

JAKKS PACIFIC INC
Form S-3/A
November 26, 2003

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As filed with the Securities and Exchange Commission on November 26, 2003

Registration No. 333-108552

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**Pre-Effective
Amendment No. 2**

to

Form S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Jakks Pacific, Inc.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

95-4527222

*(I.R.S. Employer
Identification No.)*

**22619 Pacific Coast Highway
Malibu, California 90265
(310) 456-7799**

*(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)*

**Jack Friedman
Chairman
JAKKS Pacific, Inc.
22619 Pacific Coast Highway
Malibu, California 90265
(310) 456-7799**

*(Name, address, including zip code, and telephone number,
including area code, of agent for service)*

Copies to:

Murray L. Skala, Esq.

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Skala, Bass & Rhine LLP
750 Lexington Avenue
New York, New York 10022-1200
(212) 888-8200
Fax: (212) 888-7776**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

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If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee(6)
Convertible Senior Notes due 2023	\$98,000,000(1)	100%(2)(3)	\$98,000,000(2)	\$7,929
Common Stock, \$0.001 par value per share	4,900,000 shares(4)	(5)	(5)	(5)

- (1) Represents the aggregate principal amount of Convertible Senior Notes due 2023 (the Notes) issued by the Registrant.
- (2) Estimated solely for the purpose of calculating the Registration Fee pursuant to Rule 457(i) under the Securities Act of 1933.
- (3) Exclusive of accrued interest and distributions, if any.
- (4) This number represents the number of shares of common stock that are initially issuable upon conversion of the Notes registered hereby. For purposes of estimating the number of shares of common stock to be included in the registration statement upon the conversion of the Notes, the Registrant calculated the number of shares issuable upon conversion of the Notes based on an initial conversion rate of 50.0 shares per \$1,000 principal amount of the Notes. In addition to the shares set forth in the table, pursuant to Rule 416 under the Securities Act of 1933, as amended, the amount to be registered includes an indeterminate number of shares of common stock issuable upon conversion of the Notes, as this amount may be adjusted as a result of stock splits, stock dividends and similar transactions.
- (5) No additional consideration will be received for the common stock, and, therefore, no registration fee is required pursuant to Rule 457(i).
- (6) Previously paid upon the initial filing of this Registration Statement on September 5, 2003.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. The selling securityholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, Dated November 26, 2003.

PROSPECTUS

\$98,000,000

**Convertible Senior Notes Due 2023 and
Shares of Common Stock Issuable Upon Conversion of the Notes**

We, JAKKS Pacific Inc., issued the Convertible Senior Notes due 2023 in a private offering in June 2003. Selling securityholders named in this prospectus or in prospectus supplements may offer for sale the notes and the shares of our common stock into which the notes are convertible at any time at market prices prevailing at the time of sale or at privately negotiated prices. The selling securityholders may sell the notes or the common stock directly to purchasers or through underwriters, broker-dealers or agents, who may receive compensation in the form of discounts, concessions or commissions. We will not receive any of the proceeds from the sale of the notes or the shares of common stock issuable upon conversion of the notes by any of the selling securityholders.

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 adjustments. This is equivalent to a conversion rate of 50.0 shares per \$1,000 principal amount of 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. The accreted principal amount of a note will be equal to the principal amount of the note at issuance plus accretion, beginning June 15, 2010, on the principal amount at issuance so that the yield to maturity of the note will remain at 4.625% per year (equal to the cash interest prior to June 15, 2010), calculated on a semi-annual bond equivalent basis using a 360-day year comprised of twelve 30-day months. The notes will mature on June 15, 2023.

Under certain circumstances set forth in this prospectus, we will pay contingent cash interest with respect to any six-month period from June 15 to December 14 and from December 15 to June 14, commencing with the six-month period beginning June 15, 2010, if the average note price (as defined in this prospectus) for the applicable five trading day period (as defined in this prospectus) to, but excluding, the day immediately preceding the first day of the relevant six-month period equals 120% or more of the accreted principal amount of the notes.

The notes will be general unsecured obligations, ranking on a parity in right of payment with all our existing and future unsecured senior indebtedness and our other general unsecured obligations, and senior in right of payment to all our future subordinated indebtedness. 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 may also require us to repurchase all or part of the 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. You may also require us to repurchase all or part of the 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. If a fundamental change of JAKKS occurs (as defined in this prospectus), holders may require us to purchase all or part of the notes, for cash, 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.

We do not intend to list the notes for trading on any national securities exchange or on the Nasdaq National Market. Our common stock currently trades on the Nasdaq National Market under the symbol JAKK. The last reported sale price of our common stock on November 21, 2003 was \$13.00 per share.

We will not receive any of the proceeds from the sale of the notes or the shares of common stock issuable upon conversion of the notes by any of the selling securityholders. The notes and the shares of common stock may be offered in negotiated transactions and otherwise, at market

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prices prevailing at the time of sale or at negotiated prices. The timing and amount of any sale are within the sole discretion of the selling securityholders. In addition, the shares of common stock may be offered from time to time through ordinary brokerage transactions on Nasdaq. See Plan of Distribution. The selling securityholders may be deemed to be underwriters as defined in the Securities Act of 1933, as amended. Any profits realized by the selling securityholders may be deemed to be underwriting commissions. If the selling securityholders use any broker-dealers, any commissions paid to broker-dealers and, if broker-dealers purchase any notes or shares of common stock as principals, any profits received by such broker-dealers on the resale of the notes or shares of common stock may be deemed to be underwriting discounts or commissions under the Securities Act.

Investing in our common stock or the notes involves a high degree of risk. Please carefully consider the Risk Factors beginning on page 8 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2003.

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ABOUT THIS PROSPECTUS

This prospectus constitutes part of a registration statement on Form S-3 that we filed with the SEC through what is known as the shelf registration process. Under this process, any selling securityholder may sell any combination of the securities described in the prospectus in one or more offerings. This prospectus provides you with a general description of the securities the selling securityholders may offer. A prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described under the heading **Where You Can Find More Information**.

In connection with this offering, no person is authorized to give any information or to make any representations not contained or incorporated by reference in this prospectus. If information is given or representations are made, you may not rely on that information or representations as having been authorized by us. This prospectus is neither an offer to sell nor a solicitation of an offer to buy any securities other than those registered by this prospectus, nor is it an offer to sell or a solicitation of an offer to buy securities where an offer or solicitation would be unlawful. You may not imply from the delivery of this prospectus, nor from any sale made under this prospectus, that our affairs are unchanged since the date of this prospectus or that the information contained in this prospectus is correct as of any time after the date of this prospectus. The information contained and incorporated by reference in this prospectus and any accompanying prospectus supplement is accurate only as of the date of this prospectus or the prospectus supplement or the date of the document incorporated by reference, as the case may be, regardless of the time of delivery of the prospectus.

We are not making any representation to any purchaser of the notes regarding the legality of an investment in the notes by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this prospectus to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the notes.

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SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should carefully read the entire prospectus, including Risk Factors beginning on page 8, before investing in the notes or our common stock. When we use the terms JAKKS, we, us, or our, we are referring to JAKKS Pacific, Inc. and its subsidiaries, unless the context requires otherwise or we expressly state otherwise in this prospectus.

JAKKS Pacific, Inc.

Our Business

We are a leading multi-line, multi-brand toy company that designs, develops, produces and markets toys and related consumer 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 the *World Wrestling Entertainment®* and the *Dragon Ball®* franchises, 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®* activity sets, compounds, playsets and lunch boxes and *Colorworkshop®* craft products such as *Blopens®*, 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* ;

Electronic products, including karaoke machines, *Laser Challenge* and TV games;

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

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

We continually review the marketplace to identify and evaluate evergreen brands that we believe have the potential for significant growth. We 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 portfolio of evergreen 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 marks such as *World Wrestling Entertainment*, *Nickelodeon*, *Rugrats*, *SpongeBob SquarePants®*, *Dora the Explorer®*, *Blue's Clues®*, *Mickey Mouse®*, *Barney®*, *Sesame Street®*, *Winnie the Pooh®*, *Hello Kitty*, *NASCAR* and *Car and Driver®*. 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 produced by unaffiliated inventors and product developers to improve the design and functionality of our products.

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We have capitalized on our relationship with World Wrestling Entertainment, Inc. (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 *World Wrestling Entertainment* characters and themes. Since the joint venture's first title release in 1999, it has released 15 new titles. We have received \$34.6 million in preferred returns as our profit from the joint venture through June 30, 2003.

On March 11, 2002, we acquired an initial controlling interest in Toymax International, Inc. (Toymax), a developer and marketer of toys and related products, and completed the acquisition on October 25, 2002. This acquisition also 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.

In November, 2002, we acquired certain product lines, assets and assumed certain specific liabilities from Trendmasters, Inc. (Trendmasters). Trendmasters added to our portfolio 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.

