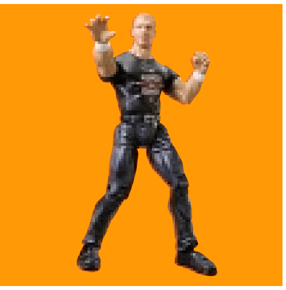
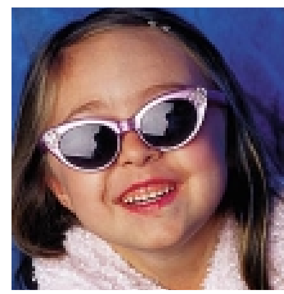




City of Los Angeles

APPRECIATION

JAKKS Pacific

WHEREAS, JAKKS Pacific, the Malibu, California-based toy company has been dedicated to bringing delight and amusement to children and adults world-wide through toys and writing instruments that are fun and encourage imagination; and

WHEREAS, JAKKS Pacific donates truckloads of toys each holiday season, bringing Christmas to thousands of children in need and less fortunate families throughout the City of Los Angeles and across the United States each year; and

WHEREAS, JAKKS Pacific is a dedicated friend and community partner to Hollygrove Children and Family Services, joining the agency in its 121-year-old mission of providing loving, therapeutic care to orphaned, neglected, and abused boys and girls; and

WHEREAS, JAKKS Pacific serves as a community role model and is helping Hollygrove create an ongoing tradition of "kids giving back to other kids" so that they may also experience the joy of improving the lives of children and families from similar backgrounds; and

WHEREAS, JAKKS Pacific, in addition to its commitment to Hollygrove, has also provided generous support to several other organizations, including The Starlight Children's Foundation, the Los Angeles Girls and Boys Club, Special Olympics, AIDS Project Los Angeles, and Toys for Tots; and

WHEREAS, JAKKS Pacific has worked to inspire creativity in children by providing educators nationwide with writing instruments and art supplies for school districts and afterschool programs that serve thousands of students; and

WHEREAS, JAKKS Pacific has taken an active philanthropic role in the wake of the World Trade Center tragedy in New York City by financially supporting the unwavering efforts of the United Way and many other organizations, by creating a patriotic stationery line with 100% of the proceeds going to the September 11th Fund, and by pledging to donate toys and art supplies to children affected by the tragedy this holiday season; and

WHEREAS, JAKKS Pacific, additionally, supports education and the furthering of human rights for children worldwide through its sponsorship of a program at the Museum of Tolerance commemorating the ten-year anniversary of the United Nations' commitment to protecting the rights of children everywhere:

NOW, THEREFORE, I, JAMES K. HAHN, Mayor of the City of Los Angeles extend my appreciation for JAKKS' commitment to improving the lives of the City's most needy children and families.

December 1, 2001

CITY OF LOS ANGELES FOUNDED 1781

James K. Hahn

MAYOR

2001 Annual Report

JAKKS Pacific inc.

JAKKS Pacific engages children in creative play, in the true spirit of the phrase. Our products encourage learning and interaction. They inspire fun and spark creativity among children of all ages, interests, backgrounds and abilities. While our core business is toys, our offerings have grown to include writing instruments, back-to-school items, slumber bags, kites, pool floats and other leisure products. This is absolutely by design. We counter the fragmented, seasonal and fiercely competitive nature of our industry by executing a business strategy centered on growth through diversity and operational excellence. This means developing new core products. Growing and consolidating existing product lines. Pursuing strategic acquisitions. Expanding international sales. And capitalizing on operating efficiencies achieved through disciplined management and a lean, flexible infrastructure. Since our founding in 1995, JAKKS Pacific has executed this strategy aggressively, faithfully and successfully, achieving year-over-year growth and an exceptional balance sheet.

significant *events*

2001

1/01—JAKKS Pacific makes top 5 of U.S. toy companies for 2000

—JAKKS Pacific's Goooze® is the No. 2 best seller of all toys for December 2000

2/01—British Association of Toy Retailers gives "Boys Toy of the Year Award" to JAKKS' World Wrestling Federation® action figures for the second consecutive year

—JAKKS Pacific signs licensing agreement with Battlebots®

5/01—Child Guidance® Push Along Discovery Ball receives "Oppenheim Toy Portfolio Gold Seal Award"

6/01—Ernst & Young recognizes Stephen Berman as Entrepreneur of the Year®

—JAKKS signs master activity toy licensing agreement with Nickelodeon®

—JAKKS signs on as master toy licensee for Junkyard Wars™

8/01—FORTUNE Magazine names JAKKS Pacific to its list of 100 Fastest Growing Companies—third consecutive year on list

10/01—JAKKS secures $50 million line of credit from Bank of America

12/01—JAKKS receives proclamation from the Mayor of Los Angeles for its commitment to philanthropic outreach

—JAKKS signs distribution deal with Funtastic Limited for Australia and New Zealand

—JAKKS acquires UK distributor Kidz Biz Ltd.; creates new European sales headquarters

2002

2/02—Toys 'R' Us names JAKKS Pacific Vendor of the Year for 2001

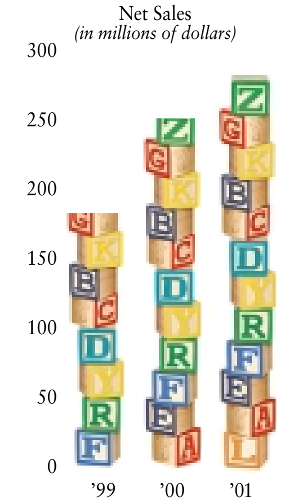
—JAKKS signs master activity toy and junior sports activity license with Disney

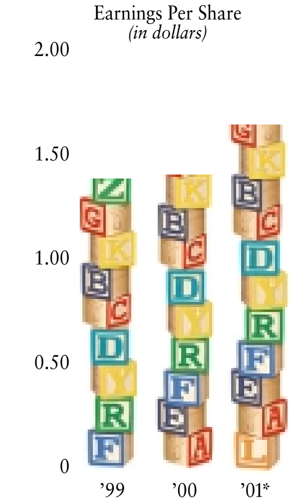
—Michael Bianco promoted to chief merchandising officer

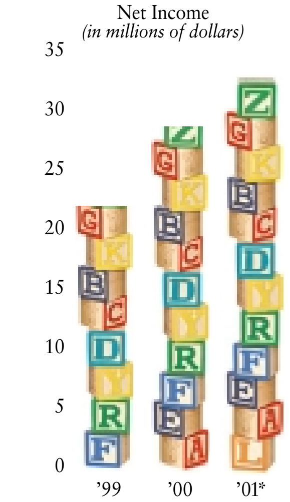
3/02—JAKKS acquires controlling interest in Toymax International, Inc.

—JAKKS secures position as third largest toy company in the U.S.

—Flying Colors' Nickelodeon Skweeez™ compound receives "Oppenheim Toy Portfolio Gold Seal Award"







*Excludes a $5 million one time charge in connection with Kmart's bankruptcy filing.

to our *stockholders:*

This time a year ago, we said that JAKKS Pacific would act decisively on strategic opportunities, enter new partnerships and reinforce existing ones. We promised you that we would remain true to our philosophy, developing products and acquiring licenses with the potential for significant success. And we stated that we would remain operationally lean and financially healthy, even as we pursued new initiatives.

JAKKS Pacific has faithfully and effectively implemented its successful business strategy from day one. And 2001 was no different, in spite of a turbulent global economic climate and a challenging retail environment. In short, we kept true to our word.

In terms of revenue and profitability, JAKKS Pacific delivered on expectations. We made FORTUNE Magazine's list of the 100 fastest-growing companies for the third year in a row. At fiscal year-end, JAKKS Pacific had $116.5 million in working capital, including $62.2 million in cash and marketable securities, no debt and stockholders' equity of approximately $244.4 million. Due to our exceptionally strong balance sheet, and with $50 million in available credit, JAKKS Pacific is in an excellent position to continue to execute our business strategy.

In order to continue our growth, JAKKS Pacific will introduce exciting new products, grow and consolidate our existing products, and extend offerings within our product lines. It means continuing to expand our business through strategic acquisitions, lucrative licensing agreements, expanding international sales and continuing to capitalize on our operating efficiencies.

Our World Wrestling Federation® action figures, playsets and accessories, along with the World Wrestling Federation video games created through our joint venture with THQ, just keep getting better. The World Wrestling Federation brand continues to dominate the action figure category and this product line has positioned JAKKS Pacific as a leader in boys action toys. We constantly challenge our product development teams to use the most advanced technology possible, and they continue to meet those challenges.

Under our Child Guidance® brand we launched a line of long-legged plush animals called Limbo Legs™ and added newborn puppies to our Pound Puppies® line. We also made our entrance in 2001 into the slumber bag business featuring some of the most popular licenses, including Dora the Explorer™ and SpongeBob SquarePants™.

Our leadership in product development makes JAKKS Pacific a highly sought licensee. Our approach begins with traditionally successful, yet generic, products such as a lunch box, a marker or a ball. We then update and energize these products through the licenses that we acquire. Under our Flying Colors® division, we signed a long-term master activity toy and stationery licensing agreement in 2001 with Nickelodeon. JAKKS Pacific is developing wide-ranging products based on popular Nickelodeon titles including Dora the Explorer®, Jimmy Neutron: Boy Genius™, SpongeBob SquarePants™, Rugrats™, Blue's Clues®, The Wild Thornberrys® and Rocket Power®. A full line of creative play activities, including mechanical drawing toys and junior sports products, are based on the Nickelodeon brand itself, entitled Nick-tivities®. Additionally, Flying Colors is introducing a number of new Nickelodeon-branded compounds. These include Smatter™, Skweeez™ and Crystal Zyrofoam® compounds, as well as extensions for the Goooze® product line.

In 2002, our Flying Colors division, which includes the Pentech® brand also, will launch craft and activity sets, reusable compounds, stationery kits, back-to-school products and junior sports toys for properties that include "Spy Kids 2: Island of Lost Dreams™," the perennially popular Barney®, Power Rangers®, and classic Disney® characters as well as new filmed Disney entertainment.

We endeavor to develop products with staying power. Doing this requires that we spot and exploit trends, and avoid one-off fads. This past year, we entered a licensing agreement to manufacture and market BattleBots® toys, based on the popular Comedy Central property, and signed on as master toy licensee for The Learning Channel's successful Junkyard Wars™ television series.

While essential, product development is not the only reason top brands turn to us. We offer keen market insight combined with disciplined management and a streamlined infrastructure that includes superior design and marketing capabilities. The result is unsurpassed speed-to-market that leaves our bigger, lumbering competitors unable to keep pace.

Our plans to rapidly expand international sales got off to a robust start in 2001. We acquired a leading European toy distributor Kidz Biz Ltd., which had exclusively distributed JAKKS Pacific products in the United Kingdom since 1999. With Kidz Biz functioning as JAKKS' European Sales Headquarters and as the cornerstone of our aggressive expansion in Europe, we are well positioned to grow sales throughout continental Europe. Additionally, JAKKS Pacific entered into an arrangement with Funtastic Limited to distribute our products in Australia and New Zealand. We will continue to pursue new global distribution channels to further propel our position in the industry.

