

JAKKS PACIFIC INC
Form S-4
May 21, 2002

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As filed with the Securities and Exchange Commission on May 21, 2002

Registration No. 333-

**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

**Form S-4
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)*

3944
*(Primary Standard Industrial
Classification Code Name)*

95-4527222
*(I.R.S. Employer
Identification Number)*

22619 Pacific Coast Highway

**Malibu, California 90265
(310) 456-7799**

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

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

(Address, including zip code, and telephone number, including area code of agent for service)

With Copies To:

Murray L. Skala

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

Approximate date of commencement of proposed sale to the public: As soon as practicable after the registration statement becomes effective and the satisfaction or waiver of all other conditions to the merger, pursuant to the agreement of merger, dated as of February 10, 2002, filed as exhibit 2.1 to this registration statement.

If the Securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

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If this Form is filed to register additional Securities for an offering pursuant to Rule 462(b) 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 this Form is a post-effective amendment filed pursuant to Rule 462(d) 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. _____

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Title of Each Class of Securities to be Registered	Amount to be Registered(1)(2)	Proposed Maximum Offering Price Per Share(3)	Proposed Maximum Aggregate Offering Price(3)	Amount of Registration Fee(3)
Common stock, par value \$.001 per share	325,853	\$1.37	\$446,419	\$42

- (1) Represents the number of shares of common stock of JAKKS Pacific, Inc. (JAKKS) that is to be issued in connection with the merger with Toymax International, Inc. (Toymax) described herein at the anticipated exchange ratio of \$3.00 per share in cash plus .0798 shares of the registrant's common stock for each share of Toymax common stock outstanding on February 10, 2002 (other than shares owned by registrant and its subsidiaries).
- (2) In the event the average closing price for JAKKS common stock for the 10 days prior to the effective date of the merger is less than \$16.9173 per share (the adjusted closing price) the exchange ratio will be determined by dividing \$1.35 by the adjusted closing price (the adjusted exchange ratio). If we are required to issue shares of our common stock in accordance with the adjusted exchange ratio, we will have to register a greater amount of shares of our common stock than is provided for in this Registration Statement. If that is the case, we will amend this Registration Statement in accordance with Rule 462(b), and file a Registration Statement pursuant to Rule 462(b).
- (3) In accordance with Rule 457(f), the proposed maximum aggregate offering price was calculated by multiplying (a) the 325,853 shares expected to be registered hereby, by (b) the difference between (i) \$4.37, which is the average of the high and low prices reported for the Toymax common stock on May 16, 2002 as reported on the Nasdaq National Market System less (ii) \$3.00, the per share cash price being paid in connection with the merger.

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 of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this Joint Proxy Statement/ Prospectus is not complete and may be changed. We have filed a registration statement with the Securities and Exchange Commission and we may not sell these securities until it becomes effective. This Joint Proxy Statement/ Prospectus is not an offer to sell, and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION , 2002

JAKKS PACIFIC, INC.

JAKKS Pacific, Inc. (JAKKS) is furnishing this joint proxy statement/ prospectus in regard to the issuance of approximately 325,853 shares of its common stock in connection with the merger of JP/TII Acquisition Corp. (the Merger Subsidiary), a wholly-owned subsidiary of JAKKS, with and into Toymax International Inc. (Toymax). This joint proxy statement/ prospectus is being delivered to those persons who held Toymax common stock, \$0.01 par value per share, as of [May 28], 2002, the record date for the meeting to which this joint proxy statement/ prospectus relates. Upon consummation of the merger, Toymax will become the surviving corporation and will be a wholly-owned subsidiary of JAKKS. Each outstanding share of Toymax common stock (except for shares held by the Merger Subsidiary, which will have been cancelled, and shares held by Toymax's stockholders who perfect their statutory appraisal rights under Delaware law), will be exchanged for \$3.00 in cash plus 0.0798 share of JAKKS common stock (subject to further adjustments as more fully described herein).

