appointment of the last appointed arbitrator, agree upon and appoint a 3rd arbitrator who shall be a broker who shall be qualified under the same criteria set forth hereinabove for qualification of the initial 2 arbitrators.

(iv) The 3 arbitrators shall, within 30 days of the appointment of the 3rd arbitrator, reach a decision as to whether the parties shall use Landlord's or Tenant's submitted Fair Market Rent, and shall notify Landlord and Tenant thereof.

(v) The decision of the majority of the 3 arbitrators shall be binding upon Landlord and Tenant.

(vi) If either Landlord or Tenant fails to appoint an arbitrator within 15 days after the Outside Agreement Date, the arbitrator appointed by one of them shall reach a decision, notify Landlord and Tenant thereof, and such arbitrator's decision shall be binding upon Landlord and Tenant.

(vii) If the 2 arbitrators fail to agree upon and to appoint a 3rd arbitrator, then the appointment of the 3rd arbitrator shall be dismissed, and the matter to be decided shall be forthwith submitted to arbitration under the provisions of the American Arbitration Association, but subject to the instructions set forth in this Lease.

(viii) The cost of arbitration shall be paid by Landlord and Tenant equally.

40. Security Measures. Tenant hereby acknowledges that Landlord shall have no obligation whatsoever to provide guard service or other security measures for the benefit of the Premises or the Industrial Center. Tenant assumes all responsibility for the protection of Tenant, its agents and invitees and the property of Tenant and of Tenant's agents and invitees from acts of third parties. Nothing herein contained shall prevent Landlord at Landlord's sole option, from providing security protection for the Industrial Center or any part thereof, in which event the cost thereof shall be included within the definition of Operating Expenses, as set forth in paragraph 4.2(b).

41. Easements. Landlord reserves to itself the right, from time to time, to grant such easements, rights and dedications that Landlord deems necessary or desirable, and to cause the recordation of Parcel Maps and restrictions, so long as such easements, rights, dedications, Maps and restrictions do not unreasonably interfere with the use of the Premises or the Exclusive Truck Yard Area by Tenant. Tenant shall sign any of the aforementioned documents upon request of Landlord and failure to do so shall constitute a material default of this Lease by Tenant without the need for further notice to Tenant.

42. Performance Under Protest. If at any time a dispute shall arise as to any amount or sum of money to be paid by one party to the other under the provisions hereof, the party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment, and there shall survive the right on the part of said party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said party to pay such sum or any part thereof, said party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

43. Authority. If Tenant is a corporation, trust, or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said entity. If Tenant is a corporation, trust or partnership, Tenant shall, within thirty (30) days after execution of this Lease, deliver to Landlord evidence of such authority satisfactory to Landlord.

44. Cashier's Checks.

44.1 In the event that any check given to Landlord by Tenant shall not be honored by the bank upon which it is drawn on two or more occasions, then

Landlord, at its option may require all future payments to be made by Tenant under this Lease to be made by Cashier's Checks.

44.2 Any payment made by Tenant pursuant to a written notice to pay or be deemed in default under this Lease shall be made by Cashier's Check.

45. Amendments to Lease.

45.1 At such times as a rental adjustment is made to this Lease by virtue of any provision of this Lease, the parties shall execute a written amendment to this Lease to reflect said change.

45.2 Tenant agrees to make any non-monetary modifications to this Lease that may be required by an institutional mortgagee of Landlord.

