JAKKS PACIFIC INC
Form 10-K/A
March 31, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

(Mark One)	
x	**ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the Fiscal Year Ended December 31, 2003
o	**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	**95-4527222**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
22619 Pacific Coast Highway Malibu, California	**90265**
(Address of principal executive offices)	**(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 x No o

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/A or any amendment to this Form 10-K/A. x

Indicate by a check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No o

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 12, 2004) is $371,658,360.

The number of shares outstanding of the registrant s Common Stock, $.001 par value (being the only class of its common stock) is 25,313,312 (as of March 12, 2004).

Documents Incorporated by Reference

None.

Table of Contents

EXPLANATORY NOTE

The Company is restating its financial statements included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2003, which includes the Company s financial statements for 2003 and 2002 (the 2003 10-K), to account for the acquisition of Toymax, Trendmasters and P&M Products in accordance with paragraph 39 of SFAS 141 (the Restatement). Specifically, a portion of the purchase price for each of these transactions has now been allocated to acquired product rights and other intangible assets other than goodwill.

The following items of the 2003 10-K have been modified or revised in this Amendment No. 1 to reflect the Restatement:

Item 2. Business

Item 6. Selected Financial Data

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Item 8. Financial Statements and Supplementary Data

Item 16. Exhibits, Financial Statement Schedules and Reports on Form 8-K

Except for disclosures affected by the Restatement, this Amendment No. 1 speaks as of the original filing date of the 2003 10-K on March 15, 2004, and does not modify or update disclosures in the 2003 10-K to reflect events occurring or items discovered after March 15, 2004. Accordingly, this Amendment No. 1 should be read in conjunction with the Company s filings made with the Securities and Exchange Commission subsequent to March 15, 2004, including any amendments to those filings.

JAKKS PACIFIC, INC.

INDEX TO ANNUAL REPORT ON FORM 10-K/A

For the Fiscal Year ended December 31, 2003

Items in Form 10-K/A

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 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.

Table of Contents

Item 1. *Business*

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

Company Overview

We are a leading multi-line, multi-brand toy company that designs, develops, produces and markets toys and related products. We focus our business on acquiring or licensing well-recognized trademarks and brand names with long product histories (evergreen brands). We seek to acquire these evergreen brands because we believe they are less subject to market fads or trends. Our products are typically simpler, lower-priced, toys and accessories and include:

Action figures and accessories including licensed characters, principally based on *World Wrestling Entertainment*™ (WWE) and the *Dragon Ball*® franchise, and toy vehicles, including *Road Champs*® die-cast collectibles and *Remco*® toy vehicles and role-play toys and accessories;

Craft, activity and stationery products, including *Flying Colors Toys*® activity sets, compounds, playsets and lunch boxes, and Colorworkshop® craft products such as the *Blopen*® and *Pentech*® writing instruments, stationery and activity products;

Child Guidance® infant and pre-school electronic toys, toy foam puzzle mats and blocks, activity sets, outdoor products, plush toys and slumber bags;

Seasonal toys and leisure products, including kites, *Funnoodle*® pool toys, and *Storm*™ water guns;

Toy candy through our creation of *Tongue Tape*™;

Electronics products, including plug and play TV Games and *Laser Challenge*™;

Junior sports, including Disney products, *Gaksplat*™ and *Storm*™; and

Fashion and mini dolls and related accessories, including *Disney* Princesses sold in The Disney Store chain.

We continually review the marketplace to identify and evaluate evergreen brands that we believe have the potential for significant growth. We endeavor to generate growth within these brands by:

creating innovative products under established brand names;

focusing our marketing efforts to enhance consumer recognition and retailer interest;

linking them with our evergreen portfolio of brands;

adding new items to the branded product lines that we expect will enjoy greater popularity; and

adding new features and improving the functionality of products in the line.

In addition to developing our proprietary brands and marks, we license brands such as *WWE*™, *Nickelodeon*®, *Rugrats*®, *Dora the Explorer*®, *Blue s Clues*®, *SpongeBob SquarePants*®, *Mickey Mouse*, *Winnie the Pooh*, *Kim Possible*, *Finding Nemo*, *Hello Kitty*® and *NASCAR*®. Licensing enables us to use these high-profile marks at a lower cost than 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 would be available for purchase. We also license technology

Table of Contents

produced by unaffiliated inventors and product developers to improve the design and functionality of our products.

We have capitalized on our relationship with the WWE by obtaining an exclusive worldwide license for our joint venture with THQ Inc. (THQ), which develops, produces, manufactures and markets video games based on *WWE* characters and themes. Since the joint venture s first title release in 1999, it has released 19 new titles. We have received $41.6 million as our share of the joint venture s profit through December 31, 2003.

Through the Toymax International, Inc. (Toymax) acquisition, we added toy brand names such as *Laser Challenge* and *Creepy Crawlers*® to our brand portfolio. In addition, pool-related products branded under the name *Funnoodle* and kites branded under the name *Go Fly a Kite*® further diversified our portfolio with products popular in the spring and summer seasons.

Through the assets acquired from Trendmasters®, Inc. (Trendmasters) acquisition, we added the *The Storm* brand of water guns, gliders and junior sports toys, seasonal products for Halloween, Christmas and Easter, and vehicles, action figures, dolls and playsets under multiple brands.

In May 2003, we acquired from P&M Products USA, Inc. and an affiliated United Kingdom company, P&M Products Limited, (collectively P&M) the *Blopen*, *Blitzer*™, *Vivid Velvet*® and *SmArty Paints*® line of products.

Most of our current products are relatively simple and inexpensive toys. In 2003, approximately 70% of our revenue came from products priced at ten dollars or less at retail. We believe that these products have enduring appeal and are less subject to general economic conditions, toy product fads and trends, and changes in retail distribution channels. As of December 31, 2003, we had over 3,800 products in approximately 19 product categories. 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. Our product development process typically takes from three to nine months from concept to production and shipment to our customers. We believe that many licensors and retailers recognize and reward our ability to bring product to market faster and more efficiently than many of our competitors.

We sell our products through our in-house sales staff and independent sales representatives to toy and mass-market retail chain stores, department stores, office supply stores, drug and grocery store chains, club stores, toy specialty stores and wholesalers. The *Road Champs*, *Flying Colors* and *Pentech* products also are sold to smaller hobby shops, specialty retailers and corporate accounts, among others. Our five largest customers are Target, Kmart, Toys R Us, Wal-Mart, and Kay Bee Toys, which collectively accounted for approximately 57.7% of our net sales in 2003. We have over 7,000 other customers, none of which accounted for more than 2.0% of our net sales in 2003.

Our Growth Strategy

The execution of our growth strategy has resulted in increased revenues and earnings. In 2003, we generated net sales and EBITDA of $315.8 million and $34.8 million, respectively. Key elements of our growth strategy include:

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 2001, we expanded the use of real-scan technology in our action toys, and in 2002 we incorporated articulated joints and a flexible rubberized coating to enhance the life-like and feel of these action toys. These innovations produce higher quality and better likenesses of the representative characters.

Enter New Product Categories. We will continue to use our extensive experience in the toy and other industries to evaluate products and licenses in new product categories and to develop additional product lines. We have entered the toy candy category through our internal creation of *Tongue Tape*, commenced marketing of licensed classic video games for simple plug-in use with television sets and expanded into slumber bags through the licensing of this category from our current licensors, such as Nickelodeon.