The merger cannot be completed unless the Toymax stockholders adopt the merger agreement relating to the merger, approve the merger and ratify the stock purchase agreement described in this joint proxy statement/ prospectus. Toymax has scheduled a special meeting for its stockholders to vote on this matter. **YOUR VOTE IS VERY IMPORTANT.** Whether or not you plan to attend the Toymax special meeting, please take the time to vote by completing and mailing the enclosed proxy form.

The date, time and place of the special meeting is:

[June 27], 2002

**9:00 a.m. local time
The Sherwood Country Club
320 West Stafford Road
Thousand Oaks, California 91361**

JAKKS common stock is listed on the Nasdaq National Market under the symbol JAKK. Toymax common stock is listed on the Nasdaq National Market under the symbol TMAX.

This document provides you with detailed information about the proposed merger, the merger agreement and the stock purchase agreement. We encourage you to read this entire document carefully. In addition, you may obtain information about JAKKS and Toymax from publicly available documents that each company has filed with the Securities and Exchange Commission.

See Risk Factors beginning on page 15 for a description of factors that may affect the value of JAKKS common stock to be issued in the merger along with several other risk factors that should be considered by stockholders with respect to the merger.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this joint proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Prospectus/joint proxy statement dated as of [May 30, 2002] and first mailed to Toymax stockholders on or about [May 30, 2002].

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TOYMAX INTERNATIONAL, INC.

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
To Be Held on [June 27,] 2002

To Toymax International, Inc. Stockholders:

Notice is hereby given that a special stockholders meeting of Toymax International Inc. (Toymax) will be held at 9:00 a.m., local time, on Thursday, June 27, 2002, at the Sherwood Country Club, 320 West Stafford Road, Thousand Oaks, California 91361, for the following purposes:

1. To adopt the Merger Agreement, dated February 10, 2002, pursuant to which JP/TII Acquisition Corp. (the Merger Subsidiary), a wholly-owned subsidiary of JAKKS Pacific, Inc. (JAKKS), will be merged with and into Toymax, whereupon Toymax will become a wholly-owned subsidiary of JAKKS (the Merger);
2. To approve the Merger;
3. To ratify the Stock Purchase Agreement, dated February 10, 2002, pursuant to which four of Toymax 's principal stockholders agreed to sell to JAKKS approximately 8.1 million shares of Toymax 's common stock, representing approximately 66.3% of Toymax 's outstanding shares of common stock; and
4. To transact any other business that may properly come before the special meeting or any adjournment or postponement of the special meeting.

Only those persons who were holders of record of Toymax 's common stock at the close of business on May 28, 2002 will be entitled to notice of, and to vote at, the special stockholders meeting and any adjournment(s) or postponement(s) of the special stockholders meeting. A list of these stockholders will be available for review at Toymax 's principal executive office during normal business hours for a period of ten days before the special stockholders meeting. Information with regard to the matters to be acted upon is described in the accompanying joint proxy statement/prospectus, which you are urged to read carefully. In addition, you may obtain information about Toymax from documents that Toymax has filed with the Securities and Exchange Commission. A copy of the Merger Agreement is attached as Appendix A to the accompanying joint proxy statement/prospectus and a copy of the Stock Purchase Agreement is attached as Appendix B to the accompanying joint proxy statement/prospectus.

By Order of the Board of Directors,

/s/ STEPHEN G. BERMAN

Stephen G. Berman

Secretary

Malibu, California
[May 30,] 2002

WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY AND MAIL IT PROMPTLY IN THE ENCLOSED ENVELOPE IN ORDER TO ENSURE REPRESENTATION OF YOUR SHARES. YOU MAY REVOKE THE PROXY AT ANY TIME BEFORE THE AUTHORITY GRANTED THEREIN IS EXERCISED.