Most of our current products are relatively simple and inexpensive. In 2002, approximately 70.0% 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 June 30, 2003, we had over 4,300 products and 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 Wal-Mart, Kmart, Toys R Us, Target, and Kay Bee Toys, which collectively accounted for approximately 55.7% of our net sales in 2002. We have over 10,000 other customers, none of which accounted for more than 2.0% of our net sales in 2002.

Our Growth Strategy

The execution of our growth strategy has resulted in increased revenues and earnings. From 1996 to 2002, our net sales, EBITDA and net income grew at a compound annual rate of 71.8%, 77.2% and 72.7%, respectively. In 2002, we generated net sales and EBITDA, excluding non-recurring items and profit from the joint venture with THQ, of \$310.0 million and \$47.9 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 existing 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 look 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 related 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 creation of *Tongue Tape*, commenced marketing of licensed classic video games for simple plug-in use with television sets and

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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, Pentech, Kidz Biz, Toymax and Trendmasters. Most recently, in May 2003, we acquired from P&M ColorWorkshop Holdings, Inc. the *Blopen*®, *Blitzer*® and *SmArty Paints*® line of products, 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 Dragon Ball®, Dragon Ball Z® and Dragon Ball 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 2002, our sales generated outside the United States grew 33.1% to approximately \$53.2 million, or 17.2% 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 these initiatives to continue to contribute to our international growth in 2003.

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 Toy Industry Association, Inc., the leading toy industry trade group, 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. In the United States video game segment, total retail sales of video game software were approximately \$10.3 billion in 2002.

Credit Facility

In October 2001, we and all of our 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*). In order to consummate the June 9, 2003 private offering of the notes, we and the banks amended the loan agreements governing the *Line of Credit* (the *Loan Agreements*) on June 3, 2003, pursuant to which amendment (i) the banks suspended certain of our covenants under the *Loan Agreements*, including those that prohibited us from consummating that private offering 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. Although such negotiations are continuing, neither we nor the banks have any obligation to enter into any further amendment to the *Loan Agreements*. The amendment did not otherwise effect our right under the

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Loan Agreements to voluntarily reduce or terminate the Line of Credit. As of the date of this prospectus there have never been any outstanding borrowings under the Line of Credit since its inception.

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. Our Internet website address is www.jakkspace.com. The contents of our website are not part of this prospectus.

The Offering

Issuer	JAKKS Pacific, Inc.
Seller	One or more of the selling securityholders. For information about the selling securityholders, see Selling Securityholders. We are not selling the securities.
Securities Offered	\$98.0 million principal amount of Convertible Senior Notes due 2023 and common stock issuable upon conversion of the notes.
Maturity Date	June 15, 2023.
Payment at Maturity	We will redeem the notes at their accreted principal amount on the maturity date. Their accreted principal amount on the maturity date will be equal to \$1,811.95 (181.195%) per \$1,000 of principal amount at issuance. The accreted principal amount of a note will be equal to the principal amount of a note at issuance plus accretion on the principal amount at issuance beginning on June 15, 2010, so that the yield to maturity of the notes will remain at 4.625% per year (equal to the cash interest prior to June 15, 2010), calculated on a semi-annual bond equivalent basis using a 360-day year comprised of twelve 30-day months.
Yield to Maturity of the Notes	4.625% per year (computed on a semi-annual bond equivalent basis) calculated from June 9, 2003 excluding any contingent interest.
Ranking	The notes are our general unsecured obligations, ranking on a parity in right of payment with all our existing and future unsecured senior indebtedness, and senior in right of payment with all our future subordinated indebtedness. The notes are effectively subordinated to the claims of all creditors of our subsidiaries. See Description of Notes Ranking.
Cash Interest	4.625% per year of the principal amount at issuance from the issue date to, but excluding, June 15, 2010, payable semiannually in arrears in cash on June 15 and December 15 of each year, beginning on December 15, 2003. After June 15, 2010, we will not pay cash interest on the notes prior to maturity. We also will pay contingent interest if it becomes payable as described below.
Contingent Interest	We will pay contingent interest to the holders of notes with respect to any six-month period from June 15 to December 14 and from December 15 to June 14, commencing with the six-month period beginning June 15, 2010, if the average note price during an applicable 5 day trading period equals 120% or more of the accreted principal amount of such notes. The amount of contingent

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interest payable per note in respect of any six-month period will equal 0.375% per annum of the average note price for the designated 5 trading day reference period.

Conversion Rights

You may convert your notes only:

if the closing sale price of our common stock for at least 20 trading days in the 30 trading day period ending on the last day of the preceding calendar quarter exceeds 120% of the accreted conversion price per share of common stock (the accreted principal amount of a note divided by the number of shares issuable upon conversion of a note on that day) on the last day of the preceding calendar quarter;

during the 5 trading day period after any 10 trading day period in which the note price was less than 105% of the conversion value and the conversion value for each day of such 10 trading day period was less than 90% of the accreted principal amount per note on such date. Upon surrender under this conversion right, holders will be eligible to receive a number of shares equal to the lesser of the conversion rate or that number of shares equal to the accreted principal amount per note divided by the sale price of the common stock on the day prior to conversion;

if we have called the notes for redemption;

during any period in which the notes are rated by either Moody's Investors Service, Inc. or Standard & Poor's Rating Group and the credit rating initially assigned to the notes by either rating agency is downgraded by two levels or more or the notes cease to be rated, provided that we have no obligation to have the notes rated; or

upon the occurrence of specified corporate transactions described under Description of the Notes Conversion Rights.

For each note converted, we will deliver 50.0 shares of our common stock. This represents an initial conversion price of \$20.00 per share. The conversion rate is subject to adjustment under certain circumstances.

Sinking Fund

None.

Optional Redemption

We may not redeem the notes prior to June 15, 2010. We may redeem some or all of the notes at any time on or after June 15, 2010 at a redemption price of 100% of their accreted principal amount plus accrued and unpaid interest (including contingent interest and additional amounts), if any, payable in cash.

Repurchase at Option of Noteholders

You may require us to repurchase all or part of your 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. You may also require us to repurchase all or part of your 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

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any. The accreted principal amount at June 15, 2013 will be \$1,147.02 per \$1,000 principal amount at issuance of the notes and at June 15, 2018 will be \$1,441.65 per \$1,000 principal amount at issuance of the notes. 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.

Fundamental Change

Upon the occurrence of a fundamental change, as described in this prospectus, you will have the right to require us to repurchase for cash all or part of your notes at a price equal to 100% of their accreted principal amount plus accrued and unpaid interest (including contingent interest and additional amounts), if any. See **Description of the Notes** **Repurchase of Notes at Your Option Upon a Fundamental Change**.

Registration Rights

We have agreed to use our best efforts keep the shelf registration statement, of which this prospectus forms a part, effective until two years after the latest date on which we issued the notes (or such earlier date when either (i) the holders of the notes and the common stock issuable upon conversion of the notes are able to sell their securities immediately pursuant to Rule 144(k) under the Securities Act of 1933, as amended, or the Securities Act, or (ii) the notes and the common stock issuable upon conversion of the notes are disposed of in accordance with this prospectus, or (iii) the notes and the common stock issuable upon conversion of the notes are no longer outstanding). If we do not comply with these registration obligations, we will be required to pay additional amounts to the holders of the notes or the common stock issuable upon conversion. See **Description of Notes** **Registration Rights**.

U.S. Federal Income Tax Considerations

The notes and the common stock issuable upon conversion of the notes are subject to special and complex United States federal income tax rules. Holders are urged to consult their own tax advisors with respect to the federal, state, local and foreign tax consequences of purchasing, owning and disposing of the notes and common stock issuable upon conversion of the notes. See **Risk Factors** **You should consider the negative United States federal income tax consequences of owning the notes** and **Material United States Federal Income Tax Considerations**.

Material ERISA Considerations

Fiduciaries and other persons considering purchasing notes and the common stock issuable upon conversion of the notes on behalf of, or with the assets of, any plan, account or other retirement arrangement should review the information set forth under **Material ERISA Considerations** prior to making any such purchase.

Book-Entry Form

The notes will be issued in book-entry form and will be represented by permanent global certificates deposited with, or on behalf of, The Depository Trust Company, or DTC, and registered in the name of a nominee of DTC. Beneficial interests in any of the notes will be shown on, and transfers will be effected only through, records maintained by DTC or its nominee and any such interest

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may not be exchanged for certificated securities, except in limited circumstances.

Trading

The notes issued in the initial private offering are eligible for trading on Nasdaq's screen-based automated trading system known as PORTAL, Private Offerings, Resale and Trading through Automated Linkages. However, notes sold using this prospectus will no longer be eligible for trading in the PORTAL market. Our common stock is traded on the Nasdaq National Market under the symbol JAKK.

Use of Proceeds

We will not receive any of the proceeds from the sale by the selling securityholders of the notes or shares of common stock underlying the notes.

Risk Factors

An investment in the notes involves significant risks. You should carefully consider all the information in this prospectus. In particular, you should evaluate the specific risk factors set forth under "Risk Factors" beginning on page 8.