Looking ahead, we expect another successful year. We are particularly excited about our acquisition of a top industry competitor, Toymax International, Inc. We now own a controlling interest and expect Toymax to be our wholly owned subsidiary in 2002. This acquisition brings with it a number of outstanding product lines, including Go Fly A Kite®, Funnoodle®, Laser Challenge™, Creepy Crawlers®, karaoke machines and radio control vehicles, among others. A program to systematically integrate Toymax as a JAKKS Pacific subsidiary is already underway, and we see numerous opportunities to capitalize on Toymax's product development and sales capabilities.

Other product introductions for 2002 will include extensions to our extreme sports lines using gyros, new World Wrestling Federation action figures and accessories, a host of new introductions from Flying Colors, including the first new items from the Disney® Magic Artist line, and a Nickelodeon-branded junior sports line called Gak Splat™, new doll lines, including Tiny Tots in Puppy Town™, and more.

Additionally, the highly anticipated new video game platform transition is well underway. With our next-generation World Wrestling Federation video game titles for Microsoft Xbox™, Nintendo Game Cube™, Sony PlayStation® 2, Nintendo Game Boy® Advance and several additional platforms, we are well positioned for explosive growth, and we anticipate substantial profits from our World Wrestling Federation joint venture with video game developer THQ over at least the next eight years.

Undoubtedly, we operate in an ultra-competitive industry, and JAKKS Pacific enjoys great success in it. We believe we have earned it. But we never lose sight of what it's all about: Helping kids live and learn through play. This is why JAKKS Pacific makes considerable charitable contributions to a wide range of organizations, schools, hospitals and government agencies that benefit children and communities. It's fundamental to our nature, in good times and especially during times like this past year, when many children have suffered. These contributions represent but a fraction of our gratitude for our good fortune.

We are grateful, too, for the contributions of our customers, employees, partners and vendors to our success. And we thank you, our stockholders, for placing your faith and trust in us. We've said it more than once, and we'll repeat it now. We pledge to apply the basic successful strategy that has spurred our steady growth over the past seven years, and that has solidified the standing of JAKKS Pacific as an industry leader.

Sincerely,

Jack Friedman
Chairman and Chief Executive Officer

Stephen G. Berman
President and Chief Operating Officer

the true value of *giving.*

At JAKKS Pacific, we have worked hard to build and secure our financial stability. Through our contributions, we try to enhance the lives of children less fortunate and improve their chances for success.

At the corporate level, we make major donations nationwide—toys for various causes; school supplies for financially strapped school districts and arts programs; corporate dollars where they are needed most. In response to the attacks of September 11th, we intensified our philanthropic efforts, and also provided aid to organizations designed to help children and families affected by the tragedy.

We're especially proud of having supported the efforts of many organizations doing important work to help children, including Hollygrove Children and Family Services in Los Angeles, The Special Olympics, The Boys and Girls Clubs, The Museum of Tolerance, The Starlight Children's Foundation, Toys for Tots programs nationwide, local police and fire departments' youth programs, Inner-City Arts, PS Arts, The I Have a Dream Foundation, The Make a Wish Foundation, The Leukemia Society of America, The Jewish Federation, The United Way September 11th Fund, Race to Erase MS, Children Affected by AIDS Foundation, and many more.

We've also tried to extend philanthropic opportunities to our employees by creating programs and ways for them to volunteer their time. Employees and their families joined us in raising funds for The Los Angeles Regional Food Bank, they worked game booths at a Special Olympics carnival, and they helped children without homes of their own celebrate the holidays with crafts and fun on a very special afternoon at Hollygrove. In this way we foster even more giving, now and for the future.

We couldn't be more proud of the City of Los Angeles proclamation in December 2001 honoring our commitment to children and families in need. Giving is simply part of what we do at JAKKS Pacific. For us, the ability to do it is honor enough.

"All of us thank JAKKS Pacific Inc. for the extraordinary gifts you have given our special children with cancer."
— Camp Ronald McDonald for Good Times

"I am amazed at the wonderful level of involvement JAKKS Pacific employees have shown in their commitment to fighting hunger."
— Los Angeles Regional Food Bank

"Together, we empower hundreds of kids to envision bright futures and realize dreams beyond their circumstances."
— Los Angeles Boys and Girls Club

"Please be assured your most generous support is wholeheartedly appreciated."
— Los Angeles Sheriffs' Professional Association

A family affair.

At JAKKS Pacific, we're in the business of play. Nobody reminds us of this happy fact better than our own children. That's why, for this year's report, we're pleased to feature the children of our employees.

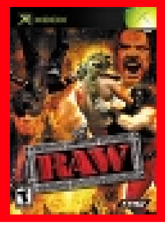
lights, camera, *action toys!*

Whether you're a World Wrestling Federation® superstar or a battle-bred robot, to be a successful action figure, you need the right combination of moves, attitude and story. If you've got it right, you can see it in kids' eyes. The light. The focus. You've captured their imaginations. You've helped them to create a new world where they can have fun, overcome obstacles and even win.

The same applies if one is a company competing in the action figure market. One has to be resourceful, brave and fundamentally strong. Having a signature move or two helps. The goal is to perform like the best of the breed.

At JAKKS Pacific, we continue to aggressively develop a diverse roster of brands with marketplace brawn. Our powerhouse World Wrestling Federation-licensed action figures, playsets and accessories, created with the latest technology to ensure a level of realism that fans truly appreciate, continue to be top-sellers. Our Road Champs® division is burgeoning, offering a solid, stable line of die-cast vehicles, robotic toys and extreme sports action figures, vehicles and playsets. These range from Supercross bikes and riders to ATVs that fit in the palm of a hand. JAKKS also became master toy licensee for the 2002 theatrical film "The Scorpion King™," which features World Wrestling Federation superstar, The Rock®.

Strength is only part of our story. With extensive industry experience and exceptional creative ingenuity, we know how to use our power wisely. Time and again, JAKKS displays an uncanny ability to spot emerging trends and, like any true action figure, capitalize on them.



the look on a child's face— the toys must love it.

Every parent has seen a child set aside a toy in favor of the box it came in. Something about a simple, found item stirs the creative juices. This is precisely the idea behind "Junkyard Wars™," a new television series from The Learning Channel™—and a new JAKKS Pacific licensor. Based on the competitions, during which players engineer fantastic machines using only items from a real junkyard, our Road Champs® division is developing Junkyard Wars™ customizable toy vehicles, playsets and accessories.

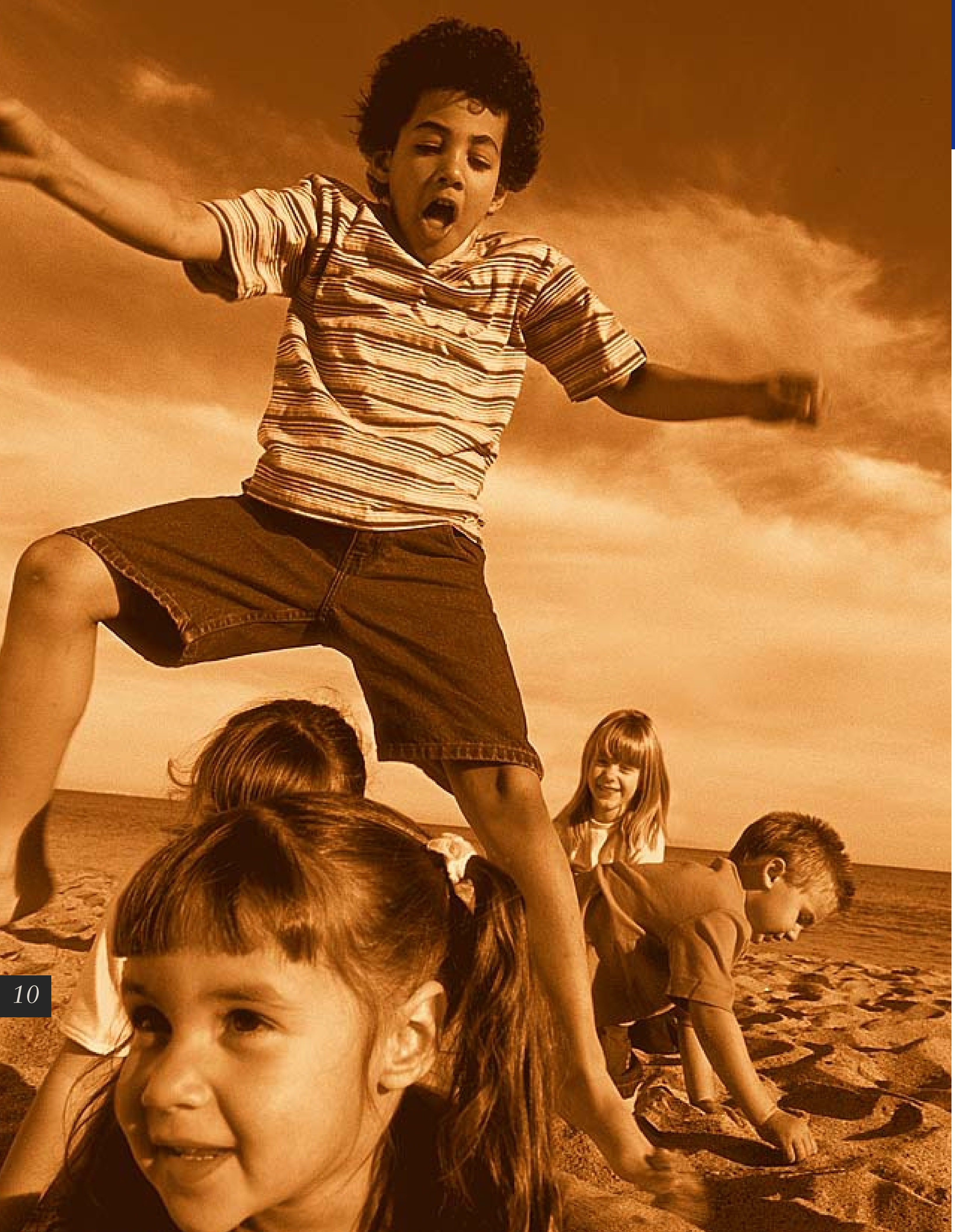
Another Road Champs release this year with gear-head appeal were robotic vehicles and playsets based on the hit BattleBots® television series from Comedy Central. Evoking the program's creativity, our lineup features the robots' crazy weaponry and authentic audio from the show.

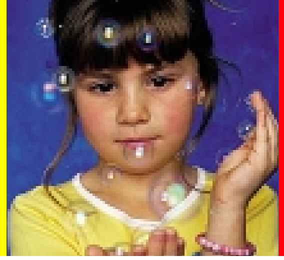
In 2001, we also extended our die-cast lines, which feature licenses from the publishing powerhouse Primedia, for brands including Ford®, General Motors® and Dodge®, and we introduced a line of World Wrestling Federation® die-cast vehicles in 1/64 scale.

Our joint-venture partnership that develops World Wrestling Federation video games with THQ, introduced *WWF Smackdown! Just Bring It*™ for Sony PlayStation® 2 and *WWF Road to Wrestlemania*™ for Nintendo Game Boy® Advance, and in early 2002 we launched *WWF Raw*™ for Microsoft Xbox™. All of these products have been top-sellers, indicating that next-generation platforms are taking hold and raising expectations that video game sales will be strong for 2002. Due out later this year is *WWF Wrestlemania X8* for Nintendo Game Cube™.

XBOX PlayStation 2 NINTENDO GAMECUBE

JAKKS Pacific GAME BOY COLOR GAME BOY ADVANCE THQ





ac•tive (ak´-tiv) *adj.*

full of life, animated, excited;
esp. a child inspired by JAKKS.