Pursue Strategic Acquisitions. We intend to supplement our internal growth rate with selected strategic acquisitions. Since our inception in 1995, we have successfully completed and integrated eleven acquisitions of companies and trademarks. These include our acquisitions of Justin Products, Road Champs, Remco, Child Guidance, Berk, Flying Colors Toys, Pentech, Kidz Biz, Toymax® and Trendmasters®. Most recently, in May 2003, we acquired *ColorWorkshop* and *Blopens*, among others, from P&M which we plan on incorporating into our *Flying Colors* and *Pentech* lines. We will continue focusing our acquisition strategy on businesses or brands that have compatible product lines and offer valuable trademarks or brands. In December 2002, we signed a three-year master toy license for DragonBall®, DragonBall Z® and DragonBall GT®. We will develop, manufacture and distribute action figures and action figure accessories based on these top rated animated series.

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 the WWE, Nickelodeon, Disney, and Warner Bros.®, as well as with the licensors of the many popular licensed children s characters previously mentioned, among others. We intend to continue to pursue new licenses from these entertainment and media companies and other licensors. We also intend to continue to purchase additional inventions and product concepts through our existing network of product developers.

Expand International Sales. We believe that foreign markets, especially Europe, Australia, Canada, Latin America and Asia, offer us significant growth opportunities. In 2003, our sales generated outside the United States were approximately $44.7 million, or 14.2% of total net sales. We intend to continue to expand our international sales by capitalizing on our experience and our relationships with foreign distributors and retailers. Our recent expansion efforts included entering into a distribution agreement with Funtastic Ltd., an Australia based toy distributor. In addition, in December 2001, we acquired Kidz Biz for its distribution channels in the United Kingdom and surrounding territories. We expect both initiatives to continue to contribute to our international growth in 2004.

Capitalize On Our Operating Efficiencies. We believe that our current infrastructure and low-overhead operating model can accommodate significant growth without a proportionate increase in our operating and administrative expenses, thereby increasing our operating margins.

Industry Overview

According to the TIA, the leading toy industry trade group, the United States is the world s largest toy market, followed by Japan and Western Europe. Total retail sales of toys, excluding video games, in the United States, were approximately $20.3 billion in 2002. Sales by domestic toy manufacturers to foreign customers exceeded $6.0 billion in 2002. We believe the two largest United States 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

Table of Contents

and expansion of previously introduced products and product lines. In the United States video game segment, total retail sales of video game software were approximately $10.3 billion in 2002.

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 to not 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 and efficiently.

Products

We focus our business on acquiring or licensing well-recognized trademarks or brand names, and we seek to acquire evergreen brands which are less subject to market fads or trends. Some of our license agreements for products and concepts call for royalties ranging from 1% to 18% of net sales, and some may require minimum guarantees and advances. Our principal products include:

Action Figures and Accessories

We have an extensive toy license with the WWE pursuant to which we have the exclusive worldwide right, until December 31, 2009, to develop and market a full line of toy products based on the popular *WWE* professional wrestlers. 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 6 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. We continually expand and enhance this product line by using technology in the development and in the products themselves. The 6 inch figures currently make up a substantial portion of our overall *WWE* line, which has since grown to include many other new products including playsets using interactive technology. Our strategy has been to release new figures and accessories frequently to keep the line fresh and to retain the interest of the consumers.

In December 2002, we signed a three-year master toy license for *Dragon Ball*, *Dragon Ball Z* and *Dragon Ball GT*. In 2003, we began to develop, manufacture and distribute action figures and action figure accessories based on these top-rated animated series.

Flying Colors/ Pentech Activity Sets, Compounds, Playsets, Writing Instruments and Lunch Boxes

Through our acquisition of Flying Colors Toys we entered into the toy activity category with compounds and 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. The activity cases, with molded and painted likenesses of popular characters, such as Nickelodeon s *Blue s Clues* and *SpongeBob SquarePants*, and *Hello Kitty*, 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. Our product lines also include stationery, back-to-school pens, pencils, markers, notebooks and P&M craft products such as *Blopens*® and *ColorWorkshop*. In 2002, we entered the toy candy category and introduced our *Tongue Tape* products in six flavors in a plastic container and have added a necklace to carry a *Tongue Tape* dispenser, as well as various licenses including *Hello Kitty* and *NASCAR*.

Our compounds represent another significant 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

5

Table of Contents

compound area and have introduced a full line of innovative compounds under the *Nickelodeon* brand, including *Goooze*® and *Skweeez*™, among others.

Electronics Products

Through our acquisition of Toymax we entered into the electronic products category with our plug and play TV Games and *Laser Challenge* product line. Our *Laser Challenge* product line includes laser games and NRG paintball™. Our current TV Games include licenses from Activision, Atari, Namco and Nickelodeon, and feature such games as Centipede® and Pac-Man®.

In 2004, we expect to release at least eight new TV Games including Ms. Pac-Man®, Spider-Man®, Disney and several licensed and non-licensed preschool titles.

Seasonal Products

Through our acquisitions of Toymax and Trendmasters we have entered into a wide range of seasonal toys and leisure products. Our *Go Fly A Kite* product line includes youth and adult kites and a wide array of decorative flags, windstocks, and windwheels. Our *Funnoodle* pool toys include the basic funnoodle, pool floats and a variety of other pool toys. Our *Storm* product line includes water guns, gliders and sport balls. In addition, we added a holiday product line for Easter, Halloween and Christmas.

Junior Sports Products

Our junior sports products include Disney licensed products, *Gaksplat* and *Storm*. Our Disney sports include such activities as basketball, bowling and golf. Our *Gaksplat* and *Storm* junior sports include a variety of mini sport balls and activity products.

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). Through licenses, we produce replicas of well-known vehicles including those from *Ford*®, *Chevrolet*® and *Porsche*®. Additionally, through our *NASCAR* license, we produce radio-controlled vehicles in a variety of scales. We believe that these licenses, increase the perceived value of the products and enhance their marketability.

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

Our extreme sports offering includes our *MXS*® line of motorcycles with riders featuring click n grip functionality which allows the user to release the rider from the motorcycle seat and perform the signature moves of the sport s top riders. Other products include off-road vehicles, personal watercraft, surfboards and skateboards, all sold individually and with playsets and accessories.

Toy and activity vehicles

Our *Remco* toy line includes toy and activity vehicles and other toys. In 2002, we also added infrared radio controlled vehicles and *Mighty Mo s*® toy vehicles. Our toy vehicle line is comprised of a large assortment of rugged die-cast and plastic vehicles that range in size from four and three-

quarter inch to big-wheeled seventeen inch vehicles. The breadth of the line is extensive, with themes ranging from emergency, fire, farm and construction, to racing and jungle adventure.

Child Guidance

Infant and 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.

Foam puzzle mats and playsets

The foam toy products include puzzle mats featuring licensed characters, such as *Winnie the Pooh and Blue s Clues*, 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.

Slumber bags

Our line of children s indoor slumber bags features *Dora the Explorer*, *SpongeBob SquarePants* and *Blue s Clues* in addition to proprietary designs.

Fashion and Mini Dolls and Related Accessories

We produce various proprietary and licensed fashion and mini dolls and accessories for children between the ages of three and ten. The proprietary product lines include 11 1/2 inch fashion dolls customized with high-fashion designs that correspond with particular holidays, events or themes, and fashion dolls based on children s classic fairy tales and holidays. We also have an agreement to manufacture for The Disney Store chain a full line of dolls under a private label which features *Disney* Princesses and classic Disney characters.