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RISK FACTORS

An investment in the notes and shares of common stock underlying the notes involves significant risks. In addition to reviewing other information in this prospectus, you should carefully consider the following factors before deciding to purchase the notes or shares of common stock underlying the notes. The risks and uncertainties we have described are not the only ones we face. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may impair our business operations. If any of the following risks actually occur, our business, results of operations and financial condition could be materially adversely affected and you might lose all or part of your investment.

Risks Related to the Notes

The notes are subordinated to all of our secured indebtedness and effectively subordinated to indebtedness of our subsidiaries.

The notes are unsecured senior obligations of JAKKS and are not guaranteed by any of our subsidiaries. Accordingly, the notes are junior to all of our current and future secured indebtedness.

Our right to receive any distribution of assets of any subsidiary upon that subsidiary's liquidation, reorganization or otherwise, is subject to the prior claims of creditors of that subsidiary, except to the extent we are also recognized as a creditor of that subsidiary. As a result, the notes are effectively subordinated to the claims of such creditors.

There are no restrictive covenants in the indenture relating to our ability to incur future indebtedness.

The indenture governing the notes does not contain any financial or operating covenants or restrictions on the payment of dividends, the incurrence of indebtedness, transactions with affiliates, incurrence of liens or the issuance or repurchase of securities by us or any of our subsidiaries. We may therefore incur additional debt, including secured indebtedness senior to the notes, or indebtedness at the subsidiary level to which the notes would be structurally subordinated. As part of our growth strategy, we intend to use proceeds from the June 2003 private offering of the notes to finance potential acquisitions of companies, licenses, brands and product lines for product development, which may cause us or our subsidiaries to incur significant indebtedness to which the notes would be subordinate.

A higher level of indebtedness increases the risk that we may default on our debt obligations. We cannot assure you that we will be able to generate sufficient cash flow to pay the interest on our debt or that future working capital, borrowings or equity financing will be available to pay or refinance such debt. The indenture contains no covenants or other provisions to afford protection to holders of the notes in the event of a fundamental change except to the extent described under Description of Notes Repurchase of Notes at Your Option Upon a Fundamental Change.

The ability of our subsidiaries to distribute funds to us may be limited, which could make it more difficult for us to pay principal or interest with respect to the notes.

We often conduct operations through our subsidiaries and we are dependent upon the cash flow of our subsidiaries to meet our obligations. If our subsidiaries need to retain cash for operations, or because of statutory or contractual restrictions, we may not be able to make interest or principal payments when due to holders of the notes or we may not be able to purchase the notes upon a fundamental change or in connection with the optional redemption at the option of noteholders.

We may not have the funds necessary to purchase the notes upon a fundamental change or other purchase date, as required by the indenture governing the notes.

On June 15, 2010, June 15, 2013 and June 15, 2018, holders of the notes may require us to purchase their notes, which repurchase may be made for cash. In addition, holders may also require us to purchase their notes upon a fundamental change as described under Description of Notes Repurchase of Notes at Your Option Upon a Fundamental Change. If we do not have or have access to sufficient funds to repurchase the

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notes, then we would not be able to repurchase your notes. In fact, we expect that we would require third-party financing, but we cannot assure you that we would be able to obtain that financing on favorable terms or at all.

An active trading market for the notes may not develop.

We cannot provide any assurances that an active trading market will develop for the notes or that you will be able to sell your notes. We do not intend to apply for listing of the notes on any national securities exchange or quotation of the notes on the Nasdaq National Market. Additionally, while the notes issued in the initial private offering have been designated for trading in the PORTAL market, notes sold using this prospectus will no longer be eligible for trading in the PORTAL market. See Description of Notes.

If the notes are traded after their initial issuance, they may trade at a discount from their initial offering price. Future trading prices of the notes will depend on many factors, including prevailing interests rates, the market for similar securities, general economic conditions and our financial condition, performance and prospects. Historically, the market for convertible debt has been subject to disruptions that have caused substantial fluctuations in the prices of the securities. Accordingly, you may be required to bear the financial risk of an investment in the notes for an indefinite period of time.

Our reported earnings per share may be more volatile because of the contingent conversion provision of the notes.

Holders of the notes are entitled to convert the notes into our common stock, among other circumstances, if the closing sale price of our common stock for at least 20 trading days in the 30 trading day period ending on the last day of the preceding calendar quarter exceeds 120% of the accreted conversion price per share on the last trading day of such preceding calendar quarter. Until this contingency or another conversion contingency is met, the shares underlying the notes are not included in the calculation of our basic or fully diluted earnings per share. Should this contingency be met, fully diluted earnings per share would be expected to decrease as a result of the inclusion of the underlying shares in the fully diluted earnings per share calculation. Volatility in our stock price could cause this condition to be met in one quarter and not in a subsequent quarter, increasing the volatility of our fully diluted earnings per share.

You should consider the negative United States federal income tax consequences of owning the notes.

We and each holder agreed in the indenture to treat the notes as contingent payment debt instruments subject to the contingent payment debt regulations. As a result, a holder will be required to include amounts in income, as original issue discount, in advance of the receipt of cash or our common stock attributable to such income, and to accrue interest on a constant yield to maturity basis at a rate comparable to the rate at which we would borrow in a fixed-rate, noncontingent, nonconvertible borrowing with terms and conditions otherwise comparable to those of the notes (which we have determined to be 9.375%, compounded semi-annually), even though the notes will have a significantly lower yield to maturity. A holder will recognize taxable income significantly in excess of cash received while the notes are outstanding. In addition, a holder will recognize ordinary income, if any, upon a sale, exchange, conversion, repurchase or redemption of the notes at a gain. In computing such gain, the amount realized by a holder will include, in the case of a conversion or repurchase, the amount of any cash and the fair market value of shares received. Holders are urged to consult their own tax advisors as to the United States federal, state and other tax consequences of acquiring, owning and disposing of the notes and shares of common stock. See Material United States Federal Income Tax Considerations.

Risks Related to Our Business

We are subject to changing consumer preferences and a substantial portion of our annual revenue depends on new product introductions.

Our business and operating results depend largely upon the appeal of our products. Our continued success in the toy industry will depend on our ability to redesign, restyle and extend our existing core products and product lines as consumer preferences evolve, and to develop, introduce and gain customer acceptance of new

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products and product lines. Several trends in recent years have presented challenges for the toy industry, including:

the phenomenon of children outgrowing toys at younger ages, particularly in favor of interactive and high technology products;

increasing use of technology;

shorter life cycles for individual products; and

higher consumer expectations for product quality, functionality and value.

We cannot assure you that:

our current products will continue to be popular with consumers;

the product lines or products that we introduce will achieve any significant degree of market acceptance; or

the life cycles of our products will be sufficient to permit us to recover licensing, design, manufacturing, marketing and other costs associated with those products.

We are subject to changing popularity of our products.

The success of many of our character-related and theme-related products depends on the popularity of characters in movies, television programs, live wrestling exhibitions, auto racing events and other media. We cannot assure you that:

media associated with our character-related and theme-related product lines will be released at the times we expect or will be successful;

the success of media associated with our existing character-related and theme-related product lines will result in substantial promotional value to our products;

we will be successful in renewing licenses upon expiration on terms that are favorable to us; or

we will be successful in obtaining licenses to produce new character-related and theme-related products in the future.

There are risks associated with our license agreements.

Our current licenses require us to pay minimum royalties

Sales of products under trademarks or trade or brand names licensed from others account for substantially all of our net sales. Product licenses allow us to capitalize on characters, designs, concepts and inventions owned by others or developed by toy inventors and designers. Our license agreements generally require us to make specified minimum royalty payments, even if we fail to sell a sufficient number of units to cover these amounts. In addition, under certain of our license agreements, if we fail to achieve certain prescribed sales targets, we may be unable to retain or renew these licenses.

Some of our licenses are restricted as to use

Under some of our license agreements, including WWE, Nickelodeon and NASCAR, the licensors have the right to review and approve our use of their licensed products, designs or materials before we may make any sales. If a licensor refuses to permit our use of any licensed property in the way we propose, or if their review process is delayed, our development or sale of new products could be impeded.

New licenses are difficult and expensive to obtain

Our continued success will depend substantially on our ability to obtain additional licenses. Intensive competition exists for desirable licenses in our industry. We cannot assure you that we will be able to secure or

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renew significant licenses on terms acceptable to us. In addition, as we add licenses, the need to fund additional royalty advances and guaranteed minimum royalty payments may strain our cash resources.

A limited number of licensors account for a large portion of our net sales

We derive a significant portion of our net sales from a limited number of licensors. If one or more of these licensors were to terminate or fail to renew our license or not grant us new licenses, our business, financial condition and results of operations could be adversely affected.

The toy industry is highly competitive.

The toy industry is highly competitive. Globally, certain of our competitors have financial and strategic advantages over us, including:

greater financial resources;

larger sales, marketing and product development departments;

stronger name recognition;

longer operating histories; and

greater economies of scale.