With uncanny consistency and stellar results, our Flying Colors® division takes "oldies, but goodies" and turns them into the latest and hottest trends. We give them new life through popular licensed properties, innovative features and advanced technology that updates products for kids' higher standards.

Liqualoons™ bubbles, for example, has a new twist that gives kids the ability to create long-lasting bubbles, catch them, stack them and create never-before-possible formations. Kids have loved bubbles since the beginning of bubbles—only now they're more interactive.

Successful product development takes top-level creative talent, combined with a certain merchandising and marketing genius. Our savvy and skill in all areas make us a favorite among our retail partners—from the top five all the way to the mom and pop stores. The success of Flying Colors also makes JAKKS Pacific a licensee highly sought among entertainment titans. In 2001, Flying Colors signed licensing agreements covering Power Rangers® Wild Force™ and Barney®, plus the films "Spy Kids 2: Island of Lost Dreams™" and "Ice Age™," among others.

Like the kids that inspire us, at JAKKS we have an active imagination of our own—plus the business sense to take it to new heights.

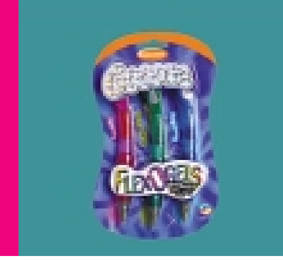
Reinventing the building blocks *of play.*

In a child's hands, a feather-light, squishy ball that whistles through the air will soar to new heights. A bag of beads can become the most beautiful piece of jewelry on the planet. In 2001, our Flying Colors® division developed some of our most imaginative properties ever, including compelling variations on some of the most traditional toys in the trade.

Our Nick-tivities® line of mechanical drawing toys are traditional favorites with a hip "Nick-twist," and our compounds reached new heights with several new product introductions and extensions of our top-selling Goooze® and Zyrofoam® compounds. The hits keep oozing with Mood Goooze®, Scented Goooze® and Metallic Goooze®, while our Crystal and Speckled Zyrofoam® products offer cool moldability, eye-catching features and improved functionality. The incredible success of our early 2002 introduction of the super-soft and lightweight Skweeez™ compound has us believing that we have a major contender in the reusable compound arena. Likewise, our new Nickelodeon Gak Splat™ line of junior sports activity toys is on its way to high-flying success.

Flying Colors also took the lead in activity sets for teen and "tween" girls. From imaginative do-it-yourself clothing and make-up kits to stylish room and fashion accessories—complete with instructional booklets—our trend-setting It's a Girl Thing® line inspires girls to express their individuality through their own chic creations.

Beyond the pop culture connections, our essential business remains the same: Opening the world of creative play to all children.



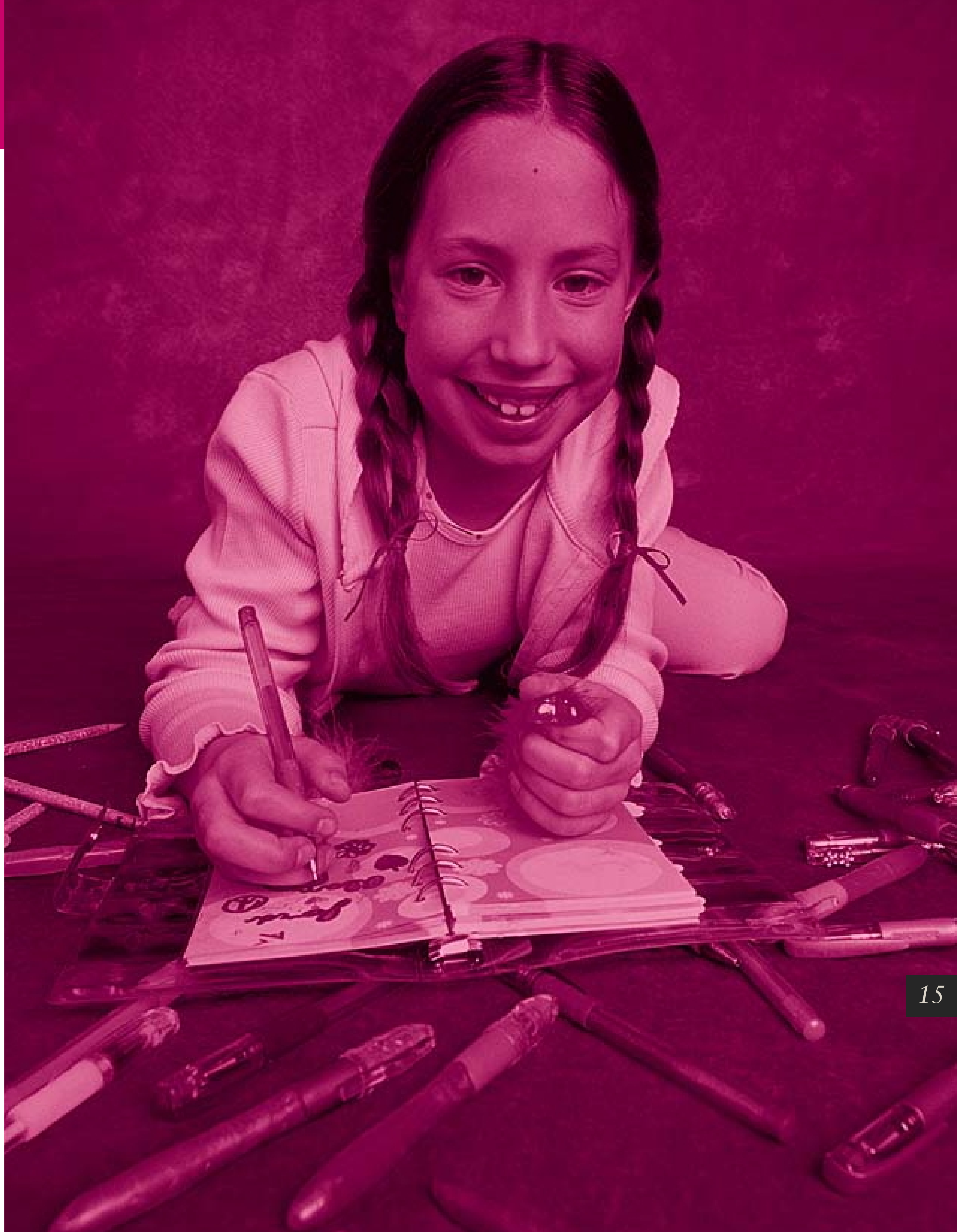
Seeking diversity. *Securing our success.*

For a company like JAKKS Pacific, the year-end holiday season holds special meaning. However, in a competitive business like ours, we understand fully the peril of pinning our fortunes on a single time of year. This is why the acquisition and integration of Pentech® International has been so crucial to our success. Diversifying into writing instruments and stationery products, we have vastly expanded our customer base, reaching children in new ways and also catering directly to adults. With sustained revenues year-round, we're successfully counterbalancing the traditional toy industry's seasonality.

In 2001, we began to maximize the far-reaching synergies between our Flying Colors® and Pentech brands, incorporating fun and innovative writing instruments and stationery items into our art and activity kits. At the same time, our top-selling Goooze® compound crossed over into the back-to-school and stationery category, with products such as soft lunch boxes, Goooze pens, folders and spiral-bound notebooks.

Additionally, the Pentech acquisition has allowed us to dramatically increase our presence in retail outlets to include major office supply and drug store chains nationwide. Vendors like Staples, Office Depot, Rite Aid and many others carry our Pentech lines and as a result, many have taken on toy and craft and activity SKU's as well.

FLYING COLORS® UltraColor FOCUS AquaColor FIREWORKS! PENTECH®



Annual
Broad
Children
Colors
Diversity
~~Growth~~
Innovation
JAKKS
Kids
People
Quality
Report
Team
Value

Word Search

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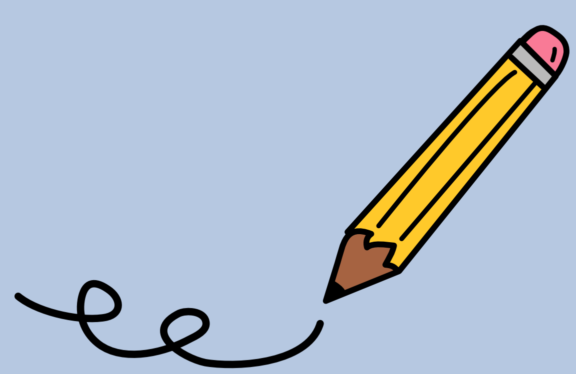
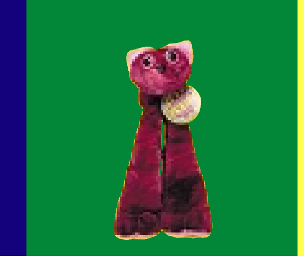


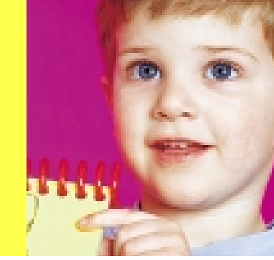
Draw it up, color it in, *write it down.*

In 2001, Pentech® moved full force into the back-to-school and office supply categories. Utilizing the most up-to-date technology, and with the hottest trends and licenses, our writing instruments offer an irresistible blend of fun and function—for kids and adults alike.

Putting pen, pencil and marker to paper has never felt more inspired, thanks to our gel inks and instrument designs. Glitter, silver crystals and tantalizing scents enhance the sensory experience of our youth-targeted Fireworks® and Fire and Ice gel pens. Our Aqua Colors™ and Ultra Colors™ markers feature special inks plus high-performance barrels that hold far more ink than competitors' markers, while providing user-friendly grips, nibs and caps.

We add more fun and excitement to our writing instruments and stationery items through licenses with some of today's most popular characters. From Rugrats™, Hello Kitty®, Cubix™ and Dora the Explorer™ to Rocket Power™, Power Rangers®, Jimmy Neutron™ and Blue's Clues®, we offer something for every child. This year, we extended our Nickelodeon-licensed SpongeBob SquarePants™ line with SpongeBob-like creativity. In the best tradition of the fun and, well, *square* character, the line now includes glitter pencils, liquid-filled instrument cases and squishy globe organizers.





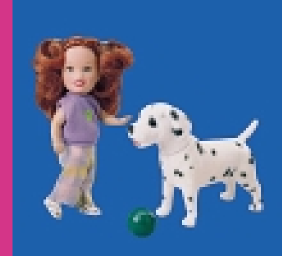
Innovative toyland adventures, *fun pre-school learning.*

Long before their formal education begins, children's natural curiosity and wonder lead them on exciting pathways of discovery. Each step of the way, JAKKS Pacific is there, helping to inspire their creativity, imagination and learning.

JAKKS has teamed with the two best and most popular puzzle solvers in toyland: Dora the Explorer™ and Blue's Clues®. Based on licenses for these pre-schooler favorites, our craft and activity kits, compounds, molds and foam puzzles engage kids in play-along adventures and teach them important lessons.

Taking our lead from Dora™, the seven-year-old Latina star of the top-rated animated show among pre-schoolers, and Blue®, the adorable dog that entertains as it teaches, we help kids explore and understand the world around them with a lineup that includes a roll desk, drawing board, notebook with wipe-off crayons and magnetic characters, plus a sleep-over slumber bag for true adventures away from home. In 2002, both lineups will also introduce kits featuring JAKKS' incredible new Nickelodeon-branded Skweeez™ compound, with fun molds, cutters and activity booklets to help kids create shapes from the programs.

