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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2002

OR

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

Commission file number: 0-28104

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

Delaware (State or other jurisdiction of incorporation or organization)	95-4527222 (I.R.S. Employer Identification No.)
22619 Pacific Coast Highway Malibu, California (Address of principal executive offices)	90265 (Zip Code)

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

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

Yes [X] No [ ]

The number of shares outstanding of the issuer's common stock is 23,585,149 (as of August 14, 2002).

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

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JAKKS PACIFIC, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

ASSETS

	December 31, 2001	June 30, 2002
	(*)	(unaudited)
Current assets		
Cash and cash equivalents	$ 25,036,203	$ 81,276,777
Marketable securities	37,119,071	5,813,342
Accounts receivable, net of allowances for uncollectible accounts of $7,273,497 and $7,416,191, respectively	52,888,452	78,080,430
Inventory, net of reserves for potential product obsolescence of $2,590,099 and $3,837,864, respectively	32,023,960	49,911,765
Prepaid expenses and other current assets	6,726,847	5,826,372
Notes Receivable—Officers	—	1,974,000
Total current assets	153,794,533	222,882,686
Office furniture and equipment	5,305,212	5,103,436
Molds and tooling	26,355,861	29,399,995
Leasehold improvements	1,854,501	2,266,905
Total	33,515,574	36,770,336
Less accumulated depreciation and amortization	17,762,905	21,653,028
Property and equipment, net	15,752,669	15,117,308
Deferred income taxes	—	13,805,932
Notes Receivable—Officers	2,224,000	—
Investment in joint venture	7,893,312	3,831,317
Goodwill, net	89,863,415	136,360,429
Trademarks, net	11,567,679	11,567,679
Intangibles and deposits, net	2,945,075	2,719,345
Total assets	$284,040,683	$406,284,696

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2001	June 30, 2002
Current liabilities		
Accounts payable and accrued expenses	$ 35,714,430	$ 61,118,676
Income taxes payable	1,570,973	8,612,930
Current portion of long term debt	22,560	22,560
Total current liabilities	37,307,963	69,754,166
Long term debt, net of current portion	72,510	77,457
Deferred income taxes	2,256,817	2,207,429
Total liabilities	39,637,290	72,039,052
Contingency		
Minority interest	—	4,973,237
Stockholders' equity		
Common stock, $.001 par value; 25,000,000 shares authorized; 20,320,354 and 23,585,149 shares issued, respectively	20,320	23,585
Additional paid-in capital	168,114,819	230,081,185
Treasury stock, at cost; 1,493,600 and nil shares, respectively	(12,911,483)	—
Retained earnings	89,179,737	99,167,637
Total stockholders' equity	244,403,393	329,272,407
Total liabilities and stockholders' equity	$284,040,683	$406,284,696

See accompanying notes to condensed consolidated financial statements.

(*) Derived from audited financial statements

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JAKKS PACIFIC, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

For the Three and Six Months Ended June 30, 2001 and 2002 (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2002	2001	2002
Net sales	$70,141,387	$78,991,479	$130,103,259	$138,886,969
Cost of sales	37,531,972	43,799,876	73,026,156	77,225,515
Gross profit	32,609,415	35,191,603	57,077,103	61,661,454
Selling, general and administrative expenses	22,886,858	23,779,195	39,781,059	42,208,116
Acquisition shut-down and recall costs	843,387	1,500,000	1,150,020	8,121,497
Income from operations	8,879,170	9,912,408	16,146,024	11,331,841
Profit from joint venture	(153,139)	(672,170)	(880,755)	(1,968,865)
Interest, net	(445,936)	(264,346)	(931,442)	(532,941)
Income before provision for income taxes and minority interest	9,478,245	10,848,924	17,958,221	13,833,647
Provision for income taxes	2,605,027	2,929,210	5,064,220	3,735,085
Income before minority interest	6,873,218	7,919,714	12,894,001	10,098,562
Minority interest	—	87,915	—	110,662
Net income	$ 6,873,218	$ 7,831,799	$ 12,894,001	$ 9,987,900
Earnings per share — basic	$ 0.38	$ 0.37	$ 0.72	$ 0.50
Earnings per share — diluted	$ 0.36	$ 0.36	$ 0.67	$ 0.47