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 Entertainment 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 the WWE under which it acquired the exclusive worldwide right to publish *WWE* video games on all hardware platforms. The term of the license agreement expires on December 31, 2009, and the joint venture has a right to renew the license for an additional five years under various conditions.

The games are designed, developed, manufactured and distributed by THQ. THQ arranges for the manufacture of the CD-ROMs and game cartridges used in the various video game platforms under non-exclusive licenses with Sony, Nintendo, Sega and Microsoft. No other licenses are required for the manufacture of the personal computer titles.

Through June 30, 2006, we are entitled to receive a guaranteed percentage preferred return from the joint venture at varying rates of net sales of the video games depending on the cumulative

Table of Contents

unit sales and platform of each particular game, as well as on the royalties earned by the joint venture from the publishing of game guides by third parties. After June 30, 2006, the amount of our preferred return from the joint venture will be subject to renegotiation between THQ and us. THQ is entitled to receive the balance of the profits.

The joint venture currently publishes titles for the Sony *PlayStation*® and *PlayStation 2*®, *Nintendo 64*® and *GameCube*® and Microsoft *Xbox*® consoles, Nintendo *Game Boy Color*® and *Game Boy Advance*® hand-held platforms and personal computers. The joint venture launched its first products 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 sufficient installed base to support new software. These titles are marketed to our existing customers as well as to game, electronics and other specialty stores, such as Electronics Boutique and Best Buy.

The following table presents our past results with the joint venture:

	New Game Titles		Profit from Joint Venture(1)
	Console Platforms	Hand-held Platforms	(In millions)
1999	1	1	$ 3.6
2000	4	1	15.9
2001	1	2	6.7
2002	3	1	8.0
2003	5		7.4

(1) Profit from the joint venture reflects our preferred return on joint venture revenue less certain costs incurred directly by us.

Wrestling video games have demonstrated consistent popularity, with five of our wrestling-themed video games each having sold in excess of 1 million units in 1999, 2000, 2001, 2002 and 2003, at retail prices ranging from approximately $42 to $60 per game. We believe that the success of *WWE* titles is dependent on the graphic look and feel of the software, the depth and variation of game play and the popularity of *WWE.* We believe that as a franchise property, *WWE* titles have brand recognition and sustainable consumer appeal, which may allow the joint venture to use titles over an extended period of time through the release of sequels and extensions and to re-release such products at different price points in the future. In 2001, our PlayStation title *SmackDown*™ was re-released as a greatest hit.

Table of Contents

Sales, Marketing and Distribution

We sell all of our products through our own in-house sales staff and independent sales representatives to toy and mass-market retail chain stores, department stores, office supply stores, drug and grocery store chains, club stores, toy specialty stores and wholesalers. Our five largest customers are Target, Kmart, Toys R Us, Wal-Mart, and Kay Bee Toys, which accounted for approximately 55.7% of our net sales in 2002 and 57.7% of our net sales in 2003. Kay Bee Toys filed for bankruptcy protection under Chapter 11 in January 2004. 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 our products through e-commerce sites, including Toysrus.com.

We contract the manufacture of most of our products to unaffiliated manufacturers located in China. We sell the finished products on a letter of credit basis or on open account to our customers, who take title to the goods in Hong Kong or China. These methods allow us to reduce certain operating costs and working capital requirements. A portion of our sales originate in the United States, so we hold certain inventory in our warehouse and fulfillment facilities. To date, a significant portion of all of our sales has been to domestic customers. We intend to continue expanding distribution of our products into foreign territories and, accordingly, we have:

acquired Kidz Biz, a United Kingdom-based distributor of toys and related products,

engaged representatives to oversee sales in certain territories,

engaged distributors in certain territories, such as Funtastic in Australia, and

established direct relationships with retailers in certain territories.

Outside of the United States, we currently sell our products primarily in Europe, Australia, Canada, Latin America and Asia. Sales of our products abroad accounted for approximately $53.2 million, or 17.2% of our net sales, in 2002 and approximately $44.7 million, or 14.2% of our net sales, in 2003. We believe that foreign markets present an attractive opportunity, and we plan to intensify our marketing efforts and further expand our distribution channels abroad.

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 generally are made in writing, and we take appropriate steps to notify our manufacturers of these cancellations.

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

Table of Contents

We advertise our products in trade and consumer magazines and other publications, market our products at international, national and regional toy, stationery and other specialty trade shows, conventions and exhibitions and carry on cooperative advertising programs with toy and mass retailers and other customers which include the use of in-store displays. We also produce and broadcast television commercials for our *WWE* action figure line, as well as for some of our *Flying Colors* and Electronics products. We may also advertise some of our other products on television, if we expect that the resulting increase in our net sales will justify the relatively high cost of television advertising.

Product Development

Each of our product lines has an in-house manager responsible for product development. The in-house manager identifies and evaluates 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. Although 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 from concept to production and shipment to our customers.

We employ a staff of designers for all of our product lines. We occasionally 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 inventors and developers generally range from 1% to 8% 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 all of these factors, as well as 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 by independent third-party contractors engaged by us. Safety testing is designed to meet regulations imposed by federal and state governmental authorities. We also monitor quality assurance procedures for our products for safety purposes. In addition, independent laboratories engaged by some of our larger customers test certain of our products.

Manufacturing and Supplies

Most of our products are currently produced by overseas third-party 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, while maximizing flexibility, capacity and production technology. All of the manufacturing services performed overseas for us are paid for 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 more than 20 different manufacturers. We believe that alternative sources of supply are available, although we cannot be assured that we can obtain adequate supplies of manufactured products.

Although we do not conduct the day-to-day manufacturing of our products, we participate in the design of the product prototype and production tools, dies 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 the production of substantially all of our products.

The principal raw materials used in the production and sale of our toy products are plastics, zinc alloy, 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 tools, dies and molds used in the manufacturing process, and these are transferable among manufacturers if we choose to employ alternative manufacturers. Tools, dies and molds represent substantially all of our property and equipment and amounted to $9.6 million in 2002 and $7.1 million in 2003. 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. Globally, certain of our competitors have greater financial resources, larger sales and marketing and product development departments, stronger name recognition, 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 *Flying Colors* and *Pentech* product categories, with Rose Art Industries, Hasbro (Play-doh) and 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. Our joint venture s principal competitors in the video game market are Electronic Arts, Activision and Acclaim Entertainment.

Seasonality and Backlog

In 2003, approximately 55.3% of our net sales were made in the third and fourth quarters. Generally, the first quarter is the period of lowest shipments and sales in our business and the toy industry generally and therefore the least profitable due to various fixed costs. Seasonality factors may cause our operating results to fluctuate significantly from quarter to quarter. However, our

Table of Contents

writing instrument and activity products generally are counter-seasonal to the traditional toy industry seasonality due to the higher volume generally shipped for back-to-school beginning in the second quarter. In addition, our seasonal products are primarily sold in the spring and summer seasons. Our results of operations may also fluctuate as a result of factors such as the timing of new products (and related expenses) 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 of most of our products 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 Products Safety Commission (CPSC) 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 CPSC to regulate and enforce flammability standards for fabrics used in consumer products. The CPSC may also require the repurchase by the manufacturer of articles. Similar laws exist in some states and cities and in various international markets. We maintain a quality control program designed to ensure compliance with all applicable laws.

Employees

As of March 12, 2004, we employed 316 persons, all of whom are full-time employees, including four executive officers. We employed 208 in the United States, 25 in the United Kingdom, 58 in Hong Kong and 25 in China. 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.