In addition, the toy industry has no significant barriers to entry. Competition is based primarily on the ability to design and develop new toys, to procure licenses for popular characters and trademarks and to successfully market products. Many of our competitors offer similar products or alternatives to our products. Our competitors have obtained and are likely to continue to obtain licenses that overlap our licenses with respect to products, geographic areas and markets. We cannot assure you that we will be able to obtain adequate shelf space in retail stores to support our existing products or to expand our products and product lines or that we will be able to continue to compete effectively against current and future competitors.

Our video game joint venture with THQ is subject to numerous risks and uncertainties.

In addition to the risks relating to us and the toy industry, our joint venture with THQ faces the following risks:

The joint venture depends entirely on a single license, which gives the venture exclusive worldwide rights to produce and market video games based on World Wrestling Entertainment characters and themes. The popularity of professional wrestling, in general, and World Wrestling Entertainment, in particular, is subject to changing consumer tastes and demands. The relative popularity of professional wrestling has fluctuated significantly in recent years. A decline in the popularity of World Wrestling Entertainment could adversely affect the joint venture's and our business, financial condition and results of operations.

The joint venture relies on hardware manufacturers and THQ's non-exclusive licenses with them for the right to publish titles for their platforms and for the manufacture of the joint venture's titles. If THQ's manufacturing licenses were to terminate and the joint venture could not otherwise obtain these licenses from other manufacturers, the joint venture would be unable to publish additional titles for these manufacturers' platforms, which would materially adversely affect the joint venture's and our business, financial condition and results of operations.

The software industry has experienced periods of significant growth in consumer interest, followed by periods in which growth has substantially declined. The joint venture's sales of software titles depend, among other factors, on the popularity and unit sales of platforms generally, as well as on the relative popularity and unit sales of various platforms. The relative popularity of certain platforms has fluctuated significantly in recent years. An unexpected decline in the popularity of a particular platform can be expected to have a material adverse affect on consumer demand for titles released or to be released by the joint venture for such platforms.

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The joint venture's failure to timely develop titles for new platforms that achieve significant market acceptance, to maintain net sales that are commensurate with product development costs or to maintain compatibility between its personal computer CD-ROM titles and the related hardware and operating systems would adversely affect the joint venture's and our business, financial condition and results of operations.

In general, THQ controls the day-to-day operations of the joint venture and all of its product development and production operations. Accordingly, the joint venture relies exclusively on THQ to manage these operations effectively. THQ's failure to effectively manage the joint venture would have a material adverse effect on the joint venture's and our business and results of operations. Furthermore, we are dependent upon THQ's ability to manage cash flows of the joint venture. If THQ is required to retain cash for operations, or because of statutory or contractual restrictions, we may not receive cash payments for our share of profits, on a timely basis, or at all.

We may not be able to sustain or manage our rapid growth.

We have experienced rapid growth in net sales, operating income and net income over the last six years, which was achieved through acquisitions of businesses, products and licenses. As a result, comparing our period-to-period operating results may not be meaningful and results of operations from prior periods may not be indicative of future results. We cannot assure you that we will continue to experience growth in, or maintain our present level of, net sales or net income.

Our growth strategy calls for us to continuously develop and diversify our toy business by acquiring other companies, entering into additional license agreements, refining our product lines and expanding into international markets, which will place additional demands on our management, operational capacity and financial resources and systems. The increased demand on management may necessitate our recruitment and retention of qualified management personnel. We cannot assure you that we will be able to recruit and retain qualified personnel or expand and manage our operations effectively and profitably. To effectively manage future growth, we must continue to expand our operational, financial and management information systems and to train, motivate and manage our work force. There can be no assurance that our operational, financial and management information systems will be adequate to support our future operations. Failure to expand our operational, financial and management information systems or to train, motivate or manage employees could have a material adverse effect on our business, financial condition and results of operations.

In addition, implementation of our growth strategy is subject to risks beyond our control, including competition, market acceptance of new products, changes in economic conditions, our ability to obtain or renew licenses on commercially reasonable terms and our ability to finance increased levels of accounts receivable and inventory necessary to support our sales growth, if any. Accordingly, we cannot assure you that our growth strategy will continue to be implemented successfully.

We need to be able to acquire and integrate companies and new product lines successfully.

Our growth strategy depends in part upon our ability to acquire companies and new product lines. Future acquisitions will succeed only if we can effectively assess characteristics of potential target companies and product lines, such as:

attractiveness of products;

suitability of distribution channels;

management ability;

financial condition and results of operations; and

the degree to which acquired operations can be integrated with our operations.

We cannot assure you that we can identify attractive acquisition candidates or negotiate acceptable acquisition terms, and our failure to do so may adversely affect our results of operations and our ability to

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sustain growth. Our acquisition strategy involves a number of risks, each of which could adversely affect our operating results, including:

difficulties in integrating acquired businesses or product lines, assimilating new facilities and personnel and harmonizing diverse business strategies and methods of operation;

diversion of management attention from operation of our existing business;

loss of key personnel from acquired companies; and

failure of an acquired business to achieve targeted financial results.

A limited number of customers account for a large portion of our net sales.

Our five largest customers accounted for 55.7% of our net sales in 2002. Except for outstanding purchase orders for specific products, we do not have written contracts with or commitments from any of our customers. A substantial reduction in or termination of orders from any of our largest customers could adversely affect our business, financial condition and results of operations. In addition, pressure by large customers seeking price reductions, financial incentives, changes in other terms of sale or for us to bear the risks and the cost of carrying inventory also could adversely affect our business, financial condition and results of operations. If one or more of our major customers were to experience difficulties in fulfilling their obligations to us, cease doing business with us, significantly reduce the amount of their purchases from us or return substantial amounts of our products, it could have a material adverse effect on our business, financial condition and results of operations. In addition, the bankruptcy or other lack of success of one or more of our significant retailers could negatively impact our revenues and bad debt expense.

We depend on our key personnel.

Our success is largely dependent upon the experience and continued services of Jack Friedman, our Chairman and Chief Executive Officer, Stephen G. Berman, our President and Chief Operating Officer, and Michael Bianco, Jr., our Executive Vice President and Chief Merchandising Officer. We cannot assure you that we would be able to find an appropriate replacement for Mr. Friedman, Mr. Berman or Mr. Bianco if the need should arise, and any loss or interruption of Mr. Friedman's, Mr. Berman's or Mr. Bianco's services could adversely affect our business, financial condition and results of operations. We maintain, and are the beneficiary of, a \$4.0 million key-man life insurance policy on Mr. Friedman, which may be insufficient to fund the cost of employing his successor.

We depend on third-party manufacturers.

We depend on approximately fifteen third-party manufacturers who develop, provide and use the tools, dies and molds that we own to manufacture our products. However, we have limited control over the manufacturing processes themselves. As a result, any difficulties encountered by the third-party manufacturers that result in product defects, production delays, cost overruns or the inability to fulfill orders on a timely basis could adversely affect our business, financial condition and results of operations.

We do not have long-term contracts with our third-party manufacturers. Although we believe we could secure other third-party manufacturers to produce our products, our operations would be adversely affected if we lost our relationship with any of our current suppliers or if our current suppliers' operations or sea or air transportation with our overseas manufacturers were disrupted or terminated even for a relatively short period of time. Our tools, dies and molds are located at the facilities of our third-party manufacturers.

Although we do not purchase the raw materials used to manufacture our products, we are potentially subject to variations in the prices we pay our third-party manufacturers for products, depending on what they pay for their raw materials.

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We have substantial sales and manufacturing operations outside of the United States subjecting us to risks associated with the recent outbreak of SARS, as well as risks common to international operations.

We sell products and operate facilities in numerous countries outside the United States. For the fiscal year ended December 31, 2002, sales to our international customers comprised approximately 17.2% of our net sales. We expect our sales to international customers to account for a greater portion of our revenues in future fiscal periods. Additionally, we utilize third-party manufacturers located principally in The People's Republic of China, or the PRC, which has been significantly impacted by the recent outbreak of Severe Acute Respiratory Syndrome, or SARS. The inability of the PRC to effectively control the spread of SARS within its borders or the failure of the medical community to develop a cure for this illness may deplete the workforce of the PRC available to manufacture our products, create barriers to entry into commercial markets for our products manufactured in the PRC and prevent us from sending the requisite monitors and inspectors to the PRC to ensure that our products are being manufactured in accordance with our requirements and specifications. Any of the foregoing may cause the infrastructure of our PRC operations to fail, thereby adversely effecting our business, financial condition and results of operations.

Furthermore, our PRC sales and manufacturing operations are subject to the risks normally associated with international operations, including:

currency conversion risks and currency fluctuations;

limitations, including taxes, on the repatriation of earnings;

political instability, civil unrest and economic instability;

greater difficulty enforcing intellectual property rights and weaker laws protecting such rights;

complications in complying with laws in varying jurisdictions and changes in governmental policies;

greater difficulty and expenses associated with recovering from natural disasters;

transportation delays and interruptions; and

the potential imposition of tariffs.