As an Oppenheim Toy Portfolio Gold Seal Award winner for our Skweeez compound, JAKKS looks ahead to increasing our product offerings in the pre-school market with new interactive and compelling products that inspire kids to learn while they play.



a basic truth: *Girls* love dolls.

JAKKS Pacific got its start as a doll company. Now we've gone back to our roots with a tried-and-true strategy: Develop low-cost, high-value fashion dolls and offer them to retailers under private label. From Disney® princess dolls manufactured exclusively for the Disney Stores, to beautiful holiday dolls for retailers like K•B Toys and Toys 'R' Us®, we are creating doll lines that meet each retailers' individual needs and requirements.

Our product development teams have also worked diligently over the past year to create several of our own doll brands. Our new Tiny Tots in Puppy Town™ line is a perfect example of this approach. Tiny Tots is the newest line of JAKKS' dolls that appeals to the top three play patterns of girls: nurturing, fashion and role play. Each fashion doll features a sculpted face, a moveable body, a range of accessories, and a realistic, breed-specific dog. Magnets strategically placed in the dolls' hands and dogs' bodies allow them to interact in unprecedented ways—the dogs can grow hair, fetch toys, play catch and even wag their tails when petted.

Through a licensing agreement with Universal Pictures, JAKKS created a new line of innovative fashion dolls based on the characters in Josie and the Pussycats™, the live-action film based on the popular comic book. Using REAL SCAN™ technology, our designers worked with the film's stars to create amazingly life-like dolls with posable bodies.

JAKKS also expanded its successful Limbo Legs™ plush line last year. Designed for collecting and play, the second series of light-hearted, long-legged stuffed animals feature hip new fabrics and a range of friendly animals, including a lion, rhino, lamb and pig.

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.

Years Ended December 31,	1997	1998	1999	2000	**2001**
(in thousands, except per share data)					
Consolidated Statement of Operations Data:					
Net sales	$41,945	$85,253	$183,685	$252,288	**$284,309**
Cost of sales	25,875	52,000	107,602	149,881	**164,222**
Gross profit	16,070	33,253	76,083	102,407	**120,087**
Selling, general and administrative expenses	11,895	24,007	51,154	80,435	**89,575**
Acquisition shut-down and product recall costs	—	—	—	1,469	**1,214**
Income from operations	4,175	9,246	24,929	20,503	**29,298**
Profit from joint venture	—	—	(3,605)	(15,906)	**(6,675)**
Interest, net	418	423	(1,588)	(3,833)	**(2,057)**
Other (income) expense, net	328	591	(182)	(92)	**—**
Income before provision for income taxes	3,429	8,232	30,304	40,334	**38,030**
Provision for income taxes	643	1,857	8,334	11,697	**9,797**
Net income	$ 2,786	$ 6,375	$ 21,970	$ 28,637	**$ 28,233**
Basic earnings per share	$ 0.40	$ 0.75	$ 1.55	$ 1.50	**$ 1.55**
Weighted average shares outstanding	6,932	8,539	13,879	19,060	**18,199**
Diluted earnings per share	$ 0.35	$ 0.59	$ 1.39	$ 1.41	**$ 1.45**
Weighted average shares and equivalents outstanding	9,013	11,403	15,840	20,281	**19,410**

December 31,	1997	1998	1999	2000	**2001**
(in thousands)					
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 2,536	$12,452	$ 57,546	$ 29,275	**$ 25,036**
Working capital	3,368	13,736	113,170	86,897	**116,487**
Total assets	43,605	58,736	232,878	248,722	**284,041**
Long-term debt, net of current portion	6,000	5,940	9	1,000	**73**
Total stockholders' equity	25,959	37,754	187,501	204,530	**244,403**

Management's Discussion and Analysis of Financial Condition and Results of Operation

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.

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. Since our founding, we have broadly expanded our product lines to include many diverse products including some 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.

We have a fifty percent interest in 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, which expires initially December 31, 2009 and has a five-year renewal option, were released in November 1999. Through June 30, 2006, we are entitled to receive a guaranteed preferred return at varying rates of net sales of the video games depending on the cumulative unit sales and platform of each particular game, which we accrue in the quarter the games are sold. THQ retains the financial risk of the joint venture and is responsible for the day-to-day operations, including the development, sales and distribution of the licensed games for which they are entitled to receive the balance of any profits. For periods after June 30, 2006, the amount of the preferred return will be subject to renegotiation between THQ and us. Distributions of the preferred return from the joint venture contributed significantly to our pre-tax income, representing 11.9% of pre-tax income in 1999, 39.4% in 2000 and 17.6% in 2001. The annual minimum preferred return to be distributed to us by the joint venture during each of the years in the period ending December 31, 2003 is $2.6 million per year. We expect our aggregate return over this period to be significantly in excess of this amount, although we cannot predict with certainty that expected levels of return will be achieved and, in any case, we anticipate substantial fluctuations in the amount of the preferred return distributed to us from year to year. The amount of our preferred return in any year will be subject to various factors, including the number of games released, life cycle of hardware platforms, market conditions and changes in consumer interests.

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 or China. These methods allow us to reduce certain operating costs and working capital requirements. A portion of our sales originate in the United States, so we hold certain inventory in our warehouse and fulfillment facilities. 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) acquired Kidz Biz, a United Kingdom based distributor of toys and related products that will serve as our European headquarters, (2) engaged representatives to oversee sales in certain territories, (3) engaged distributors in certain territories, such as Funtastic in Australia, and (4) 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 $96.5 million and trademarks of approximately $13.9 million in connection with acquisitions made to date. Goodwill has been amortized over a 30-year period, while trademark acquisition costs have been amortized over periods ranging from 5 to 30 years. Beginning in fiscal 2002, goodwill and certain intangible assets will be written down on an impairment basis where losses in value will be recorded when and as material impairment has occurred in the underlying assets.

RESULTS OF OPERATIONS

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

Years Ended December 31,	1997	1998	1999	2000	**2001**
Net sales	100.0%	100.0%	100.0%	100.0%	**100.0%**
Cost of sales	61.7	61.0	58.6	59.4	**57.8**
Gross profit	38.3	39.0	41.4	40.6	**42.2**
Selling, general and administrative expenses	28.4	28.2	27.8	31.9	**31.5**
Acquisition shut-down and product recall costs	—	—	—	0.5	**0.4**
Income from operations	9.9	10.8	13.6	8.2	**10.3**
Profit from joint venture	—	—	(2.0)	(6.3)	**(2.3)**
Interest, net	1.0	0.4	(0.9)	(1.5)	**(0.7)**
Other (income) expense, net	0.7	0.7	—	—	**—**
Income before income taxes	8.2	9.7	16.5	16.0	**13.3**
Provision for income taxes	1.6	2.2	4.5	4.6	**3.4**
Net income	6.6%	7.5%	12.0%	11.4%	**9.9%**

YEARS ENDED DECEMBER 31, 2001 AND 2000

Net Sales. Net sales increased $32.0 million, or 12.7%, to $284.3 million in 2001 from $252.3 million in 2000. The growth in net sales was due primarily to the continuing growth in sales of our Flying Colors product and an increase in sales of our World Wrestling Federation wrestling products, as well as the addition of Pentech products, which began contributing to operations in August 2000, and the introduction of our products based on the Battlebots television show though offset by a decrease in sales of our Doll products and our Wheels products, consisting primarily of our Road Champs die-cast toy and collectible vehicles including BXS die-cast bicycle, MXS die-cast motorcycles and other extreme sports products.

Gross Profit. Gross profit increased $17.7 million, or 17.3%, to $120 million in 2001, or 42.2% of net sales, from $102.4 million, or 40.6% of net sales, in 2000. The overall increase in gross profit was attributable to the increase in net sales and the increase in the gross profit margin. The increase in gross profit margin of 1.6% of net sales is primarily attributable to the decrease in royalty expense as a percentage of net sales due to changes in the product mix and lower product costs, which was partially offset by an increase in amortization expense relating to molds and tools used in the manufacture of our products.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $89.6 million in 2001 and $80.4 million in 2000, constituting 31.5% and 31.9% of net sales, respectively. The overall increase of $9.1 million in such costs in 2001 was due in large part to a $5.0 million dollar reserve on accounts receivable relating to the Chapter 11 bankruptcy filing of Kmart, which was filed in January of 2002, and the 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. The decrease as a percentage of net sales in primarily attributable to the fixed nature of certain of these expenses with a concurrent increase in net sales. We produced and aired television commercials in support of several of our products, including World Wrestling Federation action figures, Road Champs extreme sports products and Flying Colors products in 2000 and 2001. From time to time, we may increase our advertising efforts, if we deem it is appropriate for particular products.

Acquisition Shut-down and Other Costs. Acquisition shut-down and other costs in 2001 relate to shut-down costs, including lease termination, relocation and consulting fees and expenses, of certain operations of Pentech, acquired in 2000, and such costs in 2000 relate to shut-down costs, including lease termination, relocation, and consulting fees and expenses of certain operations of Flying Colors, acquired in 1999. Operations impacted by both shut-downs were sales, design, distribution, and administration. Total Pentech costs is comprised of $0.3 million relating to lease terminations and abandonments, $0.2 million in consulting fees and expenses incurred to facilitate the integration, $0.4 million relating to relocation expense, and $0.1 million relating to the abandonments of other assets. Twenty-one Pentech employees received severance totaling $0.4 million, that was accrued in the fourth quarter of 2000 and was fully paid out by June 30, 2001. The integration of Pentech was substantially completed in the second quarter of 2001 and related costs are expected to be nominal in future quarters. In 2000, total Flying Colors costs is comprised of $0.2 million relating to lease terminations and abandonments and $0.3 million relating to relocation expense. The integration of Flying Colors was completed in 2000. Additionally, 2000 includes $0.6 million relating to the recall of one of our products.

Profit from Joint Venture. Profit from our joint venture with THQ decreased in 2001 due to a decrease in our preferred return resulting from fewer releases of *World Wrestling Federation* video games by our joint venture in 2001 than in 2000. In 2001, the joint venture released two Nintendo Game Boy titles, which have lower unit sales and sales prices than the other game platforms, and one Sony Play Station 2 title along with modest carryover sales of titles released in 2000 and earlier, as compared to 2000, in which the joint venture released a total of four new titles consisting of two Sony Play Station titles, one Nintendo 64 title and one Sega Dreamcast title in addition to strong carryover sales of the two 1999 releases. Profit from the joint venture contributed significantly to our pre-tax profit, representing 39.4% of pre-tax income in 2000 and 17.6% in 2001. Through June 30, 2006, we are entitled to receive a guaranteed preferred return at varying rates of net sales of the video games depending on the cumulative unit sales and platform of each particular game, and after June 30, 2006, the amount of the preferred return is subject to renegotiation between THQ and us. The minimum preferred return to be distributed to us by the joint venture during each of the years in the period ending December 31, 2003 is $2.6 million per year. We expect our aggregate return over the remaining term of the license agreement ending December 31, 2009 to be significantly in excess of this amount, although we cannot predict with certainty that expected levels of return will be achieved and, in any case, we anticipate substantial fluctuations in the amount of the preferred return distributed to us from year to year.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Interest, Net. Interest income decreased in 2001 due to lower average cash balances during 2001 than in 2000 as a result of significant disbursements made in the third and fourth quarters of 2000 related to the acquisition of Pentech and the repurchase by the Company of its common stock. Interest expense was nominal in 2000 and 2001.