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HOW TO OBTAIN ADDITIONAL INFORMATION

THIS JOINT PROXY STATEMENT/ PROSPECTUS INCORPORATES IMPORTANT BUSINESS AND FINANCIAL INFORMATION ABOUT JAKKS AND TOYMAX THAT IS NOT INCLUDED IN OR DELIVERED WITH THIS DOCUMENT. THIS INFORMATION IS AVAILABLE TO YOU WITHOUT CHARGE UPON YOUR WRITTEN OR ORAL REQUEST. YOU CAN OBTAIN FREE COPIES OF THIS INFORMATION BY REQUESTING THEM IN WRITING OR BY TELEPHONE FROM THE APPROPRIATE COMPANY AT THE FOLLOWING ADDRESSES AND TELEPHONE NUMBERS.

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

Toymax International, Inc.
22619 Pacific Coast Highway
Malibu, California 90265
(310) 456-7799

IN ORDER TO OBTAIN TIMELY DELIVERY OF THE DOCUMENTS, YOU MUST REQUEST THE INFORMATION BY [JUNE 20,] 2002. Please also see *Where You Can Find More Information* beginning on page 85 to obtain further information and learn about other ways that you can get this information.

IMPORTANT INFORMATION ABOUT THIS JOINT PROXY STATEMENT/PROSPECTUS

No one has been authorized to give any information or make any representation about JAKKS or Toymax or the matters to be voted upon, that differs from, or adds to, the information:

contained in this joint proxy statement/prospectus;

contained in the documents that are referred to in this joint proxy statement/prospectus; or

contained in the documents JAKKS and Toymax file with the Securities and Exchange Commission and incorporated herein by reference.

If anyone does give you different or additional information, you should not rely on it.

This joint proxy statement/prospectus has been prepared as of [May 30], 2002. There may be changes in the affairs of JAKKS or Toymax since that date that are not reflected in this document.

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- Appendix A Agreement of Merger dated as of February 10, 2002, among Toymax International, Inc., JAKKS Pacific, Inc. and JP/TII Acquisition Corp.
- Appendix B Stock Purchase Agreement dated as of February 10, 2002 among Toymax International, Inc., JAKKS Pacific, Inc. and the Selling Stockholders named therein
- Appendix C Section 262 of the Delaware General Corporation Law
- Appendix D Annual Report on Form 10-K of Toymax, Inc. for the year ended March 31, 2001
- Appendix E Quarterly Report on Form 10-Q of Toymax, Inc. for the quarter ended December 31, 2001
- Appendix F Fairness Opinion of Morgan, Lewis, Githens & Ahn, Inc. dated February 10, 2002

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QUESTIONS AND ANSWERS ABOUT THE MERGER

The following are some questions that you, as a stockholder of Toymax, may have and answers to those questions. These answers may not address all questions that may be important to you as a stockholder of Toymax. Accordingly, we urge you to read carefully the remainder of this joint proxy statement/ prospectus because additional important information is contained in the remainder of this joint proxy statement/ prospectus and the appendices to this joint proxy statement/ prospectus.

Q: What am I being asked to vote upon?

A: You are being asked to vote upon three matters:

You are being asked to adopt a merger agreement that provides for JAKKS to acquire all of the remaining outstanding shares of Toymax common stock (not owned by JAKKS) in exchange for a combination of cash and JAKKS common stock.

The acquisition of the remaining outstanding shares of Toymax common stock will be effected by the merger of a wholly-owned subsidiary of JAKKS into Toymax with Toymax being the surviving corporation. You are being asked to approve that merger.

On February 10, 2002, Toymax and four of Toymax's principal stockholders entered into a stock purchase agreement with JAKKS, pursuant to which they agreed to sell to JAKKS approximately 8.1 million shares of Toymax common stock, representing approximately, 66.3% of Toymax's outstanding common stock. You are being asked to ratify the stock purchase agreement.