Our reliance on external sources of manufacturing can be shifted, over a period of time, to alternative sources of supply, should such changes be necessary. However, if we were prevented from obtaining products or components for a material portion of our product line due to medical, political, labor or other factors beyond our control, our operations would be disrupted while alternative sources of products were secured. Also, the imposition of trade sanctions by the United States against a class of products imported by us from, or the loss of normal trade relations status by China, could significantly increase our cost of products imported from that nation. Because of the importance of our international sales and international sourcing of manufacturing to our business, our financial condition and results of operations could be significantly and adversely affected if any of the risks described above were to occur.

Our business is subject to extensive government regulation and to potential product liability claims.

Our business is subject to various laws, including the Federal Hazardous Substances Act, the Consumer Product Safety Act, the Flammable Fabrics Act and the rules and regulations promulgated under these acts. These statutes are administered by the Consumer Product Safety Commission (CPSC), which has the authority to remove from the market products that are found to be defective and present a substantial hazard or risk of serious injury or death. The CPSC can require a manufacturer to recall, repair or replace these products under certain circumstances. We cannot assure you that defects in our products will not be alleged or found. Any such allegations or findings could result in:

product liability claims;

loss of sales;

diversion of resources;

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damage to our reputation;

increased warranty costs; and

removal of our products from the market.

Any of these results may adversely affect our business, financial condition and results of operations. There can be no assurance that our product liability insurance will be sufficient to avoid or limit our loss in the event of an adverse outcome of any product liability claim.

We depend on our proprietary rights.

We rely on trademark, copyright and trade secret protection, nondisclosure agreements and licensing arrangements to establish, protect and enforce our proprietary rights in our products. The laws of certain foreign countries may not protect intellectual property rights to the same extent or in the same manner as the laws of the United States. We cannot assure you that we or our licensors will be able to successfully safeguard and maintain our proprietary rights. Further, certain parties have commenced legal proceedings or made claims against us based on our alleged patent infringement, misappropriation of trade secrets or other violations of their intellectual property rights. We cannot assure you that other parties will not assert intellectual property claims against us in the future. These claims could divert our attention from operating our business or result in unanticipated legal and other costs, which could adversely affect our business, financial condition and results of operations.

Market conditions and other third-party conduct could negatively impact our margins and implementation of other business initiatives.

Economic conditions, such as rising fuel prices and decreased consumer confidence, may adversely impact our margins. In addition, general economic conditions were significantly and negatively affected by the September 11th terrorist attacks and could be similarly affected by any future attacks. Such a weakened economic and business climate, as well as consumer uncertainty created by such a climate, could adversely affect our sales and profitability. Other conditions, such as the unavailability of electronics components, may impede our ability to manufacture, source and ship new and continuing products on a timely basis. Significant and sustained increases in the price of oil could adversely impact the cost of the raw materials used in the manufacture of our products, such as plastic.

FORWARD LOOKING STATEMENTS

This prospectus includes or incorporates by reference 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 prospectus 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, will or expect, we are making forward-looking statements. We believe that the assumptions and expectations reflected in such forward-looking statements are reasonable, based on information available to us on the date hereof, but we cannot assure you that these assumptions and expectations will prove to have been correct or that we will take any action that we may presently be planning. We have disclosed certain important factors that could cause our actual results to differ materially from our current expectations under Risk Factors above and elsewhere in this prospectus. You should understand that forward-looking statements made in this prospectus are necessarily qualified by these factors. We are not undertaking to publicly update or revise any forward-looking statement if we obtain information or upon the occurrence of future events or otherwise.

Table of Contents**USE OF PROCEEDS**

We will not receive any proceeds from the sale of the notes or shares of common stock underlying the notes by the selling securityholders.

RATIO OF EARNINGS TO FIXED CHARGES

The ratio of our earnings to our fixed charges for each of the periods indicated is as follows:

	Fiscal Year Ended December 31,					Six Months Ended June 30,	
	1998	1999	2000	2001	2002	2002	2003
						(unaudited)	
Ratio of earnings to fixed charges	11.38	72.64	89.84	38.80	25.42	14.97	10.54

For the purpose of computing the ratio of fixed charges, earnings consist of income (loss) 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.

DESCRIPTION OF NOTES

We issued the notes under an indenture dated as of June 15, 2003, between us and Wells Fargo Bank, N.A, as trustee. The indenture and the notes are governed by New York law. The following description is only a summary of the material provisions of the notes, the indenture and the registration rights agreement and is not complete. We urge you to read these documents in their entirety because they, and not this description, define your rights as holders of these notes. Copies of the documents are included as exhibits to the registration statement of which this prospectus forms a part. You may also request copies of these documents at our address set forth below under [Where You Can Find More Information](#). In this section, when we refer to JAKKS, we, our or us, we are referring to JAKKS Pacific, Inc. and not any of its current and future subsidiaries, unless the context otherwise requires.

Brief Description of the Notes

The notes:

were initially issued in June 2003 in the aggregate principal amount of \$98 million;

were sold at an issue price of 100% of the principal amount of the notes, which is \$1,000 per note, plus accrued interest, if any, from the date of issuance;

pay cash interest at an annual rate of 4.625% of the principal amount at issuance, from the issue date to, but excluding, June 15, 2010, payable on June 15 and December 15 of each year, commencing on December 15, 2003;

will not pay cash interest after June 15, 2010;

will be due at maturity at an accreted principal amount of \$1,811.95 (181.195%) per \$1,000 of principal amount at issuance, with the accreted principal amount being the principal amount at issuance plus accretion beginning June 15, 2010, so that the yield to maturity of the notes will remain at 4.625% per year (equal to the cash interest before June 15, 2010), calculated on a semi-annual bond equivalent basis using a 360-day year comprised of twelve 30-day months;

will pay contingent cash interest in the circumstances described under [Contingent Interest](#) ;

will accrue additional amounts if we fail to comply with certain obligations as set forth below under Registration Rights ;

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are our general unsecured obligations, ranking equally with all of our other existing and future unsecured senior indebtedness and senior in right of payment with all of our future subordinated indebtedness;

will be redeemable at our option in whole or in part beginning on June 15, 2010, at a redemption price equal to 100% of the accreted principal amount of the notes plus accrued and unpaid interest (including contingent interest and additional amounts), if any, to, but not including, the redemption date;

will be subject at a holder's option to repurchase by us upon a fundamental change of JAKKS, as described in this prospectus, or on June 15, 2010, June 15, 2013 and June 15, 2018, at a repurchase price equal to 100% of the accreted principal amount of the notes plus accrued and unpaid interest (including contingent interest and additional amounts), if any, to, but not including, the repurchase date. The accreted principal amount at June 15, 2010 will be \$1,000.00 per note, at June 15, 2013 it will be \$1,147.02 per note, and at June 15, 2018 it will be \$1,441.65 per note. Any repurchase upon a fundamental change or at June 15, 2010 will be paid in cash, but 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, provided, however, that any accrued and unpaid interest (including contingent interest and additional amounts), if any, will be paid in cash;

may be converted by the holder into our common stock at a conversion rate of 50.0 shares of common stock per \$1,000 principal amount at issuance (and with no effect given to any accretion or principal amount after June 15, 2010):

if the closing sale price of our common stock for at least 20 trading days in the 30 trading day period ending on the last day of the preceding calendar quarter exceeds 120% of the accreted conversion price per share of common stock (the accreted principal amount of a note divided by the number of shares issuable upon conversion of a note on that day) on the last day of the preceding calendar quarter;

during the 5 trading day period after any 10 trading day period in which the note price was less than 105% of the conversion value and the conversion value for each day of such 10 trading day period was less than 90% of the accreted principal amount per note on such day. Upon surrender under this conversion right, holders will be eligible to receive a number of shares equal to the lesser of the conversion rate or that number of shares equal to the accreted principal amount per note divided by the sale price of the common stock on the day prior to conversion;

if we have called the notes for redemption;

during any period in which the notes are rated by either Moody's Investors Service, Inc. or Standard & Poor's Rating Group and the credit rating initially assigned to the notes by either rating agency is downgraded by two levels or more or the notes cease to be rated, provided that we have no obligation to have the notes rated; or

upon the occurrence of specified corporate transactions described under "Description of the Notes - Conversion Rights."

initially issued in the private offering are eligible for trading in the PORTAL market; however, notes sold using this prospectus will no longer be eligible for trading in the PORTAL market; and

will be due on June 15, 2023, payable in cash at maturity in an amount equal to \$1,811.95 per note, plus accrued and unpaid interest (including contingent interest and additional amounts), if any, unless earlier converted, redeemed by us at our option or repurchased by us at your option.