Provision for Income Taxes. Provision for income taxes included Federal, state and foreign income taxes in 2000 and 2001, at effective tax rates of 29.0% in 2000 and 25.8% in 2001, benefiting from a flat 16.5% Hong Kong Corporation Tax on our income arising in, or derived from, Hong Kong. As of December 31, 2001, 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, 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' Goooze 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.

Acquisition Shut-down and Product Recall Costs. These expenses in 2000 consisted mainly of costs related to the lease termination of certain Flying Colors facilities and other related shut-down costs, and costs related to the recall of one of our products. No such expenses were incurred in 1999.

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 consisting of one Nintendo 64 title and one Nintendo Game Boy Color title, which as lower unit sales and sales price than the other game platforms, whereas in 2000, four titles were released plus strong carryover sales of the two 1999 releases. The 2000 releases consisted of two Sony Play Station titles and one each for Nintendo 64 and Sega Dream cast. Profit from the joint venture contributed significantly to our pre-tax income, representing 11.9% of pre-tax income in 1999 and 39.4% in 2000. The minimum preferred return to be distributed to us by the joint venture during each of the years in the period ending December 31, 2003 is $2.6 million per year. We expect our aggregate return over the remaining term of the license agreement ending December 31, 2009 to be significantly

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

in excess of this amount, although we cannot predict with certainty that expected levels of return will be achieved and, in any case, we anticipate substantial fluctuations in the amount of the preferred return distributed to us from year to year.

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 (Income) Expense, Net. In 1999 and 2000, only nominal amounts of Other Income were recorded.

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.

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.

	1999				2000				**2001**			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	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	**$59,962**	**$70,141**	**$92,768**	**$61,438**
As a % of full year	13.6%	19.6%	32.8%	34.0%	20.1%	20.1%	36.4%	23.4%	**21.1%**	**24.7%**	**32.6%**	**21.6%**
Gross profit	$10,764	$14,649	$24,759	$25,912	$20,104	$21,748	$37,672	$22,883	**$24,468**	**$32,609**	**$39,056**	**$23,953**
As a % of full year	14.2%	19.3%	32.5%	34.0%	19.7%	21.2%	36.8%	22.3%	**20.4%**	**27.2%**	**32.5%**	**19.9%**
As a % of net sales	43.1%	40.7%	41.1%	41.5%	39.6%	43.0%	41.0%	38.7%	**40.8%**	**46.5%**	**42.1%**	**39.0%**
Income (loss) from operations	$ 2,743	$ 4,225	$ 9,893	$ 8,068	$ 3,552	$ 6,095	$11,201	$ (345)	**$ 7,267**	**$ 8,879**	**$14,562**	**$ (1,410)**
As a % of full year	11.0%	17.0%	40.0%	32.0%	17.3%	29.8%	54.6%	(1.7%	**24.8%**	**30.3%**	**49.7%**	**(4.8)%**
As a % of net sales	11.0%	11.7%	16.4%	13.1%	7.0%	12.1%	12.2%	(0.6%	**12.7%**	**12.1%**	**15.7%**	**(2.3)%**
Income before income taxes	$ 2,743	$ 4,587	$10,426	$12,548	$ 9,715	$ 8,877	$13,615	$ 8,127	**$ 8,480**	**$ 9,478**	**$15,250**	**$ 4,822**
As a % of net sales	11.0%	12.7%	17.3%	19.9%	19.1%	17.6%	14.8%	13.8%	**14.1%**	**13.5%**	**16.4%**	**7.8%**
Net income	$ 2,005	$ 3,355	$ 7,642	$ 8,968	$ 6,603	$ 6,237	$ 9,769	$ 6,028	**$ 6,021**	**$ 6,873**	**$10,949**	**$ 4,390**
As a % of net sales	8.0%	9.3%	12.7%	14.4%	13.0%	12.3%	10.6%	10.2%	**10.0%**	**9.8%**	**11.8%**	**7.1%**
Diluted earnings per share	$ 0.17	$ 0.21	$ 0.44	$ 0.49	$ 0.32	$ 0.31	$ 0.48	$ 0.32	**$ 0.32**	**$ 0.36**	**$ 0.56**	**$ 0.22**
Weighted average shares and equivalents outstanding	12,624	15,732	17,541	18,378	20,374	20,371	20,330	18,621	**18,920**	**19,259**	**19,586**	**19,763**

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2001, we had working capital of $116.5 million, as compared to $86.9 million as of December 31, 2000. This increase was primarily attributable to operating activities.

Operating activities provided net cash of $13.4 million, net of the purchase of marketable securities of $23.5 million, in the year ended December 31, 2001 as compared to $30.0 million, including the sale of marketable securities of $25.7 million, in 2000. Net cash was provided primarily by net income and non-cash charges, such as depreciation and amortization and recognition of compensation expense from stock option grants, as well as the increases in accrued expenses and deferred income taxes and decrease in the preferred return due form the joint venture, which were offset in part by increases in accounts receivable and inventory and decreases in the reserve for sales returns and allowances and income taxes payable. As of December 31, 2001, we had cash and cash equivalents of $25.0 million and marketable securities of $37.1 million.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

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 and non-cash charges, such as depreciation and amortization and recognition of compensation expense from stock option grants, as well as increases in accounts payable, income taxes payable and deferred income taxes, which were offset in part by increases in accounts receivable, inventory and the preferred return due from the joint venture, the purchase of marketable securities and the decrease in accrued expenses.

Our investing activities used net cash of $19.4 million in the year ended December 31, 2001, as compared to $47.9 million in 2000, consisting primarily of the purchase of molds and tooling used in the manufacture of our products in 2001 and 2000, and goodwill acquired in the acquisitions of Kidz Biz Ltd. and Kidz Biz Far East in 2001 and Pentech 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, 2001, these agreements required future aggregate minimum guarantees of $11.5 million, exclusive of $2.0 million in advances already paid.

Our investing activities used net cash of $47.9 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, goodwill acquired in the acquisitions of Pentech in 2000 and Flying Colors and Berk in 1999 and the granting of loans to three officers of the Company.

Our financing activities provided net cash of $1.8 million in the year ended December 31, 2001, compared to having used cash of $10.4 million in 2000. In 2000, we used cash primarily to repurchase 1,493,600 shares of our common stock for a total of $12.9 million, while cash was provided by the exercise of stock options and warrants and the assumption of debt related to the acquisition of Pentech. Net cash provided in 2001 consisted primarily of proceeds from the exercise of stock options and warrants, offset by the repayment of debt assumed in the acquisition of Pentech.

Our financing activities used net cash of $10.4 million in the year ended December 31, 2000 compared to having provided net cash of $122.1 million in 1999. Net cash provided in 1999 consisted primarily of proceeds from the issuance of our common stock in our public offerings in May and December 1999 and the exercises of stock options and warrants, partially offset by dividends paid to holders of our Series A Cumulative Convertible Preferred Stock.

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 in cash. Berk is a leading producer of educational toy foam puzzle mats and blocks featuring popular licensed characters and non-licensed activity sets and outdoor products.

In October 1999, we acquired Flying Colors Toys for approximately $34.7 million in cash 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 each of the earn-out periods ended September 30, 2000 and 2001. Flying Colors Toys' principal products include molded plastic activity kits, compound playsets and lunch boxes featuring licensed characters.

In July 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 and assumed liabilities of approximately $25.5 million. Pentech designs, produces and markets licensed pens, markers, pencils, and other writing instruments, craft and activity kits, and related stationery products.

In October 2001, we secured a syndicated line of credit totaling $50.0 million with a consortium of banks led by Bank of America, N.A. ("Line of Credit"). The Line of Credit will be available for future acquisitions and working capital and is secured by a lien on substantially all of our assets and contains customary financial and non-financial covenants which require us to maintain a minimum net worth and limit our ability to incur additional indebtedness, pay cash dividends or make distributions, sell assets and enter into certain mergers or acquisitions. We are required to not have any outstanding borrowings in excess of $30.0 million for a period of at least 30 consecutive days during the first fiscal quarter of each year of the agreement. Amounts outstanding under this facility bear interest at 0.25% plus the greater of the Prime Rate or the Federal Funds Rate plus 0.5%, subject to adjustment based on certain financial ratios. As of December 31, 2001, we had no outstanding borrowings.

On December 27, 2001, we acquired all of the outstanding capital stock of Kidz Biz Limited, a United Kingdom company, and an affiliated Hong Kong company, Kidz Biz Far East Limited, for an aggregate purchase price of approximately $12.4 million. Total consideration was paid on the closing of the transaction in cash in the amount of $6.4 million and the issuance of 308,992 shares of our common stock at a value of $6.0 million. In addition, we agreed to pay an earn-out for each of 2002, 2003, 2004 and 2005, based on the year over year increase in Kidz Biz sales, payable by delivery of up to 25,749 shares of our common stock. We also employed a former director of the Kidz Biz companies, who was one of the selling shareholders, to perform various executive and supervisory services for the Kidz Biz companies during a term ending on December 31, 2005. His base salary is £305,000 per year in the first twelve-month period of the term and £315,000 per year during the balance of the term. We also granted to him an option under our Option Plan to purchase up to 50,000 shares of our common stock at an exercise price of $19.02. This option vests in four equal increments on December 27, 2002 and the next three anniversaries thereof and expires on December 26, 2007. Kidz Biz distributes toys and related products in the United Kingdom, Ireland and the Channel Islands.

We believe that our cash flows from operations, cash and cash equivalents on hand, marketable securities and the availability under the Line of Credit 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.

RECENT ACQUISITION

On March 11, 2002, we purchased 8,100,065 shares of the common stock of Toymax International, Inc. ("Toymax") from four of its stockholders. The aggregate purchase price for these shares was approximately $24.3 million in cash and 646,384 shares of our common stock. Prior to that date, we had acquired 132,754 shares of Toymax common stock, so that, as of March 29, 2002, we owned 8,232,819 shares of Toymax common stock, representing approximately 66.8% of the outstanding shares of Toymax common stock. In connection with this acquisition, Toymax's board of directors has been reconfigured to consist of six directors designated by JAKKS and two directors who had

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

been serving prior to the closing of the acquisition. In addition, certain of our executive officers have been installed as Toymax's senior management. To complete our acquisition of Toymax, we have entered into an Agreement of Merger with one of our wholly-owned subsidiaries ("Newco") and Toymax (the "Merger Agreement") pursuant to which the parties have agreed that, subject to the conditions set forth therein, including, among others, the approval by Toymax's stockholders at a meeting to be convened for such purpose, Newco will merge into Toymax in a transaction (the "Merger") in which the surviving corporation will become one of our wholly-owned subsidiaries and the stockholders of Toymax, except for us, Newco or Toymax or a subsidiary thereof, will receive merger consideration consisting of $3.00 in cash and 0.0798 share of our common stock (subject to certain contingent adjustments). Pursuant to the Merger Agreement, at the effective time of the Merger, each outstanding option to purchase Toymax common stock will terminate and the holder thereof will receive a corresponding option to purchase JAKKS common stock or, under certain circumstances, a cash payment in accordance with the formula prescribed in the Merger Agreement. We currently estimate that the merger consideration payable in the Merger (which is subject to certain conditions and contingent adjustments) will consist of approximately $11.8 million in cash and approximately 312,500 shares of our common stock.

