

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

FORM 10-K

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999

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

FOR THE TRANSITION PERIOD FROM

----- TO -----

COMMISSION FILE NUMBER 0-28104

JAKKS PACIFIC, INC.
(NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

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

22761 PACIFIC COAST HIGHWAY
MALIBU, CALIFORNIA
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

90265
(ZIP CODE)

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

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

TITLE OF EACH CLASS

NAME OF EACH EXCHANGE
ON WHICH REGISTERED

NONE

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

TITLE OF CLASS

COMMON STOCK, \$.001 PAR VALUE

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period as the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes No

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

The aggregate market value of the voting and non-voting common equity (the
only such common equity being Common Stock, \$.001 par value) held by
non-affiliates of the registrant (computed by reference to the closing sale
price of the Common Stock on March 27, 2000) is \$376,042,973.

The number of shares outstanding of the registrant's Common Stock, \$.001
par value (being the only class of its common stock) is 19,332,806 (as of March
27, 2000).

DOCUMENTS INCORPORATED BY REFERENCE

None.

JAKKS PACIFIC, INC.

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FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

ITEM 1. BUSINESS

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

COMPANY OVERVIEW

JAKKS is a Delaware corporation which was formed in January 1995 and began operations as of April 1, 1995. We are a multi-line, multi-brand toy company that designs, develops, produces and markets toys and related products. Our principal products are (1) action figures and accessories featuring licensed characters, principally from the World Wrestling Federation, (2) Flying Colors molded plastic activity sets, 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, toy foam puzzle mats and blocks, activity sets and outdoor products and (5) fashion and mini dolls and related accessories. We focus our business on evergreen branded products that are less subject to market fads or trends and feature well-known brand names and simpler, lower-priced toys and accessories.

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

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

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

Most of our current products are relatively simple and inexpensive toys. We believe that these products have proven to have enduring appeal and are less subject to general economic conditions, toy product fads and trends, changes in retail distribution channels and other factors. In addition,

the simplicity of these products enables us to choose among a wider range of manufacturers and affords us greater flexibility in product design, pricing and marketing.

We sell our products through our in-house sales staff and independent sales representatives. Purchasers of our products include toy and mass-market retail chain stores, department stores, toy specialty stores and wholesalers. The Road Champs and Flying Colors products are also sold to smaller hobby shops, specialty retailers and corporate accounts, among others. Our five largest customers are Toys 'R Us, Wal-Mart, Kmart, Kay Bee Toys and Target, each of which accounted for at least 8% of our net sales in 1999. We also sell through e-commerce sites, including Toysrus.com, Amazon.com and eToys.com.

INDUSTRY OVERVIEW

According to the Toy Manufacturers of America, Inc. (the TMA), the leading industry trade group, total manufacturers' shipments of toys, excluding video games, in the U.S., were approximately \$16.9 billion in 1999. According to the TMA, the United States is the world's largest toy market, followed by Japan and Western Europe. Sales by U.S. toy manufacturers to non-U.S. customers totaled approximately \$5.5 billion in 1998. We believe the two largest U.S. toy companies, Mattel and Hasbro, collectively hold a dominant share of the domestic non-video toy market. In addition, hundreds of smaller companies compete in the design and development of new toys, the procurement of character and product licenses, and the improvement and expansion of previously-introduced products and product lines. In the video game segment, manufacturers' shipments of video game software were approximately \$3.2 billion in 1999.

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

OUR GROWTH STRATEGY

- EXPAND CORE PRODUCTS

We manage our existing and new brands through strong product development initiatives, including introducing new products, modifying existing products and extending existing product lines. Our product designers strive to develop new products or product lines to offer added technological, aesthetic and functional improvements to our product lines. In October 1999, we introduced an interactive wrestling action figure which has the ability to accept voice downloads from the World Wrestling Federation web site.

- ENTER NEW PRODUCT CATEGORIES

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

- CONTINUE TO PURSUE STRATEGIC ACQUISITIONS

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

- ACQUIRE ADDITIONAL CHARACTER AND PRODUCT LICENSES

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

- EXPAND INTERNATIONAL SALES

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

- CAPITALIZE ON OUR OPERATING EFFICIENCIES

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

PRODUCTS

WORLD WRESTLING FEDERATION ACTION FIGURES AND ACCESSORIES

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

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

catch phrases and in-ring banter. Building on the popularity of World Wrestling Federation and its wrestlers, we have continued to develop the line with exciting and innovative technological and functional concepts to enhance the value of the line.

In 1999, we introduced a line of 12-inch interactive figures that has created a new category of toys in the industry. The line was launched with a figure based on a World Wrestling Federation World Champion, "Stone Cold Steve Austin." The figures in the line are capable of accepting daily downloads of sound bites from a World Wrestling Federation web site, to which we contribute content compatible with our toy products. Another technological innovation added in 1999 is the "Titan Tron," featuring sensor-based technology that enables this playset to recognize the character of specially-equipped wrestling figures in order to play the wrestler's unique theme music and display his picture with flashing lights. In 2000, the sensor-based technology will be added to other products based on real elements of the live wrestling shows, like back stage, to further expand the play pattern of wrestling. Other enhancements to the World Wrestling Federation product line include a sweating functionality in the "Maximum Sweat" line of action figures where the figures, when filled with water, "sweat" from the brow and chest, adding more realism and play value to the line. In 2000, technology will again be added to the figures giving them more realism with multiple sensed joints that when moved activate sound chips containing real sound bites of the wrestlers. The various World Wrestling Federation products retail from \$5.99 to \$49.99.

FLYING COLORS ACTIVITY SETS, CLAY COMPOUND PLAYSETS AND LUNCH BOXES

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

Our molding compounds present a new area of emphasis for Flying Colors. Launched under the Blue's Clues license, this line has expanded from play clay in a bucket to an entire Blue's Clues playset featuring book molds, extrusion and other devices. We are continuing to expand the compound area and expect to introduce innovative compounds with and without licensed characters or marks.

WHEELS DIVISION PRODUCTS

- Road Champs die-cast collectible and toy vehicles

The Road Champs product line consists of highly-detailed, die-cast replicas of new and classic cars, trucks, motorcycles, emergency vehicles and service vehicles, primarily in 1/43 scale (including police cars, fire trucks and ambulances), buses and aircraft (including propeller planes, jets and helicopters). As a part of the Road Champs acquisition in February 1997, we acquired the right to produce the Road Champs line of die-cast and collectible vehicle replicas, including various well-known vehicles from Ford, Chevrolet and Jeep, as well as the right to use familiar corporate names on the die-cast vehicles, such as Pepsi and Hershey. Recently, we licensed the right to

reproduce vehicles featured on the covers of automotive magazines, such as Rod & Custom and Car and Driver, and to market vehicles with the B.A.S.S. Masters logo and replicas of the World Wrestling Federation Attitude Racing NHRA Team. We believe that these licenses increase the perceived value of the products and enhance their marketability. Under the terms of these licenses, which expire on various dates through May 10, 2001 (many of which include automatic annual extensions without affirmative action taken by either party), we pay the licensor a royalty based on our sales of each product bearing such licensed name. While we are not required to pay any royalty on some of the products, the royalties on a majority of the products range from 1% to 9% of sales. The Road Champs products are produced by unaffiliated foreign manufacturers. These products are sold individually, retailing from \$2.99 to \$7.99 each, and in playsets which retail from \$9.99 to \$24.99 each.

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

- BXS die-cast collectible and toy bicycles

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

- Remco toy vehicles and role play

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

fire, farm and construction, to racing and jungle adventure. In late 1999, we will be expanding our Remco vehicle line by adding an innovative line of trucks called Talkin' Tuff Guys, which allows children to bring construction vehicles to life with the real sounds of construction.

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

We market Remco "Fight Back Action Fishing Poles" under the B.A.S.S. Masters license for fun with simulated fishing action. These fishing poles retail for \$12.99.

CHILD GUIDANCE

- Infant and pre-school toys

We acquired the Child Guidance trade name in 1997 to accelerate our entry into the infant/ pre-school toy category. This category has been recently dominated by higher-priced licensed products, which creates an opportunity for us to sell our lower price, high value line of pre-school toys. Our line of pre-school electronic toys features products that enhance sensory stimulation and learning through play, while offering value to the trade as well as to the consumer. Our products are designed for children ages two and under. We have combined the fun of music, lights, motion and sound with the early introduction of numbers, letters, shape and color recognition, all at a value price. The line consists of more than 50 products that are marketed in continually updated "try me" interactive packaging that allows the consumers to sample the product prior to purchase. We support the products with extensive advertising in popular magazines and other publications, focusing on parenting, women's and family publications, including Good Housekeeping. These products carry the Good Housekeeping Seal of Approval(R). Our current products include the Wiggle Waggle Caterpillar and Musical Pony pull-along toys, which were introduced in 1998. Other 1998 noteworthy products include Musical Magnets, which were recognized as one of the top toys of the year by Sesame Street Parent Magazine. In 1999, we have extended the Wiggle Waggle line to include the Wiggle Waggle Duck, which features spinning action. We have added approximately 30 other new products to the line in 1999, including Talking Phonics Blocks and Talking Sentence Magnets. We have recently expanded the distribution of the Child Guidance products to include more upscale and specialty retailers. Child Guidance products are priced at retail from \$2.99 to \$14.99.

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

- Foam puzzle mats and playsets

The acquisition of Berk added the foam toy category to our business. We incorporated this new toy category into our Child Guidance product line, based on the demographics and target

market for foam toy products. This new line further expands the breadth of our Child Guidance brand. The foam toy products include puzzle mats featuring licensed characters, such as Winnie the Pooh, Blue's Clues, Barney, Teletubbies and Sesame Street, among others, as well as letters of the alphabet and numbers. The inter-locking puzzle pieces can also be used to build houses and other play areas. Other products include foam puzzles of the United States, foam vehicles and outdoor foam products. In 1999, we introduced three-dimension, mechanism and sound elements to this line.

FASHION AND MINI DOLLS AND RELATED ACCESSORIES

We produce various proprietary fashion dolls and accessories for children between the ages of three and 10. The product lines include: (1) 11 1/2 inch fashion dolls customized with high-fashion designs that correspond with particular holidays, events or themes, such as Christmas, birthdays, Fairytale, Victorian Romance and Gibson Girl Romance; and (2) 6 1/2 inch fashion dolls based on children's classic fairy tales and holidays. In 2000, we intend to add to our doll line by producing additional dolls based on the fashion magazine Elle. These 15 1/2 inch dolls will feature contemporary fashions.

We have introduced two new line extensions for sale in 1999: (1) 15 1/2 inch fashion dolls that have movable body parts and intricate hairstyles and that have themes such as Era of Elegance, Renaissance and Ballet; and (2) our American Sisters baby dolls in paired 12 inch and 8 inch sizes with themes like Off to School, Ballet Recital, Birthday Surprise and Tea Party Fun. These dolls are priced at retail from \$9.99 to \$24.99.

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

WORLD WRESTLING FEDERATION VIDEO GAMES

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

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

Sony PlayStation accounted for a substantial portion of the installed base of all hardware platforms and software sales in 1998.

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

Wrestling video games have demonstrated consistent popularity, with two wrestling-theme video games among the top 10 video games, in terms of unit sales volumes, in 1998. Approximately 2.3 million units of these two games were sold in 1998, at retail prices ranging from approximately \$42 to \$60. We believe that the success of the World Wrestling Federation titles is dependent on the graphic look and feel of the software, the depth and variation of game play and the popularity of the World Wrestling Federation. We believe that as a franchise property, the World Wrestling Federation titles will have brand recognition and sustainable consumer appeal, which may allow the joint venture to use titles over an extended period of time through the release of sequels and extensions and to re-release such products at different price points in the future. Also, as new hardware platforms are introduced, software for these platforms requires new standards of design and technology to fully exploit these platforms' capabilities and requires that software developers devote substantial resources to product design and development.

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

SALES, MARKETING AND DISTRIBUTION

We sell all of our products through our own in-house sales staff and independent sales representatives. Purchasers of our products include toy and mass-market retail chain stores, department stores, toy specialty stores and wholesalers. The Road Champs and Flying Colors product lines are also sold to smaller hobby shops, specialty retailers and corporate accounts, among others. Our five largest customers are Toys 'R Us, Wal-Mart, Kmart, Kay Bee Toys and Target, which accounted for approximately 69.6% of our net sales in 1998 and 70.2% of our net sales in 1999. Except for purchase orders relating to products on order, we do not have written agreements with our customers. Instead, we generally sell products to our customers pursuant to letters of credit or, in some cases, on open account with payment terms typically varying from 30 to 90 days. From time to time, we allow our customers credits against future purchases from us in order to facilitate their retail markdown and sales of slow-moving inventory. We also sell through e-commerce sites, including Toysrus.com, Amazon.com and eToys.com.

We contract the manufacture of most of our products to unaffiliated manufacturers located in China. We sell the finished products on a letter of credit basis or on open account to our customers,

who take title to the goods in Hong Kong. These methods allow us to reduce certain operating costs and working capital requirements. A portion of our sales, primarily sales of our Road Champs and Flying Colors products, originate in the United States, so we hold certain inventory in warehouse and fulfillment facilities operated by unaffiliated third parties. In addition, we hold inventory of other products from time to time in support of promotions or other domestic programs with retailers. To date, substantially all of our sales have been to domestic customers. We intend to expand distribution of our products into foreign territories and, accordingly, we have (1) engaged representatives to oversee sales in certain territories, (2) engaged distributors in certain territories, and (3) established direct relationships with retailers in certain territories.

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

We obtain, directly, or through our sales representatives, orders for our products from our customers and arrange for the manufacture of these products as discussed below. Cancellations are generally made in writing, and we take appropriate steps to notify our manufacturers of these cancellations. Based upon the sales of the Road Champs products in the past, we expect approximately half of the Road Champs products to be sold domestically through a third-party warehouse and fulfillment center in Seattle, Washington, where we store inventory for sale.

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

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

Outside of the United States, we currently sell our products primarily in Canada, Great Britain, Latin America, Australia, Japan and South Africa. Sales of our products abroad accounted for approximately \$6.3 million, or 7.4% of our net sales, in 1998 and approximately \$13.1 million, or 7.1% of our net sales, in 1999. We believe that foreign markets present an attractive opportunity, and we plan to intensify our marketing efforts and expand our distribution channels abroad.

PRODUCT DEVELOPMENT

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

the development process takes from three to nine months to culminate in production of the products for shipment to our customers.

We employ a staff of approximately 20 designers for our Flying Colors product lines. We generally acquire our other product concepts from unaffiliated third parties. If we accept and develop a third party's concept for new toys, we generally pay a royalty on the toys developed from this concept that are sold, and may, on an individual basis, guarantee a minimum royalty. Royalties payable to developers generally range from 1% to 6% of the wholesale sales price for each unit of a product sold by us. We believe that utilizing experienced third-party inventors gives us access to a wide range of development talent. We currently work with numerous toy inventors and designers for the development of new products and the enhancement of existing products. We believe that toy inventors and designers have come to appreciate our practice of acting quickly and decisively to acquire and market licensed products. In addition, we believe that our experience in the toy industry, our flexibility and our recent success in developing and marketing products make us more attractive to toy inventors and developers than some of our competitors.

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

MANUFACTURING AND SUPPLIES

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

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

The principal raw materials used in the production and sale of our toy products are zinc alloy, plastics, plush, printed fabrics, paper products and electronic components, all of which are currently available at reasonable prices from a variety of sources. Although we do not manufacture our products, we own the molds and tooling used in the manufacturing process, and these are transferable among manufacturers if we choose to employ alternative manufacturers. Molds and tooling represents substantially all of our long-lived assets, and amounted to \$3.0 million in 1997, \$3.4 million in 1998 and \$10.3 million in 1999. Substantially all of these assets are located in China.

TRADEMARKS AND COPYRIGHTS

Most of our products are produced and sold under trademarks owned by or licensed to us. We typically register our properties, and seek protection under the trademark, copyright and patent laws of the United States and other countries where our products are produced or sold. These intellectual

property rights can be significant assets. Accordingly, while we believe we are sufficiently protected, the loss of some of these rights could have an adverse effect on our business, financial condition and results of operations.

COMPETITION

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

SEASONALITY AND BACKLOG

Sales of toy products are seasonal. In 1999, approximately 66.8% our net sales were made in the third and fourth quarters. Generally, the first quarter is the period of lowest shipments and sales in our business and the toy industry generally and therefore the least profitable due to various fixed costs. Seasonality factors may cause our operating results to fluctuate significantly from quarter to quarter. Due to these fluctuations, our results of operations for any quarter may vary significantly. Our results of operations may also fluctuate as a result of factors such as the timing of new products (and expenses incurred in connection therewith) introduced by us or our competitors, the advertising activities of our competitors, delivery schedules set by our customers and the emergence of new market entrants. We believe, however, that the low retail price product lines that we sell may be less subject to seasonal fluctuations than higher priced toy products.

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

GOVERNMENT AND INDUSTRY REGULATION

Our products are subject to the provisions of the Consumer Product Safety Act ("CPSA"), the Federal Hazardous Substances Act ("FHSA"), the Flammable Fabrics Act ("FFA") and the regulations promulgated thereunder. The CPSA and the FHSA enable the Consumer Product Safety Commission to exclude from the market consumer products that fail to comply with applicable product safety regulations or otherwise create a substantial risk of injury, and articles that contain

excessive amounts of a banned hazardous substance. The FFA enables the Consumer Products Safety Commission to regulate and enforce flammability standards for fabrics used in consumer products. The Consumer Products Safety Commission may also require the repurchase by the manufacturer of articles which are banned. Similar laws exist in some states and cities and in various international markets. We maintain a quality control program designed to ensure compliance with all applicable laws. In addition, many of our Child Guidance products are sold under the Good Housekeeping Seal of Approval(R). To qualify for this designation, our products are tested by Good Housekeeping to ensure compliance with its product safety and quality standards.

EMPLOYEES

As of March 27, 2000, we employed 140 persons, all of whom are full-time employees, including three executive officers. One hundred of our employees were located in the United States, while the remaining 40 were located in Hong Kong. We believe that we have good relationships with our employees. None of our employees is represented by a union.

ENVIRONMENTAL ISSUES

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

ITEM 2. PROPERTIES

Our principal executive offices occupy approximately 9,000 square feet of space in Malibu, California under a lease expiring on August 31, 2002. We have entered into a seven year lease for approximately 17,000 square feet of additional office space in Malibu, California which will contain our principal executive offices upon commencement of the lease in the third quarter of 2000. We lease office space of approximately 7,500 square feet in Dexter, Michigan where the operations of Flying Colors Toys are headquartered. We lease showroom and office space of approximately 8,000 square feet at the International Toy Center in New York City. We also have leased office and showroom space of approximately 5,000 square feet in Hong Kong from which we oversee our China-based third-party manufacturing operations and 15,000 square feet in Ontario, California, and we have a smaller leased site in Dallas, Texas. We believe that our facilities in the United States and Hong Kong are adequate for our reasonably foreseeable future needs.

ITEM 3. LEGAL PROCEEDINGS

We are not a party to, nor is any of our property the subject of, any pending legal proceeding, nor are we aware of any proceeding contemplated by any governmental authority.

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

No matter was submitted during the fourth quarter of 1999 to a vote of our security holders.

PART II

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

MARKET INFORMATION

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

	PRICE RANGE OF COMMON STOCK	
	HIGH	LOW
1998:		
First quarter.....	6.58	4.75
Second quarter.....	8.50	5.17
Third quarter.....	8.96	4.75
Fourth quarter.....	7.58	4.67
1999:		
First quarter.....	13.67	7.00
Second quarter.....	19.92	12.17
Third quarter.....	26.83	15.50
Fourth quarter.....	29.33	16.13

On March 27, 2000, the last sale price of our common stock reported on the Nasdaq National Market was \$20.06 per share.

SECURITY HOLDERS

As of March 27, 2000, there were approximately 91 holders of record of our common stock.

DIVIDENDS

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

ITEM 6. SELECTED FINANCIAL DATA

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

	APRIL 1, 1995 (INCEPTION) TO DECEMBER 31,				
	YEAR ENDED DECEMBER 31,				
	1995	1996	1997	1998	1999
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Net sales.....	\$6,078	\$12,052	\$41,945	\$85,253	\$183,685
Cost of sales.....	4,131	7,231	25,875	52,000	107,602
Gross profit.....	1,947	4,821	16,070	33,253	76,083
Selling, general and administrative expenses.....	1,400	3,612	11,895	24,007	51,154
Income from operations.....	547	1,209	4,175	9,246	24,929
Income from Joint Venture.....	--	--	--	--	(3,605)
Interest, net.....	8	(134)	418	423	(1,588)
Other (income) expense.....	(12)	--	328	591	(182)
Income before provision for income taxes.....	551	1,343	3,429	8,232	30,304
Provision for income taxes.....	115	163	643	1,857	8,334
Net income.....	\$ 436	\$ 1,180	\$ 2,786	\$ 6,375	\$ 21,970
Basic earnings per share.....	\$ 0.15	\$ 0.24	\$ 0.40	\$ 0.75	\$ 1.55
Weighted average shares outstanding.....	3,000	4,927	6,932	8,539	13,879
Diluted earnings per share.....	\$ 0.13	\$ 0.22	\$ 0.35	\$ 0.59	\$ 1.39
Weighted average shares and equivalents outstanding.....	3,287	5,256	9,013	11,403	15,840

	AT DECEMBER 31,				
	1995	1996	1997	1998	1999
	(IN THOUSANDS)				
CONSOLIDATED BALANCE SHEET DATA:					
Cash and cash equivalents.....	\$ 82	\$ 6,355	\$ 2,536	\$12,452	\$ 57,546
Working capital (deficit).....	(621)	7,824	3,368	13,736	113,170
Total assets.....	4,128	14,200	43,605	58,736	232,878
Long-term debt, net of current portion.....	613	--	6,000	5,940	9
Total stockholders' equity.....	1,850	11,746	25,959	37,754	187,501

ITEM 7. 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 Operation contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors. You should read this section in conjunction with our consolidated financial statements and the related notes (included in Item 8).

OVERVIEW

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

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

We acquired Road Champs in February 1997, and have included the results of operations of Road Champs from February 1, 1997, the effective date of the acquisition. We acquired the Child Guidance and Remco trademarks in October 1997, both of which contributed to operations nominally in 1997, but contributed more significantly to operations commencing in 1998. 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.

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, 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, toy foam puzzle mats and blocks, activity sets and outdoor products and (5) fashion and mini dolls and related accessories.

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

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

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

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

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

Selling, general and administrative expenses include costs directly associated with the selling process, such as sales commissions, advertising and travel expenses, as well as general corporate expenses, goodwill and trademark amortization and product development. We have recorded goodwill of approximately \$47.4 million and trademarks of approximately \$13.9 million in connection with acquisitions made to date. Goodwill is being amortized over a 30-year period, while trademark acquisition costs are being amortized over periods ranging from 10 to 30 years.