Available Information

We make available free of charge on or through our Internet website, www.jakkspacific.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Table of Contents

Our Corporate Information

We were formed as a Delaware corporation in 1995. Our principal executive offices are located at 22619 Pacific Coast Highway, Malibu, California 90265. Our telephone number is (310) 456-7799 and our Internet Website address is www.jakkspacific.com.

Item 2. *Properties*

Our principal executive offices occupy approximately 17,000 square feet of space in Malibu, California under a lease expiring on February 28, 2008. We have a lease, expiring August 31, 2007, for approximately 11,000 square feet of additional office space in Malibu, California, which contains our design offices. We have a lease for showroom and office space of approximately 14,500 square feet at the International Toy Center in New York City which expires April 30, 2010. We also have leased office and showroom space of approximately 10,000 square feet in Hong Kong from which we oversee our China-based third-party manufacturing operations, 318,000 square feet of warehouse space in City of Industry, California, and 10,000 square feet of office space in Surrey, England. We also occupy approximately 25,000 square feet of office and warehouse space in Clinton, Connecticut under a lease expiring September 30, 2007 from which the operations of our Go Fly a Kite and Funnoodle divisions are carried out. We believe that our facilities in the United States, Hong Kong and England are adequate for our reasonably foreseeable future needs.

Item 3. *Legal Proceedings*

We are a party to, and certain of our property is the subject of, various pending claims and legal proceedings that routinely arise in the ordinary course of our business, but we do not believe that any of these claims or proceedings will have a material effect on our business, financial condition or results of operations.

Table of Contents

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
2002:		
First quarter	$23.70	$15.85
Second quarter	23.49	15.91
Third quarter	17.76	9.57
Fourth quarter	16.63	9.30
2003:		
First quarter	14.49	9.50
Second quarter	14.49	10.22
Third quarter	14.04	10.05
Fourth quarter	13.77	11.74

Security Holders

As of March 12, 2004, there were 161 holders of record of our common stock.

Dividends

We have never paid any cash dividends on any of our common stock. The agreements applicable to our Line of Credit (see the discussion in Item 7 below) prohibit the payment of dividends on our common stock (except for dividends payable in shares of our common stock or other equity security). In any event, we currently intend to retain our future earnings, if any, to finance the growth and development of our business, but may consider implementing a plan to pay cash dividends on our common stock in the future.

Item 6. *Selected Financial Data*

You should read the financial data set forth below in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes (included in Item 8). As discussed in Note 2 of our consolidated financial statements, our consolidated financial statements have been restated from those originally issued on March 15, 2004 to reflect certain adjustments related to the accounting for the acquisitions of Toymax, Trendmasters and P&M. These adjustments are described in further

Table of Contents

detail in Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Year Ended December 31,				
	1999	2000	2001	2002 Restated	2003 Restated
	(In thousands, except per share data and ratios)				
Consolidated Statement of Operations Data:					
Net sales	$183,685	$252,288	$284,309	$310,016	$315,776
Cost of sales	107,602	149,881	164,222	180,173	189,334
Gross profit	76,083	102,407	120,087	129,843	126,442
Selling, general and administrative expenses	51,154	80,435	89,575	98,111	113,053
Acquisition shut-down and product recall costs		1,469	1,214	6,718	2,000
Income from operations	24,929	20,503	29,298	25,014	11,389
Profit from Joint Venture	(3,605)	(15,906)	(6,675)	(8,004)	(7,351)
Interest, net	(1,588)	(3,833)	(2,057)	(1,141)	1,405
Other (income) expense, net	(182)	(92)			
Income before provision for income taxes and minority interest	30,304	40,334	38,030	34,159	17,335
Provision for income taxes	8,334	11,697	9,797	6,466	1,440
Income before minority interest	21,970	28,637	28,233	27,693	15,895
Minority interest				(237)	
Net income	$ 21,970	$ 28,637	$ 28,233	$ 27,930	$ 15,895
Basic earnings per share	$ 1.58	$ 1.50	$ 1.55	$ 1.27	$ 0.66
Weighted average shares outstanding	13,879	19,060	18,199	21,963	24,262
Diluted earnings per share	$ 1.39	$ 1.41	$ 1.45	$ 1.23	$ 0.64
Weighted average shares and equivalents outstanding	15,840	20,281	19,410	22,747	24,677
Ratio of earnings to fixed charges(1)	72.64x	89.84x	38.80x	21.28x	4.76x

	At December 31,				
	1999	2000	2001	2002 Restated	2003 Restated
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 57,546	$ 29,275	$ 25,036	$ 68,413	$118,182
Working capital	113,170	86,897	116,492	129,183	232,601
Total assets	232,878	248,722	284,041	408,916	529,997
Long-term debt, net of current portion	9	1,000	77	60	98,042
Total stockholders equity	187,501	204,530	244,404	357,236	377,900

(1) For the purpose of computing the ratio of fixed charges, earnings consist of income before provision for income taxes plus fixed charges. Fixed charges consist of interest charges, amortization of debt expenses and that portion

of rental expense we believe to be representative of interest.

Table of Contents

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

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

Critical Accounting Policies

The accompanying consolidated financial statements and supplementary information were prepared in accordance with accounting principles generally accepted in the United States of America. Significant accounting policies are discussed in Footnote 2 to the Consolidated Financial Statements, Item 8. Inherent in the application of many of these accounting policies is the need for management to make estimates and judgments in the determination of certain revenues, expenses, assets and liabilities. As such, materially different financial results can occur as circumstances change and additional information becomes known. The policies with the greatest potential effect on our results of operation and financial position include:

The allowance for doubtful accounts is based on our assessment of the collectibility of specific customer accounts and the aging of the accounts receivable. If there were a deterioration of a major customer s creditworthiness, or actual defaults were higher than our historical experience, our estimates of the recoverability of amounts due to us could be overstated, which could have an adverse impact on our operating results.

Our revenue recognition policy is significant because our revenue is a key component of our results of operations. In addition, our revenue recognition determines the timing of certain expenses, such as commissions and royalties. We follow very specific and detailed guidelines in measuring revenues; however, certain judgments affect the application of our revenue policy. Revenue results are difficult to predict, and any shortfall in revenue or delay in recognizing revenue could cause our operating results to vary significantly from quarter to quarter.

We assess the impairment of long-lived assets and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and
- significant negative industry or economic trends.

When we determine that the carrying value of long-lived assets and goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. Net long-lived assets, including goodwill, amounted to $234.1 million as of December 31, 2003.

Table of Contents

Restatement for Adjustment to Accounting for Acquisitions

The accompanying consolidated financial statements as of December 31, 2002 and 2003 and for the two years in the period ended December 31, 2003 have been restated from those originally issued to reflect certain adjustments related to the accounting for the acquisitions of Toymax, Trendmasters and P&M in accordance with Statement of Financial Accounting Standards No. 141. Specifically, the purchase price of these acquisitions was originally allocated substantially to goodwill, and, based on studies and valuations completed in 2005 by a third-party valuation consultant, the purchase price of these acquisitions has been reallocated in part to intangible assets other than goodwill, including those with limited lives. The resulting adjustment to amortization expense related to the limited life intangible assets of $6.3 million in 2002 and $7.3 million in 2003 and the resulting charge to cost of sales related to the mark-up of acquired inventory of $0.7 million in 2002 and $0.2 million in 2003, which led to a reduction of operating income in 2002 and 2003.

These adjustments impacted the consolidated balance sheets as of December 31, 2002 and 2003, and the consolidated statements of operations, other comprehensive income, stockholders equity and cash flows for each of the two years ended December 31, 2002 and 2003. The impact of this restatement, which has been reflected throughout the consolidated financial statements and accompanying notes, is as follows (in thousands, except per share amounts):

	Years Ended December 31,			
	2002	2002	2003	2003
	As Previously Reported	As Restated	As Previously Reported	As Restated
Net sales	$310,016	$310,016	$315,776	$315,776
Cost of sales	179,465	180,173	189,142	189,334
Gross profit	130,551	129,843	126,634	126,442
Selling, general and administrative expenses	91,849	98,111	105,771	113,053
Acquisition shut-down and product recall costs	6,718	6,718	2,000	2,000
Income from operations	31,984	25,014	18,863	11,389
Profit from Joint Venture	(8,004)	(8,004)	(7,351)	(7,351)
Interest, net	(1,141)	(1,141)	1,405	1,405
Income before provision for income taxes and minority interest	41,129	34,159	24,809	17,335
Provision for income taxes	9,048	6,466	4,205	1,440
Income before minority interest	32,081	27,693	20,604	15,895
Minority interest	810	(237)		
Net income	$ 31,271	$ 27,930	$ 20,604	$ 15,895
Basic earnings per share	$ 1.42	$ 1.27	$ 0.85	$ 0.66
Diluted earnings per share	$ 1.37	$ 1.23	$ 0.83	$ 0.64

Recent Developments

On May 31, 2003, we purchased certain product lines, including *ColorWorkshop* and *Blopens*, assets and assumed certain liabilities of P&M Products USA, Inc. and an affiliated United Kingdom company, P&M Products Limited (collectively P&M). The total purchase price of approximately $22.0 million consisted of all cash and the assumption of certain liabilities and resulted in goodwill of $13.7 million. Our results of operations have included P&M from the date of acquisition.

17

Table of Contents

Results of Operation

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

	Years Ended December 31,				
	1999	2000	2001	2002 Restated	2003 Restated
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	58.6	59.4	57.8	58.1	60.0
Gross profit	41.4	40.6	42.2	41.9	40.0
Selling, general and administrative expenses	27.8	31.9	31.5	31.6	35.8
Acquisition shut-down and product recall costs		0.5	0.4	2.2	0.6
Income from operations	13.6	8.2	10.3	8.1	3.6
Profit from Joint Venture	(2.0)	(6.3)	(2.3)	(2.6)	(2.3)
Interest, net	(0.9)	(1.5)	(0.7)	(0.4)	0.4
Income before income taxes and minority interest	16.5	16.0	13.3	11.1	5.5
Provision for income taxes	4.5	4.6	3.4	2.1	0.5
Income before minority interest	12.0	11.4	9.9	9.0	5.0
Minority interest					
Net income	12.0%	11.4%	9.9%	9.0%	5.0%

Years Ended December 31, 2003 and 2002

Net Sales. Net sales were $315.8 million in 2003 compared to $310.0 million in 2002, representing an increase of 1.9%. The contribution to net sales by our seasonal products, including *Trendmasters, Go Fly a Kite, Funnoodle* and sports toys, and new product introductions, including *Dragon Ball* and *NASCAR* action toys, TV games and *ColorWorkshop* craft products, were offset by a decrease in sales in our traditional products, and international sales, which included a reduction in sales of our karaoke machines and Equalizer radio control vehicle in 2003, both higher priced items.

Gross Profit. Gross profit decreased $3.4 million, or 2.7%, to $126.4 million, or 40.0% of net sales, in 2003 from $129.8 million, or 41.9% of net sales, in 2002. The overall decrease in gross profit was attributable to a decrease in gross profit margin. The decrease in gross profit margin of 1.9% of net sales was due to higher sales of seasonal products with lower margins and an increase in royalty expense as a percentage of net sales due to changes in the product mix resulting from the sale of more products with higher royalty rates, though offset in part by a decrease 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 $113.1 million in 2003 and $98.1 million in 2002, constituting 35.8% and 31.6% of net sales, respectively. The overall increase of $15.0 million in such costs was primarily due to a charge for the grant of restricted stock of $8.4 million, a charge of $2.1 million to bad debt relating to the bankruptcy of several of our customers, including Kay Bee Toys, and an increase in direct selling expenses, product development costs, option compensation expense resulting from the price reset of options in 2000 and operating expenses incurred in connection with the P&M asset acquisition. We produced and aired television commercials in support of several of our products, including *WWE* and *Dragon Ball Z* action figures and *Flying Colors* products in 2003 and *WWE* action figures and *Flying Colors* products in 2002. From time to time, we may increase our advertising efforts, if we deem it appropriate for particular products.

Acquisition Shut-down and Recall Costs. Acquisition shut-down costs in 2002 relate to shut-down costs, including lease termination, fixed asset abandonment and other costs, of certain operations of Toymax and Kidz Biz. There were no such costs in 2003. Operations impacted by these shut-downs were sales, design, distribution, and administration. The integrations of Toymax and Kidz Biz were completed in 2002. In 2003, we accrued a net amount of $2.0 million for the recall of one of our products, compared to having accrued $2.2 million in 2002 for the recall of the same product.

The remaining component of the acquisition shut-down and recall costs is as follows (in thousands):

	Accrued Balance December 31, 2002	Accrual	Actual	Accrued Balance December 31, 2003
Lease abandonment costs	$2,310	$	$(2,310)	$
Recall costs		2,000	(1,510)	490
Total	$2,310	$2,000	$(3,820)	$490

Profit from Joint Venture. Profit from joint venture decreased by $0.7 million in 2003 due to the joint venture having lower unit sales at lower wholesale prices of its two vehicle combat games of the five games released in 2003 compared to releasing all new titles with higher unit sales at higher wholesale prices in addition to having higher sales of carryover titles in 2002. New releases typically generate higher unit sales resulting in higher overall sales as compared to carryover titles. Profit from the joint venture contributed significantly to our pre-tax profit, representing 19.5% of pre-tax income in 2002 and 22.2% in 2003. We expect to continue to receive a preferred return over the remaining term of the license agreement ending December 31, 2009, although we cannot predict with certainty what levels of return will be achieved and, in any case, we anticipate substantial fluctuations in the amount of the preferred return distributed to us from year to year.

Interest Net. Interest income increased due to higher average cash balances during 2003 than in 2002, but was offset by interest expense of $2.5 million related to the convertible notes issued in June 2003.

Provision for Income Taxes. Provision for income taxes included Federal, state and foreign income taxes in 2002 and 2003, at an effective tax rate of 18.9% and 8.3% in 2002 and 2003, respectively, benefiting from a flat 16.5% and 17.0%, Hong Kong Corporation Tax on our income arising in, or derived from, Hong Kong for 2002 and 2003, respectively. For 2003, the effective rate decreased as a result of a higher proportionate share of income arising in Hong Kong as opposed to income arising in the higher statutory jurisdictions. As of December 31, 2003, we had deferred tax losses of approximately $4.5 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 believes it considered all available evidence, both positive and negative, as well as the weight and importance given to such evidence.

Years Ended December 31, 2002 and 2001

Net Sales. Net sales increased $25.7 million, or 9.0%, to $310.0 million in 2002 from $284.3 million in 2001. The growth in net sales was due primarily to the addition of the Toymax

19

Table of Contents

products and continuing growth in sales of our *Flying Colors* and Doll products which was offset in part by a decrease in sales of our Wheels division, consisting primarily of our *Road Champs* die-cast toy and collectible vehicles with its extreme sports products.

Gross Profit. Gross profit increased $9.7 million, or 8.1%, to $129.8 million in 2002, or 41.9% of net sales, from $120.1 million, or 42.2% of net sales, in 2001. The overall increase in gross profit was attributable to the increase in net sales. Gross profit margin was compatible to last year as lower margins for Toymax products were offset by the decrease in royalty expense as a percentage of net sales due to changes in the product mix resulting from the sale of more products with lower royalty rates or proprietary products with no royalties.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $98.1 million in 2002 and $89.6 million in 2001, constituting 31.6% and 31.5% of net sales, respectively. The overall increase of $8.5 million in such costs was due to costs incurred in support of our Kidz Biz and Toymax acquisitions, amortization of intangible assets other than goodwill from the Toymax and Trendmasters acquisitions and increased media buys, offset in part by a decrease in goodwill amortization expense based on the implementation of SFAS 142. We produced and aired television commercials in support of several of our products, including *WWE* action figures and *Flying Colors* products, in 2001 and 2002. From time to time, we may increase our advertising efforts, if we deem it appropriate for particular products.

Acquisition Shut-down and Recall Costs. Acquisition shut-down costs in 2002 relate to shut-down costs, including lease termination, fixed asset abandonment and other costs, of certain operations of Toymax and Kidz Biz. Such costs in 2001 relate to shut-down costs of certain operations of Pentech, acquired in 2000. Operations impacted by these shut-downs were sales, design, distribution and administration. The integration of Pentech was completed in 2001 and the integration of Toymax and Kidz Biz was completed in 2002. In 2002, we accrued $2.2 million for the recall of one of our products.

The components of the acquisition shut-down and recall costs are as follows (in thousands):

	Accrued Balance December 31, 2001	Accrual	Actual	Accrued Balance December 31, 2002
Lease abandonment costs	$	$3,724	$(1,414)	$2,310
Fixed asset write-off		260	(260)	
Other		559	(559)	
Recall		2,175	(2,175)	
Total acquisition shut-down and recall costs	$	$6,718	$(4,408)	$2,310

Profit from Joint Venture. Profit from joint venture increased by $1.3 million in 2002 due to the joint venture having sales of only carryover titles in 2001 compared to releasing a new Microsoft *Xbox* title in addition to having sales of carryover titles in 2002. New releases typically generate higher unit sales resulting in higher overall sales as compared to carryover titles. Profit from the joint venture contributed significantly to our pre-tax profit, representing 17.6% of pre-tax income in 2001 and 19.5% in 2002.

Interest, Net. Interest income decreased in 2002 compared to 2001 in spite of higher average cash balances due to lower interest rates.

Provision for Income Taxes. Provision for income taxes included Federal, state and foreign income taxes in 2001 and 2002, at effective tax rates of 26% in 2001 and 18.9% in 2002,

Table of Contents

benefiting from a flat 16.5% Hong Kong Corporation Tax on our income arising in, or derived from, Hong Kong. The decrease in the current year effective rate net results primarily from certain permanently non-taxable items in addition to a continued shift in profits to more favorable tax jurisdictions.

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.

	2001				2002 (Restated)				2003 (Restated)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data)											
Net sales	$59,962	$70,141	$92,768	$61,438	$59,895	$78,992	$102,640	$68,489	$67,759	$73,290	$90,308	$84,419
As a % of full year	21.1%	24.7%	32.6%	21.6%	19.3%	25.5%	33.1%	22.1%	21.5%	23.2%	28.6%	26.7%
Gross profit	$24,468	$32,609	$39,056	$23,954	$26,470	$35,192	$ 41,812	$26,369	$27,442	$27,906	$36,226	$34,868
As a % of full year	20.4%	27.2%	32.5%	19.9%	20.4%	27.1%	32.2%	20.3%	21.7%	22.1%	28.7%	27.6%
As a % of net sales	40.8%	46.5%	42.1%	39.0%	44.2%	44.6%	40.7%	38.5%	40.5%	38.1%	40.1%	41.3%
Income (loss) from operations	$ 7,267	$ 8,879	$14,562	$ (1,410)	$ 1,420	$ 7,863	$ 16,835	$ (1,104)	$ 5,960	$ 2,522	$10,480	$ (7,573)
As a % of full year	24.8%	30.3%	49.7%	(4.8)%	5.7%	31.4%	67.3%	(4.4)%	52.3%	22.1%	92.0%	(66.5)%
As a % of net sales	12.7%	12.1%	15.7%	(2.3)%	2.4%	10.0%	16.4%	(1.6)%	8.8%	3.4%	11.6%	(9.0)%
Income before income taxes and minority interest	$ 8,480	$ 9,478	$15,250	$ 4,822	$ 2,985	$ 8,800	$ 17,884	$ 4,490	$ 6,299	$ 2,679	$10,495	$ (2,138)
As a % of net sales	14.1%	13.5%	16.4%	7.8%	5.0%	11.1%	17.4%	6.6%	9.3%	3.7%	11.6%	(2.5)%
Net income	$ 6,021	$ 6,873	$10,949	$ 4,390	$ 2,156	$ 6,973	$ 13,085	$ 5,717	$ 4,988	$ 2,236	$ 8,248	$ 422
As a % of net sales	10.0%	9.8%	11.8%	7.1%	3.6%	8.8%	12.7%	8.3%	7.4%	3.1%	9.1%	0.5%
Diluted earnings per share	$ 0.32	$ 0.36	$ 0.56	$ 0.22	$ 0.11	$ 0.32	$ 0.54	$ 0.23	$ 0.20	$ 0.09	$ 0.33	$ 0.02
Weighted average shares	18,920	19,259	19,586	19,763	20,236	21,953	24,059	24,800	24,917	24,683	24,629	24,642

and
equivalents
outstanding

During the fourth quarter of 2001, we recorded a charge of $5.0 million to bad debt impacting operating income relating to the bankruptcy filing of one of our customers, Kmart.

During the first quarter of 2002, we recorded a charge which impacted operating income by approximately $6.6 million relating to the restructuring of Toymax and Kidz Biz.

During the second quarter of 2002, we recorded a charge which impacted operating income by approximately $1.5 million relating to the recall of one of our products.

During the fourth quarter of 2002, we reversed $2.1 million of the restructuring charge recorded in the first quarter of 2002 and recorded an additional charge of approximately $0.7 million relating to the recall of one of our products, the net of which favorably impacted operating income by approximately $1.4 million. In addition, our effective tax rate for the year 2002 was reduced from 26% to 22%.

During the second quarter of 2003, we recorded a charge which impacted operating income by approximately $2.7 million relating to the recall of one of our products.

During the third quarter of 2003, we recovered $0.7 million of the recall costs, recorded in the second quarter of 2003, from one of our factories.

During the fourth quarter of 2003, we recorded a non-cash charge of $8.4 million which impacted operating income relating to the grant of restricted stock and a charge of $2.1 million to bad debt impacting operating income relating to the bankruptcy filing of several of our customers, including Kay Bee Toys.

Recent Accounting Standards

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations (SFAS 143). The objective of SFAS 143 is to establish an accounting standard for the recognition and measurement of an asset retirement obligation on certain long-lived assets. The retirement obligation must be one that results from the acquisition, construction or normal operation of a long-lived asset. SFAS 143 requires the legal obligation associated with the retirement of a tangible long-lived asset to be recognized at fair value as a liability when incurred, and the cost to be capitalized by increasing the carrying amount of the related long-lived asset. SFAS 143 was adopted effective January 1, 2003 and the adoption of this statement had no material impact on the consolidated financial statements.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145, Rescission of Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Correction (SFAS 145). SFAS 145 eliminates extraordinary accounting treatment for reporting gains or losses on debt extinguishments, and amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. SFAS 145 was adopted effective January 1, 2003 and the adoption of this statement had no material impact on the consolidated financial statements.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146), which changes the accounting for costs such as lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity initiated after December 31, 2002. The standard requires companies to recognize the fair value of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The adoption of SFAS 146 had no material effect on the Company s financial position or results of operations.