The indenture does not contain any financial covenants and does not restrict us from paying dividends, incurring additional indebtedness or issuing or repurchasing our other securities. In addition, our subsidiaries are not restricted under the indenture from incurring additional indebtedness. The indenture also does not protect a holder of notes in the event of a highly leveraged transaction or a fundamental change of JAKKS,

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except to the extent described under **Repurchase of Notes at Your Option Upon a Fundamental Change** below.

The notes were issued in book-entry form in denominations of \$1,000 principal amount and whole multiples thereof. Beneficial interests in the notes will be shown on and transfers will be effected only through, records maintained by DTC, or its nominee, and any such interests may not be exchanged for certificated securities except in limited circumstances.

A holder of notes may not sell or otherwise transfer the notes or the shares of common stock issuable upon conversion of the notes except in compliance with the provisions set forth below under **Transfer Restrictions** and **Registration Rights**.

Payments on the Notes

Principal of and interest (including contingent interest and additional amounts if any) on the notes will be payable, and the notes will be exchangeable and transferable, at our office or agency maintained for such purposes (which initially will be the office of the trustee); provided, however, that payment of interest may be made at our option by check mailed to the person entitled to such interest as shown on the security register. No service charge will be made for any registration of transfer, exchange or redemption of notes, except in certain circumstances for any tax or other governmental charge that may be imposed.

Interest

The notes bear and will bear cash interest at an annual rate of 4.625% of the principal amount at issuance of the notes from the issue date, or from the most recent date to which interest has been paid or provided for, until June 15, 2010. The first such cash interest payment date will be December 15, 2003. The notes will not bear cash interest after June 15, 2010. Cash interest will be payable semi-annually in arrears on June 15 and December 15 of each year to holders of record at the close of business on the May 15 or November 15 immediately preceding such interest payment date. Each payment of cash interest due on the notes will include interest accrued through the day before the applicable interest payment date (or purchase, redemption or, in certain circumstances, conversion date, as the case may be).

We will repay the notes at the accreted principal amount on June 15, 2023. The accreted principal amount at maturity will be equal to \$1,811.95 (181.195%) per \$1,000 of principal amount at issuance. The accreted principal amount will be equal to the principal amount at issuance plus accretion on the principal amount at issuance beginning on June 15, 2010, so that the yield to maturity of the notes will remain at 4.625% per year (equal to the cash interest prior to June 15, 2010). The calculation of the principal accretion will be on a semi-annual bond equivalent basis using a 360-day year comprised of twelve 30-day months.

Under the indenture we agreed, and by purchasing or holding a beneficial interest in the notes each beneficial owner of the notes is deemed to have agreed, among other things, for United States federal income tax purposes, to treat the notes as contingent payment debt instruments subject to the regulations governing contingent payment debt instruments, and, for purposes of those regulations, to treat the fair market value of any shares of our common stock received upon any conversion or repurchase of the notes as a contingent payment. See **Material United States Federal Income Tax Considerations**.

We will also pay contingent interest on the notes in the circumstances described below under **Contingent Interest** and additional amounts on the notes under the circumstances described below under **Registration Rights**.

Cash interest (including contingent interest) or principal accretion otherwise payable will cease to accrue on a note upon its maturity, conversion, repurchase by us at the option of a holder or redemption. Additional amounts may continue to accrue even after conversion if we fail to comply with certain obligations as set forth below under **Registration Rights**.

If a payment date is not a business day, payment will be made on the next succeeding business day.

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Contingent Interest

Subject to the accrual and record date provisions described below, we will pay contingent cash interest to the holders of notes with respect to any six-month period from June 15 to December 14 and from December 15 to June 14, commencing with the six-month period beginning June 15, 2010, if the average note price (as defined below) for the applicable five trading day period (as defined below) to, but excluding, the day immediately preceding the first day of the relevant six-month period equals 120% or more of the accreted principal amount of such notes. We will pay contingent interest only in cash. Applicable five trading day period means the five trading days ending on the second trading day immediately preceding the first day of the relevant six-month period.

The amount of contingent interest payable per note in respect of any six-month period will equal 0.375% per annum of the average note price for the applicable five trading day period.

Contingent interest, if any, will accrue from June 15 or December 15, as applicable, and will be payable on the next succeeding June 15 or December 15 interest payment date, as the case may be. Contingent interest will be paid to the person in whose name a note is registered at the close of business on May 15 or November 15, as the case may be, immediately preceding the relevant interest payment date on which contingent interest is payable.

Trading day means a day on which our common stock

is not suspended from trading on any national or regional securities exchange or association or over-the-counter market as of the close of business, and

had traded at least once on the national or regional securities exchange or association or over-the-counter market that is the primary market for the trading of the common stock.

The note price on any date of determination means the average of the secondary market bid quotations per note obtained by us or the bid solicitation agent for \$5,000,000 principal amount at maturity of the notes at approximately 4:00 p.m., New York City time, on such determination date from three independent nationally recognized securities dealers we select, provided that if at least three such bids cannot reasonably be obtained by us, but two such bids are obtained, then the average of the two bids shall be used, and if only one such bid can reasonably be obtained by us, this one bid shall be used. If we cannot reasonably obtain at least one bid for \$5,000,000 principal amount at maturity of the notes from a nationally recognized securities dealer or if, in our reasonable judgment, the bid quotations are not indicative of the secondary market value of the notes, then the note price will equal (a) the then-applicable conversion rate of the notes multiplied by (b) the sale price of our common stock on such determination date.

We will appoint a bid solicitation agent in accordance with the indenture. We may change the bid solicitation agent, but the bid solicitation agent will not be our affiliate. The bid solicitation agent will solicit bids from securities dealers that are believed by us to be willing to bid for the notes.

Your obligations in respect of the payment of contingent interest in connection with the conversion of any notes will be as described below under Conversion Rights. Upon determination that note holders will be entitled to receive contingent interest during a relevant six-month period, we will issue a press release and publish such information on our website (or otherwise widely disseminate such information) as soon as practicable.

Conversion of Notes

You will have the right, at your option, to convert your notes, or a portion of your notes, into shares of our common stock, at any time prior to maturity under the circumstances described below, unless previously redeemed or repurchased, at a conversion rate of 50.0 shares of common stock per note (equivalent to an initial conversion price of \$20.00 per share), other than certain conversions upon the satisfaction of note price conditions, subject to the adjustments described under the caption Conversion Rate Adjustments.

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Except as described below, we will not make any payment in cash or our common stock or other adjustment for accrued and unpaid interest (including contingent interest and additional amounts) or accrued principal accretion on the notes or dividends on any common stock issued upon conversion of the notes. If you submit your notes for conversion between a record date for an interest payment and the opening of business on the next interest payment date, you will receive the semiannual cash interest payable on such notes on the corresponding interest payment date notwithstanding the conversion, and (except for notes or portions of notes called for redemption on a redemption date occurring during the period from the close of business on a record date and ending on the opening of business on the first business day after the next interest payment date, or if this interest payment date is not a business day, the second business day after the interest payment date) you must pay funds equal to the semi-annual cash interest payable on the principal amount to be converted.

If contingent interest is payable to holders of notes with respect to any particular six-month period, and such notes are converted after the applicable record date and prior to the next succeeding interest payment date, holders of such notes at the close of business on the record date will receive the contingent interest payable on such notes on the corresponding interest payment date notwithstanding the conversion. Such notes, upon surrender for conversion, must be accompanied by funds equal to the amount of contingent interest payable on the principal amount of notes so converted, unless such notes have been called for redemption, in which case no such payment shall be required.

On conversion of a note, except as described above, a holder will not receive any cash payment or additional shares in respect thereof representing accrued principal accretion, accrued cash interest, accrued contingent interest, additional amounts or original issue discount. Our delivery to the holder of the full number of shares of common stock into which the note is convertible, together with any cash payment for such holder's fractional shares, will be deemed to satisfy our obligation to pay the principal amount of the note and to satisfy our obligation to pay accrued principal accretion, accrued and unpaid cash interest (including any contingent interest and additional amounts) and accrued original issue discount attributable to the period from the issue date through the conversion date. As a result, accrued principal accretion, accrued cash interest, accrued contingent interest, additional amounts and accrued original issue discount are deemed paid in full rather than cancelled, extinguished or forfeited. Notwithstanding the foregoing, accrued cash interest (including contingent interest and additional amounts), if any, will be payable upon any conversion of notes at the option of the holder made concurrently with or after acceleration of the notes following an event of default under the notes.

We will not issue fractional shares of common stock upon conversion of notes. Instead, we will pay a cash amount based upon the closing sale price of the common stock on the last trading day prior to the date of conversion. If the notes are called for redemption or are subject to repurchase following a fundamental change or on specific dates, your conversion rights on the notes called for redemption or so subject to repurchase will expire at the close of business on the second business day before the redemption date or repurchase date, as the case may be, unless we default in the payment of the redemption price or repurchase price. If you have submitted your notes for repurchase upon a fundamental change or on specific dates, you may only convert your notes if you withdraw your election in accordance with the indenture.