Consolidated Balance Sheets

December 31,	2000	2001
Assets		
Current assets		
Cash and cash equivalents	$ 29,275,424	**$ 25,036,203**
Marketable securities	13,617,912	**37,119,071**
Accounts receivable, net of allowance for uncollectible accounts of $3,011,702 and $7,273,497 for 2000 and 2001, respectively	47,053,699	**52,888,452**
Inventory, net of reserves of $7,321,637 and $2,590,099 for 2000 and 2001, respectively	30,534,826	**32,023,960**
Prepaid expenses and other	5,655,480	**4,735,059**
Advanced royalty payments	2,495,027	**1,991,788**
Total current assets	128,632,368	**153,794,533**
Property and equipment		
Office furniture and equipment	3,779,585	**5,305,212**
Molds and tooling	23,929,329	**26,355,861**
Leasehold improvements	1,927,805	**1,854,501**
Total	29,636,719	**33,515,574**
Less accumulated depreciation and amortization	10,653,467	**17,762,905**
Property and equipment, net	18,983,252	**15,752,669**
Notes receivable—officers	2,450,000	**2,224,000**
Intangibles and deposits, net	2,203,679	**2,945,075**
Investment in joint venture	9,758,359	**7,893,312**
Goodwill, net	74,590,189	**89,863,415**
Trademarks, net	12,104,546	**11,567,679**
Total assets	$248,722,393	**$284,040,683**
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 14,619,519	**$ 12,692,826**
Accrued expenses	12,539,290	**18,068,725**
Reserve for sales returns and allowances	6,553,231	**4,952,879**
Current portion of long-term debt	400,000	**22,560**
Income taxes payable	7,623,355	**1,570,973**
Total current liabilities	41,735,395	**37,307,963**
Long-term debt, net of current portion	1,000,000	**72,510**
Deferred income taxes	1,456,817	**2,256,817**
Total liabilities	44,192,212	**39,637,290**
Commitments and contingencies		
Stockholders' equity		
Common stock, $.001 par value; 25,000,000 shares authorized; 19,485,582 and 20,320,354 shares issued, respectively	19,485	**20,320**
Additional paid-in capital	156,475,343	**168,114,819**
Treasury Stock, at cost, 1,493,600 shares	(12,911,483)	**(12,911,483)**
Retained earnings	60,946,836	**89,179,737**
Total stockholders' equity	204,530,181	**244,403,393**
Total liabilities and stockholders' equity	$248,722,393	**$284,040,683**

See notes to consolidated financial statements.

Consolidated Statements of Operations

Years Ended December 31,	1999	2000	2001
Net sales	$183,685,124	$252,287,943	**$284,309,021**
Cost of sales	107,601,639	149,880,804	**164,222,261**
Gross profit	76,083,485	102,407,139	**120,086,760**
Selling, general and administrative expenses	51,154,627	80,434,872	**89,574,503**
Acquisition shut-down and product recall costs	—	1,468,798	**1,214,101**
Income from operations	24,928,858	20,503,469	**29,298,156**
Profit from joint venture	(3,604,487)	(15,905,860)	**(6,675,428)**
Interest, net	(1,588,043)	(3,833,359)	**(2,056,526)**
Other (income) expense, net	(182,305)	(91,670)	**—**
Income before provision for income taxes	30,303,693	40,334,358	**38,030,110**
Provision for income taxes	8,333,844	11,696,963	**9,797,209**
Net income	$ 21,969,849	$ 28,637,395	**$ 28,232,901**
Basic earnings per share	$ 1.55	$ 1.50	**$ 1.55**
Diluted earnings per share	$ 1.39	$ 1.41	**$ 1.45**

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

December 31, 1999, 2000 and 2001	Common Shares Outstanding	Convertible Preferred Shares Outstanding	Par Value Per Share	Stock Amount	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Unearned Compensation from Grant of Options	Total Stockholders' Equity
Balance, December 31, 1998	9,039,063	1,000	$0.001	$ 9,040	$ 27,041,523	$ —	$10,777,662	$(74,272)	$ 37,753,953
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	—	—	—	117,792,115
Issuance of common stock from conversion of convertible debentures	1,565,218	—	0.001	1,565	5,598,685	—	—	—	5,600,250
Dividends paid	—	—	—	—	—	—	(438,070)	—	(438,070)
Exercise of options and warrants	1,019,469	—	0.001	1,020	4,748,106	—	—	—	4,749,126
Earned compensation from grant of options	—	—	—	—	—	—	—	74,272	74,272
Net income	—	—	—	—	—	—	21,969,849	—	21,969,849
Balance, December 31, 1999	19,272,692	—	0.001	19,273	155,172,781	—	32,309,441	—	187,501,495
Exercise of options and warrants	212,890	—	0.001	212	1,171,031	—	—	—	1,171,243
Earned compensation for fully vested stock options	—	—	—	—	131,531	—	—	—	131,531
Repurchase of common stock	(1,493,600)	—	—	—	—	(12,911,483)	—	—	(12,911,483)
Net income	—	—	—	—	—	—	28,637,395	—	28,637,395
Balance, December 31, 2000	17,991,982	—	0.001	19,485	156,475,343	(12,911,483)	60,946,836	—	204,530,181
Exercise of options and warrants	525,780	—	0.001	526	3,069,219	—	—	—	3,069,745
Earned compensation for fully vested stock options	—	—	—	—	2,570,566	—	—	—	2,570,566
Issuances of common shares for Kidz Biz	308,992	—	0.001	309	5,999,691	—	—	—	6,000,000
Net income	—	—	—	—	—	—	28,232,901	—	28,232,901
Balance, December 31, 2001	**18,826,754**	**—**	**$0.001**	**$20,320**	**$168,114,819**	**$(12,911,483)**	**$89,179,737**	**$ —**	**$244,403,393**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31,	1999	2000	2001
Cash flows from operating activities			
Net income	$ 21,969,849	$ 28,637,395	**$ 28,232,901**
Adjustments to reconcile net income to net cash provided (used) by operating activities			
Depreciation and amortization	4,571,374	9,272,917	**12,219,545**
Compensation from stock option grants	74,272	131,531	**2,570,566**
Profit from joint venture	(3,604,487)	(6,100,020)	**2,977,201**
Loss on disposal of property and equipment	12,081	—	**15,668**
Changes in operating assets and liabilities			
Sale (purchase) of marketable securities	(39,333,944)	25,716,032	**(23,501,159)**
Accounts receivable	(26,098,178)	(9,028,796)	**(5,834,753)**
Inventory	(16,944,567)	(10,671,318)	**(1,489,134)**
Advanced royalty payments	(829,696)	(1,357,789)	**503,239**
Prepaid expenses and other	(586,337)	(4,037,788)	**920,421**
Accounts payable	6,257,539	4,656,864	**(1,926,693)**
Accrued expenses	11,484,794	(3,317,215)	**5,529,435**
Income taxes payable	1,793,163	4,411,429	**(6,052,382)**
Reserve for sales returns and allowances	9,976,484	(8,764,770)	**(1,600,352)**
Deferred income taxes	869,129	442,983	**800,000**
Total adjustments	(52,358,373)	1,354,060	**(14,868,398)**
Net cash provided (used) by operating activities	(30,388,524)	29,991,455	**13,364,503**
Cash flows from investing activities			
Property and equipment	(10,397,828)	(13,787,805)	**(4,971,185)**
Other assets	(763,249)	(1,134,864)	**(1,230,664)**
Investment in joint venture	990,856	—	**(1,112,154)**
Cash paid in excess of cost over toy business assets acquired (goodwill)	(36,446,401)	(30,535,848)	**(12,280,536)**
Notes receivable—officers	—	(2,450,000)	**226,000**
Net cash used by investing activities	(46,616,622)	(47,908,517)	**(19,368,539)**
Cash flows from financing activities			
Proceeds from sale of common stock	117,792,115	—	**—**
Repurchase of common stock	—	(12,911,483)	**—**
Conversion of convertible debentures	(17,500)	—	**—**
Proceeds from debt	13,680	1,500,000	**95,070**
Proceeds from stock options and warrants exercised	4,749,126	1,171,243	**3,069,745**
Dividends paid	(438,070)	—	**—**
Repayments of debt	—	(113,680)	**(1,400,000)**
Net cash provided (used) by financing activities	122,099,351	(10,353,920)	**1,764,815**
Net increase (decrease) in cash and cash equivalents	45,094,205	(28,270,982)	**(4,239,221)**
Cash and cash equivalents, beginning of year	12,452,201	57,546,406	**29,275,424**
Cash and cash equivalents, end of year	$ 57,546,406	$ 29,275,424	**$ 25,036,203**
Cash paid during the period for:			
Interest	$ 176,688	$ 189,630	**$ 118,144**
Income taxes	$ 4,742,351	$ 8,600,895	**$ 14,007,578**

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

Notes to Consolidated Financial Statements

NOTE 1—PRINCIPAL INDUSTRY

JAKKS Pacific, Inc. (the Company) 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.

Inventory. Inventory, which includes the ex-factory cost of goods and in-bound freight, is valued at the lower of cost (first-in, first-out) or market and consists of the following:

December 31,	2000	2001
Deposits	$ 2,829,575	**$ 82,793**
Raw materials	846,436	**236,206**
Finished goods	26,858,815	**31,704,961**
	$30,534,826	**$32,023,960**

Marketable securities. 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, 2000 and 2001, 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:

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, 1999, 2000 and 2001, was approximately $7,038,000, $14,416,000, and $11,026,000 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 carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Translation of foreign currencies. Monetary assets and liabilities denominated in Hong Kong dollars or British Pounds Sterling 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.

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 has been amortized over 30 years on a straight-line basis. Beginning in fiscal 2002, goodwill and certain intangible assets will be written down on an impairment basis where losses in value will be recorded when and as material impairment has occurred in the underlying assets. Accumulated amortization at December 31, 2000 and 2001 totaled $3,569,811 and $6,577,121, 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, 2000 and 2001 was $2,490,926 and $3,461,113, respectively.

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. The following table is a reconciliation of the weighted average shares used in the computation of basic and diluted earnings per share for the periods presented:

Year Ended December 31,		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

Year Ended December 31,		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

Year Ended December 31,		**2001**	
	Income	**Weighted Average Shares**	**Per Share**
Basic EPS			
Income available to common stockholders	**$28,232,901**	**18,199,108**	**$1.55**
Effect of dilutive securities			
Options and warrants	**—**	**1,210,817**	
Diluted EPS			
Income available to common stockholders plus assumed exercises	**$28,232,901**	**19,409,925**	**$1.45**

NOTE 3—BUSINESS SEGMENTS

JAKKS Pacific is a worldwide producer and marketer of children's toys and related products, principally engaged in the design, development, production and marketing of traditional toys, including boys action figures, vehicles and playsets, craft and activity products, writing instruments, compounds, girls toys, and infant and preschool toys. The Company's reportable segments are North America Toys, International and Other.

The North America Toys segment, which includes the United States and Canada, and the International toy segment, which includes sales to non-North American markets, include the design, development, production and marketing of children's toys and related products. The Company also has an additional segment classified as Other, which sells various products to the specialty markets in the United States.

Segment performance is measured at the operating income level. All sales are made to external customers, and general corporate expenses have been attributed to the North America Toy segment, which is a dominant segment. Segment assets are comprised of accounts receivable and inventories, net of applicable reserves and allowances.

The accounting policies of the segments are described in Note 2.