In November 2002, the FASB issued FASB Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (Interpretation 45), which addresses the accounting for and disclosure of guarantees. Interpretation 45 requires a guarantor to recognize a liability for the fair value of a guarantee at inception. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee. The disclosure requirements are effective for interim and annual financial statements ending after December 15, 2002. The initial recognition and measurement provisions are effective for all guarantees within the scope of Interpretation 45 issued or modified after December 31, 2002. The application of Interpretation 45 did not have a material effect on the Company s financial position or results of operations.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (SFAS 150). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The provisions of SFAS 150 were adopted effective June 9, 2003. The adoption of SFAS 150 did not have a material effect on the Company s financial position or results of operations.

Table of Contents

In January 2003 and as revised in December 2003, FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities (Interpretation 46) and FASB Interpretation No. 46R. Interpretation 46 and 46R require companies with a variable interest in a variable interest entity to apply this guidance as of the beginning of the first reporting period after December 15, 2003. The application of the guidance could result in the consolidation of a variable interest entity. The Company anticipates that the adoption of Interpretation 46 and 46R will not have a material effect on the Company s financial position or results of operations.

Liquidity and Capital Resources

As of December 31, 2003, we had working capital of $232.6 million, as compared to $129.2 million as of December 31, 2002. This increase was primarily attributable to the receipt of net proceeds from the issuance of our convertible notes payable and from operating activities offset in part by disbursements relating to the acquisition of certain assets of P&M.

Operating activities provided net cash of $7.0 million in the year ended December 31, 2003 as compared to $71.6 million, including cash provided from the sale of marketable securities of $37.1 million, in 2002. Net cash was provided primarily by net income and non-cash charges, such as the grant of restricted stock and depreciation and amortization, as well as increases in accounts payable and deferred income taxes, which were offset in part by an increase in accounts receivable, inventory, prepaid expenses and other and decreases in accrued expenses, income taxes payable, and reserve for sales returns and allowances. As of December 31, 2003, we had cash and cash equivalents of $118.2 million and marketable securities of $19.3 million.

Our investing activities used cash of $47.3 million in the year ended December 31, 2003, as compared to $93.1 million in 2002, consisting primarily of the purchase of office furniture and equipment and molds and tooling used in the manufacture of our products, the purchase of other assets, the goodwill acquired in the acquisition of P&M and the purchase of marketable securities, partially offset by the repayment of notes receivable from officers. In 2002, our investing activities consisted primarily of the purchase of molds and tooling used in the manufacture of our products, the goodwill and intangible assets other than goodwill acquired in the acquisitions of Toymax and Trendmasters, plus the $4.5 million in goodwill relating to the final earn-out for Flying Colors, 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 18% payable on net sales of such products. As of December 31, 2003, these agreements required future aggregate minimum guarantees of $21.9 million, exclusive of $4.8 million in advances already paid.

Our financing activities provided net cash of $90.0 million in the year ended December 31, 2003, as compared to $64.9 million in 2002. In 2003, cash was primarily provided from the sale of our convertible senior notes and from the exercise of stock options, partially offset by the repurchase of our common stock and the repayment of long-term debt. In 2002, cash was primarily provided from the sale of our common stock and from the exercise of stock options and warrants, partially offset by the repayment of debt.

Table of Contents

The following is a summary of our significant contractual cash obligations for the periods indicated that existed as of December 31, 2003 and is based on information appearing in the notes to the consolidated financial statements (in thousands):

	2004	2005	2006	2007	2008	Thereafter	Total
Long-term debt	$ 19	$ 21	$ 21	$	$	$ 98,000	$ 98,061
Operating leases	4,757	4,285	4,022	3,531	444	481	17,520
Minimum guaranteed license/royalty payments	6,593	7,682	3,571	1,198	1,427	1,435	21,906
Employment contracts	4,675	4,473	3,215	2,930	2,180	4,510	21,983
Total contractual cash obligations	$16,044	$16,461	$10,829	$7,659	$4,051	$104,426	$159,470

In December 2001, we acquired all of the outstanding capital stock of Kidz Biz Limited, a United Kingdom company, and an affiliated Hong Kong company, Kidz Biz Far East Limited, for an aggregate purchase price of approximately $12.4 million. Total consideration was paid on the closing of the transaction in cash in the amount of $6.4 million and the issuance of 308,992 shares of our common stock at a value of $6.0 million. In addition, we agreed to pay an earn-out for each of 2002, 2003, 2004 and 2005, based on the year over year increase in Kidz Biz sales, payable by delivery of up to 25,749 shares of our common stock per year. In 2002 and 2003, no earn-outs were earned.

In October 2001, we and all of our domestic subsidiaries jointly and severally secured a syndicated line of credit totaling $50.0 million with a consortium of banks led by Bank of America, N.A. (Line of Credit). On June 3, 2003, we and the banks amended the loan agreements governing the Line of Credit (the Loan Agreements), pursuant to which amendment (i) the banks suspended certain of our covenants under the Loan Agreements, including those that prohibited us from consummating the Convertible Senior Notes offering (note 8) without the banks consent, and (ii) the banks obligations to extend credit under the Line of Credit were simultaneously suspended. The amendment contemplates that we and the banks will attempt to negotiate revised terms for the Line of Credit, to be reflected in a further amendment to the Loan Agreements, while waiving the requirement for obtaining consent for this offering. Neither we nor the banks, however, have any obligation to enter into such further amendment to the Loan Agreements. The amendment did not otherwise effect our right under the Loan Agreements to voluntarily reduce or terminate the Line of Credit. There have never been any outstanding borrowings under the Line of Credit since its inception.

In February 2003, our Board of Directors approved a buyback of up to $20 million of our common stock. As of December 31, 2003, we repurchased and retired 554,500 shares of our common stock for a total of approximately $6.1 million.

On May 31, 2003, we purchased certain product lines, related assets and assumed certain liabilities of P&M. The total purchase price of approximately $22.0 million consisted of cash paid in the amount of $20.7 million and liabilities of $1.3 million and resulted in goodwill of $13.7 million. Results of operations have included P&M from the date of acquisition.

Pursuant to the terms of a Purchase Agreement, dated June 9, 2003, we sold an aggregate of $98 million of 4.625% Convertible Senior Notes due June 15, 2023. The holders of the notes may convert the notes into shares of our common stock at any time at an initial conversion price of $20.00 per share, subject to certain circumstances described in the notes. We will pay cash interest on the notes at an annual rate of 4.625% of the principal amount at issuance, from the issue date to June 15, 2010, payable on June 15 and December 15 of each year, commencing on December 15, 2003. After June 15, 2010, we will not pay cash interest on the notes. At maturity, on June 15, 2023, we will redeem the notes at their accreted principal amount, which will be equal to $1,811.95 (181.195%) per $1,000 principal amount at issuance.