To convert a note into shares of common stock, a holder must (1) complete and manually sign a conversion notice and deliver the conversion notice to the conversion agent, (2) surrender the note to the conversion agent, (3) if required by the conversion agent, furnish appropriate endorsements and transfer documents and (4) if required, pay all transfer or similar taxes. The conversion rate will not be adjusted for any accrued principal accretion, accrued cash interest, any accrued contingent interest or any original issue discount. A certificate for the number of full shares of common stock into which any note is converted, together with any cash payment for fractional shares, will be delivered through the conversion agent as soon as practicable following the conversion date.

Conversion Upon Satisfaction of Common Stock Price Conditions

You may surrender any of your notes for conversion into our common stock during any calendar quarter if, as of the last day of the preceding calendar quarter, the closing sale price of our common stock for at least

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20 trading days in the 30 trading day period ending on the last day of such preceding calendar quarter exceeded 120% of the accreted conversion price. The accreted conversion price per share as of any day will equal the sum of the principal amount at issuance of a note plus the accrued principal accretion to that day, divided by the number of shares of common stock issuable upon conversion of a note on that day.

The initial conversion trigger price per share of our common stock is \$24.00. This conversion trigger price reflects the initial conversion price per share of common stock multiplied by 120%. Beginning after June 15, 2010, the conversion trigger price per share of common stock increases each calendar quarter as principal accretion accrues for the quarter. The conversion trigger price is the accreted conversion price per share multiplied by the applicable percentage. The conversion trigger price for the period from April 1, 2023 to June 15, 2023 will be \$43.49.

The table below shows the conversion trigger price per share of our common stock in respect of each calendar quarter during the life of the notes.

Quarter	(1) Accreted Conversion Price	(2) Applicable Percentage	(3) Conversion Trigger Price (1)×(2)
On or before June 30, 2010	\$20.00	120%	\$24.00
Quarter ending September 30, 2010	20.23	120%	24.28
Quarter ending December 31, 2010	20.46	120%	24.56
Quarter ending March 31, 2011	20.70	120%	24.84
Quarter ending June 30, 2011	20.94	120%	25.12
Quarter ending September 30, 2011	21.18	120%	25.41
Quarter ending December 31, 2011	21.42	120%	25.70
Quarter ending March 31, 2012	21.67	120%	26.00
Quarter ending June 30, 2012	21.92	120%	26.30
Quarter ending September 30, 2012	22.17	120%	26.60
Quarter ending December 31, 2012	22.42	120%	26.91
Quarter ending March 31, 2013	22.68	120%	27.22
Quarter ending June 30, 2013	22.94	120%	27.53
Quarter ending September 30, 2013	23.20	120%	27.85
Quarter ending December 31, 2013	23.47	120%	28.17
Quarter ending March 31, 2014	23.74	120%	28.49
Quarter ending June 30, 2014	24.01	120%	28.82
Quarter ending September 30, 2014	24.29	120%	29.15
Quarter ending December 31, 2014	24.57	120%	29.48
Quarter ending March 31, 2015	24.85	120%	29.82
Quarter ending June 30, 2015	25.14	120%	30.16
Quarter ending September 30, 2015	25.43	120%	30.51
Quarter ending December 31, 2015	25.72	120%	30.86
Quarter ending March 31, 2016	26.01	120%	31.22
Quarter ending June 30, 2016	26.31	120%	31.58
Quarter ending September 30, 2016	26.62	120%	31.94
Quarter ending December 31, 2016	26.92	120%	32.31
Quarter ending March 31, 2017	27.23	120%	32.68
Quarter ending June 30, 2017	27.54	120%	33.05
Quarter ending September 30, 2017	27.86	120%	33.43
Quarter ending December 31, 2017	28.18	120%	33.82

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Quarter	(1) Accreted Conversion Price	(2) Applicable Percentage	(3) Conversion Trigger Price (1)×(2)
Quarter ending March 31, 2018	28.51	120%	34.21
Quarter ending June 30, 2018	28.83	120%	34.60
Quarter ending September 30, 2018	29.16	120%	35.00
Quarter ending December 31, 2018	29.50	120%	35.40
Quarter ending March 31, 2019	29.84	120%	35.81
Quarter ending June 30, 2019	30.18	120%	36.22
Quarter ending September 30, 2019	30.53	120%	36.63
Quarter ending December 31, 2019	30.88	120%	37.06
Quarter ending March 31, 2020	31.23	120%	37.48
Quarter ending June 30, 2020	31.59	120%	37.91
Quarter ending September 30, 2020	31.96	120%	38.35
Quarter ending December 31, 2020	32.32	120%	38.79
Quarter ending March 31, 2021	32.70	120%	39.24
Quarter ending June 30, 2021	33.07	120%	39.69
Quarter ending September 30, 2021	33.45	120%	40.14
Quarter ending December 31, 2021	33.84	120%	40.60
Quarter ending March 31, 2022	34.23	120%	41.07
Quarter ending June 30, 2022	34.62	120%	41.54
Quarter ending September 30, 2022	35.02	120%	42.02
Quarter ending December 31, 2022	35.42	120%	42.50
Quarter ending March 31, 2023	35.83	120%	42.99
Period ending June 15, 2023	36.24	120%	43.49

Conversion Upon Satisfaction of Note Price Conditions

You may surrender any of your notes for conversion into our common stock during any 5 consecutive trading day period after any 10 consecutive trading day period in which:

the note price of the notes for each day of such period was less than 105% of the conversion value, *and*

the conversion value for each day of such period was less than 90% of the accreted principal amount per note.

Conversion value is equal to the product of the sale price for our common stock on a given day multiplied by the then current conversion rate. Conversion rate is the number of shares of common stock into which each note is then convertible (assuming that the note was convertible as of such date).

Upon surrendering your notes for conversion into common stock under this provision and only this provision, you will receive a number of shares of common stock per note equal to the lesser of:

a number of shares derived based upon the conversion rate on the last trading day prior to the day of conversion, *or*

a number of shares equal to the accreted principal amount of the notes divided by the sale price of our common stock on the last trading day prior to the day of conversion.

Upon surrendering your notes under all other circumstances you will receive common stock equal to the then applicable conversion rate.

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Conversion Upon Notice of Redemption

You will have the right, at your option, to convert any notes we call for redemption into shares of our common stock at any time prior to the close of business on the day that is two business days prior to the redemption date, even if the notes are not otherwise convertible at that time. A note for which a holder has delivered a purchase notice or a fundamental change notice requiring us to purchase such note may be surrendered for conversion only if such notice is withdrawn in accordance with the indenture.

Conversion Upon a Credit Rating Event

You will have the right, at your option, to convert any notes into shares of our common stock at any time during any period if the credit ratings initially assigned to the notes by either Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Ratings Services ("S&P") is downgraded by two or more rating levels or the notes cease to be rated. We are under no obligation, however, to have the notes rated.

Conversion Upon Specified Corporate Transactions

You will have the right, at your option, to convert your notes into shares of our common stock in the event:

we distribute to all holders of our common stock rights entitling them to purchase, for a period expiring within 60 days, common stock at less than the sale price of the common stock at the time of announcement of such distribution;

we elect to distribute to all holders of our common stock, cash or other assets, debt securities or rights to purchase our securities which distribution (together with all other distributions covered by this clause not triggering a conversion right during the preceding 12 months) has a per share value exceeding 5% of the sale price of the common stock on the day preceding the declaration date for the distribution; or

a fundamental change (as defined below under "Repurchase of Notes at Your Option Upon a Fundamental Change") occurs.

In any such event, you may convert your notes into shares of our common stock at any time after we notify you of such event (1) until the earlier of the close of business on the business day immediately prior to the ex-dividend date or the date of our announcement that the distribution will not take place, in the case of a distribution, or (2) until 40 days thereafter, in the case of a fundamental change. We will notify you at least 20 days prior to the ex-dividend date for a distribution or within 20 business days of the occurrence of a fundamental change, as the case may be, of the occurrence of any such event. In the case of a distribution, you may not convert your note if you will otherwise participate in the distribution without conversion as a result of holding the notes.

In addition, if we are party to a consolidation, merger or binding share exchange pursuant to which our common stock would be converted into cash, securities or other property, you may convert your notes into shares of our common stock at any time from and after the date which is 15 days prior to the anticipated effective date of the transaction until 15 days after the actual date of the transaction. In the event you do not convert your note during this time period, you will be entitled to receive, upon conversion, the kind and amount of cash, securities or other property that you would have received if you had converted your note immediately prior to such consolidation, merger or binding share exchange. If the transaction also constitutes a fundamental change, the holder can require us to repurchase all or a portion of its notes as described under "Repurchase of Notes at Your Option upon a Fundamental Change."