Results are not necessarily those that would be achieved were each segment an unaffiliated business enterprise. Information by segment and a reconciliation to reported amounts for the twelve months ended December 31, 1999, 2000 and 2001 are as follows:

Years Ended December 31,	1999	2000	**2001**
Net Sales			
North America Toys	$168,927,636	$235,136,139	**$250,627,160**
International	13,056,000	15,567,118	**32,870,718**
Other	1,701,488	1,584,686	**811,143**
	$183,685,124	$252,287,943	**$284,309,021**

Years Ended December 31,	1999	2000	**2001**
Operating Income			
North America Toys	$22,926,043	$19,109,540	**$25,827,227**
International	1,771,897	1,265,141	**3,387,340**
Other	230,918	128,788	**83,589**
	$24,928,858	$20,503,469	**$29,298,156**

December 31,	2000	**2001**
Assets		
North America Toys	$72,313,667	**$74,852,907**
International	4,787,505	**9,817,247**
Other	487,353	**242,258**
	$77,588,525	**$84,912,412**

NOTE 4 — ACQUISITIONS AND JOINT VENTURE

The Company owns a fifty percent interest in 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. Our investment is accounted for using the cost method due to the financial and operating structure of the venture and our lack of control over the joint venture. The Company's basis consists primarily of organizational costs and recoupable advances. The joint venture agreement provides for the Company to receive guaranteed preferred returns through June 30, 2006, subject to an annual minimum payments of $2,600,000 through December 31, 2003, at varying rates of the joint venture's net sales depending on the cumulative unit sales and platform of each particular game. For periods after June 30, 2006, the amount of the preferred return will be subject to renegotiation between the parties. The preferred return is accrued in the quarter in which the licensed games are sold and the preferred return is earned. Our joint venture partner retains the financial risk of the joint venture and is responsible for the day-to-day operations, including development, sales and distribution, for which they are entitled to any remaining profits. During 1999, 2000 and 2001, the Company earned $3,604,487, $15,905,860 and $6,675,428, respectively, in profit from the joint venture.

In June 1999, the Company purchased all of the outstanding shares of Berk Corporation (Berk) for $3,269,450 in cash paid at closing.

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

Cash	$ 478,972
Accounts receivable	869,050
Inventory	549,720
Prepaids and deposits	73,367
Property and equipment	31,186
Goodwill	4,365,208
Liabilities assumed	(3,098,053)
	$ 3,269,450

In October 1999, the Company acquired all of the stock of Flying Colors Toys, Inc. (Flying Colors) for $52,879,182 in cash paid at closing. 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 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 each of the earn-out periods ended September 30, 2000 and 2001. Of the $4,500,000 earned in 2000, the amount of $464,938 was deemed to be compensation and has been expensed in 2000. The remaining balance of $4,035,062 and the 2001 earn-out has been recorded as goodwill.

The assets acquired and liabilities assumed from Flying Colors 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)
	$52,879,182

In July 2000, the Company acquired all of the outstanding capital stock of Pentech International Inc. (Pentech) 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. Pentech designs, produces and markets licensed pens, markers, pencils, and other writing instruments, craft and activity kits, and related stationery products.

On December 27, 2001, the Company acquired all the outstanding stock of Kidz Biz Ltd., a United Kingdom company, and Kidz Biz Far East Limited, a Hong Kong corporation, for an aggregate purchase price of approximately $12.4 million, which was paid by the issuance of 308,992 shares of the Company's common stock at a value of $6.0 million and cash of $6.4 million. The Company acquired operating assets of $12.2 million and assumed liabilities of approximately $13.2 million. Both the United Kingdom and Hong Kong based companies are distributors of toys and related products in the United Kingdom, Ireland and the Channel Islands.

The following unaudited pro forma information represents the Company's consolidated results of operations as if the acquisitions of Berk, Flying Colors and Pentech had occurred on January 1, 1999 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 pro forma information does not purport to be indicative of operating results that would have been reported had the acquisitions of Berk, Flying Colors and Pentech occurred on January 1, 1999 or future operating results.

Years Ended December 31,	1999	2000
Net Sales	$278,745,264	$291,578,787
Net income	$ 22,196,794	$ 24,390,573
Basic earnings per share	$ 1.60	$ 1.28
Weighted average shares outstanding	13,879,304	19,059,544
Diluted earnings per share	$ 1.40	$ 1.20
Weighted average shares and equivalents outstanding	15,839,679	20,281,475

NOTE 5—CONCENTRATION OF CREDIT RISK

Financial instruments that subject the Company to concentration of credit risk are cash and cash equivalents, marketable securities and accounts 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 domestic customer accounts receivables. Most goods shipped FOB Hong Kong or China are sold on irrevocable letter of credit basis.

NOTE 6—ACCRUED EXPENSES

Accrued expenses consist of the following:

	2000	**2001**
Bonuses	$ 2,230,563	**$ 2,381,698**
Royalties and sales commissions	3,713,634	**4,787,099**
Hong Kong subsidiaries accruals	3,886,757	**6,193,354**
Other	2,708,336	**4,706,574**
	$12,539,290	**$18,068,725**

NOTE 7—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 $1,037,000 in 1999, $975,000 in 2000 and $1,129,000 in 2001.

As of December 31, 2001, there were two notes receivable from officers totaling $1,974,000 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, except that all indebtedness under the loan will be forgiven if employment continues through such date.

NOTE 8—LONG-TERM DEBT

Long-term debt consists of the following:

	2000	**2001**
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 4, 2006, with interest at 6.7% per annum	—	**95,070**
	1,400,000	**95,070**
Less current portion of long-term debt	400,000	**22,560**
Long-term debt, net of current portion	$1,000,000	**$72,510**

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

2002	$22,560
2003	17,805
2004	19,036
2005	20,350
Thereafter	15,319
	$95,070

NOTE 9—INCOME TAXES

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

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

	1999	2000	**2001**
Federal	$4,280,650	$ 4,979,188	**$2,595,989**
State and local	1,350,000	1,112,798	**1,064,843**
Foreign	1,834,065	5,161,994	**5,336,377**
	7,464,715	11,253,980	**8,997,209**
Deferred	869,129	442,983	**800,000**
	$8,333,844	$11,696,963	**$9,797,209**

	2000	**2001**
Deferred tax assets resulting from deductible temporary differences from loss carry-forwards, non-current	$ 351,761	**$ 351,761**
Deferred tax liabilities resulting from taxable temporary differences, non-current	(1,808,578)	**(2,608,578)**
	$(1,456,817)	**$(2,256,817)**

The Company's management concluded that a deferred tax asset valuation allowance as of December 31, 2000 and 2001 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:

	1999	2000	2001
Statutory income tax rate	35%	35%	**35%**
State and local income taxes, net of Federal income tax effect	4	3	**3**
Effect of temporary differences and Hong Kong's lower tax rate	(28)	(25)	**(28)**
Income taxes on foreign earnings at rates other than the United States Statutory rate not subject to United States income taxes	16	16	**16**
	27%	29%	**26%**

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

	1999	2000	2001
Domestic	$13,105,423	$ 8,480,038	**$ 4,677,721**
Foreign	17,198,270	31,854,320	**33,352,389**
	$30,303,693	$40,334,358	**$38,030,110**

NOTE 10—CREDIT FACILITY

On October 12, 2001, the Company entered into a Loan Agreement with a consortium of banks led by Bank of America, N.A. This agreement expires on October 12, 2004 and permits the Company to borrow (and maintain obligations under outstanding letters of credit) up to an aggregate of $50,000,000. Available borrowings under the facility are determined by applying specified advance rates to eligible domestic accounts receivable and inventory.

The Company is required to not have any outstanding borrowings in excess of $30.0 million for a period of at least 30 consecutive days during the first fiscal quarter of each year of the agreement.

This Credit facility is secured by a lien on substantially all of our assets and contains customary financial and non-financial covenants which limit the ability for us to incur additional indebtedness, pay dividends or make other distributions, sell assets and enter into certain mergers or acquisitions. Amounts outstanding under this credit facility bears interest at 0.25% plus the greater of the Prime Rate or Federal Funds Rate plus 0.5%, and is subject to change based on certain financial ratios. As of December 31, 2001, the Company has no outstanding borrowings.

NOTE 11—LEASES

The Company leases office, warehouse and showroom facilities and certain equipment under operating leases. Rent expense for the years ended December 31, 1999, 2000 and 2001 totaled $737,340, $769,070, and $2,495,390, respectively. The following is a schedule of minimum annual lease payments.

2002	$ 3,157,600
2003	3,005,262
2004	2,997,047
2005	2,946,910
2006	2,884,663
Thereafter	1,729,557
	$16,721,039

NOTE 12—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 2001, the Company issued 525,780 shares of common stock on exercise of options and warrants for a total of $3,069,745 and 308,992 shares of common stock at a value of $6,000,000 in connection with the Kidz Biz acquisition. As of December 31, 2001, 166,875 shares were reserved for issuance upon exercise of outstanding warrants granted in connection with a certain license agreement at an exercise price of $6.67 per share.

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.

Warrant activity is summarized as follows:

	Number of Shares	Weighted Average Exercise Price
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
Outstanding, December 31, 2000	256,355	5.94
Exercised	(82,118)	4.48
Canceled	(7,362)	5.63
Outstanding, December 31, 2001	**166,875**	**$6.67**

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 the exercise of stock options and warrants for a total of $4,749,126 and 1,565,218 shares of common stock upon the conversion of convertible debentures totaling $5,600,250. Certain common stockholders received an aggregate of $570 in lieu of fractional shares relating to the 1999 common stock dividend.

In 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 $437,500 in 1999.

NOTE 13—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, 2001 are as follows:

2002	$ 3,208,095
2003	1,287,500
2004	1,096,000
2005	972,500
2006	970,000
Thereafter	3,999,000
	$11,533,095

NOTE 14—STOCK OPTION PLAN

Under its Third Amended and Restated 1995 Stock Option Plan (the Plan), the Company has reserved 3,725,000 shares of its common stock for issuance upon exercise of options granted under the Plan. Included in the reserved shares are 450,000 shares relating to the 2001 increase approved by the Company's stockholders. Under the Plan, employees (including officers), non-employee directors and independent consultants may be granted options to purchase shares of common stock. In 1999, 2000 and 2001 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, 2001, 470,426 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, 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
Granted	724,125	15.73
Exercised	(427,536)	6.21
Canceled	(185,773)	7.98
Outstanding, December 31, 2001	**2,313,556**	**$ 9.97**

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

	Number of Shares	Weighted Average Exercise Price
Outstanding, December 31, 1998	311,587	$2.98
Exercised	(210,525)	2.64
Outstanding, December 31, 1999	101,062	3.69
Exercised	(84,936)	3.96
Outstanding, December 31, 2000	16,126	2.24
Exercised	(16,126)	2.24
Outstanding, December 31, 2001	—	—

The weighted average fair value of options granted to employees in 1999, 2000 and 2001 was $9.12, $7.23 and $16.24 per share, respectively.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2001:

	Outstanding			Exercisable	
Option Price Range	Number of Shares	Weighted Average Life	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$3.00 – $26.00	2,313,556	4.11 years	$9.97	849,613	$7.08

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 1999, 2000 and 2001 would approximate the pro forma amounts below, which are not indicative of future amounts:

Years Ended December 31,	1999		2000		**2001**	
	As Reported	Pro Forma	As Reported	Pro Forma	**As Reported**	**Pro Forma**
SFAS No. 123 charge, net of tax	$ —	$ 1,178,025	$ —	$ 1,806,108	**$ —**	**$ 1,498,495**
Net income	21,969,849	20,791,824	28,637,395	26,831,287	**28,232,901**	**26,734,406**
Basic EPS	1.55	1.47	1.50	1.41	**1.55**	**1.47**
Diluted EPS	$ 1.39	$ 1.32	$ 1.41	$ 1.32	**$ 1.45**	**$ 1.38**

NOTE 15—EMPLOYEE PENSION PLAN

The Company sponsors for its U.S. employees, a defined contribution plan under Section 401(k) of the Internal Revenue Code. The plan provides that employees may defer up to 15% of annual compensation, and that the Company will make a matching contribution equal to 50% of each employee's deferral, up to 5% of compensation. Employees may be eligible to participate in the Plan after they have completed three months of service. The Company may also make discretionary contributions to the Plan each year. Participants are immediately 100% vested in their salary reduction amounts contributed to the Plan, and vesting of the Company contributions is based on years of service, as follows:

Years of Service	Cumulative Percent Vested
1	20%
2	40
3	60
4	80
5	100

As of December 31, 2001, the Plan had not been "qualified" under the provisions of the Internal Revenue Code, and for the year then ended, the Company contributed $227,390 in matching contributions to the Plan.

NOTE 16—MAJOR CUSTOMERS AND INTERNATIONAL SALES

Net sales to major customers were approximately as follows:

1999		2000		**2001**	
Amount	Percentage	Amount	Percentage	**Amount**	**Percentage**
$ 45,270,000	24.6%	$ 43,505,000	17.2%	**$ 44,646,000**	**15.7%**
27,684,000	15.1	36,321,000	14.4	**36,024,000**	**12.7**
22,739,000	12.4	30,481,000	12.1	**34,319,000**	**12.1**
17,938,000	9.8	27,338,000	10.8	**20,972,000**	**7.4**
15,229,000	8.3	21,875,000	8.7	**19,425,000**	**6.8**
$128,860,000	70.2%	$159,520,000	63.2%	**$155,386,000**	**54.7%**

Net sales to international customers totaled approximately $13,056,000, $22,495,000 and $39,992,000 in 1999, 2000 and 2001, respectively.

NOTE 17—SUPPLEMENTAL INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS

In 2001, 308,992 shares of common stock valued at $6,000,000 were issued in connection with the acquisition of Kidz Biz (note 4).

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. 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.

NOTE 18—SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected unaudited quarterly financial data for the years 2000 and 2001 are summarized below:

	2000				**2001**			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
(in thousands, except per share data)								
Net sales	$50,782	$50,578	$91,838	$59,090	**$59,962**	**$70,141**	**$92,768**	**$61,438**
Gross profit	$20,104	$21,748	$37,672	$22,883	**$24,468**	**$32,609**	**$39,056**	**$23,953**
Income (loss) from operations	$ 3,552	$ 6,095	$11,201	$ (345)	**$ 7,267**	**$ 8,879**	**$14,562**	**$ (1,410)**
Income before income taxes	$ 9,715	$ 8,877	$13,615	$ 8,127	**$ 8,480**	**$ 9,478**	**$15,250**	**$ 4,822**
Net income	$ 6,603	$ 6,237	$ 9,769	$ 6,028	**$ 6,021**	**$ 6,873**	**$10,949**	**$ 4,390**
Basic earnings per share	$ 0.34	$ 0.32	$ 0.50	$ 0.33	**$ 0.33**	**$ 0.38**	**$ 0.60**	**$ 0.24**
Weighted average shares outstanding	19,290	19,379	19,389	18,178	**18,008**	**18,048**	**18,273**	**18,463**
Diluted earnings per share	$ 0.32	$ 0.31	$ 0.48	$ 0.32	**$ 0.32**	**$ 0.36**	**$ 0.56**	**$ 0.22**
Weighted average shares and equivalents outstanding	20,374	20,371	20,330	18,621	**18,920**	**19,259**	**19,586**	**19,763**

NOTE 19—RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 is effective for business combinations initiated after June 30, 2001. SFAS 141 requires that all business combinations completed after its adoption be accounted for under the purchase method of accounting and establishes specific criteria for the recognition of intangible assets separately from goodwill. SFAS 142 will be effective for the Company on January 1, 2002 and primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. Upon adoption of SFAS 142, goodwill and other intangible assets will no longer be amortized and will be tested for impairment at least annually at the reporting unit level.

Based on current levels of amortization expense, the Company estimates that the elimination of amortization expense will positively impact net income by approximately $2.9 million, or approximately $0.15 per common share (diluted), on an annual basis.

NOTE 20—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 believes that their claims are without merit and intends vigorously to defend against their action. At this 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.

NOTE 21—SUBSEQUENT EVENT

On March 11, 2002, the Company acquired approximately 8,100,065 shares of common stock of Toymax International, Inc. (Toymax), representing approximately 64% of its outstanding shares. Consideration paid for the stock was approximately $3.00 in cash and .0798 shares of the Company's common stock per share of Toymax International, Inc. stock, for an aggregate purchase price of approximately $24,300,000 million in cash and 646,384 shares of the Company's common stock. The second phase of the acquisition is expected to be completed by the end of the second quarter of 2002, when the Company will purchase the remaining 4,100,000 outstanding shares of Toymax in a merger transaction. Consideration to be paid will be $3.00 in cash and .0798 shares of the Company's common stock, subject to adjustment based on the average closing price of the Company's common stock for a 10-day period prior to the closing date of the merger.

Schedule II—Valuation and Qualifying Accounts

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, 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
	$ 5,939,636	$ 21,099,423	$ 1,020,686	$ 7,911,764	$ 20,147,981
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
	$ 20,147,981	$ 20,885,380	$ 8,229,515	$ 32,376,306	$ 16,886,570
Year ended December 31, 2001:					
Allowance for:					
Uncollectible accounts	**$ 3,011,702**	**$ 6,320,940**	**$ —**	**$ 2,059,145**	**$ 7,273,497**
Reserve for potential product obsolescence	**7,321,637**	**1,039,005**	**—**	**5,770,543**	**2,590,099**
Reserve for sales returns and allowances	**6,553,231**	**25,190,259**	**—**	**26,790,611**	**4,952,879**
	$ 16,886,570	**$ 32,550,204**	**$ —**	**$ 34,620,299**	**$ 14,816,475**

(a) Obligations assumed in conjunction with the acquisitions of Flying Colors and Pentech.
(b) Fair market value adjustment for inventory acquired in connection with the acquisition of Pentech.
(c) Obligation assumed in conjunction with the acquisition of Pentech.

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, 2000 and 2001, 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, 2001. 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, 2000 and 2001, and the results of their operations and cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Pannell Kerr Forster

PANNELL KERR FORSTER
Certified Public Accountants
A Professional Corporation

Los Angeles, California
February 11, 2002, except for
note 21, for which the
date is March 11, 2002

corporate *information*

Board of Directors

Jack Friedman
Chairman and
Chief Executive Officer
JAKKS Pacific, Inc.

Stephen G. Berman
President, Secretary and
Chief Operating Officer
JAKKS Pacific, Inc.

David C. Blatte
Partner
Catterton Partners

Robert E. Glick
Apparel Manufacturing Executive

Michael G. Miller
Advertising Executive

Murray L. Skala
Partner
Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine LLP

Corporate Officers

Jack Friedman
Chief Executive Officer

Stephen G. Berman
President and
Chief Operating Officer

Joel M. Bennett
Executive Vice President and
Chief Financial Officer

Michael L. Bianco
Executive Vice President and
Chief Merchandising Officer

Corporate Offices

Corporate Headquarters
22619 Pacific Coast Highway,
Suite 250
Malibu, CA 90265
Tel: 310-456-7799
Fax: 310-317-8527

Sales Office/Showroom
200 Fifth Avenue
Sixth Floor
New York, NY 10010
Tel: 212-929-9222
Fax: 212-929-9278

Toymax International & Funnoodle
125 East Bethpage Road
Plainview, NY 11803
Tel: 516-391-9898
Fax: 516-391-9151

JDC Warehouse
21558 Ferrero Parkway
Walnut, CA 91789
Tel: 909-594-1379
Fax: 909-594-2179

Hong Kong
Room 718, 7F
AIA Tower, New World Centre
20 Salisbury Road, Tsim Sha Tsui
Kowloon, Hong Kong
Tel: 852-2-311-1386
Fax: 852-2-366-8247

Go Fly A Kite
Box AA, Route 151
East Haddam, CT 06423
Tel: 800-243-3370
Fax: 860-873-8724

Kidz Biz—European Sales Headquarters
The Clock House
4 Dorking Road
Epsom, Surrey KT18 7LX
England
Tel: 01372 730980
Fax: 01372 730999

Designed by Curran & Connors, Inc. / www.curran-connors.com

Legal Counsel
Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine LLP
750 Lexington Avenue
New York, NY 10022

Independent Auditors
PKF
400 South Hope Street
Suite 710
Los Angeles, CA 90017

Investor Relations
Integrated Corporate Relations, Inc.
6528 Greenleaf Avenue, Suite 120
Whittier, CA 90601
Tel: 562-698-6771
Fax: 562-698-6775

Transfer Agent
U.S. Stock Transfer Corp.
1745 Gardena Avenue
2nd Floor
Glendale, CA 91204

Stock Exchange Listing
Common stock trading on the Nasdaq National Market® under the symbol "JAKK." As of May 1, 2002, there were approximately 104 holders of record and 7,900 beneficial owners of the Company's common stock. The Company has not paid cash dividends and does not anticipate paying cash dividends in the foreseeable future.

Annual Report
A copy of the Company's annual report on Form 10-K, as amended, as filed with the Securities and Exchange Commission, will be furnished to stockholders and interested investors free of charge upon written request to the Company, Attention: Corporate Secretary, 22619 Pacific Coast Highway, Malibu, CA 90265.

Annual Meeting
The Annual Meeting of Stockholders will be held on Friday, June 14, 2002, at 9:00 A.M. PDT at Sherwood Country Club, 320 West Stafford Road, Thousand Oaks, CA 91361.

Common Stock Price Data

2000	High	Low
First Quarter	$25.19	$13.94
Second Quarter	25.00	13.25
Third Quarter	20.75	9.00
Fourth Quarter	10.56	7.00
2001	**High**	**Low**
First Quarter	$15.00	$ 8.00
Second Quarter	19.44	8.78
Third Quarter	21.80	12.60
Fourth Quarter	25.38	12.44
2002	**High**	**Low**
First Quarter	$23.70	$15.85

Forward-Looking Statements
This annual report contains forward-looking statements that are subject to the safe harbor created by Section 27a of the federal securities law, including, among others, statements relating to sales growth, political support for education, acceptance of our products and new product introductions. Such statements are subject to substantial risks and uncertainties. Actual events or results may differ materially as a result of many factors, including but not limited to: the extent of acceptance and purchase of the Company's products by target customers; the extent of educators' acceptance of technology, accountability and standardized testing; political trends; seasonality and sales cycles in the Company's markets; competition; availability of funding available to schools; the Company's ability to continue to demonstrate the efficacy of its products, which depends on how the programs are administered, the demography of participants and other factors; the Company's ability to retain key personnel; pricing pressures; obstacles or delays in product development; and other risks detailed in the Company's SEC reports, including the Company's reports on Form 10-K and 10-Q.

22619 Pacific Coast Highway
Suite 250
Malibu, California 90265
310.456.7799
www.jakkspacific.com