If the merger agreement is adopted, the merger is approved and the stock purchase agreement is ratified, then the merger will be completed, Toymax will no longer be a publicly-held corporation and you will no longer own Toymax common stock.

Q: How much of Toymax does JAKKS currently own?

A: Based upon its purchase of Toymax common stock under the stock purchase agreement and open market purchases, JAKKS beneficially owns approximately 66.8% of Toymax's outstanding shares of common stock.

Q: Why is the merger being proposed?

A: The purpose of Toymax engaging in the transactions contemplated by the merger agreement is to allow its stockholders to become part of a larger, more diverse, operating entity and thereby potentially be part of a company with improved operating and financial results and a stronger competitive position. In deciding to undertake the merger, Toymax considered the following factors, among others:

diminished value of Toymax's common stock since Toymax's initial public offering;

uncertainty regarding Toymax's future growth prospects;

significant historical losses associated with Toymax's acquisition strategy; and

the costs of, and the burdens on management associated with, being a public company.

Q: What will I receive in the merger?

A: Unless you seek appraisal rights, you will be entitled to receive \$3.00 in cash plus .0798 of a share of JAKKS common stock in exchange for each share of Toymax common stock you own at the time of the merger. In the event that the average closing price of JAKKS common stock for the 10 days prior to the effective date of the merger is less than \$16.9173 per share (the adjusted closing price), the amount of JAKKS common stock you receive (in addition to the cash payment described above) for each share of Toymax common stock will be determined by dividing \$1.35 by the adjusted closing price. Further, in the event that the ten-day average closing price of JAKKS common stock exceeds \$20.6767 per share,

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JAKKS may elect, in its sole discretion, to pay you exclusively in cash, consideration of \$4.65 in exchange for each share of Toymax common stock you own at the time of the merger.

Q: What will happen to my Toymax options?

A: Pursuant to the merger agreement, upon the merger, all of the outstanding options to acquire Toymax common stock that Toymax has granted will be exchanged for fully-exercisable options to acquire JAKKS common stock (or, in certain limited circumstances, for cash), in an amount and at an exercise price determined in accordance with the formula set forth in the merger agreement. The stock purchase agreement further provides that the new JAKKS options will remain exercisable for a period of six months after the effective date of the merger.

Q: What does the Board of Directors recommend?

A: On February 10, 2002, Toymax's board of directors unanimously determined that the consummation of the merger pursuant to the merger agreement and the execution of the stock purchase agreement were fair to, and in the best interests of, Toymax's public stockholders. The Toymax board of directors based its decision in part, upon the opinion of Toymax's financial advisor, which determined that the merger was fair to, and in the best interests of, Toymax's public stockholders from a financial point of view. By resolution dated February 10, 2002, the Toymax board of directors unanimously recommended that you vote FOR adoption of the merger agreement, the approval of the merger and the ratification of the stock purchase agreement.

Q: Was advice obtained as to the fairness from a financial point of view of the merger exchange ratio in the merger?

A: Yes. Toymax's board of directors retained Morgan Lewis Githens & Ahn, Inc. (Morgan Lewis) as its independent financial advisor to make a determination as to the fairness from a financial point of view of the merger consideration to be paid to the Toymax stockholders. Morgan Lewis rendered its opinion that the merger exchange ratio is fair, from a financial point of view, to the stockholders of Toymax. The opinion is reproduced in its entirety in Appendix F to this joint proxy statement/prospectus, and stockholders of Toymax are urged to read the opinion carefully and in its entirety for a description of the assumptions and qualifications made and other matters considered by Morgan Lewis, in rendering its opinion. See the section entitled "Fairness of the Merger; Opinion of Toymax's Financial Advisor" later in this joint proxy statement/prospectus.

Q: What happens if the Board of Directors receives a better offer for Toymax?