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Conversion Rate Adjustments

The conversion rate will be adjusted upon the occurrence of:

the issuance of shares of our common stock as a dividend or distribution on our common stock;

the subdivision or combination of our outstanding common stock;

the issuance to all or substantially all holders of our common stock of rights or warrants entitling them for a period of not more than 60 days to subscribe for or purchase our common stock, or securities convertible into our common stock, at a price per share or a conversion price per share less than the then current sale price per share, provided that the conversion rate will be readjusted to the extent that such rights or warrants are not exercised prior to the expiration;

the distribution to all or substantially all holders of our common stock of shares of our capital stock, evidences of indebtedness or other non-cash assets or rights or warrants, excluding:

dividends, distributions and rights or warrants referred to in the first and third bullets above; and

dividends or distributions exclusively in cash referred to in the fifth bullet below;

the distribution to all or substantially all holders of our common stock of distributions solely in cash in an aggregate amount that together with:

any cash and the fair market value of any other consideration payable in respect of any tender offer by us or any of our subsidiaries for our common stock consummated within the preceding 12 months not triggering a conversion price adjustment; and

all other all-cash distributions to all or substantially all holders of our common stock made within the preceding 12 months not triggering a conversion rate adjustment,

exceeds an amount equal to 5% of our market capitalization on the business day immediately preceding the day on which we declare such distribution; and

the purchase of our common stock pursuant to a tender offer made by us or any of our subsidiaries to the extent that the same involves aggregate consideration the value of which together with:

any cash and the fair market value of any other consideration payable in respect of any tender offer by us or any of our subsidiaries for our common stock consummated within the preceding 12 months not triggering a conversion rate adjustment; and

all-cash distributions to all or substantially all holders of our common stock made within the preceding 12 months not triggering a conversion price adjustment,

exceeds an amount equal to 5% of our market capitalization on the expiration date of such tender offer.

In the event of:

any reclassification of our common stock, or

a consolidation, merger or combination involving JAKKS, or

a sale or conveyance to another person of the property and assets of JAKKS as an entirety or substantially as an entirety, in which holders of our outstanding common stock would be entitled to receive stock, other securities, other property, assets or cash for their common stock, holders of notes will generally be entitled to convert their notes into the same type of consideration received by common stock holders immediately prior to one of these types of events.

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We are permitted to increase the conversion rate of the notes by any amount for a period of at least 20 days if our board of directors determines that such an increase would be in the best interest of JAKKS. We may also increase the conversion rate to avoid or diminish income tax to holders of our common stock in

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connection with a dividend or distribution of stock or similar event. We are required to give at least 15 days prior notice of any such increase in the conversion rate.

You may, in some circumstances, be deemed to have received a distribution or dividend subject to United States federal income tax as a result of an adjustment or the nonoccurrence of an adjustment to the conversion price. See Certain United States Federal Income Tax Considerations U.S. Holders Constructive Distributions.

No adjustment in the conversion rate will be required unless it would result in a change in the conversion rate of at least one percent. Any adjustment not made will be taken into account in subsequent adjustments. Except as stated above, we will not adjust the conversion rate for the issuance of our common stock or any securities convertible into or exchangeable for our common stock or the right to purchase our common stock or such convertible or exchangeable securities.

Ranking

The notes constitute a senior unsecured general obligation of JAKKS, ranking equally with other existing and future senior unsecured indebtedness that we have incurred or may incur, ranking senior in right of payment to any future indebtedness that is expressly made subordinate to the notes and ranking subordinate to secured indebtedness we have incurred. For these purposes, the indenture defines indebtedness as constituting (a) all obligations for borrowed money; (b) all obligations evidenced by notes or other similar instruments; (c) all obligations in respect of letters of credit or bankers acceptances or similar instruments (or reimbursement obligations with respect thereto); (d) all obligations to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business; (e) all obligations as lessee which are capitalized in accordance with generally accepted accounting principles; and (f) all indebtedness of others guaranteed by us or any of our subsidiaries or for which JAKKS or any of our subsidiaries is legally responsible or liable (whether by agreement to purchase indebtedness of, or to supply funds or to invest in, others).

Since the notes are obligations of JAKKS only and not of our subsidiaries, the notes are effectively subordinated to the claims of creditors of our subsidiaries. The amount of indebtedness which our subsidiaries may incur is not limited under the indenture.

Optional Redemption by JAKKS

We may redeem the notes in whole or in part from time to time on or after June 15, 2010 for cash, on at least 30 days, and no more than 60 days, notice at a redemption price equal to the sum of the accreted principal amount plus accrued and unpaid cash interest (including contingent interest and additional amounts), if any, on such notes to, but excluding, the applicable redemption date. The table below shows the redemption prices (not including contingent interest or additional amounts) of a note on June 15, 2010 and on each June 15 and December 15 thereafter prior to maturity and at maturity on June 15, 2023. In addition, the redemption price of a note redeemed between the dates listed would include an additional amount reflecting the additional principal accretion and accrued and unpaid cash interest, including contingent interest and additional amounts, that has accrued on such note since the immediately preceding date in the table below.

	(1) Principal Amount at Issuance	(2) Accrued Principal Accretion	(3) Accreted Principal Amount (1)+(2)
June 15, 2010	\$ 1,000.00	\$ 0.00	\$ 1,000.00
December 15, 2010	1,000.00	23.13	1,023.13
June 15, 2011	1,000.00	46.78	1,046.78
December 15, 2011	1,000.00	70.99	1,070.99
June 15, 2012	1,000.00	95.76	1,095.76
December 15, 2012	1,000.00	121.10	1,121.10

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	(1) Principal Amount at Issuance	(2) Accrued Principal Accretion	(3) Accreted Principal Amount (1)+(2)
June 15, 2013	1,000.00	147.02	1,147.02
December 15, 2013	1,000.00	173.55	1,173.55
June 15, 2014	1,000.00	200.69	1,200.69
December 15, 2014	1,000.00	228.45	1,228.45
June 15, 2015	1,000.00	256.86	1,256.86
December 15, 2015	1,000.00	285.93	1,285.93
June 15, 2016	1,000.00	315.66	1,315.66
December 15, 2016	1,000.00	346.09	1,346.09
June 15, 2017	1,000.00	377.22	1,377.22
December 15, 2017	1,000.00	409.06	1,409.06
June 15, 2018	1,000.00	441.65	1,441.65
December 15, 2018	1,000.00	474.99	1,474.99
June 15, 2019	1,000.00	509.09	1,509.09
December 15, 2019	1,000.00	543.99	1,543.99
June 15, 2020	1,000.00	579.70	1,579.70
December 15, 2020	1,000.00	616.23	1,616.23
June 15, 2021	1,000.00	653.60	1,653.60
December 15, 2021	1,000.00	691.84	1,691.84
June 15, 2022	1,000.00	730.97	1,730.97
December 15, 2022	1,000.00	771.00	1,771.00
June 15, 2023	1,000.00	811.95	1,811.95

If fewer than all of the notes are to be redeemed, the trustee will select the notes to be redeemed by lot, or in its discretion, on a pro rata basis. If any note is to be redeemed in part only, a new note in principal amount equal to the unredeemed principal portion will be issued. If a portion of your notes is selected for partial redemption and you convert a portion of your notes, the converted portion will be deemed to be of the portion selected for redemption.

In the event of any redemption in part, we will not be required to:

issue, register the transfer of or exchange any note during a period of 15 days before the mailing of the redemption notice; or

register the transfer of or exchange any note so selected for redemption, in whole or in part, except the unredeemed portion of any note being redeemed in part.

No sinking fund is provided for the notes.

Repurchase of Notes at Your Option Upon a Fundamental Change

In the event of a fundamental change, you will have the right to require us to repurchase for cash all or any part of your notes after the occurrence of a fundamental change at a repurchase price equal to 100% of the principal amount at issuance plus accretion on the principal amount at issuance and any accrued and unpaid interest (including contingent interest and additional amounts), if any, to, but excluding, the repurchase date. Notes submitted for repurchase must be \$1,000 or an integral multiple thereof.

On or before the 20th day after the occurrence of a fundamental change, we will provide to all holders of the notes and the trustee and paying agent a notice of the occurrence of the fundamental change and of the resulting repurchase right. Such notice shall state, among other things, the procedures that holders must follow to require us to repurchase their notes.

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Simultaneously with providing such notice, we will publish a notice containing this information in a newspaper of general circulation in the City of New York or publish the information on our website or through such other public medium as we may use at that time.

To exercise the repurchase right, you must deliver, on or before the 30th business day after the date of our notice of a fundamental change, subject to extension to comply with applicable law, the notes to be repurchased, duly endorsed for transfer, together with a written repurchase notice and the form entitled "Form of Fundamental Change Repurchase Notice" on the reverse side of the notes duly completed, to the paying agent. Your purchase notice must state:

if certificated, the certificate numbers of your notes to be delivered for repurchase;

the portion of the principal amount of notes to be repurchased, which must be \$1,000 or an integral multiple thereof; and

that the notes are to be repurchased by us pursuant to the applicable provisions of the notes and the indenture.

You may withdraw any repurchase notice (in whole or in part) by a written notice of withdrawal delivered to the paying agent prior to the close of business on the business day prior to the fundamental change repurchase date. The notice of withdrawal shall state: