SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001

OR

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

Commission file number: 0-28104

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

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

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

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

Yes [X] No [ ]

The number of shares outstanding of the issuer's common stock is 18,063,141 (as of May 15, 2001).

JAKKS PACIFIC, INC. AND SUBSIDIARIES
INDEX TO QUARTERLY REPORT ON FORM 10-Q
QUARTER ENDED MARCH 31, 2001

ITEMS IN FORM 10-Q

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

JAKKS PACIFIC, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

ASSETS

	December 31, 2000 (*)	March 31, 2001 (unaudited)
Current assets		
Cash and cash equivalents	$ 29,275,424	$ 24,291,405
Marketable securities	13,617,912	27,321,493
Accounts receivable, net	47,053,699	52,722,349
Inventory, net	30,534,826	29,769,304
Advanced royalty payments	2,495,027	2,321,145
Prepaid expenses and other current assets	5,655,480	5,407,304
Total current assets	128,632,368	141,833,000
Office furniture and equipment	3,779,585	4,253,143
Molds and tooling	23,929,329	24,705,265
Leasehold improvements	1,927,805	1,817,557
Total	29,636,719	30,775,965
Less accumulated depreciation and amortization	10,653,467	12,675,409
Property and equipment, net	18,983,252	18,100,556
Notes Receivable-Officers	2,450,000	2,325,000
Investment in joint venture	9,758,359	1,244,891
Goodwill, net	74,590,189	73,836,435
Trademarks, net	12,104,546	11,972,370
Intangibles and deposits, net	2,203,679	2,045,843
Total assets	$248,722,393	$251,358,095

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2000 (*)	March 31, 2001 (unaudited)
Current liabilities		
Accounts payable and accrued expenses	$ 33,712,040	$ 29,132,097
Income taxes payable	7,623,355	9,221,369
Current portion of long term debt	400,000	400,000
Total current liabilities	41,735,395	38,753,466
Long term debt, net of current portion	1,000,000	900,000
Deposits	--	27,600
Deferred income taxes	1,456,817	756,817
Total liabilities	44,192,212	40,437,883
Contingency		
Stockholders' equity		
Common stock, $.001 par value; 25,000,000 shares authorized; 19,485,582 and 19,511,055 shares issued, respectively	19,485	19,511
Additional paid-in capital	156,475,343	156,844,565
Treasury stock, at cost, 1,493,600 and 1,493,600 shares, respectively	(12,911,483)	(12,911,483)
Retained earnings	60,946,836	66,967,619
Total stockholders' equity	204,530,181	210,920,212
Total liabilities and stockholders' equity	$248,722,393	$251,358,095

See accompanying notes to condensed consolidated financial statements.

(*) Derived from audited financial statements

JAKKS PACIFIC, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations
For the Three Months Ended March 31, 2000 and 2001 (Unaudited)

	Three Months Ended March 31, 2000	2001
Net sales	$50,782,075	$59,961,872
Cost of sales	30,678,416	35,494,184
Gross profit	20,103,659	24,467,688
Selling, general and administrative expenses	16,099,802	16,894,201
Income from operations	4,003,857	7,573,487
Profit from joint venture	(5,211,345)	(727,616)
Other expense	451,803	306,633
Interest, net	(952,046)	(485,506)
Income before provision for income taxes	9,715,445	8,479,976
Provision for income taxes	3,112,012	2,459,193
Net income	$ 6,603,433	$ 6,020,783
Earnings per share - basic	$ 0.34	$ 0.33
Earnings per share - diluted	$ 0.32	$ 0.32

See accompanying notes to condensed consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2000 and 2001 (Unaudited)

	Three Months Ended March 31, 2000	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 6,603,433	$ 6,020,783
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	1,881,137	3,062,355
Earned Compensation from stock option grants	--	236,385
Change in operating assets and liabilities		
Accounts receivable	(1,953,215)	(5,668,650)
Preferred return from joint venture	(1,598,628)	8,513,468
Inventory	2,601,394	765,522
Advanced royalty payments	(1,270,027)	173,882
Prepaid expenses and other current assets	1,343,818	248,176
Accounts payable and accrued expenses	(7,583,316)	(4,579,943)
Income taxes payable	1,834,228	1,598,014
Deferred income taxes	(117,975)	(700,000)
Marketable securities	15,069,326	(13,703,581)
Total adjustments	10,206,742	(10,054,372)
Net cash provided (used) by operating activities	16,810,175	(4,033,589)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and equipment	(2,272,976)	(1,139,246)
Other assets	56,408	30,953
Repayment of Notes receivable from officers	--	125,000
Net cash used by investing activities	(2,216,568)	(983,293)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from stock options and warrants exercised	303,198	132,863
Repayment of long term debt	(1,242)	(100,000)
Net cash provided by financing activities	301,956	32,863
Net increase (decrease) in cash and cash equivalents	14,895,563	(4,984,019)
Cash and cash equivalents, beginning of period	57,546,406	29,275,424
Cash and cash equivalents, end of period	$72,441,969	$24,291,405
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	$ 1,277,784	$ 535,443
Interest	$ --	$ 22,221

See accompanying notes to condensed consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2001

Note 1 - Basis of presentation

The accompanying 2000 and 2001 unaudited interim condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to prevent the information presented from being misleading. These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Form 10-K, which contains financial information for the years ended December 31, 1998, 1999 and 2000.

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

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

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

Note 2 -- Earnings per share

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

	THREE MONTHS ENDED MARCH 31,					
	2000			2001		
	INCOME	WEIGHTED AVERAGE SHARES	PER-SHARE	INCOME	WEIGHTED AVERAGE SHARES	PER-SHARE
Earnings per share - basic Income available to common stockholders.........	$6,603,433	19,289,560	$0.34	$6,020,783	18,007,601	$0.33
Effect of dilutive securities Options and warrants.........	--	1,084,437		--	912,866	
Earnings per share - diluted Income available to common stockholders plus assumed exercises	$6,603,433	20,373,997	$0.32	$6,020,783	18,920,467	$0.32

JAKKS PACIFIC, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)
March 31, 2001

Note 3 -- Common stock and preferred stock

The Company has 26,000,000 authorized shares of stock consisting of 25,000,000 shares of $.001 par value common stock and 1,000,000 shares of $.001 par value preferred stock. During 2000, the Company purchased 1,493,600 shares of its common stock for a total of $12,911,483 pursuant to a buy-back program approved by the Board of Directors.

Note 4 -- Acquisitions

In October 1999, the Company acquired all of the stock of Flying Colors Toys, Inc. ("Flying Colors") for approximately $52.9 million. 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 $4.5 million in each of the three 12-month periods following the closing, if gross profits of Flying Colors branded products achieve certain prescribed levels in each of such period. The maximum earn-out for the initial earn-out period ended September 30, 2000 of $4.5 million was earned by the sellers.

On July 28, 2000, the Company acquired all of the outstanding capital stock of Pentech International, Inc. ("Pentech") for an aggregate purchase price of approximately $20.6 million, which was paid in cash on the closing of the transaction. In addition, the Company paid on the closing $10.0 million to pay down certain indebtedness of Pentech, assumed liabilities of approximately $25.5 million and incurred estimated legal and other acquisition costs of approximately $1.2 million. Pentech designs, produces and markets writing instruments and craft products.

Note 5 -- Notes Receivable From Officers

As of March 31, 2001, there were two notes receivable from officers totaling $2,075,000 issued at interest rates of 6.5% each, with interest payable on each April 28 and October 28 of each year, and principal payable at maturity on April 28, 2003. Additionally, there is a third note receivable from an officer for $250,000 issued at an interest rate of 7.0%, with interest and principal payable at maturity on May 12, 2002.

Note 6 -- Litigation

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

JAKKS PACIFIC, INC. AND SUBSIDIARIES

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

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

OVERVIEW

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

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

We acquired Road Champs in February 1997, and have included the results of operations of Road Champs from February 1, 1997, the effective date of the acquisition. We acquired the Child Guidance and Remco trademarks in October 1997, both of which contributed to operations nominally in 1997, but contributed more significantly to operations commencing in 1998. In June 1999, we acquired Berk with its lines of educational toy foam puzzle mats and activity sets. Berk began to contribute modestly beginning in the third quarter of 1999. In October 1999, we acquired Flying Colors, whose product lines include licensed activity kits, play clay compound playsets and lunch boxes as well as other related products. Flying Colors product lines contributed to operations beginning in the fourth quarter of 1999. In July 2000, we acquired Pentech whose product lines include pens, markers, pencils, and other writing instruments, crafts and activity kits, and related stationery products. Pentech product lines contributed to operations beginning in August 2000.

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

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

In June 1998, we formed a joint venture with THQ Inc., a developer, publisher and distributor of interactive entertainment software, and the joint venture licensed the rights from World Wrestling Federation Entertainment to publish World Wrestling Federation electronic video game software 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 the sales of the video games, and THQ is entitled to receive the balance of the profits generated by the joint venture.

Through the acquisition of Pentech in July 2000, we became a fifty percent member of a Chinese joint venture engaged in the manufacture of pencils, pens, and markers that are sold individually, in sets or are included in Pentech and Flying Colors activity kits.

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

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

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

Selling, general and administrative expenses include costs directly associated with the selling process, such as sales commissions, advertising and travel expenses, as well as general corporate expenses, goodwill and trademark amortization and product development. We have recorded goodwill of approximately $78.2 million and trademarks of approximately $13.9 million in connection with acquisitions made to date. Goodwill is being amortized over a 30-year period, while trademark acquisition costs are being amortized over periods ranging from 5 to 30 years.

RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED MARCH 31,	
	2000	2001
Net sales	100.0%	100.0%
Cost of sales	60.4	59.2
Gross profit	39.6	40.8
Selling, general and administrative expenses	31.7	28.2
Income from operations	7.9	12.6
Profit from joint venture	(10.3)	(1.2)
Interest, net	(1.8)	(0.8)
Other expense	0.9	0.5
Income before income taxes	19.1	14.1
Provision for income taxes	6.1	4.1
Net income	13.0%	10.0%

THREE MONTHS ENDED MARCH 31, 2001 AND 2000

Net Sales. Net sales increased $9.2 million, or 18.1%, to $60.0 million in 2001 from $50.8 million in 2000. The growth in net sales was due primarily to the continuing growth in sales of our Flying Colors products and increases in sales of our WWF Wrestling products, Child Guidance products, and fashion dolls, as well as the addition of Pentech products, which began contributing to operations in August 2000, offset by a decrease in sales of our Wheels division, consisting primarily of our Road Champs die-cast toy and collectible vehicles with its BXS die-cast bicycles and MXS die-cast motorcycles.

Gross Profit. Gross profit increased $4.4 million, or 21.7%, to $24.5 million, or 40.8% of net sales, in 2001 from $20.1 million, or 39.6% of net sales, in 2000. The overall increase in gross profit was attributable to the increase in net sales. The increase in gross profit margin of 1.2% of Net Sales is attributed to the decrease in royalty expense as a percentage of net sales due to changes in the product mix and lower product costs, which is partially offset by an increase in amortization expense of molds and tools used in the manufacture of our products.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $16.9 million in 2001 and $16.1 million in 2000, constituting 28.2% and 31.7% of net sales, respectively. The overall increase of $0.8 million in such costs was due to costs incurred in support of the Company's development, marketing and distribution of products under its recently acquired Pentech brand and the increase in net sales with its proportionate impact on variable selling costs such as freight and shipping related expenses, sales commissions, cooperative advertising and travel expenses, among others. We produced and aired television commercials in support of several of our products, including World Wrestling Federation action figures, Road Champs extreme sports products and Flying Colors products in 2000 and 2001. From time to time, we may increase our advertising efforts, if we deem it appropriate for particular products.

Profit from Joint Venture. Beginning in the fourth quarter of 1999, we began to earn our preferred return on the sale of World Wrestling Federation video games by our joint venture with THQ. The joint venture had sales of only carryover titles in 2001 compared to releasing a new Sony Play Station title along with having sales of carryover titles in 2000.

Interest, Net. We had lower average cash balances during 2001 than in 2000 due to the net proceeds from the sale of our common stock in December 1999 reduced by significant disbursements in the third and fourth quarters of 2000 related to the acquisition of Pentech and the repurchase by the Company of its common stock.

Other Expense. Other expense in 2001 relates to shut-down costs of certain operations of Pentech, acquired in 2000, and such costs in 2000 relate to shut-down costs of certain operations of Flying Colors, acquired in 1999.

Provision for Income Taxes. Provision for income taxes included Federal, state and foreign income taxes in 2000 and 2001, at effective tax rates of 32.0% in 2000 and 29.0% in 2001, benefiting from a flat 16.5% Hong Kong Corporation Tax on our income arising in, or derived from, Hong Kong. As of March 31, 2001, we had deferred tax assets of approximately $0.4 million for which no allowance has been provided since, in the opinion of management, realization of the future benefit is probable. In making this determination, management considered all available evidence, both positive and negative, as well as the weight and importance given to such evidence.

SEASONALITY

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

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2001, we had working capital of $103.1 million, as compared to $86.9 million as of December 31, 2000. This increase was primarily attributable to our operating results and the receipt of the preferred return from our joint venture with THQ.

Operating activities used net cash of $4.0 million in 2001, as compared to having provided cash of $16.8 million in 2000. Net cash was provided primarily by net income, non-cash charges, such as depreciation and amortization and earned compensation from stock option grants, as well as a decrease in preferred return from THQ joint venture, inventory, advanced royalty payments, prepaid expenses and other current operating assets, and an increase in income taxes payable, which were offset by an increase in accounts receivable, decreases in accounts payable and accrued expenses and deferred income taxes, as well as the purchase of marketable securities. As of March 31, 2001, we had cash and cash equivalents of $24.3 million and marketable securities of $27.3 million.

Our investing activities used net cash of $1.0 million in 2001, as compared to $2.2 million in 2000, consisting primarily of the purchase of office furniture and equipment and molds and tooling used in the manufacture of our products partially offset by the repayment of notes receivable from officers. As part of our strategy to develop and market new products, we have entered into various character and product licenses with royalties ranging from 1% to 12% payable on net sales of such products. As of March 31, 2001, these agreements required future aggregate minimum guarantees of $12.8 million, exclusive of $2.3 million in advances already paid.

Our financing activities provided net cash of $32,863 in 2001, consisting primarily of proceeds from the exercise of options and warrants partially offset by the repayment of long term debt. In 2000, financing activities provided net cash of $0.3 million, consisting primarily of proceeds from the exercise of options and warrants.

In October 1999, we acquired Flying Colors Toys. At or shortly after the closing we paid approximately $34.7 million for the stock and paid off approximately $17.6 million of indebtedness. We also agreed to pay an earn-out of up to $4.5 million in each of the three 12-month periods following the closing if net sales of Flying Colors products achieve certain targeted levels during each such period. The sellers of Flying Colors earned the maximum of $4.5 million in the first earn-out period, which ended September 30, 2000. One of Flying Colors' senior executives and most of its creative design and product development staff have remained with Flying Colors Toys. Flying Colors' principal products include molded plastic activity kits, compound playsets and lunch boxes featuring licensed characters, including Rugrats, Blue's Clues and Looney Tunes characters. The kits cover a broad range of products and activities, such as make and paint your own characters, jewelry making, art studios, posters, puzzles and other projects.

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial and commodity market prices and rates. We are exposed to market risk in the areas of changes in United States and international borrowing rates and changes in foreign currency exchange rates. In addition, we are exposed to market risk in certain geographic areas that have experienced or remain vulnerable to an economic downturn, such as China. We purchase substantially all of our inventory from companies in China, and, therefore, we are subject to the risk that such suppliers will be unable to provide inventory at competitive prices. While we believe that, if such an event were to occur we would be able to find alternative sources of inventory at competitive prices, we cannot assure you that we would be able to do so. These exposures are directly related to our normal operating and funding activities. Historically and as of March 31, 2001, we have not used derivative instruments or engaged in hedging activities to minimize our market risk.

INTEREST RATE RISK

As of March 31, 2001, we do not have any outstanding balances on our credit facility, nor do we expect to draw on the facility prior to its termination or expiration, and we have only nominal interest-bearing obligations. Accordingly, we are not generally subject to any direct risk of loss arising from changes in interest rates.

FOREIGN CURRENCY RISK

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On or about March 26, 2001, Rose Art Industries, Inc. ("Rose Art") and Licensing International, Ltd. commenced an action against us in the United States District Court for the District of New Jersey in which they allege our willful infringement of a patent owned by Licensing International and licensed to Rose Art through our production and sale of our Zyrofoam modeling compound. The plaintiffs seek injunctive relief, monetary damages in a unspecified amount, together with interest thereon, and reasonable attorneys' fees. We believe that their claims are without merit and we intend vigorously to defend against their action. On or about April 30, 2001, we filed an answer to their complaint in which we assert various defenses and counterclaims, including among others that their patent is invalid and unenforceable and that, in any case, the manufacture, use and sale of our product does not infringe their patent. Accordingly, we request the court to dismiss the complaint, to declare our product non-infringing and the subject patent invalid and/or unenforceable, and to award us our litigation costs. In our answer, we also allege Rose Art's infringement of one of our patents and seek injunctive relief, monetary damages in an unspecified amount and reasonable attorneys' fees. The parties are currently engaged in discovery, and, at this early stage in these proceedings, we are unable to predict the likely outcome of the action or its impact on our business, financial condition or results of operations.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

NUMBER	DESCRIPTION
3.1	Restated Certificate of Incorporation of the Company(1)
3.1.1	Certificate of Designation and Preferences of Series A Cumulative Convertible Preferred Stock of the Company(2)
3.1.2	Certificate of Elimination of All Shares of 4% Redeemable Convertible Preferred Stock of the Company(2)
3.1.3	Certificate of Amendment of Restated Certificate of Incorporation of the Company(3)
3.2.1	By-Laws of the Company(1)
3.2.2	Amendment to By-Laws of the Company(4)

- ------------

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

(2) Filed previously as an exhibit to the Company's Current Report on Form 8-K, filed April 7, 1998, and incorporated herein by reference.

(3) Filed previously as exhibit 4.1.2 of the Company's Registration Statement on Form S-3 (Reg. No. 333-74717), filed on March 9, 1999, and incorporated herein by reference.

(4) Filed previously as an exhibit to the Company's Registration Statement on Form SB-2 (Reg. No. 333-22583), effective May 1, 1997, and incorporated herein by reference.

(b) Reports on Form 8-K

We did not file a current report on Form 8-K in our fiscal quarter ended March 31, 2001.

SIGNATURES

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

Registrant:

JAKKS PACIFIC, INC.

Date: May 15, 2001

By: /s/ Joel M. Bennett

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

EXHIBIT INDEX

NUMBER	DESCRIPTION	PAGE
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