A: The merger agreement provides that Toymax's board of directors may withdraw, modify or qualify from making its recommendation to the stockholders if Toymax receives a written offer that its board of directors determines in good faith is superior, from a financial point of view, to the merger and the board of directors determines in good faith that its failure to so withdraw, modify or qualify would cause it to violate its fiduciary duties under applicable law.

Q: Who can vote on the matters presented hereby?

A: Holders of Toymax common stock at the close of business on [May 28,] 2002, the record date relating to the special stockholders meeting, may vote in person or by proxy on adopting the merger agreement, approving the merger and ratifying the stock purchase agreement at the special stockholders meeting.

Q: What vote is required to approve, adopt and ratify the matters presented hereby?

A: The matters presented hereby require the approval of the affirmative vote of a majority of the outstanding voting shares of Toymax common stock. JAKKS beneficially owns, and as of the record date owned, approximately 66.8% of the outstanding shares of Toymax common stock. JAKKS has agreed to vote its

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shares of Toymax common stock to adopt the merger agreement, approve the merger and ratify the stock purchase agreement.

Q: Is the merger subject to the fulfillment of certain conditions?

A: Yes. Before completion of the merger, certain conditions must be satisfied, including the approval by Toymax's stockholders as described in this joint proxy statement/prospectus. It is expected, however, that these conditions will have been met and the merger will be completed if the stockholders vote to approve, adopt and ratify the matters presented hereby.

The authorized capital stock of JAKKS is presently 26,000,000 shares, 25,000,000 of which are shares of common stock and 1,000,000 of which are shares of preferred stock. JAKKS has filed a preliminary proxy statement with the SEC for its 2002 Annual Meeting of Stockholders, which JAKKS expects to occur at the end of the second or beginning of the third quarter of 2002. One of the resolutions provided in the preliminary proxy statement that will be voted upon at that Annual Meeting will be to increase JAKKS' authorized capital stock. If this proposal is approved, JAKKS will have authorized capital stock of 105,000,000 shares, 100,000,000 of which are shares of JAKKS common stock and 5,000,000 of which are shares of JAKKS preferred stock. The approval of this proposal is required for JAKKS to have a sufficient number of authorized shares available for issuance to the Toymax shareholders of the approximately 325,853 shares required to consummate the merger.

Q: When do you expect the merger to be completed?

A: Toymax hopes to complete the merger promptly following the special stockholders meeting.

Q: Do Toymax's officers and directors and JAKKS have interests in the merger that are different from, or in addition to, your interests?

A: Members of Toymax's current management and the current Toymax board of directors have interests in the transaction that are or may be different from, or in addition to, your interests as a Toymax stockholder. As of the date of this joint proxy statement/prospectus, JAKKS controls Toymax because all of Toymax's executive officers and six of Toymax's directors are also directors and officers of JAKKS, and owe fiduciary duties to JAKKS and its stockholders. In addition, each of them own JAKKS common stock and/or options. The interests of JAKKS are different from those of the Toymax public stockholders because JAKKS will become the sole stockholder of Toymax and hold 100% of the outstanding shares of Toymax common stock and, therefore, will be able to control Toymax's future growth. The public stockholders of Toymax will only be able to indirectly participate in Toymax's future growth through their receipt in the merger of JAKKS common stock.

Q: What do I need to do now?

A: After you have carefully reviewed this joint proxy statement/prospectus, please mark your vote on your proxy card and sign and return the election form and proxy card in the enclosed return envelope as soon as possible. This will ensure that your vote will be recorded and your shares will be represented at the special stockholders meeting. If you sign and send in the proxy card and do not indicate how you want to vote, your proxy will be voted FOR the matters presented hereby.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Your broker will vote your shares only if you provide written instructions as to how to vote your shares. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares.

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Q: What rights do I have to dissent from the merger?