RESULTS OF OPERATION

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

	APRIL 1, 1995 (INCEPTION) TO DECEMBER 31,	YEARS ENDED DECEMBER 31,			
	----- 1995	1996	1997	1998	1999
Net sales.....	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales.....	68.0	60.0	61.7	61.0	58.6
	-----	-----	-----	-----	-----
Gross profit.....	32.0	40.0	38.3	39.0	41.4
Selling, general and administrative expenses.....	23.0	30.0	28.4	28.2	27.8
	-----	-----	-----	-----	-----
Income from operations.....	9.0	10.0	9.9	10.8	13.6
Income from joint venture.....	--	--	--	--	(2.0)
Interest, net.....	0.1	(1.1)	1.0	0.4	(0.9)
Other (income) expense.....	(0.2)	--	0.7	0.7	--
	-----	-----	-----	-----	-----
Income before income taxes.....	9.1	11.1	8.2	9.7	16.5
Provision for income taxes.....	1.9	1.3	1.6	2.2	4.5
	-----	-----	-----	-----	-----
Net income.....	7.2%	9.8%	6.6%	7.5%	12.0%
	=====	=====	=====	=====	=====

YEARS ENDED DECEMBER 31, 1999 AND 1998

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

Gross Profit. Gross profit increased \$42.8 million, or 128.8%, to \$76.1 million, or 41.4% of net sales, in 1999 from \$33.3 million, or 39.0% of net sales, in 1998. The overall increase in gross profit was attributable to the significant increase in net sales. The increase in the gross profit margin of 2.4% of net sales was due in part to the changing product mix, which included products, such as World Wrestling Federation action figures and BXS die-cast bicycles, with higher margins than some of our other products, and the amortization expense of molds and tools used in the manufacture of our products, which decreased on a percentage basis due to the fixed nature of these costs. The higher margin resulting from lower product costs was offset in part by higher royalties.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$27.1 million, or 112.7%, to \$51.1 million, or 27.8% of net sales, in 1999 from \$24.0 million, or 28.2% of net sales, in 1998. Selling, general and administrative expenses decreased nominally as a percentage of net sales due in part to increases in advertising expenses and product development costs of our various products in 1999, which were offset in part by a decrease as a percentage of net sales due to the fixed nature of certain of these expenses in conjunction with the significant increase in net sales. The overall dollar increase of \$27.1 million was due to the significant increase in net sales with their proportionate impact on variable selling

costs, such as freight and shipping related expenses, sales commissions, cooperative advertising and travel expenses in addition to the costs added in connection with our acquisitions of Flying Colors and Berk in 1999. We produced television commercials in support of several of our products, including World Wrestling Federation action figures, in 1998 and 1999. We may increase our advertising efforts, including the use of more expensive advertising media, such as television, if we deem it appropriate for particular products.

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

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

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

Provision for Income Taxes. Provision for income taxes included federal, state and foreign income taxes at effective tax rates of 27.3% and 22.6% in 1999 and 1998, respectively, benefiting from a flat 16.5% Hong Kong Corporation Tax on our income arising in, or derived from, Hong Kong. As of December 31, 1999, we had deferred tax assets of approximately \$1,460,000 for which no allowance has been provided since, in the opinion of management, realization of the future benefit is probable. In making this determination, management considered all available evidence, both positive and negative, as well as the weight and importance given to such evidence.

YEARS ENDED DECEMBER 31, 1998 AND 1997

Net Sales. Net sales increased \$43.4 million, or 103.2%, to \$85.3 million in 1998 from \$41.9 million in 1997. The significant growth in net sales was due primarily to the continuing growth of the World Wrestling Federation action figure product line with its expanded product offerings and frequent character releases, as well as to the full year impact on sales of the Remco toy vehicles and Child Guidance pre-school toys which contributed only nominally in 1997 from their acquisition date in late October 1997. Contributions made by sales of Road Champs die-cast collectible and toy vehicles and our holiday doll line were comparable with the prior year, while our line of radio-controlled vehicles made only nominal contributions to net sales in 1998.

Gross Profit. Gross profit increased \$17.2 million, or 106.9%, to \$33.3 million in 1998, or 39.0% of net sales, from \$16.1 million, or 38.3% of net sales, in 1997. The overall increase in gross profit was attributable to the significant increase in net sales. The increase in the gross profit margin of 0.7% of net sales was due in part to the changing product mix, which included products, such as World Wrestling Federation action figures, with higher margins than some of our other products. The higher margin resulting from lower product costs was offset in part by higher royalties, and the amortization expense of molds and tools used in the manufacture of our products was comparable on a percentage basis.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$12.1 million, or 101.8%, to \$24.0 million, or 28.2% of net sales, in 1998, from \$11.9 million, or 28.4% of net sales, in 1997. The overall significant increase of \$12.1 million in these costs was due in large part to the full year impact of costs associated with our addition of infrastructure in the United States and Hong Kong in connection with the Road Champs

acquisition, as well as to development and marketing costs of products under our recently-acquired Child Guidance and Remco trademarks and under existing products lines, such as the World Wrestling Federation action figures. Selling, general and administrative expenses decreased modestly as a percentage of net sales due in part to the fixed nature of certain of these expenses, which were offset in part by increases in advertising expenses and product development costs in 1998. The overall dollar increase was also due to the significant increase in net sales with their proportionate impact on variable selling costs, such as freight and shipping related expenses, sales commissions, cooperative advertising and travel expenses. We produced television commercials in support of several of our products, including World Wrestling Federation action figures in 1998 and 1997, as well as radio-controlled vehicles in 1997. From time to time, we may increase our advertising efforts, including the use of more expensive advertising media, such as television, if we deem it appropriate for particular products.

Interest, Net. We had comparable interest-bearing obligations in 1998 and in 1997 with our convertible debentures and seller notes issued in connection with the Child Guidance/Remco and Road Champs acquisitions. In addition, we had comparable average cash balances during 1998 and 1997.

Provision for Income Taxes. Provision for income taxes included federal, state and foreign income taxes in 1998 and also included a tax benefit generated by operating losses for federal and state purposes in 1997. Our earnings were subject to effective tax rates of 22.6% and 18.8% in 1998 and 1997, respectively, benefiting from a flat 16.5% Hong Kong Corporation Tax on our income arising in, or derived from, Hong Kong. As of December 31, 1997, we had federal and state net operating loss carry-forwards of \$727,000 and \$306,000, respectively, available to offset future taxable income. The carry-forwards were fully utilized in 1998. As of December 31, 1998, we had deferred tax assets of approximately \$493,000 for which no allowance has been provided since, in the opinion of management, realization of the future benefit is probable. In making this determination, management considered all available evidence, both positive and negative, as well as the weight and importance given to such evidence.

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.

	1997				1998				1999		
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FIRST QUARTER (IN THOUSANDS,	SECOND QUARTER EXCEPT	THIRD QUARTER PER SHARE	FOURTH QUARTER DATA)	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER
Net sales.....	\$5,235	\$8,059	\$15,919	\$12,732	\$11,030	\$16,131	\$34,218	\$23,873	\$24,960	\$35,981	\$60,236
As a % of full year.....	12.5%	19.2%	38.0%	30.4%	12.9%	18.9%	40.1%	28.0%	13.6%	19.6%	32.8%
Gross profit.....	\$1,911	\$3,203	\$ 6,620	\$ 4,336	\$ 4,350	\$ 6,118	\$13,242	\$ 9,542	\$10,764	\$14,649	\$24,759
As a % of full year.....	11.9%	19.9%	41.2%	27.0%	13.1%	18.4%	39.8%	28.7%	14.2%	19.3%	32.5%
As a % of net sales.....	36.5%	39.7%	41.6%	34.1%	39.4%	37.9%	38.7%	40.0%	43.1%	40.7%	41.1%
Income from operations.....	\$ 173	\$ 721	\$ 2,021	\$ 1,260	\$ 768	\$ 1,427	\$ 5,069	\$ 1,983	\$ 2,743	\$ 4,225	\$ 9,893
As a % of full year.....	4.1%	17.3%	48.4%	30.2%	8.3%	15.4%	54.8%	21.4%	11.0%	17.0%	40.0%
As a % of net sales.....	3.3%	8.9%	12.7%	9.9%	7.0%	8.8%	14.8%	8.3%	11.0%	11.7%	16.4%
Income before income taxes.....	\$ 124	\$ 604	\$ 1,908	\$ 793	\$ 610	\$ 1,316	\$ 4,648	\$ 1,658	\$ 2,743	\$ 4,587	\$10,426
As a % of net sales.....	2.4%	7.5%	12.0%	6.2%	5.5%	8.2%	13.6%	6.9%	11.0%	12.7%	17.3%
Net income.....	\$ 203	\$ 457	\$ 1,455	\$ 671	\$ 462	\$ 958	\$ 3,434	\$ 1,521	\$ 2,005	\$ 3,355	\$ 7,642
As a % of net sales.....	3.9%	5.7%	9.1%	5.3%	4.2%	5.9%	10.0%	6.4%	8.0%	9.3%	12.7%
Diluted earnings per share.....	\$ 0.03	\$ 0.07	\$ 0.19	\$ 0.07	\$ 0.05	\$ 0.09	\$ 0.30	\$ 0.14	\$ 0.17	\$ 0.21	\$ 0.44
Weighted average shares and equivalents outstanding.....	6,498	7,128	7,638	10,430	10,740	11,679	11,808	11,756	12,624	15,732	17,541

1999

FOURTH
QUARTER

Net sales.....	\$62,508
As a % of full year.....	34.0%
Gross profit.....	\$25,912
As a % of full year.....	34.0%
As a % of net sales.....	41.5%
Income from operations.....	\$ 8,068
As a % of full year.....	32.0%
As a % of net sales.....	13.1%
Income before income taxes.....	\$12,548
As a % of net sales.....	19.9%
Net income.....	\$ 8,968
As a % of net sales.....	14.4%
Diluted earnings per share.....	\$ 0.49
Weighted average shares and equivalents outstanding.....	18,378

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 1999, we had working capital of \$113.2 million, as compared to \$13.7 million as of December 31, 1998. This increase was primarily attributable to operating activities and the public offerings of our common stock in May 1999 and December 1999.

Operating activities used net cash of \$30.4 million in the year ended December 31, 1999 as compared to having provided \$12.0 million in 1998. Net cash was provided primarily by net income and non-cash charges, such as depreciation, amortization and recognition of compensation expense for options, as well as an increase in accounts payable and accrued liabilities, which were offset in part by increases in accounts receivable and inventory and the purchase of marketable securities. As of December 31, 1999, we had cash and cash equivalents of \$57.5 million and marketable securities of \$39.3 million.

Operating activities provided net cash of \$12.0 million in 1998 as compared to \$3.2 million in 1997. Net cash was used primarily for the purchase of marketable securities and increases in accounts receivable and inventory, offset in part by net income, non-cash charges, such as depreciation, amortization and recognition of compensation expense for options, and increases in operating

liabilities.

Our investing activities used net cash of \$46.6 million in the year ended December 31, 1999, as compared to \$5.1 million in 1998, consisting primarily of the purchase of molds and tooling used in the manufacture of our products in 1999 and 1998 and goodwill acquired in the acquisitions of Flying Colors and Berk in 1999. As part of our strategy to develop and market new products, we have entered into various character and product licenses with royalties ranging from 1% to 10% payable on net sales of such products. As of December 31, 1999, these agreements required future aggregate minimum guarantees of \$13.8 million, exclusive of \$1.1 million in advances already paid.

Our investing activities used net cash of \$5.1 million in 1998, as compared to \$24.4 million in 1997, consisting primarily of the purchase of molds and tooling used in the manufacture of our products, the initial funding of the World Wrestling Federation joint venture in 1998, trademarks purchased in connection with the acquisitions of Road Champs and the Child Guidance and Remco brands, and goodwill acquired in connection with the acquisition of Road Champs in 1997.

Our financing activities provided net cash of \$122.1 million in the year ended December 31, 1999, consisting primarily of the issuance of our common stock in our public offerings in May and December 1999 and the exercises of options and warrants, partially offset by dividends paid to holders of our Series A Cumulative Convertible Preferred Stock. In 1998, financing activities provided net cash of \$3.0 million, consisting primarily of the issuance of our Series A Cumulative Convertible Preferred Stock partially offset by the repayment of various notes and other debt issued in connection with our acquisitions in 1997.

Our financing activities provided net cash of \$3.0 million in 1998, consisting primarily of the issuance of 1,000 shares of our preferred stock at a price of \$5,000 per share in a private placement to two investors, partially offset by the repayment of various debt issued in connection with the Road Champs and Child Guidance/Remco trademarks acquisitions. In 1997, financing activities provided net cash of \$17.4 million, consisting of the issuance of our 4% Redeemable Convertible Preferred Stock in October 1997, which provided \$6.8 million, net of offering costs, the placement of our convertible debentures in January 1997, which provided \$5.5 million, net of offering costs, and various notes and other debt issued in connection with our acquisitions in 1997, less approximately \$5.2 million in debt repaid.

In January 1997, we received proceeds, net of issuance costs, of approximately \$5.5 million from the issuance of \$6.0 million in convertible debentures, which were converted in March and April 1999 into 1,565,218 shares of our common stock at a conversion price of \$3.83 per share. These debentures bore interest at 9% per annum, payable monthly, and were due in December 2003.

In February 1997, we acquired Road Champs for approximately \$12.5 million. Consideration paid at closing was approximately \$4.7 million in cash plus the issuance of 297,030 shares of our common stock (valued at approximately \$1.5 million) and the assumption of approximately \$766,000 of liabilities. The balance of the cash consideration (\$5.5 million) was paid during the twelve-month period ended in February 1998. Assets included in the purchase were molds and tooling, office and warehouse equipment and other operating assets, as well as license agreements, trade name and goodwill.

In October 1997, we acquired the Child Guidance and Remco trademarks for approximately \$13.4 million. Consideration paid at closing was \$10.6 million in cash plus the issuance of a 10% note payable in the amount of \$1.2 million, which was paid in five quarterly installments ended December 31, 1998. In addition, we incurred legal and accounting fees of approximately \$203,000 and assumed liabilities of \$1.4 million. The acquisition was funded in part by the issuance of shares of our 4% Redeemable Convertible Preferred Stock, which were converted into 939,998 shares of our common stock in March 1998. Also in connection with this acquisition, we entered into a manufacturing and supply agreement whereby the seller of the trademarks will provide the tools and other manufacturing resources for the production of products under the trademarks. That agreement provides for four quarterly payments of \$110,000, followed by six quarterly payments of \$160,000, which payments commenced on December 31, 1997 and are to be completed on March 31, 2000.

In October 1997, we entered into a credit facility agreement with Norwest Bank Minnesota, N.A. which provides our Hong Kong subsidiaries with a working capital line of credit and letters of credit for the purchase of products and the operation of those subsidiaries. The facility expired on May 31, 1999.

In April 1998, we received \$4.7 million in net proceeds from the sale of shares of our Series A Cumulative Convertible Preferred Stock to two investors in a private placement, which were converted into 837,987 shares of our common stock at a conversion price of \$5.97 per share. The use of proceeds was for working capital and general corporate purposes.

In May 1999, we received \$51.9 million in net proceeds from the sale of 3,999,844 shares of our common stock. We used substantially all of these proceeds to fund our acquisition of Flying Colors Toys. In December 1999, we received \$65.9 million in net proceeds from the sale of 2,811,111 shares of our Common Stock. These proceeds, which we invested temporarily in marketable securities and cash equivalents, are expected to be 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. We also agreed to pay an earn-out of up to \$500,000 if sales of Berk products achieve certain prescribed levels over the 12-month period ending June 30, 2000. Berk is a leading producer of educational toy foam puzzle mats and blocks featuring popular licensed characters, including Mickey Mouse, Minnie Mouse, Winnie the Pooh, Blue's Clues, Barney, Teletubbies, Sesame Street, Looney Tunes and Toy Story 2 characters, and non-licensed activity sets and outdoor products.

On October 5, 1999, we completed the acquisition of the Flying Colors product line through the purchase of all the outstanding capital stock of Flying Colors Toys, a privately-held company based in Dexter, Michigan. At or shortly after the closing we paid approximately \$34.7 million for the stock and paid off approximately \$17.6 million of indebtedness. We also agreed to pay an earn-out of up to \$13.5 million over the 36-month period following the closing if net sales of Flying Colors products achieve certain targeted levels during this period. Two of Flying Colors Toys' senior executives and most of its creative design and product development staff have remained with Flying Colors Toys. Flying Colors Toys' principal products include molded plastic activity kits, clay compound playsets and lunch boxes featuring licensed characters, including Barbie, Rugrats, Blue's Clues and Looney Tunes characters. The kits cover a broad range of products and activities, such as make and paint your own characters, jewelry making, art studios, posters, puzzles and other projects.

We believe that our cash flows from operations, cash and cash equivalents on hand and the net proceeds of this offering 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.

IMPACT OF THE YEAR 2000

ASSESSMENT OF INTERNAL INFRASTRUCTURE. We believe that we have identified most of the major computers, software applications and related equipment used in connection with our internal operations that need to be evaluated to determine if they must be modified, upgraded or replaced to minimize the possibility of a material disruption to our business. Based on a review of these computer systems, we have determined that our computer systems and applications are compliant with the year 2000 format. Since January 1, 2000, we have not experienced any problems with our computer systems or applications related to the year 2000 problem.

SYSTEMS OTHER THAN INFORMATION TECHNOLOGY SYSTEMS. In addition to computers and related systems, the operation of office and facilities equipment, such as fax machines, telephone switches, security systems and other common devices, may be affected by the year 2000 problem. We have assessed the potential effect of the year 2000 problem on our office and facilities equipment and have determined that no problems exist that cannot be remediated by the replacement of relatively inexpensive equipment. Since January 1, 2000, we have not experienced any problems with our office and facilities equipment related to the year 2000 problem.

COSTS OF REMEDIATION. Our total cost of completing required modifications, upgrades or replacements of our internal systems was approximately \$120,000. Based on the activities described above, we do not believe that the year 2000 problem will have a material adverse effect on our business or operating results.

SUPPLIERS. As part of our review of the year 2000 problem, we contacted third-party suppliers of components and key contractors used in the production of our products to identify and, to the extent possible, resolve issues involving the year 2000 problem. However, we have limited or no control over the actions of these third-party suppliers and subcontractors. Thus, while we believe that we have resolved any significant year 2000 problems with these third parties, there can be no assurance that these suppliers have resolved any or all year 2000 problems before the occurrence of a material disruption to the operation of our business. Any failure on the part of these third parties to timely resolve year 2000 problems with their systems could have a material adverse effect on our business. Since January 1, 2000, we have not experienced any disruption in our business or operations resulting from any year 2000 problems of any of our third-party suppliers or contractors.

MOST LIKELY CONSEQUENCES OF YEAR 2000 PROBLEMS. We believe that we have identified and resolved all year 2000 problems that could materially adversely affect our business operations. Since January 1, 2000, we have not experienced any year 2000 problems that have affected our business and operations. However, we believe that it is not possible to determine with complete certainty that all year 2000 problems affecting us have been identified or corrected. The number of devices and systems that could be affected and the interactions among these devices and systems are too numerous to address. In addition, we cannot accurately predict whether failures will occur

as a result of the year 2000 problem or the severity, timing, duration or financial consequences of these potential failures. As a result, we believe it is possible that:

- a significant number of operational inconveniences and inefficiencies for us, our contract manufacturers and our customers that will divert management's time and attention and financial and human resources from ordinary business activities.

CONTINGENCY PLANS. We have developed contingency plans to be implemented if our efforts to identify and correct year 2000 problems affecting our internal systems are not effective. Depending on the systems affected, these plans include:

- accelerated replacement of affected equipment or software;
- short- to medium-term use of backup equipment or software or other redundant systems;
- increased work hours for our personnel or the hiring of additional information technology staff; and
- the use of contract personnel to correct, on an accelerated basis, any year 2000 problems that arise or to provide interim alternative solutions for information system deficiencies.

Our implementation of any of these strategies could have a material adverse effect on our business.

OTHER FACTORS. The discussion of our efforts and expectations relating to year 2000 compliance are forward-looking statements. Our ability to achieve year 2000 compliance, and the level of incremental costs associated therewith, could be adversely affected by, among other things, the availability and cost of contract personnel and external resources, third-party suppliers' ability to modify proprietary software and unanticipated problems not identified in the ongoing compliance review.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial and commodity market prices and rates. We are exposed to market risk in the areas of changes in United States and international borrowing rates and changes in foreign currency exchange rates. In addition, we are exposed to market risk in certain geographic areas that have experienced or remain vulnerable to an economic downturn, such as China. We purchase substantially all of our inventory from companies in China, and, therefore, we are subject to the risk that such suppliers will be unable to provide inventory at competitive prices. While we believe that, if such an event were to occur we would be able to find alternative sources of inventory at competitive prices, we cannot assure you that we would be able to do so. These exposures are directly related to our normal operating and funding activities. Historically and as of December 31, 1999, we have not used derivative instruments or engaged in hedging activities to minimize our market risk.

INTEREST RATE RISK

As of December 31, 1999, we do not have any bank loan or other credit facility, nor do we have any outstanding debt securities, and, accordingly, we are not generally subject to any direct risk of loss arising from changes in interest rates.

FOREIGN CURRENCY RISK

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

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEPENDENT AUDITORS' REPORT

The Stockholders
JAKKS Pacific, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of JAKKS Pacific, Inc. and Subsidiaries as of December 31, 1998 and 1999, 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, 1999. 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 generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and schedule referred to above present fairly, in all material respects, the financial position of JAKKS Pacific, Inc. and Subsidiaries as of December 31, 1998 and 1999, and the results of their operations and cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles.