See accompanying notes to condensed consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2001 and 2002 (Unaudited)

	Six Months Ended June 30,	
	2001	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 12,894,001	$ 9,987,900
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	5,997,534	4,892,679
Earned Compensation from stock option grants	1,073,284	(174,787)
Profit from joint venture	8,885,635	4,061,995
Forgiveness of officer note receivable	—	285,000
Minority interest	—	110,662
Change in operating assets and liabilities		
Accounts receivable	(22,100,036)	(17,623,320)
Inventory	(3,649,469)	(12,513,181)
Prepaid expenses and other current assets	3,064,562	1,264,439
Accounts payable and accrued expenses	544,889	6,758,756
Income taxes payable	2,057,041	4,022,855
Deferred income taxes	(700,000)	(463,304)
Marketable securities	(14,124,389)	37,119,071
Total adjustments	(18,950,949)	27,740,865
Net cash provided (used) by operating activities	(6,056,948)	37,728,765
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for toy business net assets acquired	—	(37,262,017)
Purchase of property and equipment	(2,447,522)	(1,582,148)
Other assets	537,243	1,237,679
Purchase of marketable securities	—	(5,813,342)
Repayment of Notes receivable from officers	226,000	—
Net cash used by investing activities	(1,684,279)	(43,419,828)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from sale of common stock	—	59,307,347
Proceeds from stock options and warrants exercised	692,535	2,631,975
Repayment of long term debt	(300,000)	(7,685)
Net cash provided by financing activities	392,535	61,931,637
Net decrease in cash and cash equivalents	(7,348,692)	56,240,574
Cash and cash equivalents, beginning of period	29,275,424	25,036,203
Cash and cash equivalents, end of period	$ 21,926,732	$ 81,276,777
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	$ 2,785,769	$ 181,450
Interest	$ 43,555	$ 81,743
Non cash investing and financing activity:		
In March 2002, the Company issued 646,384 shares of its common stock valued at approximately $12.1 million in connection with the acquisition of Toymax.		

See accompanying notes to condensed consolidated financial statements.

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JAKKS PACIFIC, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)
June 30, 2002

Note 1 — Basis of presentation

The accompanying 2001 and 2002 unaudited interim condensed consolidated financial statements included herein have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, we believe that the disclosures are adequate to prevent the information presented from being misleading. These financial statements should be read in conjunction with the financial statements and the notes thereto included in our Form 10-K/A, which contains financial information for the three years in the period ended December 31, 2001.

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

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

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

Note 2 — Business Segments and Geographic Data

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. Our 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. We also have 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.

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 three and six months ended June 30, 2001 and 2002 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2002	2001	2002
Net Sales				
North America Toys	$63,903,344	$70,182,964	$120,072,855	$121,903,112
International	5,903,385	8,630,149	9,398,444	16,665,788
Other	334,658	178,366	631,960	318,069
	$70,141,387	$78,991,479	$130,103,259	$138,886,969

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2002	2001	2002
Operating Income				
North America Toys	$8,088,924	$8,807,053	$14,902,780	$10,032,743
International	745,850	1,082,972	1,162,514	1,273,405
Other	44,396	22,383	80,730	25,693
	$8,879,170	$9,912,408	$16,146,024	$11,331,841

	June 30,	
	2001	2002
Assets		
North America Toys	$241,417,707	$360,978,990
International	22,302,146	44,388,300
Other	1,264,290	917,406

	$264,984,143	$406,284,696

The following tables present information about the Company by geographic area as of and for the three and six months ended June 30, 2001 and 2002:

	June 30, 2001	June 30, 2002
Long-lived Assets		
United States	$ 90,509,727	$139,855,550
Hong Kong	12,441,412	23,321,690
Europe	—	581,077
	$102,951,139	$163,758,317

	Three Months ended June 30,		Six Months Ended June 30,	
	2001	2002	2001	2002
Sales by Geographic Area				
United States	$62,542,904	$69,243,868	$118,390,604	$119,844,766
Europe	2,739,834	7,147,105	3,838,009	14,861,922
Canada	1,695,098	1,117,462	2,314,212	2,376,416
Hong Kong	2,525,836	71,057	4,514,517	71,057
Other	637,715	1,411,987	1,045,917	1,732,808
	$70,141,387	$78,991,479	$130,103,259	$138,886,969

Note 3 — Inventories

Inventories include the ex-factory cost of goods and in-bound freight and are stated at the lower of cost (first-in, first-out) or market and consist of the following:

	December 31, 2001	June 30, 2002
Deposits and raw materials	$ 318,999	$ 461,097
Finished goods	31,704,961	49,450,668
	$32,023,960	$49,911,765

Note 4 — Credit Facility

In October 2001, we 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 us 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.

We are required to not have any outstanding borrowings in excess of $30,000,000 for a period of at least 30 consecutive days during this 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 June 30, 2002, we had no outstanding borrowings.

Note 5 — 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:

	THREE MONTHS ENDED JUNE 30,					
	2001			2002		
	INCOME	WEIGHTED AVERAGE SHARES	PER-SHARE	INCOME	WEIGHTED AVERAGE SHARES	PER-SHARE
Earnings per share — basic						
Income available to common stockholders	$6,873,218	18,048,434	$0.38	$7,831,799	20,984,929	$0.37

Effect of dilutive securities						
Options and warrants	—	1,210,647		—	968,239	
Earnings per share — diluted						
Income available to common stockholders plus assumed exercises	$6,873,218	19,259,081	$0.36	$7,831,799	21,953,168	$0.36

	SIX MONTHS ENDED JUNE 30,					
	2001			2002		
	INCOME	WEIGHTED AVERAGE SHARES	PER-SHARE	INCOME	WEIGHTED AVERAGE SHARES	PER-SHARE
Earnings per share — basic						
Income available to common stockholders	$12,894,001	18,028,019	$0.72	$9,987,900	20,004,500	$0.50
Effect of dilutive securities						
Options and warrants	—	1,086,230		—	1,076,370	
Earnings per share — diluted						
Income available to common stockholders plus assumed exercises	$12,894,001	19,114,249	$0.67	$9,987,900	21,080,870	$0.47

JAKKS PACIFIC, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
June 30, 2002

Note 6 — Common stock and preferred stock

We have 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.

Pursuant to an underwritten public offering, we sold 3,000,000 shares of our common stock on May 29, 2002 and 525,000 shares of our common stock on June 11, 2002 (to cover over-allotments by the underwriters), for a total net proceeds of $59.3 million. We retired 1,496,300 shares of treasury stock for reissuance pursuant to this public offering of our common stock.

On March 11, 2002, we issued 646,384 shares of our common stock in connection with our acquisition of a controlling interest in Toymax International, Inc. (Toymax).

In December 2001, we issued 308,992 shares of our common stock in connection with our acquisition of Kidz Biz Limited and an affiliated company.

In April 2001, the Board of Directors approved the repurchase of up to 1,000,000 shares of our common stock. To date, no shares under this program have been repurchased.

Note 7 — Acquisitions

In October 1999, we acquired all of the stock of Flying Colors Toys, Inc. (Flying Colors) for approximately $52.9 million. Consideration paid at closing was in cash. Contingent consideration includes an earn-out in an amount of up to $4.5 million 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 $4.5 million for each of the earn-out periods ended September 30, 2000 and 2001 was earned by the sellers. The paid earn-outs have been recorded primarily as goodwill.

In December 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, collectively referred to as Kidz Biz, 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.

On March 11, 2002, we acquired 8,100,065 shares of common stock of Toymax primarily from four of its stockholders, which, with the 132,754 shares we previously purchased in the open market for approximately $227,000, represents approximately 66.8% of its outstanding shares. Consideration paid for the stock was approximately $3.00 in cash and .0798 shares of our common stock per share of Toymax stock, for an aggregate purchase price of approximately $24,300,000 in cash and 646,384 shares of our common stock. The second phase of the acquisition is expected to be completed by the end of the third quarter of 2002, when we will purchase the remaining approximately 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 our common stock, subject to adjustment based on the average closing price of our common stock for a 10-day period prior to the closing date of the merger.

The following unaudited pro forma information represents our consolidated results of operations as if the acquisitions of Kidz Biz and Toymax had occurred on January 1, 2001 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 Kidz Biz and Toymax occurred on January 1, 2001 or future operating results.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	**2002**	**2001**	**2002**
Net Sales	$97,316,041	$78,991,479	$177,902,023	$147,545,517
Net income	$ 6,232,312	$ 7,831,799	$ 9,263,327	$ 6,756,209
Earnings per share — basic	$ 0.33	$ 0.37	$ 0.49	$ 0.34
Weighted average shares outstanding — basic	19,003,810	20,984,929	18,983,395	20,004,500
Earnings per share — diluted	$ 0.31	$ 0.36	$ 0.46	$ 0.32
Weighted average shares and equivalents outstanding — diluted	20,214,457	21,953,168	20,069,625	21,080,870

Note 8 — Notes Receivable From Officers

As of June 30, 2002, there were notes receivable from two of our 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 maturity on April 28, 2003. Additionally, there was a third note receivable from an officer for

$250,000 issued at an interest rate of 7.0%, with interest and principal payable at maturity on May 12, 2002. As set forth in this officer's employment agreement, all of the indebtedness under this third note receivable was forgiven because the employment of this officer continued through such date.

Note 9 — 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 was effective for us on January 1, 2002 and primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. With our adoption of SFAS 142, goodwill and other intangible assets are no longer amortized and will be tested for impairment at least annually at the reporting unit level. As of June 30, 2002, there was no impairment to the underlying value of the assets.

The effect of adoption of SFAS No. 142 on the reported net income for the current and comparative prior period is as follows:

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2001	2002	2001	2002
Reported net income	$6,873,218	$7,831,799	$12,894,001	$9,987,900
Add back: Amortization of goodwill and other intangible, net of tax effect	570,607	—	1,199,616	—
Net income, as adjusted	$7,443,825	$7,831,799	$14,093,617	$9,987,900
Earnings per share — basic:				
Reported net income	$ 0.38	$ 0.37	$ 0.72	$ 0.50
Add back, Amortization of goodwill and other intangible, net of tax effect	0.03	—	0.07	—
Net income, as adjusted	$ 0.41	$ 0.37	$ 0.79	$ 0.50
Earnings per share — diluted:				
Reported net income	$ 0.36	$ 0.36	$ 0.67	$ 0.47
Add back: Amortization of goodwill and other intangible, net of tax effect	0.03	—	0.06	—
Net income, as adjusted	$ 0.39	$ 0.36	$ 0.73	$ 0.47

In June 2001, the FASB issued SFAS No. 143, “Accounting for Asset Retirement Obligations.” SFAS No. 143 requires the fair value of a liability for an asset retirement obligation to be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. We believe the adoption of this statement will have no material impact on the financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

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

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

OVERVIEW

JAKKS was founded to design, develop, produce and market children's toys and related products. We commenced business operations in 1995 when we assumed operating control over the toy business of Justin Products, 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 expanded our product lines to include many diverse products including some based on licensed characters and properties, such as World Wrestling Entertainment action figures and accessories.

We acquired Road Champs with its line of die-cast collectible and toy vehicles in February 1997. In October 1997, we acquired the Child Guidance trademark for infant and pre-school electronic products and the Remco trademark for toy vehicles. In June 1999, we acquired Berk with its lines of educational toy foam puzzle mats and activity sets. In October 1999, we acquired Flying Colors, whose product lines include licensed and non-licensed activity kits, play clay compound playsets and lunch boxes as well as other related products. In July 2000, we acquired Pentech whose product lines include pens, markers, pencils, and other writing instruments, crafts and activity kits, and related stationery products.

On March 11, 2002, we acquired approximately 66.8% of the outstanding common stock of Toymax International, Inc. ("Toymax"), which represents a controlling interest in Toymax. Toymax is a developer and marketer of toys and related products, including brand name products such as Laser Challenge, Creepy Crawlers, Funnoodle and Go Fly a Kite. These product lines further diversify, as well as complement our own product lines, and we expect to benefit from efficiencies through combining our operations. We anticipate acquiring the remainder of Toymax's outstanding shares of common stock in a merger transaction, subject to certain conditions, including the approval of Toymax's stockholders.

Our products currently include (1) action figures and accessories featuring licensed characters, principally from the World Wrestling Entertainment license, (2) Flying Colors molded plastic activity sets, clay 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) Child Guidance infant and pre-school electronic toys, educational toy foam puzzle mats and blocks, activity sets and outdoor products, (5) Pentech pens, markers, pencils, and other writing instruments and craft products, (6) fashion and mini dolls and related accessories, (7) Toymax activity products, radio controlled vehicles and other electronic toys, (8) Funnoodle pool and outdoor toys, and (9) Go Fly a Kite kites, weather vanes and related products.

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

In June 1998, we formed a joint venture with THQ Inc., a developer, publisher and distributor of interactive entertainment software, and the joint venture licensed the rights from World Wrestling Entertainment to publish World Wrestling Entertainment electronic video game software on all platforms. The first games produced under this license were released in November 1999. Through June 30, 2006, we are entitled to receive a guaranteed preferred return at varying rates on the net sales of the video games depending on the cumulative unit sales and hardware platform of each particular game, and THQ is entitled to receive the balance of the profits generated by the joint venture. After June 30, 2006, the amount of our preferred return from the joint venture will be subject to renegotiation between THQ and us. The minimum preferred return to be distributed to us by the joint venture in 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.

We contract the manufacture of most of our products to unaffiliated manufacturers located in China. We sell a substantial portion of the finished products on a letter of credit basis or on open account to our customers, who take title to the goods in Hong Kong. These methods allow us to reduce certain operating costs and working capital requirements. A portion of our sales, primarily sales of our Road Champs, Flying Colors and Pentech products, originate in the United States, so we hold certain inventory in our warehouse and fulfillment facilities. In addition, we hold inventory of other products from time to time in support of promotions or other domestic programs with retailers. To date, substantially all of our sales have been to domestic customers. We intend to expand distribution of our products into foreign territories and, accordingly, we have (1) 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, such as Funtastic Ltd. in Australia, (3) engaged distributors in certain territories, 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, (3) the proportion of net sales generated by various products with varying royalty rates to non-royalty proprietary items, and (4) 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 $136.4 million and trademarks of approximately $11.6 million in connection with acquisitions made to date. Through December 31, 2001, goodwill was being amortized over a 30-year period, while trademark acquisition costs were being amortized over periods ranging from 5 to 30 years. Beginning in fiscal 2002, goodwill and certain intangible assets will not be amortized and 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.

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RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2002	2001	2002
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	53.5	55.5	56.1	55.6
Gross profit	46.5	44.5	43.9	44.4
Selling, general and administrative expenses	32.6	30.1	30.6	30.4
Acquisition shut-down and recall costs	1.2	1.9	0.9	5.8
Income from operations	12.7	12.5	12.4	8.2
Profit from joint venture	(0.2)	(0.9)	(0.7)	(1.4)
Interest, net	(0.6)	(0.3)	(0.7)	(0.4)
Income before income taxes and minority interest	13.5	13.7	13.8	10.0
Provision for income taxes	3.7	3.7	3.9	2.7
Income before minority interest	9.8	10.0	9.9	7.3
Minority interest	—	0.1	—	0.1
Net income	9.8%	9.9%	9.9%	7.2%

THREE MONTHS ENDED JUNE 30, 2002 AND 2001

Net Sales. Net sales were $79.0 million in 2002 compared to $70.1 million in 2001. The contribution to net sales by Toymax and the continuing growth in sales of our Flying Colors and Pentech products was offset in part by a decrease in sales of our Wheels division, consisting primarily of our Road Champs die-cast toy and collectible vehicles with its extreme sports products.

Gross Profit. Gross profit increased $2.6 million, or 7.9%, to $35.2 million, or 44.5% of net sales, in 2002 from $32.6 million, or 46.5% of net sales, in 2001. The overall increase in gross profit was attributable to the increase in net sales, though partially offset by a decrease in gross profit margin. The decrease in gross profit margin of 1.9% of net sales was due to lower margins for Toymax products and an increase in amortization expense of molds and tools used in the manufacture of our products, which was partially offset by a decrease in royalty expense as a percentage of net sales due to changes in the product mix resulting from the sale of more products with lower royalty rates or proprietary products with no royalties.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $23.8 million in 2002 and $22.9 million in 2001, constituting 30.1% and 32.6% of net sales, respectively. The overall increase of $0.9 million in such costs was due to costs incurred in support of our Kidz Biz and Toymax acquisitions and increased media buys for our Flying Colors products, though offset in part by a decrease in Goodwill amortization expense based on the implementation of SFAS 142. We produced and aired television commercials in support of several of our products, including World Wrestling Entertainment action figures and Flying Colors products, in 2001 and 2002. From time to time, we may increase our advertising efforts, if we deem it appropriate for particular products.

Acquisition Shut-down and Recall Costs. Acquisition shut-down costs in 2002 relate to shut-down costs, including lease termination, fixed asset abandonment and other costs, of certain operations of Toymax and Kidz Biz, and such costs in 2001 relate to shut-down costs of certain operations of Pentech, acquired in 2000. Operations impacted by these shut-downs were sales, design, distribution and administration. The integration of Pentech was completed in 2001 and the integration of Toymax and Kidz Biz is expected to be completed by the end of 2002. In June 2002, we accrued $1.5 million for a recall of one of our products.

The components of the acquisition shut-down and recall costs are as follows:

	Balance March 31, 2002	Accrual	Actual	Balance June 30, 2002
Lease abandonment costs	$ 5,801,980	$ —	$ (596,178)	$ 5,205,802
Fixed asset write-off	—	—	—	—
Other	415,375	—	(392,005)	23,370
Recall	—	1,500,000	—	1,500,000
Total acquisition shut-down costs	$ 6,217,355	$ 1,500,000	$ (988,183)	$ 6,729,172

Profit from Joint Venture. Profit from joint venture increased by $0.5 million in 2002 because the joint venture had sales of only carryover titles in 2001 compared to releasing a new Microsoft Xbox title in addition to having sales of carryover titles in 2002. New releases typically generate higher unit sales resulting in higher overall sales as compared to carryover titles.

Interest, Net. We had lower average cash balances during 2002 than in 2001 due to the disbursements in 2002 related to the acquisition of Toymax and disbursements at the end of fiscal 2001 related to the acquisition of Kidz Biz.

Provision for Income Taxes. Provision for income taxes included Federal, state and foreign income taxes in 2001 and 2002, at effective tax rates of 29.0% in 2001 and 27.0% in 2002, benefiting from a flat 16.5% Hong Kong Corporation Tax on our income arising in, or derived from, Hong Kong. As of June 30, 2002, we had deferred tax assets of approximately $13.8 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.

SIX MONTHS ENDED JUNE 30, 2002 AND 2001

Net Sales. Net sales were $138.9 million in 2002 compared to $130.1 million in 2001. The contribution to net sales by Toymax and the continuing growth in sales of our Flying Colors and Pentech products was offset in part by a decrease in sales of our Wheels division, consisting primarily of our Road Champs die-cast toy and collectible vehicles with its extreme sports products.

Gross Profit. Gross profit increased $4.6 million, or 8.0%, to $61.7 million, or 44.4% of net sales, in 2002 from $57.1 million, or 43.9% of net sales, in 2001. The overall increase in gross profit was attributable to the increase in net sales and the increase in our gross profit margin. The increase in gross profit margin of 0.5% of net sales was due to the decrease in royalty expense as a percentage of net sales due to changes in the product mix resulting from the sale of more products with lower royalty rates or proprietary products with no royalties, which was partially offset by an increase in amortization expense of molds and tools used in the manufacture of our products and lower margins for Toymax products.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $42.2 million in 2002 and $39.8 million in 2001, constituting 30.4% and 30.6% of net sales, respectively. The overall increase of $2.4 million in such costs was due to costs incurred in support of our Kidz Biz and Toymax acquisitions and increased media buys for our Flying Colors products, though offset in part by a decrease in Goodwill amortization expense based on the implementation of SFAS 142. We produced and aired television commercials in support of several of our products, including World Wrestling Entertainment action figures and Flying Colors products, in 2001 and 2002. From time to time, we may increase our advertising efforts, if we deem it appropriate for particular products.

Acquisition Shut-down and Recall Costs. Acquisition shut-down costs in 2002 relate to shut-down costs, including lease termination, fixed asset abandonment and other costs, of certain operations of Toymax and Kidz Biz, and such costs in 2001 relate to shut-down costs of certain operations of Pentech, acquired in 2000. Operations impacted by these shut-downs were sales, design, distribution and administration. The integration of Pentech was completed in 2001 and the integration of Toymax and Kidz Biz is expected to be completed by the end of 2002. In June 2002, we accrued $1.5 million for a recall of one of our products.

The components of the acquisition shut-down and recall costs are as follows:

	Balance December 31, 2001	Accrual	Actual	Balance June 30, 2002
Lease abandonment costs	$ —	$ 5,801,980	$ (596,178)	$ 5,205,802
Fixed asset write-off	—	260,142	(260,142)	—
Other	—	559,375	(536,005)	23,370
Recall	—	1,500,000	—	1,500,000
Total acquisition shut-down costs	$ —	$ 8,121,497	$ (1,392,325)	$ 6,729,172

Profit from Joint Venture. Profit from joint venture increased by $1.1 million in 2002 because the joint venture had sales of only carryover titles in 2001 compared to releasing a new Microsoft Xbox title in addition to having sales of carryover titles in 2002. New releases typically generate higher unit sales resulting in higher overall sales as compared to carryover titles.

Interest, Net. We had lower average cash balances during 2002 than in 2001 due to the disbursements in 2002 related to the acquisition of Toymax and disbursements at the end of fiscal 2001 related to the acquisition of Kidz Biz.

SEASONALITY AND BACKLOG

The retail toy industry is inherently seasonal. Generally, in the past, our sales have been highest during the third and fourth quarters, and collections for those sales have been highest during the succeeding fourth and first fiscal quarters. Sales of writing instrument products are likewise seasonal with sales highest during the second and third quarters as are our Go Fly a Kite and Funnoodle outdoor products which are largely sold in the first and second quarters. Our working capital needs have been highest during the third and fourth quarters.

While we have taken steps to level sales over the entire year, sales are expected to remain heavily influenced by the seasonality of our toy products. The result of these seasonal patterns is that operating results and demand for working capital may vary significantly by quarter. Orders placed with us for shipment are cancelable until the date of shipment. The combination of seasonal demand and the potential for order cancellation makes accurate forecasting of future sales difficult and causes us to believe that backlog may not be an accurate indicator of our future sales. Similarly, financial results for a particular quarter may not be indicative of results for the entire year.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2002, we had working capital of $153.1 million, as compared to $116.5 million as of December 31, 2001. This increase was primarily attributable to the receipt of net proceeds from the public sale of our common stock, our operating results and the receipt of the preferred return from our joint venture with THQ, though offset in part by disbursements related to our acquisition of Toymax.

Operating activities provided net cash of $37.7 million in 2002, as compared to having used cash of $6.1 million in 2001. Net cash was provided primarily by net income and non-cash charges, such as depreciation and amortization, earned compensation from stock option grants, forgiveness of an officer note receivable and minority interest, as well as decreases in the preferred return from THQ joint venture, prepaid expenses and other current operating assets, the sale of marketable securities and increases in accounts payable and accrued expenses, income taxes payable, which were offset by an increase in accounts receivable and inventory and a decrease in deferred income taxes. As of June 30, 2002, we had cash and cash equivalents of $81.3 million and marketable securities of $5.8 million.

Our investing activities used net cash of $43.4 million in 2002, as compared to $1.7 million in 2001, consisting primarily of cash paid for toy business net assets acquired in the Toymax acquisition, the purchase of office furniture and equipment and molds and tooling used in the manufacture of our products, the purchase of marketable securities available for sale, offset by a decrease in other assets. In 2001, our investing activities consisted primarily of the purchase of warehouse equipment and leasehold improvements, offset by a decrease in other assets and the repayment of notes receivable from officers. 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 June 30, 2002, these agreements required future aggregate minimum guarantees of $13.8 million, exclusive of $1.9 million in advances already paid.

Our financing activities provided net cash of $61.9 million in 2002, consisting primarily of proceeds from the sale of our common stock and from the exercise of stock options and warrants, partially offset by the repayment of long-term debt. In 2001, financing activities provided net cash of $0.4 million, consisting primarily of proceeds from the exercise of stock options and warrants, partially offset by the repayment of long term debt.

Effective April 1, 2002, subsequent to the disbursement of funds related to our acquisition of Toymax and receipt of proceeds from the public offering from the sale of our common stock, we changed our investment strategy to invest excess funds with a new investment manager and are now classifying the investments as available for sale securities, instead of trading securities.

In October 1999, we acquired Flying Colors Toys. At or shortly after the closing we paid approximately $34.7 million for the stock and paid off approximately $17.6 million of indebtedness. We also agreed to pay an earn-out of up to $4.5 million in each of the three 12-month periods following the closing if net sales of Flying Colors products achieve certain targeted levels during each such period. The sellers of Flying Colors earned the maximum of $4.5 million in each of the earn-out periods ended September 30, 2000 and 2001.

In December 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.

On March 11, 2002, we purchased 8,100,065 shares of the common stock of Toymax primarily 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 31, 2002, we owned 8,232,819 shares of Toymax common stock, representing approximately 66.8% of the outstanding shares of Toymax common stock. To complete our acquisition of Toymax, we have entered into a merger agreement subject to certain conditions, including, among others, the approval by Toymax's stockholders. The stockholders of Toymax, except for us or Toymax or a subsidiary thereof, will receive merger consideration for each share of Toymax owned of $3.00 in cash and 0.0798 shares 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 500,000 shares of our common stock.

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 June 30, 2002, we had no outstanding borrowings.

We believe that our cash flow from operations, cash and cash equivalents on hand, marketable securities and the availability under our 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial and commodity market prices and rates. We are exposed to market risk in the areas of changes in United States and international borrowing rates and changes in foreign currency exchange rates. In addition, we are exposed to market risk in certain geographic areas that have experienced or remain vulnerable to an economic downturn, such as China. We purchase substantially all of our inventory from companies in China, and, therefore, we are subject to the risk that such suppliers will be unable to provide inventory at competitive prices. While we believe that, if such an event were to occur we would be able to find alternative sources of inventory at competitive prices, we cannot assure you that we would be able to do so. These exposures are directly related to our normal operating and funding activities. Historically and as of June 30, 2002, we have not used derivative instruments or engaged in hedging activities to minimize our market risk.

INTEREST RATE RISK

As of June 30, 2002, we do not have any outstanding balances on our Line of Credit and we have only nominal interest-bearing obligations. Accordingly, we are not generally subject to any direct risk of loss arising from changes in interest rates.

FOREIGN CURRENCY RISK

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

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PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

NUMBER	DESCRIPTION
3.1.1	Restated Certificate of Incorporation of the Company(1)
3.1.2	Certificate of Amendment of Restated Certificate of Incorporation of the Company(2)
3.2.1	By-Laws of the Company(1)
3.2.2	Amendment to By-Laws of the Company(3)
99.1	Certification of Chief Executive Officer
99.2	Certification of Chief Financial Officer

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

(b) Reports on Form 8-K

A Current Report on Form 8-K relating to the recall of our "Smatter" spray foam was filed on June 28, 2002.

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SIGNATURES

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

Registrant:

JAKKS PACIFIC, INC.

Date: August 14, 2002

By: /s/ Joel M. Bennett

Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 99.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of JAKKS Pacific, Inc. ("JAKKS"), hereby certifies that JAKKS' Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of JAKKS.

/s/ Jack Friedman   Dated: August 14, 2002

Jack Friedman
Chairman and Chief Executive Officer
Principal Executive Officer

EXHIBIT 99.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of JAKKS Pacific, Inc. ("JAKKS"), hereby certifies that JAKKS' Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of JAKKS.

/s/ Joel M. Bennett　　　　Dated: August 14, 2002

Joel M. Bennett
Chief Financial Officer
Principal Financial Officer