We may redeem the notes at our option in whole or in part beginning on June 15, 2010, at 100% of their accreted principal amount plus accrued and unpaid interest (including contingent interest and additional amounts), if any, payable in cash. Holders of the notes may also require us to repurchase all or part of their notes on June 15, 2010, for cash, at a repurchase price of 100% of the principal amount per note plus accrued and unpaid interest (including contingent interest and additional amounts), if any. Holders of the notes may also require us to repurchase all or part of their notes on June 15, 2013 and June 15, 2018 at a repurchase price of 100% of the accreted principal amount per note plus accrued and unpaid interest (including contingent interest and additional amounts), if any. Any repurchases at June 15, 2013 and June 15, 2018 may be paid in cash, in shares of common stock or a combination of cash and shares of common stock.

We believe that our cash flows 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.

Exchange Rates

Sales from our United States and Hong Kong operations are denominated in U.S. dollars and our manufacturing costs are denominated in either U.S. or Hong Kong dollars. Domestic sales from our United Kingdom operations and operating expenses of all of our operations are denominated in local currency, thereby creating exposure to changes in exchange rates. Changes in the Hong Kong dollar or British Pound/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 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 between the United States and Hong Kong and United Kingdom currencies will not have a material adverse effect on our business, financial condition or results of operations.

Item 7A. *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.

Table of Contents

Historically and as of December 31, 2003, we have not used derivative instruments or engaged in hedging activities to minimize our market risk.

Interest Rate Risk

As of December 31, 2003, we do not have any outstanding balances on our Line of Credit. On June 9, 2003, we issued convertible notes payable of $98.0 million with a fixed interest rate of 4.625% per annum. Accordingly, we are not generally subject to any direct risk of loss arising from changes in interest rates.

Foreign Currency Risk

We have wholly-owned subsidiaries in Hong Kong and in the United Kingdom. Sales by these operations made on a FOB China or Hong Kong basis are denominated in U.S. dollars. However, purchases of inventory and Hong Kong operating expenses are typically denominated in Hong Kong dollars and domestic sales and operating expenses made in the United Kingdom are typically denominated in British Pounds, thereby creating exposure to changes in exchange rates. Changes in the British Pound or Hong Kong dollar/ U.S. dollar exchange rates may positively or negatively affect our gross margins, operating income and retained earnings. The British Pound gave rise to the other comprehensive loss in the balance sheet at December 31, 2003. The exchange rate of the Hong Kong dollar to the U.S. dollar has been fixed by the Hong Kong government since 1983 at HK$7.80 to US$1.00 and, accordingly, has not represented a currency exchange risk to the U.S. dollar. We do not believe that near-term changes in these exchange rates, if any, will result in a material effect on our future earnings, fair values or cash flows, and therefore, we have chosen not to enter into foreign currency hedging transactions. We cannot assure you that this approach will be successful, especially in the event of a significant and sudden change in the value of the Hong Kong dollar or British Pound.

Table of Contents

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, 2002 and 2003, and the related consolidated statements of operations, other comprehensive income, stockholders equity and cash flows and the financial statement schedule for each of the three years in the period ended December 31, 2003. These financial statements and the financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements and schedule referred to above present fairly, in all material respects, the financial position of JAKKS Pacific, Inc. and Subsidiaries as of December 31, 2002 and 2003, and the results of their operations and cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the accompanying Consolidated Financial Statements, the Company has restated its financial statements as of December 31, 2002 and 2003, and for the two years in the period ended December 31, 2003.

/s/ PKF

PKF
Certified Public Accountants
A Professional Corporation

Los Angeles, California
February 16, 2004, except Notes 2 and 4
for which the date is March 29, 2005

Table of Contents

JAKKS PACIFIC, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2002	2003
	Restated	Restated
	(In thousands, except share data)	
Assets		
Current assets		
Cash and cash equivalents	$ 68,413	$ 118,182
Marketable securities		19,345
Accounts receivable, net of allowance for uncollectible accounts of $6,781 and $7,877, respectively	56,195	86,120
Inventory, net of reserves of $4,782 and $5,025, respectively	38,010	44,400
Prepaid and other	13,062	16,763
Notes receivable officers	1,113	
Total current assets	176,793	284,810
Property and equipment		
Office furniture and equipment	5,932	6,563
Molds and tooling	31,069	34,481
Leasehold improvements	2,464	2,429
Total	39,465	43,473
Less accumulated depreciation and amortization	24,640	31,751
Property and equipment, net	14,825	11,722
Intangibles and other, net	17,906	18,172
Investment in joint venture	8,119	9,097
Goodwill, net	176,205	190,728
Trademarks, net	15,068	15,468
Total assets	$ 408,916	$ 529,997
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 8,993	$ 25,064
Accrued expenses	19,394	17,351
Reserve for sales returns and allowances	13,579	7,753
Current portion of long-term debt	18	19
Income taxes payable	5,625	2,021
Total current liabilities	47,609	52,208
Long-term debt, net of current portion	60	98,042
Deferred income taxes	4,011	1,847
Total liabilities	51,680	152,097
Commitments and contingencies		
Stockholders equity		
Preferred shares, $.001 par value; 5,000,000 shares authorized; nil outstanding		
	24	25

Common stock, $.001 par value; 100,000,000 shares authorized; 24,472,884 and 24,866,940 shares issued and outstanding, respectively		
Additional paid-in capital	240,102	245,219
Retained earnings	117,110	133,005
Accumulated other comprehensive loss		(349)
Total stockholders equity	357,236	377,900
Total liabilities and stockholders equity	$408,916	$529,997

See notes to consolidated financial statements.

28

Table of Contents

JAKKS PACIFIC, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2001	2002 Restated	2003 Restated
	(In thousands, except per share amounts)		
Net sales	$284,309	$310,016	$315,776
Cost of sales	164,222	180,173	189,334
Gross profit	120,087	129,843	126,442
Selling, general and administrative expenses	89,575	98,111	113,053
Acquisition shut-down and product recall costs	1,214	6,718	2,000
Income from operations	29,298	25,014	11,389
Profit from Joint Venture	(6,675)	(8,004)	(7,351)
Interest, net	(2,057)	(1,141)	1,405
Income before provision for income taxes and minority interest	38,030	34,159	17,335
Provision for income taxes	9,797	6,466	1,440
Income before minority interest	28,233	27,693	15,895
Minority interest		(237)	
Net income	$ 28,233	$ 27,930	$ 15,895
Basic earnings per share	$ 1.55	$ 1.27	$ 0.66
Diluted earnings per share	$ 1.45	$ 1.23	$ 0.64

See notes to consolidated financial statements.

Table of Contents

JAKKS PACIFIC, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

	Years Ended December 31,
	2001
	(In thousands)

	Total Value
$	

$

sfers Out*

Level 2

$

41%
8.9%
49%

on some foreign securities are subject to foreign taxes, which are accrued as applicable. Dividends and interest from non-U.S. sources received by th

uted during the year, as well as all net capital gains, if any, realized during the year. If the total distributions made in any fiscal year exceed annual inve

as open. The Fund could be exposed to risk if a counterparty is unable to meet the terms of a forward or if the value of the currency changes unfavoral

. Interest expense related to the loan for the year ended October 31, 2012 was $21,727. At October 31, 2012 the outstanding loan for the fund was $1 brokerage commissions per share is equal to or greater than the NAV per share, the Plan Administrator will invest the Dividend amount in Newly Issue

chase period, the Plan Administrator may cease making Open-Market Purchases and may invest the uninvested portion of the Dividend amount in New

ds.*

Inc.; Director, MH Properties, Inc.; Trustee, Alpine Family of Funds.*

al **ets**	
	0
	0
	0
	0
	0
	0

L

SIGNATURES