46. Storage Tanks.

46.1 Notwithstanding anything to the contrary in Paragraph 7.3 hereof, Tenant shall not install storage tanks of any size or shape in the Premises, above or below ground, without the consent of the Landlord which can be withheld in Landlord's sole discretion. If Landlord elects to grant its consent, Landlord shall have the right to condition its consent upon Tenant agreeing to give to Landlord such assurances that Landlord, in its sole discretion, deems necessary to protect itself against potential problems concerning the installation, use, removal and contamination of the Premises as a result of the installation and/or use of such tank, including but not limited to the installation of a concrete encasement for said tank. Tenant shall comply at its expense with all applicable permit and/or registration requirements and repair any damage caused by the installation, maintenance or removal of such tank. Upon termination of the Lease, Tenant shall, at its sole cost and expense, remove any tank from the Premises, remove and replace any contaminated soil or materials (and compact or treat the same as then required by law) and repair any damage or change to the Premises caused by said installation and/or removal. Nothing contained herein shall be construed to diminish or reduce Tenant's obligations under Paragraph 47.

46.2 Landlord shall have the right to employ experts and/or consultants, at Tenant's expense, to advise Landlord with respect to the installation, operation, monitoring, maintenance and removal and restoration of any such tank.

46.3 Landlord has no current actual knowledge that any underground storage tanks exist on the Premises as of the date of this Lease. For purposes of this Paragraph 46.3, the current actual knowledge of Landlord means the current actual knowledge of Mark Harryman, without duty of investigation or inquiry. For purposes

of Paragraphs 46 and 47 of this Lease, the term "Premises" shall include without limitation the Exclusive Truck Yard Area.

47. Hazardous Materials.

47.1 Tenant's Covenants Regarding Hazardous Materials.

(a) Landlord's Prior Consent. Notwithstanding anything contained in this Lease to the contrary, Tenant has not caused or permitted, and shall not cause or permit any "Hazardous Materials" (as defined in subparagraph (b) below) to be brought upon, kept, stored, discharged, released or used in, under or about the Premises by Tenant, its agents, employees, contractors, subcontractors, licensees or invitees, unless (1) such Hazardous Materials are reasonably necessary to Tenant's business and will be handled, used, kept, stored and disposed of in a manner which complies with all "Hazardous Materials Laws" (as defined in subparagraph (b) below); (2) Tenant will comply with such other rules or requirements as Landlord may from time to time impose, including without limitation that (i) such materials are in small quantities, properly labeled and contained, (ii) such materials are handled and disposed of in accordance with the highest accepted industry standards for safety, storage, use and disposal, (iii) such materials are for use in the ordinary course of business (i.e., as with office or cleaning supplies), (3) notice of and a copy of the current material safety data sheet is provided to Landlord for each such Hazardous Material, and (4) Landlord shall have granted its prior written consent to the use of such Hazardous Materials.

(b) Compliance with Hazardous Materials Laws. As used herein, the term "Hazardous Materials" means any (1) oil, petroleum, petroleum products, flammable substances, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, materials or pollutants which (i) pose a hazard to the Premises or to persons on or about the Premises or (ii) cause the Premises to be in violation of any Hazardous Materials Laws (as hereinafter defined); (2) asbestos in any form, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls, or radon gas; (3) chemical, material or substance defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous waste," "restricted hazardous waste," or "toxic substances" or words of similar import under any applicable local, state or federal law or under the regulations adopted or publications promulgated pursuant thereto, including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq.; the Resources

Conservation Recovery Act, 42 U.S.C. Section 6901, et seq.; the Hazardous Materials Transportation Act, as amended, 49 U.S.C. Section 1801, et seq.; the Federal Water Pollution Control Act, as amended, 33 U.S.C. Section 1251, et seq.; Sections 25115, 25117, 25122.7, 25140, 25249.8, 25281, 25316 and 25501 of the California Health and Safety Code; and Title 22 of the California Code of Regulations, Division 4.5, Chapter 11; (4) other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or may or could pose a hazard to the health and safety of the occupants of the Premises or the owners and/or occupants of property adjacent to or surrounding the Premises, or any other Person coming upon the Premises or adjacent property; and (5) other chemical, materials or substance which may or could pose a hazard to the environment. As used here the term "Hazardous Materials Laws" means any federal, state or local laws, ordinances, regulations or policies relating to the environment, health and safety, and Hazardous Materials (including, without limitation, the use, handling, transportation, production, disposal, discharge or storage thereof) or to industrial hygiene or the environmental conditions on, under or about the Premises, including, without limitation, soil, groundwater and indoor and ambient air conditions. Tenant shall at all times and in all respects comply with all Hazardous Materials Laws.

(c) Hazardous Materials Removal. Upon expiration or earlier termination of this Lease, Tenant shall, at Tenant's sole cost and expense, cause all Hazardous Materials brought on the Premises to be removed from the Premises in compliance with all applicable Hazardous Materials Laws. If Tenant or its employees, agents, or contractors violates the provisions of the foregoing two paragraphs, or if Tenant's acts, negligence, or business operations contaminate, or expand the scope of contamination of, the Premises from such Hazardous Materials, then Tenant shall promptly, at Tenant's expense, take all investigatory and/or remedial action (collectively, the "Remediation") that is necessary in order to clean up, remove and dispose of such Hazardous Materials causing the violation on the Premises or the underlying groundwater or the properties adjacent to the Premises to the extent such contamination was caused by Tenant, in compliance with all applicable Hazardous Materials Laws. Tenant shall further repair any damage to the Premises caused by the Hazardous Materials contamination. Tenant shall provide prior written notice to Landlord of such Remediation, and Tenant shall commence such Remediation no later than thirty (30) days after such notice to Landlord and diligently and continuously complete such Remediation. Such written notice shall also include Tenant's method, time and procedure for such Remediation and Landlord shall have the right to require reasonable changes in such method, time or procedure of the Remediation. Tenant shall not take any Remediation in response to the presence of any Hazardous Materials in or about the Premises

or enter into any settlement agreement, consent decree or other compromise in respect to any claims relating to any Hazardous Materials in any way connected with the Premises, without first notifying Landlord of Tenant's intention to do so and affording Landlord ample opportunity to appear, intervene or otherwise appropriately assert and protect Landlord's interests with respect thereto.

(d) Notices. Tenant shall immediately notify Landlord in writing of: (i) any enforcement, cleanup, removal or other governmental or regulatory action threatened, instituted, or completed pursuant to any Hazardous Materials Laws with respect to the Premises; (ii) any claim, demand, or complaint made or threatened by any person against Tenant or the Premises relating to damage, contribution, cost recovery compensation, loss or injury resulting from any Hazardous Materials; and (iii) any reports made to any governmental authority arising out of any Hazardous Materials on or removed from the Premises. Landlord shall have the right (but not the obligation) to join and participate, as a party, in any legal proceedings or actions affecting the Premises initiated in connection with any Hazardous Materials Laws.

47.2 Indemnification of Landlord. Tenant shall indemnify, protect, defend and forever hold Landlord harmless from any and all damages, losses, expenses, liabilities, obligations and costs arising out of any failure of Tenant to observe any of the covenants contained in paragraphs 46 and 47.

48. Landlord's Default.

Any damages or judgments arising out of Landlord's default of its obligations under this Lease shall be satisfied only out of Landlord's interest and estate in the Premises, and Landlord shall have no personal liability beyond such interest and estate with respect to such damages or judgments.

49. Recovery of Concessions Upon Early Termination. In the event that Tenant's right of possession of the Premises is terminated prior to the end of the initial term by reason of default or abandonment of the Premises, then immediately upon such termination, an amount shall be due and payable by Tenant to Landlord equal to the unamortized portion as of that date (which amortization shall exclude any Option Terms and shall be based on an interest rate of twelve percent (12%) per annum) of the sum of (i) the cost of the Tenant Improvements, (ii) the value of the free Base Rent (i.e., the Base Rent stated in this Lease to be abated as an inducement to Tenant's entering into this Lease) enjoyed as of that date by Tenant, and (iii) the amount of all commissions paid by Landlord in order to procure this Lease.

50. Easements and Restrictions of Record

50.1 Tenant accepts the Premises and Industrial Center subject to the easements and covenants or restrictions of record.

50.2 Landlord and Tenant agree to cooperate and use their best efforts to participate in traffic management programs generally applicable to businesses located in the area which includes the Industrial Center and, initially, shall encourage and support van and car pooling by Tenant's employees to the fullest extent permitted by the requirements of Tenant's business. Neither this Paragraph nor any other provision in this Lease, however, is intended to or shall create any rights or benefits in any other person, firm, company, governmental entity or the public.

51. Offer. Preparation of this Lease by Landlord or Landlord's agent and submission of same to Tenant shall not be deemed an offer to lease. This Lease shall become binding upon Landlord and Tenant only when fully executed by Landlord and Tenant.

52. Waiver of Trial by Jury. LANDLORD AND TENANT HEREBY WAIVE TRIAL BY JURY AND CONSENT TO TRIAL WITHOUT A JURY IN THE EVENT OF ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER LANDLORD OR TENANT AGAINST THE OTHER IN CONNECTION WITH THIS LEASE.

53. ERISA. Tenant hereby represents and warrants to Landlord that (i) Tenant is not a "party in interest" (within the meaning of Section 3(14) of the Employee Retirement Income Security Act of 1974, as amended) or a "disqualified person" (within the meaning of Section 4975 of the Internal Revenue Code of 1986, as amended) with respect to any retirement or pension plan of The Prudential Insurance Company of America, and (ii) no portion of or interest in the Lease will be treated as a "plan asset" within the meaning of Regulation 29 CFR Section 2510.3-101 issued by the Department of Labor.

54. Guaranty. The obligations of Tenant under this Lease shall be guaranteed by JAKKS PACIFIC, INC., a Delaware corporation ("Guarantor"), pursuant to a Guaranty in a form prepared by Landlord which shall be executed and delivered to Landlord concurrently with Tenant's execution and delivery of this Lease.

LANDLORD AND TENANT HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN AND, BY EXECUTION OF THIS LEASE, SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE

THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE
COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LANDLORD AND
TENANT WITH RESPECT TO THE PREMISES.

"LANDLORD"

"TENANT"

GRAND AVENUE VENTURE, LLC, a California
limited liability company

JP FERRERO PARKWAY, INC., a
California corporation

By: /s/ FRANK MAXSON

Frank Maxson
Principal

By: /s/ STEPHEN G. BERMAN

Stephen G. Berman
President/C.O.O

By: _____
[Printed Name and Title]

By: /s/ JOEL M. BENNETT

Joel M. Bennett
Executive Vice President/C.F.O

Subsidiaries of the Registrant

Subsidiary -----	Jurisdiction -----
JP (HK) Limited	Hong Kong
JAKKS Pacific (HK) Limited	Hong Kong
J-X Enterprises, Inc.	New York
JAKKS Acquisition Corp.	Delaware
Road Champs, Inc	Delaware
Road Champs, Ltd.	Hong Kong
Pentech International Inc.	Delaware
Pentech Cosmetics, Inc.	Delaware
Sawdust Pencil Co.	Delaware
Pentech-Mon Ami, Inc.	Delaware
Berk Corporation	California
Flying Colors Toys, Inc.	Michigan
Flying Colors Toys (HK) Ltd.	Hong Kong
JP Ferrero Parkway, Inc.	California

* All subsidiaries conduct business under their respective corporate names.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report dated February 16, 2001, except note 18 for which the date is March 26, 2001, on the consolidated financial statements of JAKKS Pacific, Inc. in this Form 10-K into the previously filed Registration Statements of JAKKS Pacific, Inc. on Form S-3 (File No. 333-48865) and Form S-8 (Nos. 333-68313, 333-52205, 333-90055 and 333-40392).

/s/ PANNELL KERR FORSTER

Pannell Kerr Forster
Certified Public Accountants
A Professional Corporation

Los Angeles, California
March 30, 2001