/s/ PANNELL KERR FORSTER

PANNELL KERR FORSTER
Certified Public Accountants
A Professional Corporation

February 23, 2000

JAKKS PACIFIC, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	1998	1999
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents.....	\$12,452,201	\$ 57,546,406
Marketable securities.....	--	39,333,944
Accounts receivable, net of allowance for uncollectible accounts of \$133,986 and \$1,887,374 for 1998 and 1999, respectively.....	11,926,725	38,024,903
Inventory, net of reserves of \$464,133 and \$2,942,606 for 1998 and 1999, respectively.....	2,918,941	19,863,508
Deferred product development costs.....	237,914	--
Prepaid expenses and other.....	789,691	1,617,692
Advanced royalty payments.....	307,542	1,137,238
Total current assets.....	28,633,014	157,523,691
PROPERTY AND EQUIPMENT		
Office furniture and equipment.....	440,162	1,233,068
Molds and tooling.....	5,826,643	15,283,211
Leasehold improvements.....	195,909	344,263
Total.....	6,462,714	16,860,542
Less accumulated depreciation and amortization.....	2,173,708	5,320,103
Property and equipment, net.....	4,289,006	11,540,439
Deferred financing costs.....	408,151	--
Intangibles and deposits, net.....	872,186	1,502,147
Investment in joint venture.....	1,044,708	3,658,339
Goodwill, net.....	10,322,896	46,020,232
Trademarks, net.....	13,165,804	12,633,248
Total assets.....	\$58,735,765	\$232,878,096
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable.....	\$ 3,705,116	\$ 9,962,655
Accrued expenses.....	4,371,711	15,856,505
Reserve for sales returns and allowances.....	5,341,517	15,318,001
Current portion of long-term debt.....	60,000	4,967
Income taxes payable.....	1,418,763	3,211,926
Total current liabilities.....	14,897,107	44,354,054
Long-term debt, net of current portion.....	5,940,000	8,713
Deferred income taxes.....	144,705	1,013,834
Total liabilities.....	20,981,812	45,376,601
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock, \$.001 par value; 25,000,000 shares authorized; issued and outstanding 9,039,063 and 19,272,692 shares, respectively.....	9,039	19,273
Convertible preferred stock, \$.001 par value; 5,000 shares authorized; issued and outstanding 1,000 and no shares, respectively.....	1	--
Additional paid-in capital.....	27,041,523	155,172,781
Retained earnings.....	10,777,662	32,309,441
Unearned compensation from grant of options.....	37,828,225	187,501,495
74,272	74,272	--
Total stockholders' equity.....	37,753,953	187,501,495
Total liabilities and stockholders' equity.....	\$58,735,765	\$232,878,096

See notes to consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	YEARS ENDED DECEMBER 31,		
	1997	1998	1999
Net sales.....	\$41,944,921	\$85,252,563	\$183,685,124
Cost of sales.....	25,874,784	52,000,135	107,601,639
Gross profit.....	16,070,137	33,252,428	76,083,485
Selling, general and administrative expenses.....	11,895,260	24,006,497	51,154,627
Income from operations.....	4,174,877	9,245,931	24,928,858
Income from Joint Venture.....	--	--	(3,604,487)
Interest, net.....	417,293	422,553	(1,588,043)
Other (income) expense.....	328,139	590,948	(182,305)
Income before provision for income taxes.....	3,429,445	8,232,430	30,303,693
Provision for income taxes.....	642,949	1,857,404	8,333,844
Net income.....	\$ 2,786,496	\$ 6,375,026	21,969,849
Basic earnings per share.....	\$ 0.40	\$ 0.75	\$ 1.55
Diluted earnings per share.....	\$ 0.35	\$ 0.59	\$ 1.39

See notes to consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
DECEMBER 31, 1997, 1998 AND 1999

	COMMON SHARES OUTSTANDING	CONVERTIBLE PREFERRED SHARES OUTSTANDING	PAR VALUE PER SHARE	STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	UNEARNED COMPENSATION FROM GRANT OF OPTIONS
Balance, December 31, 1996.....	5,977,423	--	\$0.001	\$ 5,977	\$ 10,319,303	\$ 1,616,140	\$(195,163)
Issuance of common stock for cash.....	1,035,000	--	0.001	1,035	2,920,718	--	--
Exercise of options.....	103,688	--	0.001	104	132,520	--	--
Issuance of common stock in partial consideration for purchase of toy business.....	297,030	--	0.001	297	1,499,703	--	--
Issuance of convertible preferred stock for cash.....	--	3,525	0.001	4	6,818,346	--	--
Earned compensation from grant of options.....	--	--	--	--	--	--	53,226
Net income.....	--	--	--	--	--	2,786,496	--
-----	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 1997.....	7,413,141	3,525	0.001	7,417	21,690,590	4,402,636	(141,937)
Conversion of preferred stock.....	--	(3,525)	0.001	(4)	4	--	--
Issuance of common stock from conversion of preferred stock.....	1,409,997	--	0.001	1,410	(1,410)	--	--
Issuance of 7% convertible preferred stock for cash.....	--	1,000	0.001	1	4,731,151	--	--
Exercise of options.....	215,925	--	0.001	216	647,176	--	--
Earned compensation from grant of options.....	--	--	--	--	--	--	41,677
Cancellation of options, unearned compensation....	--	--	--	--	(25,988)	--	25,988
Net income.....	--	--	--	--	--	6,375,026	--
-----	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 1998.....	9,039,063	1,000	0.001	9,040	27,041,523	10,777,662	(74,272)
Conversion of preferred stock.....	--	(1,000)	0.001	(1)	1	--	--
Issuance of common stock from conversion of preferred stock.....	837,987	--	0.001	838	(838)	--	--
Issuance of common stock for cash.....	6,810,955	--	0.001	6,811	117,785,304	--	--
Issuance of common stock from conversion of convertible debentures....	1,565,218	--	0.001	1,565	5,598,685	--	--
Dividends paid.....	--	--	--	--	--	(438,070)	--
Exercise of options and warrants.....	1,019,469	--	0.001	1,020	4,748,106	--	--
Earned compensation from grant of options.....	--	--	--	--	--	--	74,272
Net income.....	--	--	--	--	--	21,969,849	--
-----	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 1999.....	19,272,692	--	\$0.001	\$19,273	\$155,172,781	\$32,309,441	\$ --
=====	=====	=====	=====	=====	=====	=====	=====

TOTAL
STOCKHOLDERS'
EQUITY

Balance, December 31, 1996.....	\$ 11,746,257
Issuance of common stock for cash.....	2,921,753
Exercise of options.....	132,624
Issuance of common stock in partial consideration for purchase of toy business.....	1,500,000
Issuance of convertible preferred stock for cash.....	6,818,350
Earned compensation from grant of options.....	53,226
Net income.....	2,786,496
-----	-----
Balance, December 31, 1997.....	25,958,706
Conversion of preferred stock.....	--
Issuance of common stock from conversion of preferred stock.....	--
Issuance of 7% convertible	

preferred stock for cash.....	4,731,152
Exercise of options.....	647,392
Earned compensation from grant of options.....	41,677
Cancellation of options, unearned compensation.....	--
Net income.....	6,375,026

Balance, December 31, 1998.....	37,753,953
Conversion of preferred stock.....	--
Issuance of common stock from conversion of preferred stock.....	--
Issuance of common stock for cash.....	117,792,115
Issuance of common stock from conversion of convertible debentures....	5,600,250
Dividends paid.....	(438,070)
Exercise of options and warrants.....	4,749,126
Earned compensation from grant of options.....	74,272
Net income.....	21,969,849

Balance, December 31, 1999.....	\$187,501,495
	=====

See notes to consolidated financial statements.

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

	YEARS ENDED DECEMBER 31,		
	1997	1998	1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income.....	\$ 2,786,496	\$ 6,375,026	\$ 21,969,849
Adjustments to reconcile net income to net cash provided (used) by operating activities			
Depreciation and amortization.....	1,605,226	2,986,137	4,571,374
Earned compensation from stock option grants.....	53,226	41,677	74,272
Equity in earnings of joint venture.....	--	--	(3,604,487)
Loss on disposal of property and equipment.....	328,139	719,331	12,081
Purchase of marketable securities.....	--	--	(39,333,944)
Changes in operating assets and liabilities			
Accounts receivable.....	(6,315,058)	(3,191,197)	(26,098,178)
Inventory.....	(1,808,145)	(970,691)	(16,944,567)
Prepaid expenses and other.....	(450,545)	357,374	(1,416,033)
Accounts payable.....	2,655,469	(561,340)	6,257,539
Accrued expenses.....	2,262,159	1,904,465	11,484,794
Income taxes payable.....	331,009	815,149	1,793,163
Reserve for sales returns and allowances.....	1,685,621	3,480,696	9,976,484
Deferred income taxes.....	94,427	57,809	869,129
Total adjustments.....	441,528	5,639,410	(52,358,373)
Net cash provided (used) by operating activities.....	3,228,024	12,014,436	(30,388,524)
CASH FLOWS FROM INVESTING ACTIVITIES			
Property and equipment.....	(2,934,935)	(3,875,852)	(10,397,828)
Due from officers.....	104,918	15,112	--
Other assets.....	(241,572)	(197,928)	(763,249)
Trademarks.....	(14,352,556)	(12,252)	--
Investment in joint venture.....	--	(1,044,708)	990,856
Cash paid in excess of cost over toy business assets acquired (goodwill).....	(7,006,753)	--	(36,446,401)
Net cash used by investing activities.....	(24,430,898)	(5,115,628)	(46,616,622)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from sale of common stock.....	2,946,603	--	117,792,115
Proceeds from convertible preferred stock.....	6,818,350	4,731,152	--
Conversion of convertible debentures.....	--	--	(17,500)
Proceeds from debt.....	13,413,659	--	13,680
Proceeds from stock options and warrants exercised.....	132,624	647,392	4,749,126
Dividends paid.....	--	--	(438,070)
Repayments of debt.....	(5,245,665)	(2,361,076)	--
Deferred financing costs.....	(682,032)	--	--
Net cash provided by financing activities.....	17,383,539	3,017,468	122,099,351
Net increase (decrease) in cash and cash equivalents.....	(3,819,335)	9,916,276	45,094,205
Cash and cash equivalents, beginning of year.....	6,355,260	2,535,925	12,452,201
Cash and cash equivalents, end of year.....	\$ 2,535,925	\$ 12,452,201	\$ 57,546,406
Cash paid during the period for:			
Interest.....	\$ 648,187	\$ 647,404	\$ 176,688
Income taxes.....	\$ 217,213	\$ 1,042,255	\$ 4,742,351

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

See notes to consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1999

NOTE 1--PRINCIPAL INDUSTRY

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

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

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include accounts of the Company and its wholly-owned subsidiaries. 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 and markdowns are made at the time of sale.

COMPREHENSIVE INCOME

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

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

DEFERRED FINANCING COSTS

Costs incurred for financings are deferred when incurred. The deferred offering costs related to the debentures are amortized over the term of the debentures, or are written-off upon conversion.

INVENTORY

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

MARKETABLE SECURITIES

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

PROPERTY AND EQUIPMENT

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

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

ADVERTISING

Production costs of commercials and programming are charged to operations in the year during which the production is first aired. The costs of other advertising, promotion and marketing programs are charged to operations in the year incurred. Advertising expense for the years ended December 31, 1997, 1998 and 1999 was approximately \$1,304,000, \$3,903,000, and \$7,038,000, 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 file Hong Kong returns. Deferred taxes

JAKKS PACIFIC, INC. AND SUBSIDIARIES
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are provided on a liability method whereby deferred tax assets are recognized as deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

TRANSLATION OF FOREIGN CURRENCIES

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

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

BUSINESS SEGMENTS

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

RECLASSIFICATIONS

Certain reclassifications have been made to the 1998 consolidated financial statements to conform to the current year presentation.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess purchase price paid over the fair market value of the assets of acquired toy companies. Goodwill is being amortized over 30 years on a straight-line basis. Accumulated amortization at December 31, 1998 and 1999 totaled \$632,519 and \$1,381,585, 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, 1998 and 1999 was \$1,177,306 and \$1,528,893, respectively.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
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STOCK SPLIT

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

EARNINGS PER SHARE (EPS)

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

	1997		
	INCOME	WEIGHTED AVERAGE SHARES	PER SHARE
Basic EPS			
Income available to common stockholders.....	\$ 2,786,496	6,932,053	\$0.40 =====
Effect of dilutive securities			
Options and warrants.....	--	281,641	
9% convertible debentures.....	363,286	1,535,117	
4% convertible preferred stock.....	--	263,856	
	-----	-----	
Diluted EPS			
Income available to common stockholders plus assumed exercises and conversions.....	\$ 3,149,782 =====	9,012,667 =====	\$0.35 =====

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

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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	1999		
	INCOME	WEIGHTED AVERAGE SHARES	PER SHARE
Basic EPS			
Net income.....	\$21,969,849		
Preferred dividends declared/paid.....	(438,070)		
	\$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	
	\$22,086,146	15,839,679	\$1.39
	=====	=====	=====

NOTE 3--ACQUISITIONS AND JOINT VENTURE

In June 1998, the Company formed a joint venture with a company that develops, publishes and distributes interactive entertainment software for the leading hardware game platforms in the home video game market. The joint venture has entered into a license agreement under which it acquired the exclusive worldwide right to publish video games on all hardware platforms. The Company has made initial contributions to the joint venture of \$1,044,708 in 1998. During 1999 the joint venture agreement was revised. Key changes included a \$1,000,000 reimbursement to the Company for its initial capital contribution to the joint venture. In addition, it defines the Company's preferred returns based on the joint venture's sales. The joint venture's profit and loss will be allocated at 100% to the Company to the extent any preferred return is distributed, accrued or distributable for such fiscal year. Losses shall be allocated in accordance with membership interests for so long as the Company has a positive capital account and thereafter shall be allocated solely to the other partner. During 1999 the Company earned \$3,604,487 in joint venture income.

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

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 1999

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

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

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

In June 1999, the Company purchased all of the outstanding shares of Berk Corporation, for \$3,269,450, consideration paid at closing was in cash. Professional fees totaling \$112,768 were incurred as part of the acquisition costs. In addition, contingent consideration includes an earn-out of \$500,000 or \$250,000 if Berk Corporation branded products achieve prescribed sales amounts during the 12-month earn-out period.

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

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

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

The following unaudited pro forma information represents the Company's consolidated results of operations as if the acquisitions of Flying Colors Toys, Inc. (FCT) and Berk Corporation (Berk) had occurred on January 1, 1998 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

JAKKS PACIFIC, INC. AND SUBSIDIARIES
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indicative of operating results that would have been reported had the acquisitions of FCT and Berk occurred on January 1, 1998 or future operating results.

	YEARS ENDED DECEMBER 31,	
	1998	1999
Net sales.....	\$135,430,728	\$218,079,180
Net income.....	\$ 10,174,650	\$ 22,769,655
Basic earnings per share.....	\$ 1.19	\$ 1.64
Weighted average shares outstanding.....	8,538,901	13,879,304
Diluted earnings per share.....	\$ 0.89	\$ 1.44
Weighted average shares and equivalent outstanding.....	11,402,637	15,839,679

NOTE 4--CONCENTRATION OF CREDIT RISK

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

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

Included in the Company's consolidated balance sheets at December 31, 1998 and 1999 are its operating net assets, most of which are located in facilities in Hong Kong and China and which totaled approximately \$8,627,000 and \$14,510,000 for 1998 and 1999, respectively.

NOTE 5--ACCRUED EXPENSES

Accrued expenses consist of the following:

	1998	1999
Bonuses.....	\$ 841,000	\$ 2,747,710
Trademarks acquisition reserve.....	177,245	177,245
Royalties and sales commissions.....	2,681,973	6,667,598
Hong Kong subsidiaries accruals.....	529,722	3,436,335
Other.....	141,771	2,827,617
	\$4,371,711	\$15,856,505

NOTE 6--RELATED PARTY TRANSACTIONS

A director of the Company is a partner in the law firm that acts as counsel to the Company. The Company incurred legal fees and expenses to the law firm in the amount of approximately \$151,000 in 1997, \$510,000 in 1998 and \$1,037,000 in 1999.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 1999

NOTE 7--LONG-TERM DEBT

Long-term debt consists of the following:

	1998	1999
Convertible debentures, bearing interest on the principal amounts outstanding at 9% per annum were converted into 1,565,218 shares of the Company's common stock at \$3.83 per share.....	\$6,000,000	\$ --
Loan Payable, due in sixty monthly payments with the final payment due December 29, 2002, with interest at 6.9% per annum.....	--	13,680
	-----	-----
	6,000,000	13,680
Less current portion of long-term debt.....	60,000	4,967
	-----	-----
Long-term debt, net of current portion.....	\$5,940,000	\$8,713
	=====	=====

NOTE 8--INCOME TAXES

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

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

	1997	1998	1999
Federal.....	\$ --	\$ 715,000	\$4,280,650
State and local.....	26,000	210,000	1,350,000
Hong Kong.....	522,522	874,595	1,834,065
	-----	-----	-----
Deferred.....	548,522	1,799,595	7,464,715
	94,427	57,809	869,129
	-----	-----	-----
	\$ 642,949	\$1,857,404	\$8,333,844
	=====	=====	=====

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

	1998	1999
Deferred tax assets resulting from deductible temporary differences from loss carry-forwards, noncurrent.....	\$ 493,134	\$ 1,460,000
Deferred tax liabilities resulting from taxable temporary differences, noncurrent.....	(637,839)	(2,473,834)
	-----	-----
	\$(144,705)	\$(1,013,834)
	=====	=====

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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The Company's management concluded that a deferred tax asset valuation allowance as of December 31, 1998 and 1999 was not necessary.

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

	1997	1998	1999
Statutory income tax rate.....	35%	35%	35%
State and local income taxes, net of Federal income tax effect.....	1	1	4
Effect of temporary differences and Hong Kong's lower tax rate.....	--	(22)	(28)
Effect of net operating loss carry-forwards.....	(35)	(11)	--
Income taxes on foreign earnings at rates other than the United States Statutory rate not subject to United States income taxes.....	18	19	16
	---	---	---
	19%	22%	27%
	===	===	===

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

	1997	1998	1999
Domestic.....	\$ 16,216	\$3,681,456	\$13,105,423
Foreign.....	3,413,229	4,550,974	17,198,270
	-----	-----	-----
	\$3,429,445	\$8,232,430	\$30,303,693
	=====	=====	=====

NOTE 9--LEASES

The Company leases office and showroom facilities and certain equipment under operating leases. The following is a schedule of minimum annual lease payments. Rent expense for the years ended December 31, 1997, 1998 and 1999 totaled \$582,766, \$550,360, and \$737,340, respectively.

2000.....	\$ 965,472
2001.....	1,212,444
2002.....	1,149,888
2003.....	1,008,057
2004.....	1,015,791
Thereafter.....	2,949,906

	\$8,301,558
	=====

NOTE 10--COMMON STOCK AND PREFERRED STOCK

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

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

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 1999

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

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

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

During 1997, the Company issued 1,035,000 shares of its common stock in a public offering and 237,030 shares as partial consideration for the RCI acquisition.

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

NOTE 11--COMMITMENTS

The Company has entered into various license agreements whereby the Company may use certain characters and properties in conjunction with its products. Such license agreements call for royalties to be paid at 1% to 10% of net sales with minimum guarantees and advance payments. Additionally, under one such license, the Company has committed to spend 12.5% of related net sales, not to exceed \$1,000,000, on advertising per year.

Future annual minimum royalty guarantees as of December 31, 1999 are as follows:

2000.....	\$ 3,610,028
2001.....	2,491,750
2002.....	1,199,500
2003.....	955,000
2004.....	955,000
Thereafter.....	4,625,000

	\$13,836,278
	=====

The Company entered into a firm price commitment manufacturing and supply agreement in connection with the acquisition of the R&CG trademarks purchased in 1997. The agreement was entered into with the seller of the trademarks to obtain from the seller tools and other manufacturing resources of the seller for the manufacture of products, upon request by the Company. The manufacturing and supply agreement has created a firm commitment by the Company for a minimum of \$1,400,000. A minimum payment of \$110,000 on the agreement was due on December 31, 1997, with three additional payments of \$110,000 and six payments of \$160,000 to follow thereafter, through March 31, 2000, which is also the date on which the agreement terminates.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 1999

NOTE 12--STOCK OPTION PLAN

Under its Third Amended and Restated 1995 Stock Option Plan (the Plan), the Company has reserved 2,625,000 shares of its common stock for issuance upon exercise of options granted under the Plan. In 1999, stockholders approved an increase of 750,000 shares in the number of shares available for grant. Under the Plan, employees (including officers), non-employee directors and independent consultants may be granted options to purchase shares of common stock. Prior to the adoption of the Plan in 1995, options for 414,750 shares were granted at an exercise price of \$1.33 per share. The Company recorded deferred compensation costs and a related increase in paid-in capital of \$212,905 for the difference between the grant price and the deemed fair market value of the common stock of \$1.85 per share at the date of grant. Such compensation costs are recognized on a straight-line basis over the vesting period of the options, which is 25% per year commencing twelve months after the grant date of such options. In 1997, 1998 and 1999, 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, 1999, 64,374 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, 1996.....	188,212	\$ 4.34
Granted.....	607,538	6.61
Exercised.....	--	--
Canceled.....	--	--
	-----	-----
Outstanding, December 31, 1997.....	795,750	6.08
Granted.....	726,750	5.59
Exercised.....	(47,700)	5.45
Canceled.....	(109,500)	5.85
	-----	-----
Outstanding, December 31, 1998.....	1,365,300	5.86
Granted.....	1,198,125	16.07
Exercised.....	(374,608)	5.20
Canceled.....	(50,499)	5.50
	-----	-----
Outstanding, December 31, 1999.....	2,138,318	\$11.70
	=====	=====

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 1999

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

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, December 31, 1996.....	527,250	\$2.12
Granted.....	90,000	4.59
Exercised.....	(103,688)	1.33
Canceled.....	--	--

Outstanding, December 31, 1997.....	513,562	2.71
Granted.....	--	--
Exercised.....	(151,350)	2.62
Canceled.....	(50,625)	1.33

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

Outstanding, December 31, 1999.....	101,062	\$3.69
	=====	=====

The weighted average fair value of options granted to employees in 1997, 1998 and 1999 was \$3.34, \$4.10 and \$9.12 per share, respectively.

The following table summarizes information about stock options outstanding and exercisable at December 31, 1999:

OPTION PRICE RANGE	OUTSTANDING			EXERCISABLE	
	NUMBER OF SHARES	WEIGHTED AVERAGE LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
\$1.33 - \$26.00.....	2,239,380	5.7 years	\$11.26	612,133	\$6.76

In addition, as of December 31, 1999, 293,132 shares were reserved for issuance upon exercise of outstanding warrants granted in connection with the Company's initial public offering, follow-on public offering, private placement of convertible debentures and certain license agreements, at exercise prices ranging from \$4.50 to \$6.67 per share.

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 1997, 1998 and 1999 would approximate the pro forma amounts below, which are not indicative of future amounts:

	YEARS ENDED DECEMBER 31,					
	1997		1998		1999	
	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA
SFAS No. 123 charge, net of tax...	--	\$ 132,895	\$ --	\$ 551,541	\$ --	\$ 1,178,025
Net income.....	2,786,496	2,653,601	6,375,026	5,823,485	21,969,849	20,791,824
Basic EPS.....	0.40	0.38	0.75	0.68	1.55	1.47
Diluted EPS.....	\$ 0.35	\$ 0.33	\$ 0.59	\$ 0.55	\$ 1.39	\$ 1.32

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 1999

NOTE 13 -- PROFIT SHARING PLAN

Effective January 1, 1997, the Company adopted a 401(k) profit sharing plan and trust (Plan). The Plan is for the exclusive benefit of eligible employees and beneficiaries. Under the Plan, employees may choose to reduce their compensation and have those amounts contributed to the Plan on their behalf. Contributions made to the Plan will be held and invested by the Plan's trustee. The Company will act as the Plan's administrator. The Plan year begins on January 1st and ends on December 31st. Employees may be eligible to participate in the Plan after they have completed three months of service. The Company will make matching contributions equal to 50% of the amount of salary reduction deferred up to a maximum of 10% of compensation. The Company may also make discretionary contributions to the Plan each year. Participants may elect to defer up to 15% of their compensation each year. However, deferrals in any taxable year may not exceed a dollar limit which is set by law. The limit for 1999 was \$10,500. Participants are immediately 100% vested in their salary reduction amounts contributed to the Plan. Vesting of the Company contributions made to the Plan is based on years of service, as follows:

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

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

As of December 31, 1999, the Plan has not been "qualified" under the provisions of the Internal Revenue Code, and for the year then ended, the Company contributed \$63,344 in matching contributions to the Plan.

NOTE 14--MAJOR CUSTOMERS AND INTERNATIONAL SALES

Net sales to major customers were as follows:

1997		1998		1999	
AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE
\$14,689,000	35.0%	\$23,604,000	27.7%	\$ 45,270,000	24.6%
3,422,000	8.2	11,103,000	13.0	27,684,000	15.1%
3,199,000	7.6	10,944,000	12.8	22,739,000	12.4%
2,658,000	6.3	9,951,000	11.7	17,938,000	9.8%
1,925,000	4.6	3,717,000	4.4	15,229,000	8.3%
-----	-----	-----	-----	-----	-----
\$25,893,000	61.7%	\$59,319,000	69.6%	\$128,860,000	70.2%
=====	=====	=====	=====	=====	=====

Net sales to international customers totaled approximately \$3,733,000, \$6,309,000 and \$13,056,000 in 1997, 1998 and 1999, respectively.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 1999

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

In 1999, the holders of the Company's 9% convertible debentures converted all \$6,000,000 principal amount of the debentures into 1,565,218 shares of the Company's common stock. Additionally, all 1,000 outstanding shares of 7% cumulative convertible preferred stock with a total stockholders' equity value of \$4,731,152 were converted into an aggregate of 837,987 shares of the Company's common stock.

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

In 1997, 297,030 shares of common stock valued at \$1,500,000 were issued in connection with the acquisition of RCI.

NOTE 16--SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected unaudited quarterly financial data for the years 1998 and 1999 are summarized below:

	1998				1999			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	(IN THOUSANDS, EXCEPT PER SHARE DATA)							
Net sales.....	\$11,030	\$16,131	\$34,218	\$23,873	\$24,960	\$35,981	\$60,236	\$62,508
Gross profit.....	\$ 4,350	\$ 6,118	\$13,242	\$ 9,542	\$10,764	\$14,649	\$24,759	\$25,912
Income from operations.....	\$ 768	\$ 1,427	\$ 5,069	\$ 1,983	\$ 2,743	\$ 4,225	\$ 9,893	\$ 8,068
Income before income taxes.....	\$ 610	\$ 1,316	\$ 4,648	\$ 1,658	\$ 2,743	\$ 4,587	\$10,426	\$12,548
Net income.....	\$ 462	\$ 958	\$ 3,434	\$ 1,521	\$ 2,005	\$ 3,355	\$ 7,642	\$ 8,968
Basic earnings per share.....	\$ 0.06	\$ 0.11	\$ 0.39	\$ 0.17	\$ 0.18	\$ 0.35	\$ 0.48	\$ 0.53
Weighted average shares outstanding.....	7,429	8,824	8,899	8,971	9,171	13,243	16,037	16,952
Diluted earnings per share.....	\$ 0.05	\$ 0.09	\$ 0.30	\$ 0.14	\$ 0.17	\$ 0.21	\$ 0.44	\$ 0.49
Weighted average shares and equivalents outstanding.....	10,740	11,679	11,808	11,756	12,624	15,732	17,541	18,378

JAKKS PACIFIC, INC. AND SUBSIDIARIES
 SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS
 YEARS ENDED DECEMBER 31, 1997, 1998 AND 1999

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, 1997:					
Allowance for:					
Uncollectible accounts.....	\$ --	\$ --	\$ 51,153	\$ --	\$ 51,153
Reserve for potential product obsolescence.....	--	--	200,000	70,305	129,695
Reserve for sales returns and allowances.....	175,000	3,660,775	1,050,000	3,024,954	1,860,821
	-----	-----	-----	-----	-----
	<u>\$ 175,000</u>	<u>\$ 3,660,775</u>	<u>\$ 1,301,153</u>	<u>\$ 3,095,259</u>	<u>\$ 2,041,669</u>
	=====	=====	=====	=====	=====
Year ended December 31, 1998:					
Allowance for:					
Uncollectible accounts.....	\$ 51,153	\$ 82,833	\$ --	\$ --	\$ 133,986
Reserve for potential product obsolescence.....	129,695	334,438	--	--	464,133
Reserve for sales returns and allowances.....	1,860,821	6,525,867	--	3,045,171	5,341,517
	-----	-----	-----	-----	-----
	<u>\$2,041,669</u>	<u>\$ 6,943,138</u>	<u>\$ --</u>	<u>\$ 3,045,171</u>	<u>\$ 5,939,636</u>
	=====	=====	=====	=====	=====
Year ended December 31, 1999:					
Allowance for:					
Uncollectible accounts.....	\$ 133,986	\$ 1,287,208	\$ 686,222	\$ 220,042	\$ 1,887,374
Reserve for potential product obsolescence.....	464,133	2,775,340	--	296,867	2,942,606
Reserve for sales returns and allowances.....	5,341,517	17,036,875	334,464	\$ 7,394,855	15,318,001
	-----	-----	-----	-----	-----
	<u>\$5,939,636</u>	<u>\$21,099,423</u>	<u>\$ 1,020,686</u>	<u>\$ 7,911,764</u>	<u>\$20,147,981</u>
	=====	=====	=====	=====	=====

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

DIRECTORS AND EXECUTIVE OFFICERS

Our directors and executive officers are as follows:

NAME ----	AGE ---	POSITIONS WITH THE COMPANY -----
Jack Friedman	60	Chairman and Chief Executive Officer
Stephen G. Berman	35	Chief Operating Officer, President, Secretary and Director
Joel M. Bennett	38	Chief Financial Officer
Robert E. Glick	54	Director
Michael G. Miller	52	Director
Murray L. Skala	54	Director

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

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

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

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

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

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

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

COMMITTEES OF THE BOARD OF DIRECTORS

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

Audit Committee. The primary functions of the Audit Committee are to recommend the appointment of our independent certified public accountants and to review the scope and effect of audits. Messrs. Glick, Miller and Skala are the current members of the Audit Committee.

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

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

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

To the best of our knowledge, all Forms 3, 4 or 5 required to be filed pursuant to Section 16(a) of the Exchange Act during or with respect to the fiscal year ended December 31, 1999 were filed on a timely basis, except that each of Messrs. Friedman, Berman, Bennett, Glick, Miller and Skala did not file a Form 4 until January 5, 2000 with respect to the shares of our common stock distributed to him on November 4, 1999 in connection with the 3-for-2 split of our common stock effected on that date.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth the compensation we paid for our fiscal years ended December 31, 1997, 1998 and 1999 to our Chief Executive Officer and to each of our other executive officers whose compensation exceeded \$100,000 on an annual basis (collectively, the "Named Officers").

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION			LONG-TERM AWARDS	
		SALARY (\$)	BONUS (\$)	OTHER ANNUAL COMPENSATION (\$)	RESTRICTED STOCK AWARDS (\$)	OPTIONS (#)
Jack Friedman.....	1999	521,000	1,750,000	--	--	232,500
Chairman and Chief Executive Officer	1998	446,000	550,000	--	--	187,500
	1997	296,000	130,224	--	--	187,500
Stephen G. Berman.....	1999	496,000	1,750,000	--	--	394,500
Chief Operating Officer, President and Secretary	1998	421,000	550,000	--	--	187,500
	1997	271,000	130,224	--	--	187,500
Joel M. Bennett.....	1999	155,000	130,000	--	--	42,500
Chief Financial Officer	1998	135,000	45,000	--	--	--
	1997	110,000	40,000	--	--	45,000

- - Employment Agreements

On July 1, 1999, we entered into 10-year employment agreements with Jack Friedman and Stephen G. Berman, respectively, pursuant to which Mr. Friedman serves as our Chairman and Chief Executive Officer and Mr. Berman serves as our President and Chief Operating Officer. Mr. Friedman's annual base salary in 2000 is \$771,000 and Mr. Berman's is \$746,000. Their annual base salaries are subject to annual increases in an amount, not less than \$25,000, determined by our Board of Directors. Each of them is also entitled to receive an annual bonus equal to 4% of our pre-tax income, but not more than \$1,000,000 for 1999 or \$2,000,000 for subsequent years, if our pre-tax earnings are at least \$2,000,000. If we terminate Mr. Friedman's or Mr. Berman's employment other than "for cause" or if he resigns because of our material breach of the employment agreement or because we cause a material change in his employment, we are required to make a lump-sum severance payment in an amount equal to his base salary and 4% bonus during the balance of the term of the employment agreement, based on his then applicable annual base salary and 4% bonus. In the event of the termination of his employment under certain circumstances after a "Change of Control" (as defined in the employment agreement), we are required to make to him a one-time payment of an amount equal to 2.99 times his "base amount" determined in accordance with the applicable provisions of the Internal Revenue Code.

- - Third Amended and Restated 1995 Stock Option Plan

Our Third Amended and Restated 1995 Stock Option Plan (the "Option Plan") was originally adopted and approved by the stockholders and directors in July 1998 and amended in August 1999. Options to purchase, in the aggregate, up to 2,625,000 shares of our common stock may be granted under the Option Plan. The Option Plan allows us to grant options that are intended to qualify as incentive stock options ("Incentive Stock Options") within the meaning of Section 422 of the Internal Revenue Code or as options that are not intended to meet the requirements of such section

("Nonstatutory Stock Options"). Under the Option Plan, Incentive Stock Options may only be granted to our employees (including officers), while Nonstatutory Stock Options may be granted to employees (including officers), non-employee directors, consultants or advisors.

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

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

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

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

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

As of March 27, 2000, we have granted options to purchase an aggregate of 1,212,250 shares of our common stock under the Option Plan. All the shares issuable upon exercise of outstanding options granted under the Option Plan are currently registered under the Securities Act.

The following table sets forth certain information regarding options granted to the Named Officers in 1999.

OPTION/SAR GRANTS IN LAST FISCAL YEAR
INDIVIDUAL GRANTS

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED (#)	% OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR(1)	EXERCISE OR BASE PRICE (\$/SHARE)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK APPRECIATION FOR OPTION TERM	
					5%(\$)	10%(\$)
Jack Friedman.....	75,000	6.7%	16.58	8/12/05	423,000	959,250
	157,500	14.1%	21.21	9/14/05	1,135,575	2,578,275
Stephen G. Berman....	162,000	14.6%	11.04	2/9/05	607,500	1,380,240
	75,000	6.7%	16.58	8/12/05	423,000	959,250
	157,500	14.1%	21.21	9/14/05	1,135,575	2,578,275
Joel M. Bennett.....	30,000	2.7%	11.04	2/9/05	112,500	255,600
	12,500	1.1%	18.875	12/31/05	80,188	182,063

(1) Options to purchase a total of 444,250 shares of our common stock were granted to our employees, including the Named Officers, during 1999.

The following table sets forth certain information regarding options exercised and exercisable during 1999, and the value of options held as of December 31, 1999 by the Named Officers:

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

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT FISCAL YEAR END		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS AT FISCAL YEAR END(2)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Jack Friedman.....	--	--	187,500	420,000	2,283,594	2,561,719
Stephen G. Berman.....	124,986	2,247,805(1)	62,514	582,000	763,2197	3,900,344
Joel M. Bennett.....	40,500	697,427(1)	34,312	57,500	517,956	412,188

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

(2) The difference between (x) the product of the number of unexercised options and \$18.6875 (the closing sale price of the common stock on December 31, 1999) and (y) the aggregate exercise price of such options.

- - Compensation of Directors

Directors currently receive an annual cash stipend in the amount of \$10,000 for serving on the Board, and are reimbursed for reasonable expenses incurred in attending meetings. In addition, our Option Plan provides for each newly elected non-employee director to receive at the commencement of his term an option to purchase 37,500 shares of our common stock at their then current fair market value, and for grants to our non-employee directors on January 1 of each year of an option to purchase 9,375 shares of our common stock at their then current fair market value. Options

granted to a non-employee director expire upon the termination of the director's services for cause, but may be exercised at any time during a one-year period after such person ceases to serve as a director for any other reason.

- - Compensation Committee Interlocks and Insider Participation

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

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of March 27, 2000 with respect to the beneficial ownership of our common stock by (1) each of our directors, (2) each Named Officer, and (3) all our directors and executive officers as a group. No person is known by us to own beneficially more than 5% of the outstanding shares of our common stock.

NAME OF BENEFICIAL OWNER -----	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP(1) -----	PERCENT OF OUTSTANDING SHARES -----
Jack Friedman.....	742,230(2)	3.8
Stephen G. Berman.....	86,816(3)	*
Joel M. Bennett.....	40,312(4)	*
Robert E. Glick.....	74,288(5)	*
Michael G. Miller.....	63,788(6)	*
Murray L. Skala.....	181,419(7)	1.0
All directors and executive officers as a group (6 persons).....	1,103,545(8)	5.6

* Less than 1% of our outstanding shares.

(1) Each such beneficial owner has sole voting power and sole investment power with respect to such shares.

(2) Includes 85,308 shares held in trusts for the benefit of children of Mr. Friedman. Also includes 187,500 shares which Mr. Friedman may purchase upon the exercise of certain stock options.

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

(4) Includes 19,501 shares which Mr. Bennett may purchase upon the exercise of certain stock options.

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

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

- (7) Includes 96,111 shares which Mr. Skala may purchase upon the exercise of certain stock options and 85,308 shares held by Mr. Skala as trustee under trusts for the benefit of children of Mr. Friedman.
- (8) Includes 85,308 shares held in trusts for the benefit of children of Mr. Friedman and an aggregate of 529,314 shares which the directors and executive officers may purchase upon the exercise of certain stock options.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

One of our directors, Murray L. Skala, is a partner in the law firm of Feder, Kaszovitz, Isaacson, Weber, Skala & Bass LLP, which has performed, and is expected to continue to perform, legal services for us. In 1999, we incurred approximately \$1.0 million for legal fees and reimbursable expenses payable to that firm.

PART IV

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

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

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

- Independent Auditors' Report
- Consolidated Balance Sheets as of December 31, 1998 and 1999
- Consolidated Statements of Operations for the years ended December 31, 1997, 1998 and 1999
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 1997, 1998 and 1999
- Consolidated Statements of Cash Flows for the years ended December 31, 1997, 1998 and 1999
- Notes to Consolidated Financial Statements

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

- Schedule II -- Valuation and Qualifying Accounts

(3) Exhibits

EXHIBIT NUMBER -----	DESCRIPTION -----
3.1	Restated Certificate of Incorporation of the Company(1)
3.1.1	Certificate of Designation of 4% Redeemable Convertible Preferred Stock of the Company(6)
3.1.2	Certificate of Designation and Preferences of Series A Cumulative Convertible Preferred Stock of the Company(7)

EXHIBIT NUMBER -----	DESCRIPTION -----
3.1.3	Certificate of Elimination of All Shares of 4% Redeemable Convertible Preferred Stock of the Company(7)
3.1.4	Certificate of Amendment of Restated Certificate of Incorporation of the Company(11)
3.2	By-Laws of the Company(1)
3.2.1	Amendment to By-Laws of the Company(2)
10.1	Third Amended and Restated 1995 Stock Option Plan(9)(*)
10.1A	1999 Amendment to Third Amended and Restated 1995 Stock Option Plan (15)(*)
10.2	Employment Agreement between the Company and Jack Friedman dated January 1, 1998(8)(*)
10.2.1	Amendment, dated January 1, 1999, to Employment Agreement between the Company and Jack Friedman(12)(*)
10.3	Employment Agreement between the Company and Stephen G. Berman dated January 1, 1998(8)(*)
10.3.1	Amendment, dated January 1, 1999, to Employment Agreement between the Company and Stephen G. Berman(12)(*)
10.4	Employment Agreement between the Company and Jack Friedman dated as of July 1, 1999 (16)(*)
10.4.1	Amendment, dated as of February 7, 2000, to Employment Agreement between the Company and Jack Friedman(17)
10.5	Employment Agreement between the Company and Stephen G. Berman dated as of July 1, 1999 (16)(*)
10.5.1	Amendment, dated as of February 7, 2000, to Employment Agreement between the Company and Stephen G. Berman (17)
10.6	Purchase Agreement among the Company, JAKKS Acquisition Corp., Road Champs, Inc., Road Champs Ltd., Die Cast Associates, Inc. and the shareholders of Road Champs, Inc. dated January 21, 1997(3)
10.7.1	Office Lease dated June 18, 1997 between the Company and Malibu Vista Partners(8)(P)
10.7.2	Supplemental Lease dated August 10, 1998 between Malibu Vista Partners and the Company(10)
10.7.3	Third Amendment dated January 25, 1999 to Lease between the Company and Malibu Vista Partners (12)
10.8	Lease of the Company's warehouse space at 7 Patton Drive, West Caldwell, New Jersey and amendment thereto(3)
10.8A	Office Lease dated March 27, 1998 between the Company and Hundal of Union L.P.(8)(P)
10.9	Lease of the Company's showroom at the Toy Center South, 200 Fifth Avenue, New York, New York(1)
10.10	Lease of the Company's showroom at the Toy Center North, 1107 Broadway, New York, New York(3)
10.11	Tenancy Agreement dated March 14, 1998 between the Company and Astoria Investment Company, Ltd.(8)(P)
10.11A	Office Lease dated September 24, 1998 between Astoria Investment Company Limited and Road Champs Ltd.(10)

EXHIBIT NUMBER -----	DESCRIPTION -----
10.11B	Lease Agreement dated June 2, 1999 between Astoria Investment Company Limited and Road Champs Limited(13)
10.12	License Agreement with Titan Sports, Inc. dated October 24, 1995(1)
10.12.1	Amendment to License Agreement with Titan Sports, Inc. dated April 22, 1996(4)
10.12.2	Amendment to License Agreement with Titan Sports, Inc. dated January 21, 1997(4)
10.12.3	Amendment to License Agreement with Titan Sports, Inc. dated December 3, 1997(8)
10.12.4	Amendment to License Agreement with Titan Sports, Inc. dated January 29, 1998(8)
10.12.5	Amendment to License Agreement with Titan Sports, Inc. dated June 24, 1998(12)
10.12.6	Amendment to License Agreement with Titan Sports, Inc. dated February 11, 1999(12)
10.13	International License Agreement with Titan Sports, Inc. dated February 10, 1997(4)
10.13.1	Amendment to International License Agreement with Titan Sports, Inc. dated December 3, 1997(8)
10.13.2	Amendment to International License Agreement with Titan Sports, Inc. dated January 29, 1998(8)
10.14	License Agreement with Saban Merchandising, Inc. and Saban International N.V. dated May 21, 1996, with amendment dated October 31, 1996(4)
10.15	License Agreement with Wow Wee International dated June 1, 1996(4)
10.16	Agreement with Quantum Toy Concepts Pty, Ltd. dated July 1996(4)
10.17	Employment Agreement dated as of October 1, 1999 between the Company and Michael Bianco(15)(*)
10.18	Employment Agreement dated as of October 1, 1999 between the Company and Joshua H. Pokempner(15)(*)
10.19	Warrant to purchase 150,000 shares of Common Stock dated January 8, 1997 issued to Joseph Charles & Associates, Inc.(8)
10.20	Office Lease dated November 18, 1999 between the Company and Winco Maliview Partners(17)
10.21	Option Agreement dated August 28, 1997 between the Company and Silverman Heller Associates(8)
10.22	Consulting Agreement dated July 30, 1997 between the Company and Silverman Heller Associates(8)
10.23	Option Agreement dated August 28, 1997 between the Company and Joseph Charles & Associates, Inc.(5)
10.24	Engagement Letter dated August 28, 1997 between the Company and Joseph Charles & Associates, Inc.(5)
10.25	Consulting Agreement between the Company and Sheldon Weiner Sales Organization, Inc. dated June 18, 1996(5)
10.26.1	Stock Option Agreement between the Company and Sheldon Weiner Sales Organization, Inc. dated June 18, 1996(5)
10.26.2	Restated Stock Option Agreement between the Company and Sheldon Weiner Sales Organization, Inc. dated June 18, 1996(5)
10.27	Restated Option Agreement between the Company and Murray Bass dated September 1, 1995(5)

EXHIBIT NUMBER -----	DESCRIPTION -----
10.28	Restated Option Agreement between the Company and Joel Bennett dated September 1, 1995(5)
10.29	Restated Option Agreement between the Company and Gina Hancock dated September 1, 1995(5)
10.30	Restated Option Agreement between the Company and Wills Hon dated September 1, 1995(5)
10.31	Restated Option Agreement between the Company and Bruce Katz dated September 1, 1995(5)
10.32	Trademark Purchase Agreement dated October 24, 1997 between the Company and Azrak-Hamway International, Inc.(6)
10.33	\$1,200,000 Promissory Note dated October 24, 1997 of the Company payable to Azrak-Hamway International, Inc.(6)
10.34	Manufacturing and Supply Agreement dated October 24, 1997 between the Company and Azrak-Hamway International, Inc.(6)
10.35	Security Agreement dated October 24, 1997 between the Company and Azrak-Hamway International, Inc.(6)
10.36	Stock Purchase Agreement dated as of September 22, 1999 among the Company, Flying Colors Toys, Inc. and its Shareholders(15)
10.36.1	First Amendment dated as of September 30, 1999 to Stock Purchase Agreement(15)
10.37	Escrow Agreement dated as of September 30, 1999 among Joshua H. Pokempner, as agent, the Company and Bank One Trust Company, NA, as escrow agent(15)
10.38	Transition Services Agreement dated as of October 1, 1999 between Colorbok LLC and Flying Colors Toys, Inc.(15)
10.39	Lease dated as of October 1, 1999 between Shore Properties LLC and Flying Colors Toys, Inc.(15)
10.40	[RESERVED]
10.41	Series A Cumulative Convertible Preferred Stock Purchase Agreement dated April 1, 1998 among the Company, Renaissance Capital Growth & Income Fund III, Inc. and ProFutures Bridge Capital Fund, L.P.(7)
21	Subsidiaries of the Company(17)
23	Consent of Pannell Kerr Forster, Certified Public Accountants, A Professional Corporation, Los Angeles, California(17)
27	Financial Data Schedule(17)

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- (1) Filed previously as an exhibit to the Company's Registration Statement on Form SB-2 (File No. 333-2048-LA), effective May 1, 1996, and incorporated herein by reference.
- (2) Filed previously as an exhibit to the Company's Registration Statement on Form SB-2 (File No. 333-22583), effective May 1, 1997, and incorporated herein by reference.
- (3) Filed previously as an exhibit to the Company's Current Report on Form 8-K, filed February 21, 1997, or as schedule 4.2(iii) thereto, and incorporated herein by reference.
- (4) Filed previously as an exhibit to the Company's Annual Report on Form 10-KSB for its fiscal year ended December 31, 1996, and incorporated herein by reference.

- (5) Filed previously as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-35053), effective September 5, 1997, and incorporated herein by reference.
 - (6) Filed previously as an exhibit to the Company's Current Report on Form 8-K, filed November 7, 1997, and incorporated herein by reference.
 - (7) Filed previously as an exhibit to the Company's Current Report on Form 8-K, filed April 7, 1998, and incorporated herein by reference.
 - (8) Filed previously as an exhibit to the Company's Annual Report on Form 10-KSB for its fiscal year ended December 31, 1997, and incorporated herein by reference.
 - (9) Filed previously as Appendix A to the Company's definitive Proxy Statement for its 1998 Annual Meeting of Stockholders, filed June 23, 1998, and incorporated herein by reference.
 - (10) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 1998, filed November 16, 1998, and incorporated herein by reference.
 - (11) Filed previously as exhibit 4.1.2 to the Company's Registration Statement on Form S-3 (File No. 333-74717), filed March 19, 1999, and incorporated herein by reference.
 - (12) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999, filed April 22, 1999, and incorporated herein by reference.
 - (13) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, filed August 9, 1999, and incorporated herein by reference.
 - (14) Filed previously as an exhibit to the Company's Current Report on Form 8-K, filed October 19, 1999, and incorporated herein by reference.
 - (15) Filed previously as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-90055), filed November 1, 1999, and incorporated herein by reference.
 - (16) Filed previously as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999, filed November 3, 1999, and incorporated herein by reference.
 - (17) Filed herewith.
 - (P) Filed in paper format pursuant to a hardship exemption under Regulation 232.202 of Regulation S-T.
 - (*) Management contract or compensatory plan or arrangement.
- (b) Reports on Form 8-K

The Company filed a Current Report on Form 8-K on October 19, 1999 and an amendment thereto on Form 8-K/A on November 9, 1999, relating to the Company's acquisition of Flying Colors Toys, Inc., which closed on October 5, 1999 (effective as of October 1, 1999). The Current Report, as amended, included audited financial statements of the Flying Colors Division of Flying Colors Toys, Inc. [Financial Statements of Businesses Acquired] and JAKKS Pacific, Inc. Unaudited Pro Forma Consolidated Financial Statements [Pro Forma Financial Information], which were incorporated by reference from the Company's Registration Statement on Form S-3 (Reg. No. 333-90357), pages F-28 to F-45.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 29, 2000

JAKKS PACIFIC, INC.

By: /s/ JACK FRIEDMAN

 Jack Friedman
 Chairman and
 Chief Executive Officer

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

SIGNATURE -----	TITLE -----	DATE ----
/s/ JACK FRIEDMAN ----- Jack Friedman	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	March 29, 2000
/s/ JOEL M. BENNETT ----- Joel M. Bennett	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 29, 2000
/s/ STEPHEN G. BERMAN ----- Stephen G. Berman	Director	March 29, 2000
/s/ ROBERT E. GLICK ----- Robert E. Glick	Director	March 29, 2000
/s/ MICHAEL G. MILLER ----- Michael G. Miller	Director	March 29, 2000
/s/ MURRAY L. SKALA ----- Murray L. Skala	Director	March 29, 2000

EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----
3.1	Restated Certificate of Incorporation of the Company(1)
3.1.1	Certificate of Designation of 4% Redeemable Convertible Preferred Stock of the Company(6)
3.1.2	Certificate of Designation and Preferences of Series A Cumulative Convertible Preferred Stock of the Company(7)
3.1.3	Certificate of Elimination of All Shares of 4% Redeemable Convertible Preferred Stock of the Company(7)
3.1.4	Certificate of Amendment of Restated Certificate of Incorporation of the Company(11)
3.2	By-Laws of the Company(1)
3.2.1	Amendment to By-Laws of the Company(2)
10.1	Third Amended and Restated 1995 Stock Option Plan(9)(*)
10.1A	1999 Amendment to Third Amended and Restated 1995 Stock Option Plan (15)(*)
10.2	Employment Agreement between the Company and Jack Friedman dated January 1, 1998(8)(*)
10.2.1	Amendment, dated January 1, 1999, to Employment Agreement between the Company and Jack Friedman(12)(*)
10.3	Employment Agreement between the Company and Stephen G. Berman dated January 1, 1998(8)(*)
10.3.1	Amendment, dated January 1, 1999, to Employment Agreement between the Company and Stephen G. Berman(12)(*)
10.4	Employment Agreement between the Company and Jack Friedman dated as of July 1, 1999 (16)(*)
10.4.1	Amendment, dated as of February 7, 2000, to Employment Agreement between the Company and Jack Friedman(17)
10.5	Employment Agreement between the Company and Stephen G. Berman dated as of July 1, 1999 (16)(*)
10.5.1	Amendment, dated as of February 7, 2000, to Employment Agreement between the Company and Stephen G. Berman (17)
10.6	Purchase Agreement among the Company, JAKKS Acquisition Corp., Road Champs, Inc., Road Champs Ltd., Die Cast Associates, Inc. and the shareholders of Road Champs, Inc. dated January 21, 1997(3)
10.7.1	Office Lease dated June 18, 1997 between the Company and Malibu Vista Partners(8)(P)
10.7.2	Supplemental Lease dated August 10, 1998 between Malibu Vista Partners and the Company(10)
10.7.3	Third Amendment dated January 25, 1999 to Lease between the Company and Malibu Vista Partners (12)
10.8	Lease of the Company's warehouse space at 7 Patton Drive, West Caldwell, New Jersey and amendment thereto(3)
10.8A	Office Lease dated March 27, 1998 between the Company and Hundal of Union L.P.(8)(P)
10.9	Lease of the Company's showroom at the Toy Center South, 200 Fifth Avenue, New York, New York(1)

EXHIBIT NUMBER -----	DESCRIPTION -----
10.10	Lease of the Company's showroom at the Toy Center North, 1107 Broadway, New York, New York(3)
10.11	Tenancy Agreement dated March 14, 1998 between the Company and Astoria Investment Company, Ltd.(8)(P)
10.11A	Office Lease dated September 24, 1998 between Astoria Investment Company Limited and Road Champs Ltd.(10)
10.11B	Lease Agreement dated June 2, 1999 between Astoria Investment Company Limited and Road Champs Limited(13)
10.12	License Agreement with Titan Sports, Inc. dated October 24, 1995(1)
10.12.1	Amendment to License Agreement with Titan Sports, Inc. dated April 22, 1996(4)
10.12.2	Amendment to License Agreement with Titan Sports, Inc. dated January 21, 1997(4)
10.12.3	Amendment to License Agreement with Titan Sports, Inc. dated December 3, 1997(8)
10.12.4	Amendment to License Agreement with Titan Sports, Inc. dated January 29, 1998(8)
10.12.5	Amendment to License Agreement with Titan Sports, Inc. dated June 24, 1998(12)
10.12.6	Amendment to License Agreement with Titan Sports, Inc. dated February 11, 1999(12)
10.13	International License Agreement with Titan Sports, Inc. dated February 10, 1997(4)
10.13.1	Amendment to International License Agreement with Titan Sports, Inc. dated December 3, 1997(8)
10.13.2	Amendment to International License Agreement with Titan Sports, Inc. dated January 29, 1998(8)
10.14	License Agreement with Saban Merchandising, Inc. and Saban International N.V. dated May 21, 1996, with amendment dated October 31, 1996(4)
10.15	License Agreement with Wow Wee International dated June 1, 1996(4)
10.16	Agreement with Quantum Toy Concepts Pty, Ltd. dated July 1996(4)
10.17	Employment Agreement dated as of October 1, 1999 between the Company and Michael Bianco(15)(*)
10.18	Employment Agreement dated as of October 1, 1999 between the Company and Joshua H. Pokempner(15)(*)
10.19	Warrant to purchase 150,000 shares of Common Stock dated January 8, 1997 issued to Joseph Charles & Associates, Inc.(8)
10.20	Office Lease dated November 18, 1999 between the Company and Winco Maliview Partners(17)
10.21	Option Agreement dated August 28, 1997 between the Company and Silverman Heller Associates(8)
10.22	Consulting Agreement dated July 30, 1997 between the Company and Silverman Heller Associates(8)
10.23	Option Agreement dated August 28, 1997 between the Company and Joseph Charles & Associates, Inc.(5)
10.24	Engagement Letter dated August 28, 1997 between the Company and Joseph Charles & Associates, Inc.(5)
10.25	Consulting Agreement between the Company and Sheldon Weiner Sales Organization, Inc. dated June 18, 1996(5)

EXHIBIT NUMBER -----	DESCRIPTION -----
10.26.1	Stock Option Agreement between the Company and Sheldon Weiner Sales Organization, Inc. dated June 18, 1996(5)
10.26.2	Restated Stock Option Agreement between the Company and Sheldon Weiner Sales Organization, Inc. dated June 18, 1996(5)
10.27	Restated Option Agreement between the Company and Murray Bass dated September 1, 1995(5)
10.28	Restated Option Agreement between the Company and Joel Bennett dated September 1, 1995(5)
10.29	Restated Option Agreement between the Company and Gina Hancock dated September 1, 1995(5)
10.30	Restated Option Agreement between the Company and Wills Hon dated September 1, 1995(5)
10.31	Restated Option Agreement between the Company and Bruce Katz dated September 1, 1995(5)
10.32	Trademark Purchase Agreement dated October 24, 1997 between the Company and Azrak-Hamway International, Inc.(6)
10.33	\$1,200,000 Promissory Note dated October 24, 1997 of the Company payable to Azrak-Hamway International, Inc.(6)
10.34	Manufacturing and Supply Agreement dated October 24, 1997 between the Company and Azrak-Hamway International, Inc.(6)
10.35	Security Agreement dated October 24, 1997 between the Company and Azrak-Hamway International, Inc.(6)
10.36	Stock Purchase Agreement dated as of September 22, 1999 among the Company, Flying Colors Toys, Inc. and its Shareholders(15)
10.36.1	First Amendment dated as of September 30, 1999 to Stock Purchase Agreement(15)
10.37	Escrow Agreement dated as of September 30, 1999 among Joshua H. Pokempner, as agent, the Company and Bank One Trust Company, NA, as escrow agent(15)
10.38	Transition Services Agreement dated as of October 1, 1999 between Colorbok LLC and Flying Colors Toys, Inc.(15)
10.39	Lease dated as of October 1, 1999 between Shore Properties LLC and Flying Colors Toys, Inc.(15)
10.40	[RESERVED]
10.41	Series A Cumulative Convertible Preferred Stock Purchase Agreement dated April 1, 1998 among the Company, Renaissance Capital Growth & Income Fund III, Inc. and ProFutures Bridge Capital Fund, L.P.(7)
21	Subsidiaries of the Company(17)
23	Consent of Pannell Kerr Forster, Certified Public Accountants, A Professional Corporation, Los Angeles, California(17)
27	Financial Data Schedule(17)

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

- (2) Filed previously as an exhibit to the Company's Registration Statement on Form SB-2 (File No. 333-22583), effective May 1, 1997, and incorporated herein by reference.
- (3) Filed previously as an exhibit to the Company's Current Report on Form 8-K, filed February 21, 1997, or as schedule 4.2(iii) thereto, and incorporated herein by reference.
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- (17) Filed herewith.
- (P) Filed in paper format pursuant to a hardship exemption under Regulation 232.202 of Regulation S-T.
- (*) Management contract or compensatory plan or arrangement.

AMENDMENT TO EMPLOYMENT AGREEMENT
BETWEEN JAKKS PACIFIC, INC. AND JACK FRIEDMAN

The Employment Agreement dated as of July 1, 1999 between JAKKS Pacific, Inc. and Jack Friedman (the "Employment Agreement;" capitalized terms are used herein as defined in the Employment Agreement) is hereby amended to increase the maximum amount of the 4% Bonus provided therein from \$1,000,000 to \$2,000,000 by replacing "\$1,000,000" with "\$2,000,000" in clause (B) of Subsection 3(a)(ii) of the Employment Agreement.

This Amendment shall be effective as of January 1, 2000 and the Employment Agreement, as so amended, shall remain in full force and effect.

IN WITNESS WHEREOF, the Company, by its duly authorized officer, and Executive have duly executed this Amendment as of February 7, 2000.

JAKKS PACIFIC, INC.

By: /s/ STEPHEN G. BERMAN

Stephen G. Berman
President

/s/ JACK FRIEDMAN

Jack Friedman

AMENDMENT TO EMPLOYMENT AGREEMENT
BETWEEN JAKKS PACIFIC, INC. AND STEPHEN G. BERMAN

The Employment Agreement dated as of July 1, 1999 between JAKKS Pacific, Inc. and Stephen G. Berman (the "Employment Agreement;" capitalized terms are used herein as defined in the Employment Agreement) is hereby amended to increase the maximum amount of the 4% Bonus provided therein from \$1,000,000 to \$2,000,000 by replacing "\$1,000,000" with "\$2,000,000" in clause (B) of Subsection 3(a)(ii) of the Employment Agreement.

This Amendment shall be effective as of January 1, 2000 and the Employment Agreement, as so amended, shall remain in full force and effect.

IN WITNESS WHEREOF, the Company, by its duly authorized officer, and Executive have duly executed this Amendment as of February 7, 2000.

JAKKS PACIFIC, INC.

By: /s/ JACK FRIEDMAN

Jack Friedman
Chief Executive Officer

/s/ STEPHEN G. BERMAN

Stephen G. Berman

STANDARD OFFICE LEASE - GROSS
AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION

1. BASIC LEASE PROVISIONS ("BASIC LEASE PROVISIONS")

1.1 PARTIES: This Lease, dated, for reference purposes only, November 18, 1999, is made by and between WINCO MALIVIEW PARTNERS, a California limited liability Company, (herein called "Lessor") and JAKKS PACIFIC, INC., a Delaware corporation, doing business under the name of Jakks Pacific, (herein called "Lessee").

1.2 PREMISES: Suite Numbers(s) Addendum Paragraph 49, _____ floors, consisting of approximately _____ feet, more or less, as defined in paragraph 2 and as shown on Exhibit "A" hereto (the "Premises").

1.3 BUILDING: Commonly described as being located at 22619 Pacific Coast Highway, in the City of Malibu, County of Los Angeles, State of California, as more particularly described in Exhibit 1 hereto, and as defined in paragraph 2.

1.4 USE: General office use, subject to paragraph 6.

1.5 TERM: Seven (7) years commencing See Addendum Paragraph 50 ("Commencement Date") and ending See Addendum Paragraph 50, as defined in paragraph 3.

1.6 BASE RENT: See Addendum Paragraph 51 per month, payable on the 1st day of each month, per paragraph 4.1.

1.7 BASE RENT INCREASE: On See Addendum 51 the monthly Base Rent payable under paragraph 1.6 above shall be adjusted as provided in paragraph 4.3 below.

1.8 RENT PAID UPON EXECUTION: See Addendum Paragraph 51 for \$54,624.48.

1.9 SECURITY DEPOSIT: \$54,624.48.

1.10 LESSEE'S SHARE OF OPERATING EXPENSE INCREASE: 74.59% as defined in paragraph 4.2.

2. PREMISES, PARKING AND COMMON AREAS.

2.1 PREMISES: The Premises are a portion of a building, herein sometimes referred to as the "Building" identified in paragraph 1.3 of the Basic Lease Provisions. "Building" shall include adjacent parking structures used in connection therewith. The Premises, the Building, the Common Areas, the land upon which the same are located, along with all other buildings and improvements thereon or thereunder, are herein collectively referred to as the "Office Building Project." Lessor hereby leases to Lessee and Lessee leases from Lessor for the term, at the rental, and upon all of the conditions set forth herein, the real property referred to in the Basic Lease Provisions, paragraph 1.2, as the "Premises", including rights to the Common Areas as hereinafter specified.

2.2 VEHICLE PARKING: So long as Lessee is not in default, and subject to the rules and regulations attached hereto, and as established by Lessor from time to time, Lessee shall be entitled to rent and use Addend. 52 parking spaces in the Office Building Project at the monthly rate applicable from time to time for monthly parking as set by Lessor and/or its licensee.

2.2.1 If Lessee commits, permits or allows any of the prohibited activities described in the Lease or the rules then in effect, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.2.2 The monthly parking rate per parking space will be \$0 per month at the commencement of the term of this Lease, and is subject to change upon five (5) days prior written notice to Lessee. Monthly parking fees shall be payable one month in advance prior to the first day of each calendar month.

2.3 COMMON AREAS - DEFINITION. The term "Common Areas" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Office Building Project that are provided and designated by the Lessor from time to time for the general non-exclusive use of Lessor, Lessee and of other lessees of the Office Building Project and their respective employees, suppliers, shippers, customers and invitees, including but not limited to common entrances, lobbies, corridors, stairways and stairwells, public restrooms, elevators, escalators, parking areas to the extent not otherwise prohibited by this Lease, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, ramps, driveways, landscaped areas and decorative walls.

2.4 COMMON AREAS - RULES AND REGULATIONS. Lessee agrees to abide by and conform to the rules and regulations attached hereto as Exhibit B with respect to the Office Building Project and Common Areas, and to cause its employees, suppliers, shippers, customers, and invitees to so abide and conform. Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to modify, amend and enforce said rules and regulations. Lessor shall not be responsible to Lessee for the non-compliance with said rules and regulations by other lessees, their agents, employees and invitees of the Office Building Project.

2.5 COMMON AREAS - CHANGES. Lessor shall have the right, in Lessor's sole discretion, from time to time:

(a) To make changes to the Building interior and exterior and Common Areas, including, without limitation, changes in the location, size shape,

number, and appearance thereof, including but not limited to the lobbies, windows, stairways, air shafts, elevators, escalators, restrooms, driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, decorative walls, landscaped areas and walkways; provided, however, Lessor shall at all times provide the parking facilities required by applicable law;

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

(c) To designate other land and improvements outside the boundaries of the Office Building Project to be a part of the Common Areas, provided that such other land and improvements have a reasonable and functional relationship to the Office Building Project;

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

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

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

3. TERM.

3.1 TERM. The term and Commencement Date of this Lease shall be as specified in paragraph 1.5 of the Basic Lease Provisions.

3.2 DELAY IN POSSESSION. Notwithstanding said Commencement Date, if for any reason Lessor cannot deliver possession of the Premises to Lessee on said date and subject to paragraph 3.2.2, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or the obligations of Lessee hereunder or extend the term hereof; but in such case, Lessee shall not be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease, except as may be otherwise provided in this Lease, until the Commencement Date; provided, however, that if Tender of Possession of the Premises by Lessor to Lessee does not occur on or prior to December 31, 2000 (which date may be extended for force majeure events) ("Cancellation Date")

Lessee may, at Lessee's option, by notice in writing to Lessor within ten (10) days thereafter, cancel this Lease, in which event the parties shall be discharged from all obligations hereunder; provided, however, that, as to Lessee's obligations, Lessee first reimburses Lessor for all costs incurred for Non-Standard Improvements and, as to Lessor's obligations, Lessor shall return any money previously deposited by Lessee (less any offsets due Lessor for Non-Standard Improvements); and provided further, that if such written notice by Lessee is not received by Lessor within said ten (10) day period, Lessee's right to cancel this Lease hereunder shall terminate and be of no further force or effect.

3.2.1 POSSESSION TENDERED - DEFINED. Possession of the Premises shall be deemed tendered to Lessee ("Tender of Possession") when (1) the improvements to be provided by Lessor under this Lease are substantially completed, (2) the Building utilities are ready for use in the Premises, (3) Lessee has reasonable access to the Premises, and (4) ten (10) days shall have expired following advance written notice to Lessee of the occurrence of the matters described in (1), (2) and (3), above of this paragraph 3.2.1.

3.2.2 DELAYS CAUSED BY LESSEE. There shall be no abatement of rent, and the Cancellation Date shall be deemed extended to the extent of any delays caused by acts or omissions of Lessee, Lessee's agents, employees and contractors.

3.3 EARLY POSSESSION. If Lessee occupies the Premises prior to said Commencement Date, such occupancy shall be subject to all provisions of this Lease, such occupancy shall not change the termination date, and Lessee shall pay rent for such occupancy.

3.4 UNCERTAIN COMMENCEMENT. In the event commencement of the Lease term is defined as the completion of the improvements, Lessee and Lessor shall execute an amendment to this Lease establishing the date of Tender of Possession (as defined in paragraph 3.2.1) or the actual taking of possession by Lessee, whichever first occurs, as the Commencement Date.

4. RENT.

4.1 BASE RENT. Subject to adjustment as hereinafter provided in paragraph 4.3, and except as may be otherwise expressly provided in this Lease, Lessee shall pay to Lessor the Base Rent for the Premises set forth in paragraph 1.6 of the Basic Lease Provisions, without offset or deduction Lessee shall pay Lessor upon execution hereof the advance Base Rent described in paragraph 1.8 of the Basic Lease Provisions. Rent for any period during the term hereof which is for less than one month shall be prorated based upon the actual number of days of the calendar month involved. Rent shall be payable in lawful money of the United States to Lessor at the address stated herein or to such other persons or at such other places as Lessor may designate in writing.

4.2 OPERATING EXPENSE INCREASE. Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share, as hereinafter defined, of the amount by which all Operating Expenses, as hereinafter defined, for each Comparison Year exceeds the amount of all Operating Expenses for the Base Year, such excess being hereinafter referred to as the "Operating Expense Increase", in accordance with the following provisions:

(a) "LESSEE'S SHARE" is defined, for purposes of this Lease, as the percentage set forth in paragraph 1.10 of the Basic Lease Provisions, which percentage has been determined by dividing the approximate square footage of the Premises by the total approximate square footage of the rentable space contained in the Office Building Project. It is understood and agreed that the square footage figures set forth in the Basic Lease Provisions are approximations which Lessor and Lessee agree are reasonable and shall not be subject to revision except in connection with an actual change in the size of the Premises or a change in the space available for lease in the Office Building Project.

(b) "BASE YEAR" is defined as the calendar year 2000.

(c) "COMPARISON YEAR" is defined as each calendar year during the term of this Lease subsequent to the Base Year; provided, however, Lessee shall have no obligation to pay a share of the Operating Expense Increase applicable to the first twelve (12) months of the Lease Term (other than such as are mandated by a governmental authority, as to which government mandated expenses Lessee shall pay Lessee's Share, notwithstanding they occur during the first twelve (12) months). Lessee's Share of the Operating Expense Increase for the first and last Comparison Years of the Lease Term shall be prorated according to that portion of such Comparison Year as to which Lessee is responsible for a share of such increase.

(d) "OPERATING EXPENSES" is defined, for purposes of this Lease, to include all costs, if any, incurred by Lessor in the exercise of its reasonable discretion, for:

(i) The operation, repair, maintenance, and replacement, in neat, clean, safe, good order and condition, of the Office Building Project, including but not limited to, the following:

(aa) The Common Areas, including their surfaces, coverings, decorative items, carpets, drapes and window coverings, and including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, stairways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities, building exteriors and roofs, fences and gates;

(bb) All heating, air conditioning, plumbing, electrical systems, life safety equipment, telecommunication and other equipment used in

common by, or for the benefit of, lessees or occupants of the Office Building Project, including elevators and escalators, tenant directories, fire detection systems including sprinkler system maintenance and repair.

(ii) Trash disposal, and security services;

(iii) Any other service to be provided by Lessor that is elsewhere in this Lease stated to be an "Operating Expense";

(iv) The cost of the premiums for the liability and property insurance policies to be maintained by Lessor under paragraph 8 hereof;

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

(vi) The cost of water, sewer, gas, electricity, and other publicly mandated services to the Office Building Project;

(vii) Labor, salaries, and applicable fringe benefits and costs, materials, supplies and tools, used in maintaining and/or cleaning the Office Building Project and accounting and a management fee attributable to the operation of the Office Building Project;

(viii) Replacing and/or adding improvements mandated by any governmental agency and any repairs or removals necessitated thereby amortized over its useful life according to Federal income tax regulations or guidelines for depreciation thereof (including interest on the unamortized balance as is then reasonable in the judgment of Lessor's accountants);

(ix) Replacement of equipment or improvements that have a useful life for depreciation purposes according to Federal income tax guidelines of five (5) years or less, as amortized over such life.

(e) Operating Expenses shall not include the costs of replacements of equipment or improvements that have a useful life for Federal income tax purposes in excess of five (5) years unless it is of the type described in paragraph 4.2(d) (viii), in which case their cost shall be included as above provided.

(f) Operating Expenses shall not include any expenses paid by any lessee directly to third parties, or as to which Lessor is otherwise reimbursed by any third party, other tenant, or by insurance proceeds.

(g) Lessee's Share of Operating Expense Increase shall be payable by Lessee within ten (10) days after a reasonably detailed statement of actual expenses is presented to Lessee by Lessor. At Lessor's option, however, an amount may be estimated by Lessor from time to time in advance of Lessee's Share of the Operating Expense Increase for any Comparison Year, and the same shall be payable monthly or quarterly, as Lessor shall designate, during each Comparison Year of the Lease term, on the same day as the Base Rent is due hereunder. In the event that Lessee pays Lessor's estimate of Lessee's Share of Operating Expense Increase as aforesaid, Lessor shall deliver to Lessee within sixty (60) days after the expiration of each Comparison Year a reasonably detailed statement showing Lessee's Share of the actual Operating Expense Increase incurred during such year. If Lessee's payments under this paragraph 4.2(g) during said Comparison Year exceed Lessee's Share as indicated on said statement, Lessee shall be entitled to credit the amount of such overpayment against Lessee's Share of Operating Expense Increase next falling due. If Lessee's payments under this paragraph during said Comparison Year were less than Lessee's Share as indicated on said statement, Lessee shall pay to Lessor the amount of the deficiency within ten (10) days after delivery by Lessor to Lessee of said statement. Lessor and Lessee shall forthwith adjust between them by cash payment any balance determined to exist with respect to that portion of the last Comparison Year for which Lessee is responsible as to Operating Expense Increases, notwithstanding that the Lease term may have terminated before the end of such Comparison Year.

(h) Operating Expenses shall not include (i) litigation costs and attorneys' fees involving a tenant or prospective tenant of the Office Building Project; (ii) costs of the initial improvement or renovation of any space exclusively for a particular tenant or group of tenants; (iii) structural repairs to the Office Building Project that are capital expenses; and (iv) expenses involving the construction of any additional floors, the expansion of existing buildings or the addition of any new buildings in the Office Building Project.

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5. SECURITY DEPOSIT. Lessee shall deposit with Lessor upon execution hereof the security deposit set forth in paragraph 1.9 of the Basic Lease Provisions as security for Lessee's faithful performance of Lessee's obligations hereunder. If Lessee fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Lessor may use, apply or retain all or any portion of said deposit for the payment of any rent or other charge in default for the payment of any other sum to which Lessor may become obligated by reason of Lessee's default, or to compensate Lessor for any loss or damage which Lessor may suffer thereby. If Lessor so uses or applies all or any portion of said deposit, Lessee shall within ten (10) days after written demand therefor deposit cash with Lessor in an amount sufficient to restore said deposit to the full amount then required of Lessee. If the monthly Base Rent shall, from time to time, increase during the term of this Lease, Lessee shall, at the time of such increase, deposit with Lessor additional money as a security deposit so that the total amount of the security deposit held by Lessor shall at all times bear the same proportion to the then current Base Rent as the initial security deposit bears to the initial Base Rent set forth in paragraph 1.6 of the Basic Lease Provisions. Lessor shall not be required to keep said security deposit separate from its general accounts. If Lessee performs all of Lessee's obligations hereunder, said deposit, or so much thereof as has not heretofore been applied by Lessor, shall be returned, without payment of interest or other increment for its use, to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest hereunder) at the expiration of the term hereof, and after Lessee has vacated the Premises. No trust relationship is created herein between Lessor and Lessee with respect to said Security Deposit.

6. USE.

6.1 USE. The Premises shall be used and occupied only for the purpose set forth in paragraph 1.4 of the Basic Lease Provisions or any other use which is reasonably comparable to that use and for no other purpose.

6.2 COMPLIANCE WITH LAW.

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

(b) Except as provided in paragraph 6.2(a) Lessee shall, at Lessee's expense, promptly comply with all applicable statutes, ordinances, rules, regulations, orders, covenants and restrictions of record, and requirements of any fire insurance underwriters or rating bureaus, now in effect or which may hereafter come into effect, whether or not they reflect a change in policy from that now existing, during the term or any part of the term hereof, relating in any manner to the Premises and the occupation and use by Lessee of the Premises; provided that Lessee shall not be required to make any structural improvements to the Premises unless such improvements are related to Lessee's manner of use of the premises. Lessee shall conduct its business in a lawful manner and shall not use or permit the use of the Premises or the Common Areas in any manner that will tend to create waste or a nuisance or shall tend to disturb other occupants of the Office Building Project.

6.3 CONDITION OF PREMISES.

(a) Lessor shall deliver the Premises to Lessee in a clean condition on the Lease Commencement Date (unless Lessee is already in possession) and Lessor warrants to Lessee that the plumbing, lighting, air conditioning, and heating system in the Premises shall be in good operating condition. In the event that it is determined that this warranty has been violated, then it shall be the obligation of Lessor, after receipt of written notice from Lessee setting forth with specificity the nature of the violation, to promptly, at Lessor's sole cost, rectify such violation.

(b) Except as otherwise provided in this Lease, Lessee hereby accepts the Premises and the Office Building Project in their condition existing as of the Lease Commencement Date or the date that Lessee takes possession of the Premises, whichever is earlier, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises, and any easements, covenants or restrictions of record, and accepts this Lease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Lessee acknowledges that it has satisfied itself by its own independent investigation that the Premises are suitable for its intended use, and that neither Lessor nor Lessor's agent or agents has made any representation or warranty as to the present or future suitability of the Premises, Common Areas, or Office Building Project for the conduct of Lessee's business.

7. MAINTENANCE, REPAIRS, ALTERATIONS AND COMMON AREA SERVICES.

7.1 LESSOR'S OBLIGATIONS. Lessor shall keep the Office Building Project, including the Premises, interior and exterior walls, roof, and common areas, and the equipment whether used exclusively for the Premises or in common with other premises, in good condition and repair; provided, however, Lessor shall not be obligated to paint, repair or replace wall coverings, or to repair or replace any improvements that are not ordinarily a part of the Building or are above then Building standards. Except as provided in paragraph 9.5, there shall be no abatement of rent or liability of Lessee on account of any injury or interference with Lessee's business with respect to any improvements, alterations or repairs made by Lessor to the Office Building Project or any part

thereof. Lessee expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this Lease because of Lessor's failure to keep the Premises in good order, condition and repair.

7.2 LESSEE'S OBLIGATIONS.

(a) Notwithstanding Lessor's obligation to keep the Premises in good condition and repair, Lessee shall be responsible for payment of the cost thereof to Lessor as additional rent for that portion of the cost of any maintenance and repair of the Premises, or any equipment (wherever located) that serves only Lessee or the Premises, to the extent such cost is attributable to causes beyond normal wear and tear. Lessee shall be responsible for the cost of painting, repairing or replacing wall coverings, and to repair or replace any Premises improvements that are not ordinarily a part of the Building or that are above then Building standards. Lessor may, at its option, upon reasonable notice, elect to have Lessee perform any particular such maintenance or repairs the cost of which is otherwise Lessee's responsibility hereunder.

(b) On the last day of the term hereof, or on any sooner termination, Lessee shall surrender the Premises to Lessor in the same condition as received, ordinary wear and tear excepted, clean and free of debris. Any damage or deterioration of the Premises shall not be deemed ordinary wear and tear if the same could have been prevented by good maintenance practices by Lessee. Lessee shall repair any damage to the Premises occasioned by the installation or removal of Lessee's trade fixtures, alterations, furnishings and equipment. Except as otherwise stated in this Lease, Lessee shall leave the air lines, power panels, electrical distribution systems, lighting fixtures, air conditioning, window coverings, wall coverings, carpets, wall panelling, ceilings and plumbing on the Premises and in good operating condition.

7.3 ALTERATIONS AND ADDITIONS.

(a) Lessee shall not, without Lessor's prior written consent make any alterations, improvements, additions, Utility Installations or repairs in, on or about the Premises, or the Office Building Project, which consent shall not be unreasonably withheld if the alterations, improvements, additions, Utility Installations or repairs are to non-structural elements of the Premises. As used in this paragraph 7.3 the term "Utility Installation" shall mean carpeting, window and wall coverings, power panels, electrical distribution systems, lighting fixtures, air conditioning, plumbing, and telephone and telecommunication wiring and

equipment. At the expiration of the term, Lessor may require the removal of any or all of said alterations, improvements, additions or Utility Installations, and the restoration of the Premises and the Office Building Project to their prior condition, at Lessee's expense. Should Lessor permit Lessee to make its own alterations, improvements, additions or Utility Installations, Lessee shall use only such contractor as has been expressly approved by Lessor (which approval shall not be unreasonably withheld). If the projected cost of the work will exceed \$100,000, Lessor may require Lessee to provide Lessor, at Lessee's sole cost and expense, a lien and completion bond in an amount equal to one and one-half times the estimated cost of such improvements, to insure Lessor against any liability for mechanic's and materialmen's liens and to insure completion of the work. Should Lessee make any alterations, improvements, additions or Utility Installations without the prior approval of Lessor, or use a contractor not expressly approved by Lessor, Lessor may, at any time during the term of this Lease, require that Lessee remove any part or all of the same.

(b) Any alterations, improvements, additions or Utility Installations in or about the Premises or the Office Building Project that Lessee shall desire to make shall be presented to Lessor in written form, with proposed detailed plans. If Lessor shall give its consent to Lessee's making such alteration, improvement, addition or Utility Installation, the consent shall be deemed conditioned upon Lessee acquiring a permit to do so from the applicable governmental agencies, furnishing a copy thereof to Lessor prior to the commencement of the work, and compliance by Lessee with all conditions of said permit in a prompt and expeditious manner.

(c) Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use in the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises, the Building or the Office Building Project, or any interest therein.

(d) Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in the Premises by Lessee, and Lessor shall have the right to post notices of non-responsibility in or on the Premises or the Building as provided by law. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend itself and Lessor against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises, the Building or the Office Building Project, upon the condition that if Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to such contested lien claim or demand indemnifying Lessor against liability for the same and holding the Premises, the Building and the Office Building Project free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's reasonable attorneys fees and costs in participating in such action if Lessor shall decide it is to Lessor's best interest so to do.

(e) All alterations, improvements, additions and Utility Installations (whether or not such Utility Installations constitute trade fixtures of Lessee), which may be made to the Premises by Lessee, including but not limited to, floor coverings, panelings, doors, drapes, built-ins, moldings, sound attenuation, and lighting and telephone or communication systems, conduit, wiring and outlets, shall be made and done in a good and workmanlike manner and of good and sufficient quality and materials and shall be the property of Lessor and remain upon and be surrendered with the Premises at the expiration of the Lease term, unless Lessor requires their removal pursuant to paragraph 7.3(a). Provided Lessee is not in default, notwithstanding the provisions of this paragraph 7.3(e), Lessee's personal property and equipment, other than that which is affixed to the Premises so that it cannot be removed without material damage to the Premises or the Building, and other than Utility Installations, shall remain the property of Lessee and may be removed by Lessee subject to the provisions of paragraph 7.2.

(f) Lessee shall provide Lessor with as-built plans and specifications for any alterations, improvements, additions or Utility Installations.

7.4 UTILITY ADDITIONS. Lessor reserves the right to install new or additional utility facilities throughout the Office Building Project for the benefit of Lessor or Lessee, or any other lessee of the Office Building Project, including, but not by way of limitation, such utilities as plumbing, electrical systems, communication systems, and fire protection and detection systems, so long as such installations do not unreasonably interfere with Lessee's use of the Premises. Lessor shall promptly repair any damage caused by Lessor's work.

8. INSURANCE; INDEMNITY.

8.1 LIABILITY INSURANCE - LESSEE. Lessee shall, at Lessee's expense, obtain and keep in force during the term of this Lease a policy of Comprehensive General Liability insurance utilizing an Insurance Services Office standard form with Broad Form General Liability Endorsement (GL0404), or equivalent, in an amount of not less than \$2,000,000 per occurrence of bodily injury and property damage combined or in a greater amount as reasonably determined by Lessor and shall insure Lessee with Lessor as an additional insured against liability arising out of the use, occupancy or maintenance of the Premises. Compliance with the above requirement shall not, however, limit the liability of Lessee hereunder.

8.2 LIABILITY INSURANCE - LESSOR. Lessor shall obtain and keep in force during the term of this Lease a policy of Combined Single Limit Bodily Injury and Broad Form Property Damage Insurance, plus coverage against such other risks Lessor deems advisable from time to time, insuring Lessor, but not Lessee, against liability arising out of the ownership, use, occupancy or maintenance of the Office Building Project in an amount not less than \$5,000,000.00 per occurrence.

8.3 PROPERTY INSURANCE - LESSEE. Lessee shall, at Lessee's expense, obtain and keep in force during the term of this Lease for the benefit of Lessee, replacement cost fire and extended coverage insurance, with vandalism and malicious mischief, sprinkler leakage and earthquake sprinkler leakage endorsements, in an amount sufficient to cover not less than 100% of the full replacement cost, as the same may exist from time to time, of all of Lessee's personal property, fixtures, equipment and tenant improvements.

8.4 PROPERTY INSURANCE - LESSOR. Lessor shall obtain and keep in force during the term of this Lease a policy or policies of insurance covering loss or damage to the Office Building Project improvements, but not Lessee's personal property, fixtures, equipment or tenant improvements, in the amount of the full replacement cost thereof, as the same may exist from time to time, utilizing Insurance Services Office standard form, or equivalent, providing protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, plate glass, and such other perils as Lessor deems advisable or may be required by a lender having a lien on the Office Building Project. In addition, Lessor may obtain and keep in force, during the term of this Lease, a policy of rental value insurance covering a period of one year, with loss payable to Lessor, which insurance may also cover all Operating Expenses for said period. Lessee will not be named in any such policies carried by Lessor and shall have no right to any proceeds therefrom. The policies required by these paragraphs 8.2 and 8.4 shall contain such deductibles as Lessor or the aforesaid lender may determine. In the event that the Premises shall suffer an insured loss as defined in paragraph 9.1(f) hereof, the deductible amounts under the applicable insurance policies shall be deemed an Operating Expense. Lessee shall not do or permit to be done anything which shall invalidate the insurance policies carried by Lessor. Lessee shall pay the entirety of any increase in the property insurance premium for the Office Building Project over what it was immediately prior to the commencement of the term of this Lease if the increase is specified by Lessor's insurance carrier as being caused by the nature of Lessee's occupancy or any act or omission of Lessee.

8.5 INSURANCE POLICIES. Lessee shall deliver to Lessor copies of liability insurance policies required under paragraph 8.1 or certificates evidencing the existence and amounts of such insurance within seven (7) days after the Commencement Date of this Lease. No such policy shall be cancelable or subject to reduction of coverage or other modification except after thirty (30) days prior written notice to Lessor. Lessee shall, at least thirty (30) days prior to the expiration of such policies, furnish Lessor with renewals thereof.

8.6 WAIVER OF SUBROGATION. Lessee and Lessor each hereby release and relieve the other, and waive their entire right of recovery against the other, for direct or consequential loss or damage arising out of or incident to the perils covered by property insurance carried by such party, whether due to the negligence of Lessor or Lessee or their agents, employees, contractors and/or invitees. If necessary all property insurance policies required under this Lease shall be endorsed to so provide.

8.7 INDEMNITY. Lessee shall indemnify and hold harmless Lessor and its agents, Lessor's master or ground lessor, partners and lenders, from and against any and all claims for damage to the person or property of anyone or any entity arising from Lessee's use of the Office Building Project, or from the conduct of Lessee's business or from any activity, work or things done, permitted or suffered by Lessee in or about the Premises or elsewhere and shall further indemnify and hold harmless Lessor from and against any and all claims, costs and expenses arising from any breach or default in the performance of any obligation on Lessee's part to be performed under the terms of this Lease, or arising from any act or omission of Lessee, or any of Lessee's agents, contractors, employees or invitees, and from and against all costs, attorney's fees, expenses and liabilities incurred by Lessor as the result of any such use, conduct, activity, work, things done, permitted or suffered, breach, default or negligence, and in dealing reasonably therewith, including but not limited to the defense or pursuit of any claim or any action or proceeding involved therein; and in case any action or proceeding be brought against Lessor by reason of any such matter, Lessee upon notice from Lessor shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be so indemnified. Lessee, as a material part of the consideration to Lessor, hereby assumes all risk of damage to property of Lessee or injury to persons, in, upon or about the Office Building Project arising from any cause and Lessee hereby waives all claims in respect thereof against Lessor.

8.8 EXEMPTION OF LESSOR FROM LIABILITY. Lessee hereby agrees that Lessor shall not be liable for injury to Lessee's business or any loss of income therefrom or for loss of or damage to the goods, wares, merchandise or other property of Lessee, Lessee's employees, invitees, customers, or any other person in or about the Premises or the Office Building Project, nor shall Lessor be liable for injury to the person of Lessee, Lessee's employees, agents or contractors, whether such damage or injury is caused by or results from theft, fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said damage or injury results from conditions arising upon the Premises or upon other portions of the Office Building Project, or from other sources or places, or from new construction or the repair, alteration or improvement of any part of the Office Building Project, or of the equipment, fixtures or appurtenances applicable thereto, and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible, Lessor shall not be liable for any damages arising from any act or neglect of any other lessee, occupant or user of the Office Building Project, nor from the failure of Lessor to enforce the provisions of any other lease of any other lessee of the Office Building Project.

8.9 NO REPRESENTATION OF ADEQUATE COVERAGE. Lessor makes no representation that the limits or forms of coverage of insurance specified in this paragraph 8 are adequate to cover Lessee's property or obligations under this Lease.

9. DAMAGE OR DESTRUCTION.

9.1 DEFINITIONS.

(a) "Premises Damage" shall mean if the Premises are damaged or destroyed to any extent.

(b) "Premises Building Partial Damage" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is less than fifty percent (50%) of the then Replacement Cost of the Building.

(c) "Premises Building Total Destruction" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is fifty percent (50%) or more of the then Replacement Cost of the Building.

(d) "Office Building Project Buildings" shall mean all of the buildings on the Office Building Project site.

(e) "Office Building Project Buildings Total Destruction" shall mean if the Office Building Project Buildings are damaged or destroyed to the extent that the cost to repair is fifty percent (50%) or more of the then Replacement Cost of the Office Building Project Buildings.

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

(g) "Replacement Cost" shall mean the amount of money necessary to be spent in order to repair or rebuild the damaged area to the condition that existed immediately prior to the damage occurring, excluding all improvements made by lessees, other than those installed by Lessor at Lessee's expense.

9.2 PREMISES DAMAGE; PREMISES BUILDING PARTIAL DAMAGE.

(a) Insured Loss: Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage which is an Insured Loss and which falls into the classification of either Premises Damage or Premises Building Partial Damage, then Lessor shall, as soon as reasonably possible and to the extent the required materials and labor are readily available through usual commercial channels, at Lessor's expense, repair such damage (but not Lessee's fixtures, equipment or tenant improvements originally paid for by Lessee) to its condition existing at the time of the damage, and this Lease shall continue in full force and effect.

(b) Uninsured Loss: Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage which is not an Insured Loss and which falls within the classification of Premises Damage or Premises Building Partial Damage, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), which damage prevents Lessee from making any substantial use of the Premises, Lessor may at Lessor's option either (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of the occurrence of such damage of Lessor's intention to cancel and terminate this Lease as of the date of the occurrence of such damage, in which event this Lease shall terminate as of the date of the occurrence of such damage.

9.3 PREMISES BUILDING TOTAL DESTRUCTION; OFFICE BUILDING PROJECT TOTAL DESTRUCTION. Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage, whether or not it is an Insured Loss, which falls into the classifications of either (i) Premises Building Total Destruction, or (ii) Office Building Project Total Destruction, then Lessor may at Lessor's option either (i) repair such damage or destruction as soon as reasonably possible at Lessor's expense (to the extent the required materials are readily available through usual commercial channels) to its condition

existing at the time of the damage, but not Lessee's fixtures, equipment or tenant improvements, and this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of occurrence of such damage of Lessor's intention to cancel and terminate this Lease, in which case this Lease shall terminate as of the date of the occurrence of such damage.

9.4 DAMAGE NEAR END OF TERM.

(a) Subject to paragraph 9.4(b), if at any time during the last twelve (12) months of the term of this Lease there is substantial damage to the Premises, Lessor may at Lessor's option cancel and terminate this Lease as of the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within 30 days after the date of occurrence of such damage.

(b) Notwithstanding paragraph 9.4(a), in the event that Lessee has an option to extend or renew this Lease, and the time within which said option may be exercised has not yet expired, Lessee shall exercise such option, if it is to be exercised at all, no later than twenty (20) days after the occurrence of an Insured Loss falling within the classification of Premises Damage during the last twelve (12) months of the term of this Lease. If Lessee duly exercises such option during said twenty (20) day period, Lessor shall, at Lessor's expense, repair such damage, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option during said twenty (20) day period, then Lessor may at Lessor's option terminate and cancel this Lease as of the expiration of said twenty (20) day period by giving written notice to Lessee of Lessor's election to do so within ten (10) days after the expiration of said twenty (20) day period, notwithstanding any term or provision in the grant of option to the contrary.

9.5 ABATEMENT OF RENT; LESSEE'S REMEDIES.

(a) In the event Lessor repairs or restores the Building or Premises pursuant to the provisions of this paragraph 9, and any part of the Premises are not usable (including loss of use due to loss of access or essential services), the rent payable hereunder (including Lessee's Share of Operating Expense Increase) for the period during which such damage, repair or restoration continues shall be abated, provided (1) the damage was not the result of the negligence of Lessee, and (2) such abatement shall only be to the extent the operation and profitability of Lessee's business as operated from the Premises is adversely affected. Except for said abatement of rent, if any, Lessee shall have no claim against Lessor for any damage suffered by reason of any such damage, destruction, repair or restoration.

(b) If Lessor shall be obligated to repair or restore the Premises or the Building under the provisions of this Paragraph 9 and shall not commence such repair or restoration within ninety (90) days after such occurrence, or if Lessor shall not complete the restoration and repair within six (6) months after such occurrence, Lessee may at Lessee's option cancel and terminate this Lease by giving Lessor written notice of Lessee's election to do so at any time prior to the commencement or completion, respectively, of such repair or restoration. In such event this Lease shall terminate as of the date of such notice.

(c) Lessee agrees to cooperate with Lessor in connection with any such restoration and repair, including but not limited to the approval and/or execution of plans and specifications required.

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

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

10. REAL PROPERTY TAXES.

10.1 PAYMENT OF TAXES. Lessor shall pay the real property tax, as defined in paragraph 10.3, applicable to the Office Building Project subject to reimbursement by Lessee of Lessee's Share of such taxes in accordance with the provisions of paragraph 4.2, except as otherwise provided in paragraph 10.2.

10.2 ADDITIONAL IMPROVEMENTS. Lessee shall not be responsible for paying any increase in real property tax specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Office Building Project by other lessees or by Lessor for the exclusive

enjoyment of any other lessee. Lessee shall, however, pay to Lessor at the time that Operating Expenses are payable under paragraph 4.2(c) the entirety of any increase in real property tax if assessed solely by reason of additional improvements placed upon the Premises by Lessee or at Lessee's request.

10.3 DEFINITION OF "REAL PROPERTY TAX". As used herein, the term "real property tax" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed on the Office Building Project or any portion thereof by any authority having the direct or indirect power to tax, including any city, county, state or federal government, or any school, agricultural, sanitary, fire, street, drainage or other improvement district thereof, as against any legal or equitable interest of Lessor in the Office Building Project or in any portion thereof, as against Lessor's right to rent or other income therefrom, and as against Lessor's business of leasing the Office Building Project. The term "real property tax" shall also include any tax, fee, levy, assessment or charge (i) in substitution of, partially or totally, any tax, fee, levy, assessment or charge hereinabove included within the definition of "real property tax", or (ii) the nature of which was hereinbefore included within the definition of "real property tax", or (iii) which is imposed for a service or right not charged prior to June 1, 1978 or, if previously charged, has been increased since June 1, 1978, or (iv) which is imposed as a result of a change in ownership, as defined by applicable local statutes for property tax purposes, of the Office Building Project or which is added to a tax or charge hereinbefore included within the definition of real property tax by reason of such change of ownership, or (v) which is imposed by reason of this transaction, any modifications or changes hereto, or any transfers hereof.

10.4 JOINT ASSESSMENT. If the improvements or property, the taxes for which are to be paid separately by Lessee under paragraph 10.2 or 10.5 are not separately assessed, Lessee's portion of that tax shall be equitably determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information (which may include the cost of construction) as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 PERSONAL PROPERTY TAXES.

(a) Lessee shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Lessee contained in the Premises or elsewhere.

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

11. UTILITIES.

11.1 SERVICES PROVIDED BY LESSOR. Lessor shall provide heating, ventilation, air conditioning, as reasonably required, water for reasonable and normal drinking and lavatory use.

11.2 SERVICES EXCLUSIVE TO LESSEE. Lessee shall pay for all water, gas, heat, light, power, telephone and other utilities and services specially or exclusively supplied and/or metered exclusively to the Premises or to Lessee, together with any taxes thereon. If any such services are not separately metered to the Premises, Lessee shall pay at Lessor's option, either Lessee's Share or a reasonable proportion to be determined by Lessor of all charges jointly metered with other premises in the Building.

11.3 HOURS OF SERVICE. Said services and utilities shall be provided during generally accepted business days and hours or such other days or hours as may hereafter be set forth. Utilities and services required at other times shall be subject to advance request and reimbursement by Lessee to Lessor of the cost thereof.

11.4 EXCESS USAGE BY LESSEE. Lessee shall not make connection to the utilities except by or through existing outlets and shall not install or use machinery or equipment in or about the Premises that uses excess water, lighting or power, or suffer or permit any act that causes extra burden upon the utilities or services, including but not limited to security services, over standard office usage for the Office Building Project. Lessor shall require Lessee to reimburse Lessor for any excess expenses or costs that may arise out of a breach of this subparagraph by Lessee. Lessor may, in its sole discretion, install at Lessee's expense supplemental equipment and/or separate metering applicable to Lessee's excess usage or loading.

11.5 INTERRUPTIONS. There shall be no abatement of rent and Lessor shall not be liable in any respect whatsoever for the inadequacy, stoppage, interruption or discontinuance of any utility or service due to riot, strike, labor dispute, breakdown, accident, repair or other cause beyond Lessor's reasonable control or in cooperation with governmental request or directions.

12. ASSIGNMENT AND SUBLETTING.

12.1 LESSOR'S CONSENT REQUIRED. Lessee shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, or otherwise transfer or encumber all or any part of Lessee's interest in the Lease or in the Premises, without Lessor's prior written consent, which Lessor shall not unreasonably withhold. Lessor shall respond to Lessee's request for consent hereunder in a timely manner and any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be void, and shall constitute a material default and breach of this Lease without the need for notice to Lessee under

paragraph 13.1.

12.2 LESSEE AFFILIATE. Notwithstanding the provisions of paragraph 12.1 hereof, Lessee may assign or sublet the Premises, or any portion thereof, without Lessor's consent, to any corporation which controls, is controlled by or is under common control with Lessee, or to any corporation resulting from the merger or consolidation with Lessee, or to any person or entity which acquires all the assets of Lessee as a going concern of the business that is being conducted on the Premises, all of which are referred to as "Lessee Affiliate"; provided that before such assignment shall be effective, (a) said assignee shall assume, in full, the obligations of Lessee under this Lease and (b) Lessor shall be given written notice of such assignment and assumption. Any such assignment shall not, in any way, affect or limit the liability of Lessee under the terms of this Lease even if after such assignment or subletting the terms of this Lease are materially changed or altered without the consent of Lessee, the consent of whom shall not be necessary.

12.3 TERMS AND CONDITIONS APPLICABLE TO ASSIGNMENT AND SUBLETTING.

(a) Regardless of Lessor's consent, no assignment or subletting shall release Lessee of Lessee's obligation hereunder or alter the primary liability of Lessee to pay the rent and other sums due Lessor hereunder including Lessee's Share of Operating Expense Increase, and to perform all other obligations to be performed by Lessee hereunder.

(b) Lessor may accept rent from any person other than Lessee pending approval or disapproval of such assignment.

(c) Neither a delay in the approval or disapproval of such assignment or subletting, nor the acceptance of rent, shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for the breach of any of the terms or conditions of this paragraph 12 or this Lease.

(d) If Lessee's obligation under this Lease have been guaranteed by third parties, then an assignment or sublease, and Lessor's consent thereto, shall not be effective unless said guarantors give their written consent to such sublease and the terms thereof.

(e) The consent by Lessor to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting by Lessee or to any subsequent or successive assignment or subletting by the sublessee. However, Lessor may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Lessee or anyone else liable on the Lease or sublease and without obtaining their consent and such action shall not relieve such persons from liability under this Lease or said sublease; however, such persons shall not be responsible to the extent any such amendment or modification enlarges or increases the obligations of the Lessee or sublessee under this Lease or such sublease.

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

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

(h) The discovery of the fact that any financial statement relied upon by Lessor in giving its consent to an assignment or subletting was materially false shall, at Lessor's election, render Lessor's said consent null and void.

12.4 ADDITIONAL TERMS AND CONDITIONS APPLICABLE TO SUBLETTING.

Regardless of Lessor's consent, the following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease heretofore or

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

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

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

(d) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) With respect to any subletting to which Lessor has consented, Lessor agrees to deliver a copy of any notice of default by Lessee to the sublessee. Such sublessee shall have the right to cure a default of Lessee within three (3) days after service of said notice of default upon such sublessee, and the sublessee shall have a right of reimbursement and offset from and against Lessee for any such defaults cured by the sublessee.

12.5 LESSOR'S EXPENSES. In the event Lessee shall assign or sublet the Premises or request the consent of Lessor to any assignment or subletting or if Lessee shall request the consent of Lessor for any act Lessee proposes to do then Lessee shall pay Lessor's reasonable costs and expenses incurred in connection therewith, including attorneys', architects', engineers' or other consultants' fees.

12.6 CONDITIONS TO CONSENT. Lessor reserves the right to condition any approval to assign or sublet upon Lessor's determination that (a) the proposed assignee or sublessee shall conduct a business on the Premises of a quality substantially equal to that of Lessee and consistent with the general character of the other occupants of the Office Building Project and not in violation of any exclusives or rights then held by other tenants, and (b) the proposed assignee or sublessee be at least as financially responsible as Lessee was expected to be at the time of the execution of this Lease or of such assignment or subletting, whichever is greater.

13. DEFAULT; REMEDIES.

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

(a) The vacation or abandonment of the Premises by Lessee. Vacation of the Premises shall include the failure to occupy the Premises for a continuous period of sixty (60) days or more, whether or not the rent is paid.

(b) The breach by Lessee of any of the covenants, conditions or provisions of paragraphs 7.3(a), (b) or (d) (alterations), 12.1 (assignment or subletting), 13.1(a) (vacation or abandonment), 13.1(e) (insolvency), 13.1(f) (false statement), 16(a) (estoppel certificate), 30(b) (subordination), 33 (auctions), or 41.1 (easements), all of which are hereby deemed to be material, non-curable defaults without the necessity of any notice by Lessor to Lessee thereof.

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

(d) The failure by Lessee to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Lessee other than those referenced in subparagraphs (b) and (c), above, where such failure shall continue for a period of thirty (30) days after written notice

thereof from Lessor to Lessee; provided, however, that if the nature of Lessee's noncompliance is such that more than thirty (30) days are reasonably required for its cure, then Lessee shall not be deemed to be in default if Lessee commenced such cure within said thirty (30) day period and thereafter diligently pursues such cure to completion. To the extent permitted by law, such thirty (30) day notice shall constitute the sole and exclusive notice required to be given to Lessee under applicable Unlawful Detainer statutes.

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

(f) The discovery by Lessor that any financial statement given to Lessor by Lessee, or its successor in interest or by any guarantor of Lessee's obligation hereunder, was materially false.

13.2 REMEDIES. In the event of any material default or breach of this Lease by Lessee, Lessor may at any time thereafter, with or without notice or demand and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such default:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee all damages incurred by Lessor by reason of Lessee's default including, but not limited to, the cost of recovering possession of the Premises; expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and any real estate commission actually paid; the worth at the time of award by the court having jurisdiction thereof of the amount by which the unpaid rent for the balance of the term after the time of such award exceeds the amount of such rental loss for the same period that Lessee proves could be reasonably avoided; that portion of the leasing commission paid by Lessor pursuant to paragraph 15 applicable to the unexpired term of this Lease.

(b) Maintain Lessee's right to possession in which case this Lease shall continue in effect whether or not Lessee shall have vacated or abandoned the Premises. In such event Lessor shall be entitled to enforce all of Lessor's rights and remedies under this Lease, including the right to recover the rent as it becomes due hereunder.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located. Unpaid installments of rent and other unpaid monetary obligations of Lessee under the terms of this Lease shall bear interest from the date due at the maximum rate then allowable by law.

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

13.4 LATE CHARGES. Lessee hereby acknowledges that late payment by Lessee to Lessor of Base Rent, Lessee's Share of Operating Expense Increase or other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Lessor by the terms of any mortgage or trust deed covering the Office Building Project. Accordingly, if any installment of Base Rent, Operating Expense Increase, or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a late charge equal to 6% of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's default with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder.

14. CONDEMNATION. If the Premises or any portion thereof or the Office Building Project are taken under the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs; provided that is so much of the Premises or the Office Building Project are taken by such condemnation as would substantially and adversely affect the operation and profitability of Lessee's business conducted from the Premises, Lessee shall have the option, to be exercised only in writing within thirty (30) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within thirty (30) days after the condemning authority shall have taken possession), to terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the rent and Lessee's Share of Operating Expense Increase shall be reduced in the proportion that the floor area of the Premises taken bears to the total floor area of the Premises. Common Areas taken shall be excluded from the Common Areas usable by Lessee and no reduction of rent shall occur with respect thereto or by reason thereof. Lessor shall have the option in its sole discretion to terminate this Lease as of the taking of possession by the condemning authority, by giving written notice to Lessee of such election within thirty (30) days after receipt of notice of a taking by condemnation of any part of the Premises or the Office Building Project. Any award for the taking of all or any part of the Premises or the Office Building Project under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any separate award for loss of or damage to Lessee's trade fixtures, removable personal property and unamortized tenant improvements that have been paid for by Lessee. For that purpose the cost of such improvements shall be amortized over the original term of this Lease excluding any options. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of severance damages received by Lessor in connection with such condemnation, repair any damage to the Premises caused by such condemnation except to the extent that Lessee has been reimbursed therefor by the condemning authority. Lessee shall pay any amount in excess of such severance damages required to complete such repair.

15. BROKER'S FEE.

(a) The brokers involved in this transaction are None as "listing broker" and Carol Bird of Coldwell Banker as "cooperating broker," licensed real estate broker(s). A "cooperating broker" is defined as any broker other than the listing broker entitled to a share of any commission arising under this Lease.

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

16. ESTOPPEL CERTIFICATE.

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

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

(c) If Lessor desires to finance, refinance, or sell the Office Building Project, or any part thereof, Lessee hereby agrees to deliver to any lender or purchaser designated by Lessor such financial statements of Lessee as may be reasonably required by such lender or purchaser. Such statements shall include the past three (3) years' financial statements of Lessee. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. LESSOR'S LIABILITY. The term "Lessor" as used herein shall mean only the owner or owners, at the time in question, of the fee title or a lessee's interest in a ground lease of the Office Building Project, and except as expressly provided in paragraph 15, in the event of any transfer of such title or interest, Lessor herein named (and in case of any subsequent transfers then

the grantor) shall be relieved from and after the date of such transfer of all liability as respects Lessor's obligations thereafter to be performed, provided that any funds in the hands of Lessor or the then grantor at the time of such transfer, in which Lessee has an interest, shall be delivered to the grantee. The obligations contained in this Lease to be performed by Lessor shall, subject as aforesaid, be binding on Lessor's successors and assigns, only during their respective periods of ownership.

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

19. INTEREST ON PAST-DUE OBLIGATIONS. Except as expressly herein provided, any amount due to Lessor not paid when due shall bear interest at the maximum rate then allowable by law or judgments from the date due. Payment of such interest shall not excuse or cure any default by Lessee under this Lease; provided, however, that interest shall not be payable on late charges incurred by Lessee nor on any amounts upon which late charges are paid by Lessee.

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

21. ADDITIONAL RENT. All monetary obligations of Lessee to Lessor under the terms of this Lease, including but not limited to Lessee's Share of Operating Expense Increase and any other expenses payable by Lessee hereunder shall be deemed to be rent.

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

23. NOTICES. Any notice required or permitted to be given hereunder shall be in writing and may be given by personal delivery (together with notice by mail) or by certified or registered mail, and shall be deemed sufficiently given if delivered or addressed to Lessee or to Lessor at the address noted below or adjacent to the signature of the respective parties, as the case may be. Mailed notices shall be deemed given upon actual receipt at the address required, or forty-eight hours following deposit in the mail, postage prepaid, whichever first occurs. Either party may by notice to the other specify a different address for notice purposes except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice purposes. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by notice to Lessee. All notices to Lessee should be directed to the attention of its President or the Chief Financial Officer.

24. WAIVERS. No waiver by Lessor of any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by the other party of the same or any other provision. Lessor's or Lessee's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of their consent to or approval of any subsequent act by the other party. The acceptance of rent hereunder by Lessor shall not be a waiver of any preceding breach by Lessee of any provision hereof, other than the failure of Lessee to pay the particular rent so accepted, regardless of Lessor's knowledge of such preceding breach at the time of acceptance of such rent.

25. RECORDING. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a "short form" memorandum of this Lease for recording purposes.

26. HOLDING OVER. If Lessee, with Lessor's consent, remains in possession of the Premises or any part thereof after the expiration of the term hereof, such occupancy shall be a tenancy from month to month upon all the provisions of this Lease pertaining to the obligations of Lessee, except that the rent payable shall be two hundred percent (200%) of the rent payable immediately preceding the termination date of this Lease, and all Options, if any, granted under the terms of this Lease shall be deemed terminated and be of no further effect during said month to month tenancy.

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

28. COVENANTS AND CONDITIONS. Each provision of this Lease performable by Lessee shall be deemed both a covenant and a condition.

29. BINDING EFFECT; CHOICE OF LAW. Subject to any provisions hereof restricting assignment or subletting by Lessee and subject to the provision of paragraph 17, this Lease shall bind the parties, their personal representatives, successors and assigns. This Lease shall be governed by the laws of the State where the Office Building Project is located and any litigation concerning this Lease between the parties hereto shall be initiated in the county in which the Office Building Project is located.

30. SUBORDINATION.

(a) This Lease, and any Option or right of first refusal granted hereby, at Lessor's option, shall be subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation or security now or hereafter placed upon the Office Building Project and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. Notwithstanding such subordination, Lessee's right to quiet possession of the Premises shall not be disturbed if Lessee is not in default and so long as Lessee shall pay the rent and observe and perform all of the provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms. If any mortgagee, trustee or ground lessor shall elect to have this Lease and any Options granted hereby prior to the lien of its mortgage, deed of trust or ground lease, and shall give written notice thereof to Lessee, this Lease and such Option shall be deemed prior to such mortgage, deed of trust or ground lease, whether this Lease or such Options are dated prior or subsequent to the date of said mortgage, deed of trust or ground lease or the date of recording thereof.

(b) Lessee agrees to execute any documents required to effectuate an attornment, a subordination, or to make this Lease or any Option granted herein

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

31. ATTORNEYS' FEES.

31.1 If either party or the broker(s) named herein bring an action to enforce the terms hereof or declare rights hereunder, the prevailing party in any such action, trial, or appeal thereon, shall be entitled to his reasonable attorneys' fees to be paid by the losing party as fixed by the court in the same or separate suit, and whether or not such action is pursued to decision or judgment. The provisions of this paragraph shall inure to the benefit of the broker named herein who seeks to enforce a right hereunder.

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

31.3 Lessor shall be entitled to reasonable attorneys' fees and all other costs and expenses incurred in the preparation and service of notices of default and consultations in connection therewith, whether or not a legal transaction is subsequently commenced in connection with such default.

32. LESSOR'S ACCESS.

32.1 Lessor and Lessor's agents shall have the right to enter the Premises at reasonable times for the purpose of inspecting the same, performing any services required of Lessor, showing the same to prospective purchasers, lenders, or lessees, taking such safety measures, erecting such scaffolding or other necessary structures, making such alterations, repairs, improvements or additions to the Premises or to the Office Building Project as Lessor may reasonably deem necessary or desirable and the erecting, using and maintaining of utilities, services, pipes and conduits through the Premises and/or other premises as long as there is no material adverse effect to Lessee's use of the Premises. Lessor may at any time place on or about the Premises or the Building any ordinary "For Sale" signs and Lessor may at any time during the last 120 days of the term hereof place on or about the Premises any ordinary "For Lease" signs.

32.2 All activities of Lessor pursuant to this paragraph shall be without abatement of rent, nor shall Lessor have any liability to Lessee for the same.

32.3 Lessor shall have the right to retain keys to the Premises and to unlock all doors in or upon the Premises other than to files, vaults and safes, and in the case of emergency to enter the Premises by any reasonably appropriate means, and any such entry shall not be deemed a forceable or unlawful entry or detainer of the Premises or an eviction. Lessee waives any charges for damages or injuries or interference with Lessee's property or business in connection therewith.

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

this paragraph shall constitute a material default of this Lease.

34. SIGNS. Lessee shall not place any sign upon the Premises or the Office Building Project without Lessor's prior written consent. Under no circumstances shall Lessee place a sign on any roof of the Office Building Project.

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

36. CONSENTS. Except for paragraphs 33 (auctions) and 34 (signs) hereof, wherever in this Lease the consent of one party is required to an act of the other party such consent shall not be unreasonably withheld or delayed.

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

38. QUIET POSSESSION. Upon Lessee paying the rent for the Premises and observing and performing all of the covenants, conditions and provisions on Lessee's part to be observed and performed hereunder, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease. The individuals executing this Lease on behalf of Lessor represent and warrant to Lessee that they are fully authorized and legally capable of executing this Lease on behalf of Lessor and that such execution is binding upon all parties holding an ownership interest in the Office Building Project.

39. OPTIONS.

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

39.2 OPTIONS PERSONAL. Each Option granted to Lessee in this Lease is personal to the original Lessee and may be exercised only by the original Lessee while occupying the Premises who does so without the intent of thereafter assigning this Lease or subletting the Premises or any portion thereof, and may not be exercised or be assigned, voluntarily or involuntarily, by or to any person or entity other than Lessee; provided, however, that an Option may be exercised by or assigned to any Lessee Affiliate as defined in paragraph 12.2 of this Lease. The Options, if any, herein granted to Lessee are not assignable separate and apart from this Lease, nor may any Option be separated from this Lease in any manner, either by reservation or otherwise.

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

39.4 EFFECT OF DEFAULT ON OPTIONS.

(a) Lessee shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary, (i) during the time commencing from the date Lessor gives to Lessee a notice of default pursuant to paragraph 13.1(c) or 13.1(d) and continuing until the noncompliance alleged in said notice of default is cured, or (ii) during the period of time commencing on the day after a monetary obligation to Lessor is due from Lessee and unpaid (without any necessity for notice thereof to Lessee) and continuing until the obligation is paid, or (iii) in the event that Lessor has given to Lessee three or more notices of default under paragraph 13.1(c), or paragraph 13.1(d), whether or not the defaults are cured, during the 12 month period of time immediately prior to the time that Lessee attempts to exercise the subject Option, (iv) if Lessee has committed any non-curable breach, including without limitation those described in paragraph 13.1(b), or is otherwise in default of any of the terms, covenants or conditions of this Lease.

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

(c) All rights of Lessee under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and during the term of this Lease, (i) Lessee fails to pay to Lessor a monetary obligation of Lessee for a period of thirty (30) days after such obligation becomes due (without any necessity of Lessor to give notice thereof to Lessee), or (ii) Lessee fails to commence to cure a default specified in paragraph 13.1 (d) within thirty (30) days after the date that Lessor gives notice to Lessee of such default and/or Lessee fails thereafter to diligently prosecute said cure to completion, or (iii) Lessor gives to Lessee three or more notices of default under paragraph 13.1(c), or paragraph 13.1(d), whether or not the defaults are cured, or (iv) if Lessee has committed any non-curable breach, including without limitation those described in paragraph 13.1(b), or is otherwise in default of any of the terms, covenants and conditions of this Lease.

40. SECURITY MEASURES - LESSOR'S RESERVATIONS.

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

40.2 Lessor shall have the following rights:

(a) To change the name, address or title of the Office Building Project or building in which the Premises are located upon not less than 90 days prior written notice;

(b) To, at Lessee's expense, provide and install Building standard graphics on the door of the Premises and such portions of the Common Areas as Lessor shall reasonably deem appropriate;

(c) To permit any lessee the exclusive right to conduct any business as long as such exclusive does not conflict with any rights expressly given herein(i.e.--no other tenant shall have the exclusive right to occupy space in the Office Building Project for the sale or distribution of toys);

(d) To place such signs, notices or displays as Lessor reasonably deems necessary or advisable upon the roof, exterior of the buildings or the Office Building Project or on pole signs in the Common Areas;

40.3 Lessee shall not:

(a) Use a representation (photographic or otherwise) of the Building or the Office Building Project or their name(s) in connection with Lessee's business;

(b) Suffer or permit anyone, except in emergency, to go upon the roof of the Building.

41. EASEMENTS.

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

41.2 The obstruction of Lessee's view, air, or light by any structure erected in the vicinity of the Building, by third parties, shall in no way affect this Lease or impose any liability upon Lessor.

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

much thereof as it was not legally required to pay under the provisions of this Lease.

43. AUTHORITY. If Lessee is a corporation, trust, or general or limited partnership, Lessee, and each individual executing this Lease on behalf of such entity represent and warrant that such individual is duly authorized to execute and deliver this Lease on behalf of said entity. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after execution of this Lease, deliver to Lessor evidence of such authority satisfactory to Lessor.

44. CONFLICT. Any conflict between the printed provisions, Exhibits or Addenda of this Lease and the typewritten or handwritten provisions, if any, shall be controlled by the typewritten or handwritten provisions.

45. NO OFFER. Preparation of this Lease by Lessor or Lessor's agent and submission of same to Lessee shall not be deemed an offer to Lessee to lease. This Lease shall become binding upon Lessor and Lessee only when fully executed by both parties.

46. LENDER MODIFICATION. Lessee agrees to make such reasonable modifications to this Lease as may be reasonably required by an institutional lender in connection with the obtaining of normal financing or refinancing of the Office Building Project; provided that no such modification shall have any adverse economic or other material effect upon Lessee or its rights and obligations under this Lease.

47. MULTIPLE PARTIES. If more than one person or entity is named as either Lessor or Lessee herein, except as otherwise expressly provided herein, the obligations of the Lessor or Lessee herein shall be the joint and several responsibility of all persons or entities named herein as such Lessor or Lessee, respectively.

48. WORK LETTER. This Lease is supplemented by that certain Work Letter of even date executed by Lessor and Lessee, attached hereto as Exhibit C, and incorporated herein by this reference.

49. ATTACHMENTS. Attached hereto are the following documents which constitute a part of this Lease:

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN AND, BY EXECUTION OF THIS LEASE, SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

IF THIS LEASE HAS BEEN FILLED IN IT HAS BEEN PREPARED FOR SUBMISSION TO YOUR ATTORNEY FOR HIS APPROVAL. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKER OR ITS AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION RELATING THERETO; THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN LEGAL COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.

LESSOR

LESSEE

WINCO MALIVIEW PARTNERS,LLC., A California Limited Liability Company

JAKKS PACIFIC, INC., A Delaware Corporation

By /s/ RICHARD B. SHAPIRO

By /s/ STEPHEN BERMAN

Its Manager

Its President

By

By

Its

Its

Executed at Woodland Hills, California

Executed at Malibu, California

on November 18, 1999

on November 18, 1999

Address

Address

NOTE: These forms are often modified to meet changing requirements of law and needs of the industry. Always write or call to make sure you are utilizing the most current form: AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION, 700 South Flower Street, Suite 600, Los Angeles, CA 90017. (213) 687-8777.

STANDARD OFFICE LEASE
FLOOR PLAN

[FLOOR PLAN]

EXHIBIT A-1

FULL SERVICE-GROSS
REVISED

STANDARD OFFICE LEASE
FLOOR PLAN

[FLOOR PLAN]

EXHIBIT A-2

FULL SERVICE-GROSS
REVISED

STANDARD OFFICE LEASE
FLOOR PLAN

[FLOOR PLAN]

EXHIBIT A-3

FULL SERVICE-GROSS
REVISED

STANDARD OFFICE LEASE
FLOOR PLAN

[FLOOR PLAN]

EXHIBIT A-4

FULL SERVICE-GROSS
REVISED

RULES AND REGULATIONS FOR
STANDARD OFFICE LEASE

Dated: November 18, 1999

By and Between WINCO MALIVIEW PARTNERS and JAKKS PACIFIC, INC.

GENERAL RULES

1. Lessee shall not suffer or permit the obstruction of any Common Areas, including driveways, walkways and stairways.
2. Lessor reserves the right to refuse access to any persons Lessor in good faith judges to be a threat to the safety, reputation, or property of the Office Building Project and its occupants.
3. Lessee shall not make or permit any noise or odors that annoy or interfere with other lessees or persons having business within the Office Building Project.
4. Lessee shall not keep animals or birds within the Office Building Project, and shall not bring bicycles, motorcycles or other vehicles into areas not designated as authorized for same.
5. Lessee shall not make, suffer or permit litter except in appropriate receptacles for that purpose.
6. Lessee shall not alter any lock or install new or additional locks or bolts.
7. Lessee shall be responsible for the inappropriate use of any toilet rooms, plumbing or other utilities. No foreign substances of any kind are to be inserted therein.
8. Lessee shall not deface the walls, partitions or other surfaces of the Premises or Office Building Project.
9. Lessee shall not suffer or permit anything in or around the Premises or Building that causes excessive vibration or floor loading in any part of the Office Building Project.
10. Furniture, significant freight and equipment shall be moved into or out of the building only with the Lessor's knowledge and consent, and subject to such reasonable limitations, techniques and timing, as may be designated by Lessor. Lessee shall be responsible for any damage to the Office Building Project arising from any such activity.
11. Lessee shall not employ any service or contractor for services or work to be performed in the Building, except as approved by Lessor.
12. Lessor reserves the right to close and lock the Building on Saturdays, Sundays and legal holidays, and on other days between the hours of 6:00 P.M. and 8:00 A.M. of the following day. If Lessee uses the Premises during such periods, Lessee shall be responsible for securely locking any doors it may have opened for entry.
13. Lessee shall return all keys at the termination of its tenancy and shall be responsible for the cost of replacing any keys that are lost.
14. No window coverings, shades or awnings shall be installed or used by Lessee.
15. No Lessee, employee or invitee shall go upon the roof of the Building.
16. Lessee shall not suffer or permit smoking or carrying of lighted cigars or cigarettes in areas reasonably designated by Lessor or by applicable governmental agencies as non-smoking areas.
17. Lessee shall not use any method of heating or air conditioning other than as provided by Lessor.
18. Lessee shall not install, maintain or operate any vending machines upon the Premises without Lessor's written consent.
19. The Premises shall not be used for lodging or manufacturing, cooking or food preparation.
20. Lessee shall comply with all safety, fire protection and evacuation regulations established by Lessor or any applicable governmental agency.
21. Lessor reserves the right to waive any one of these rules or regulations, and/or as to any particular Lessee, and any such waiver shall not constitute a waiver of any other rule or regulation or any subsequent application thereof to such Lessee.
22. Lessee assumes all risks from theft or vandalism and agrees to keep its Premises locked as may be required.
23. Lessor reserves the right to make such other reasonable rules and regulations as it may from time to time deem necessary for the appropriate operation and safety of the Office Building Project and its occupants. Lessee agrees to abide by these and such rules and regulations.

PARKING RULES

1. Parking areas shall be used only for parking by vehicles no longer than full size, passenger automobiles herein called "Permitted Size Vehicles." Vehicles other than Permitted Size Vehicles are herein referred to as "Oversized Vehicles."

2. Lessee shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, or invitees to be loaded, unloaded, or parked in areas other than those designated by Lessor for such activities.

3. Parking stickers or identification devices shall be the property of Lessor and be returned to Lessor by the holder thereof upon termination of the holder's parking privileges. Lessee will pay such replacement charge as is reasonably established by Lessor for the loss of such devices.

4. Lessor reserves the right to refuse the sale of monthly identification devices to any person or entity that willfully refuses to comply with the applicable rules, regulations, laws and/or agreements.

5. Lessor reserves the right to relocate all or a part of parking spaces from floor to floor, within one floor, and/or to reasonably adjacent offsite location(s), and to reasonably allocate them between compact and standard size spaces, as long as the same complies with applicable laws, ordinances and regulations.

6. Users of the parking area will obey all posted signs and park only in the areas designated for vehicle parking.

7. Unless otherwise instructed, every person using the parking area is required to park and lock his own vehicle. Lessor will not be responsible for any damage to vehicles, injury to persons or loss of property, all of which risks are assumed by the party using the parking area.

8. Validation, if established, will be permissible only by such method or methods as Lessor and/or its licensee may establish at rates generally applicable to visitor parking.

9. The maintenance, washing, waxing or cleaning of vehicles in the parking structure or Common Areas is prohibited.

10. Lessee shall be responsible for seeing that all of its employees, agents and invitees comply with the applicable parking rules, regulations, laws and agreements.

11. Lessor reserves the right to modify these rules and/or adopt such other reasonable and non-discriminatory rules and regulations as it may deem necessary for the proper operation of the parking area.

12. Such parking use as is herein provided is intended merely as a license only and no bailment is intended or shall be created hereby.

EXHIBIT B

FULL SERVICE-GROSS

REVISED

Page 1 of 1

This Addendum to Standard Office Lease--Gross ("ADDENDUM") is attached to and a part of that certain Standard Office Lease--Gross, dated November 18, 1999 ("LEASE") by and between WINCO MALIVIEW PARTNERS, a California limited liability Company, as lessor ("LESSOR"), and JAKKS PACIFIC, INC., a _____ corporation, as lessee ("LESSEE"). All capitalized terms in this Addendum shall have the meanings set forth in the Lease unless otherwise noted herein. In the event of a conflict between the provisions of the Lease and the provisions of this Addendum, the provisions of this Addendum shall prevail.

49. PREMISES.

49.1 The "Building" listed in Paragraph 1.3 of the Lease consists of three office buildings that are identified as "Building A", "Building B" and "Building C" on the site plan that is attached as Exhibit "A" to the Lease.

49.2 The Premises constitute all of Building B and all of Building A, as shown on the site plan which is attached as Exhibit "A".

49.3 The term "USEABLE SQUARE FEET" means the actual useable square footage of the Premises, which shall be measured by Landlord's architect and computed in accordance with standard BOMA guidelines (ANSIZ 65.1-1980 Approved 7/31/80) within ninety (90) days following finished framing of the exterior walls of the Premises. The term "RENTABLE SQUARE FEET" means the useable square feet of the Premises plus a loss factor equal to five percent (5%) of the useable square feet of the Premises. Lessor shall notify Lessee of the actual useable square feet and rentable square feet of the Premises following the measurement and calculation of same by Lessor's architect.

49.4 The approximate aggregate rentable square footage of the Premises is 17,621 rentable square feet, inclusive of both interior space and private exterior decks, which consists of: (a) approximately 11,619 rentable square feet in Building B and 6,001 rentable square feet in Building A.

50. TERM.

50.1 The term of the Lease ("LEASE TERM") shall be the period specified in Section 1.5 of this Lease plus any partial calendar month following the Commencement Date, if such date is other than the first day of a calendar month. The "COMMENCEMENT DATE" of this Lease shall be sixty (60) calendar days following delivery of the Premises by Lessor to Lessee with substantial completion of Lessor's Work.

50.2 The term "LEASE YEAR" shall mean: (a) for the first Lease Year, the three hundred sixty-five (365) day period following the Commencement Date plus any partial calendar month following the Commencement Date, if such date is other than the first day of a calendar month; and (b) for each Lease Year thereafter, each successive three hundred sixty-five (365) day period following the conclusion of the first Lease Year.

50.3 Lessee shall have a one-time right to terminate the Lease effective as of the end of the fifth (5th) full Lease Year, which right must be exercised, if at all, in strict accordance with the provisions of this Section 50.3. In order to exercise its termination right, Lessee must deliver all of the following to Lessor prior to the conclusion of the fourth (4th) full Lease Year: (a) written notice by Lessee to Lessor of Lessee's election to exercise its termination rights pursuant to this Section 50.3 ("TERMINATION NOTICE"); and

(b) the Termination Payment (as hereinafter defined). The "TERMINATION PAYMENT" shall be an amount equal to: (a) One Hundred Thousand Dollars (\$100,000) plus (b) twenty-eight and 57/100 percent (28.57%) of the (i) Improvement Allowance paid by Lessor to Lessee under this Lease (including, if applicable, any Tenant allowance paid by Lessor attributable to the Second Floor Space or any Noticed Space) and (ii) the attorneys' fees incurred by Lessor in the preparation of the Lease (and if applicable, fees incurred by Lessor in the preparation of the Second Floor Amendment or any Noticed Space Amendment) in an amount that shall not exceed an aggregate of Ten Thousand Dollars (\$10,000). TIME IS OF THE ESSENCE in the delivery of the Termination Notice and the Termination Payment. If Lessee shall fail to deliver to Lessor either the Termination Notice or the full amount of the Termination Payment prior to the conclusion of the fourth (4th) full Lease Year, Lessee shall be deemed to have automatically waived any rights to terminate this Lease pursuant to this Section 50.3. Within ninety (90) days following the execution of the Lease (and, if applicable, within ninety (90) days following the execution of any Second Floor Amendment or Noticed Amendment), Lessor shall deliver a written notice to Lessee setting forth the attorneys' fees incurred by Lessor in connection therewith. In the event that Lessee delivers the Termination Notice and the entire Termination Fee to Lessor prior to the conclusion of the fourth (4th) full Lease Year, the Lease Term shall terminate as of the end of the fifth (5th) full Lease Year.

51. BASE RENT. The monthly Base Rent per rentable square foot of the Premises payable by Lessee during the Lease Term is as follows:

Lease Year -----	Monthly Rent Per Rentable Square Foot -----
1	\$3.10
2	\$3.22
3	\$3.35
4	\$3.49
5	\$3.63
6	\$3.77
7	\$3.92

52. PARKING.

52.1 Lessor shall provide Lessee with three and 50/100 (3.5) reserved parking spaces for each one thousand (1,000) useable square feet in the Premises. There shall be no additional charge to Lessee for use of the parking spaces related to the Premises under this Lease. Lessor shall mark each of Lessee's parking spaces as reserved for use by Lessee. The parking spaces allocated for use by Lessee shall be located as follows:

52.1(a) Seven (7) standard spaces and one (1) handicapped space shall be located under Building A.

52.1(b) Fourteen (14) standard spaces and two (2) handicapped spaces shall be located under Building B.

52.1(c) The balance of the parking spaces allocated for use by Lessee shall be uncovered standard spaces located in the surface parking lot on the Project, as designated by Lessor.

53. STORAGE. Lessee shall have the right to lease storage space on the ground level of Buildings A and B for the monthly fee of One Dollar and 50/100 (\$1.50) per square foot during the Lease Term; provided that such right is subject to the availability of such storage space at the time Lessee notifies Lessor in writing of Lessee's desire to lease such storage space. Lessee

assumes any and all risk for the storage of any personal property in storage space in Buildings A and B, Lessor shall not be responsible for any loss of or damage to any personal property stored by Lessee in the storage space.

54. LESSOR'S WORK. Lessor shall perform the following improvements, at Lessor's expense, in connection with Lessee's initial occupancy of the Premises (collectively, "LESSOR'S WORK"):

54.1 PARTITIONS: Lessor will provide perimeter walls that will be drywalled. No interior walls will be provided by Lessor.

54.2 WALL SURFACE: The aforementioned perimeter walls will be taped, sanded and ready for paint. Windows and exterior doors will be completed and provided by Lessor.

54.3 WALL COVERINGS: Wall coverings will not be provided in the Lessor's Work. Lessor will give permitted window covering specifications for the Premises to the Lessee.

54.4 CARPETING: Lessor will provide lightweight concrete topping slab ready for a sub-floor.

54.5 DOORS: Lessor will provide all exterior doors. Interior doors will be considered part of Lessee's work.

54.6 ELECTRICAL AND TELEPHONE OUTLETS: Lessor will provide an electrical sub-panel and a telephone/telecommunication main conduit. Lessor will also provide cable feed to each sub-panel location. All other electrical/telephone requirements will be part of Lessee's Work.

54.7 CEILING:

(a) Lessor will provide exposed, taped drywall ceilings on the first floor (one hour assembly as required by code). Any and all dropped ceilings will be installed by Lessee.

(b) Lessor will provide exposed, 2" x 12" framing between curved gluelam beams on the second level. Lessee will be required to install 1" x 4" Douglas fir clear grade tongue and groove as a finished ceiling attached in accordance with code to the existing 2" x 12" frames as a finished ceiling on all ceilings on the second level.

55.8 LIGHTING: Lessor will provide all exterior, parking, public space, and restroom lighting. Lessee will provide all interior lighting in Premises that Lessee requires.

55.9 HEATING AND AIR CONDITIONING DUCTS: Lessor will provide the following HVAC units (but no ducting) to the Premises:

Building A. (a) Two (2) five (5) ton units for the first floor of

Building A. (b) Two (2) five (5) ton units for the second floor of

Building B. (c) Four (4) five (5) ton units for the first floor of

Building B. (d) Four (4) five (5) ton units for the second floor of

55.10 SOUND PROOFING: Lessor will provide exterior wall insulation and soundproofing in public restrooms. Lessee will provide all additional soundproofing that Lessee requires.

55.11 PLUMBING: Lessor will provide a stub-out for a restroom within the Premises on each floor of the Premises at a location determined by Lessor.

56. LESSEE'S WORK. Except for the performance by Lessor of Lessor's Work and the obligation of Lessor for the payment to Lessee of the Improvement Allowance pursuant to Paragraph 58, Lessee shall be solely responsible for any and all improvements to the premises that are required or desired by Lessee in connection with Lessee's occupancy of the Premises ("LESSEE'S WORK"). The provisions of Paragraph 7.3 of the Lease expressly apply to Lessee's Work.

57. IMPROVEMENT ALLOWANCE.

57.1 Lessor shall contribute to Lessee an amount not to exceed the sum of Twenty Five Thousand Dollars (\$25,000) plus (b) Twenty Dollars (\$20.00) per useable square foot of the Interior Premises as an improvement allowance ("IMPROVEMENT ALLOWANCE"). Said amount shall total Two Hundred Ninety Eight Thousand Nine Hundred Sixty Dollars (\$298,960) based on 13,698 square feet. The Improvement Allowance shall be payable by Lessor to Lessee only for hard costs and soft costs of construction of Lessee's Work that are incurred and paid by Lessee in connection with Lessee's Work ("ELIGIBLE EXPENDITURES"). Eligible Expenditures include architectural and engineering expenses related to Lessee's Work and the cost of cabling for telephones and computers in the Premises (provided that such cabling is not removed by lessee at the conclusion of the Lease).

57.2 Within thirty (30) days following the later of Lessee's occupancy of the Premises for the purpose of conducting business or receipt by Lessor of written certification by Lessee's architect and Lessee verifying that all of the Lessee's Work has been fully completed, Lessor shall pay to Lessee an amount equal to the actual costs incurred by the Lessee for Eligible Expenditures, which amount shall not exceed the Improvement Allowance. As a condition precedent to the payment by Lessor of the balance of the Improvement Allowance, Lessee shall submit the following documents to Lessor for its approval, which shall not be unreasonably withheld or delayed:

57.2.1 paid invoices for the amounts claimed by Lessee as Eligible Expenditures;

57.2.2 appropriate final lien releases from Lessee's contractor and any subcontractors and materialmen;

57.2.3 written certification by the Lessee's architect that Lessee's Work has been completed in accordance with the final plans and in compliance with all applicable federal, state and municipal laws; and

57.2.4 a certificate of occupancy or temporary certificate of occupancy for the Premises issued by the applicable government agency having jurisdiction over the Premises.

57.3 Lessor shall not be required to release any amount of the Improvement Allowance to any person or entity other than Lessee.

58. BROKERS.

58.1 Lessee shall be responsible for the payment of any broker's fee or commission to Carol Bird and Coldwell Banker Previews in connection with this Lease.

58.2 Lessor and Lessee mutually represent and warrant that the broker(s) identified above are the only broker(s) with whom they have dealt in connection with this Lease and that neither Lessor nor Lessee knows of any other broker who has claimed or may have the right to claim a commission in connection with this transaction. The commission of such broker(s) shall be paid pursuant to separate an agreement by the Lessee. Lessor and Lessee shall indemnify and defend each other against any costs, claims or expenses, including attorney's fees, arising out of the breach on their respective parts of any representations, warranties or agreements contained in this paragraph. The representations and obligations under this paragraph shall survive the termination of this Lease.

59. JANITORIAL SERVICES AND ELECTRICAL.

59.1 Lessee shall be responsible, at Lessee's cost, for providing any janitorial services for the interior of the Premises that Lessee shall require.

59.2 Lessor shall install a separate utility meter for electrical service to the Premises as part of Lessor's Work and shall be responsible for the provision of electrical service to the meter. Lessee shall be responsible for the provision of electrical service to the Premises during the Lease Term and shall pay all utility and service charges in connection with that service directly to the utility provider.

"Lessor"

WINCO MALIVIEW PARTNERS, LLC,
a California limited liability company

By: /s/ RICHARD B. SHAPIRO

Richard B. Shapiro, Manager

Dated: November 18, 1999

"Lessee"

JAKKS PACIFIC, INC.,
a Delaware corporation

By: /s/ STEVEN BERMAN

Name: Steven Berman

Its: President

Dated: November , 1999

Subsidiaries of the Registrant

Subsidiary*	Jurisdiction
-----	-----
JP (HK) Limited	Hong Kong
JAKKS Pacific (HK) Limited	Hong Kong
J-X Enterprises, Inc.	New York
JAKKS Acquisition Corp.	Delaware
Road Champs, Inc.	Delaware
Road Champs, Ltd.	Hong Kong
JAKKS Acquisition II, Inc.	Delaware
Berk Corporation	California
Flying Colors Toys, Inc.	Michigan
Flying Colors Toys (HK) Ltd.	Hong Kong

* All subsidiaries conduct business under their respective corporate names.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report dated February 23, 2000 on the consolidated financial statements of JAKKS Pacific, Inc. in this Form 10-K into the previously filed Form S-3 Registration Statement of JAKKS Pacific, Inc. (File No. 333-48865).

/s/ PANNELL KERR FORSTER

Pannell Kerr Forster
Certified Public Accountants
A Professional Corporation

Los Angeles, California
March 29, 2000

YEAR
DEC-31-1999
JAN-01-1999
DEC-31-1999
1
57,546,406
39,333,944
40,967,509
2,942,606
19,863,508
157,523,691
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5,320,103
232,878,096
44,354,054
8,713
0
0
19,273
187,482,222
232,878,096
183,685,124
183,685,124
107,601,639
158,756,266
(3,786,792)
0
(1,588,043)
30,303,693
8,333,844
0
0
0
21,969,849
1.55
1.39