A: If you wish, you may dissent from the merger and seek an appraisal of the fair value of your shares, but only if you comply with all requirements of Delaware law summarized on pages [36] through [39] and set forth in Appendix C of this joint proxy statement/prospectus. Based on the determination of the Delaware Court of Chancery, the appraised fair value of your shares of Toymax common stock may be more than, less than or equal to the value of the merger consideration to be issued in the merger. The appraised fair value of your shares of Toymax common stock would be paid to you only if the merger is completed and an appraisal proceeding follows.

Q: Can I change my vote after I have mailed my signed proxy card?

A: Yes. You can change your vote at any time before the vote is taken at the special stockholders meeting. If you are the record holder of your shares, you can change your vote in one of the following three ways:

You can send a written notice dated later than your proxy card stating that you would like to revoke your current proxy.

You can complete and submit a new proxy card dated later than your original proxy card.

You can attend the special stockholders meeting and vote in person.

If you choose either of the first two methods, you must submit your notice of revocation or your new proxy card to the Secretary of Toymax at 22619 Pacific Coast Highway, Malibu, California 90265. Toymax must receive the notice or new proxy card before the vote is taken at the special stockholders meeting.

Simply attending the special stockholders meeting and not voting, however, will not revoke your proxy. If you hold your shares in street name and have instructed a broker to vote your shares, you must follow the directions received from your broker as to how to change your vote.

Q: Should I send in my stock certificates now?

A: No. If the merger is completed, Toymax will promptly send you written instructions for sending in your stock certificates in exchange for the merger consideration to be issued in exchange for your shares.

Q: Who can help answer my questions?

A: If you have more questions about the merger you should contact:

Joel Bennett
Toymax International, Inc.
22619 Pacific Coast Highway
Malibu, California 90265
(310) 456-7799

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SUMMARY

*This summary highlights selected information contained elsewhere in this joint proxy statement/prospectus and may not contain all of the information that is important to you. You should carefully read this entire joint proxy statement/prospectus, including the attached appendices, and the other documents to which we refer you to in this joint proxy statement/prospectus. See *Where you can find more information* on page [82].*

Purpose of the Special Meeting (see pages [23] and [24])

At the special meeting, the stockholders of Toymax will consider and vote on proposals to adopt the merger agreement, approve the merger and ratify the stock purchase agreement. The stock purchase agreement provided for JAKKS to obtain a controlling interest in Toymax. The merger agreement provides that a wholly-owned subsidiary of JAKKS would merge with and into Toymax. Toymax would be the surviving corporation in the merger and would then be a wholly-owned subsidiary of JAKKS. Each outstanding share of common stock of Toymax, other than shares held by Toymax in treasury, shares held by JAKKS and shares held by stockholders who perfect their statutory appraisal rights under Delaware law, would be converted automatically into the right to receive \$3.00 in cash plus 0.0798 shares of JAKKS common stock.

In the event that the average closing price of JAKKS common stock for the 10 days prior to the effective date of the merger is less than \$16.9173 per share (the adjusted closing price), the amount of JAKKS common stock you receive (in addition to the cash payment described above) for each share of Toymax common stock will be determined by dividing \$1.35 by the adjusted closing price. Further, in the event that the average closing price of JAKKS common stock for the 10 days prior to the effective date of the merger exceeds \$20.6767 per share, JAKKS may elect, in its sole discretion, to pay you exclusively in cash consideration of \$4.65 for each share of Toymax common stock you own at the time of the merger.

Date, Time and Place of the Special Meeting (see page [23])

The special meeting will be held on [Thursday, June 27,] 2002, at 9:00 a.m., local time, at the Sherwood Country Club, 320 West Stafford Road, Thousand Oaks, California 91361.

Record Date and Quorum (see page [23])

You can vote at the special meeting if you owned Toymax common stock at the close of business on [May 28,] 2002, which is the record date for the special meeting. You are entitled to one vote for each share of Toymax common stock held by you on the record date. At the close of business on the record date, there were 12,214,678 shares of Toymax common stock outstanding. Holders of a majority of the outstanding shares of Toymax common stock entitled to vote at the special meeting must be present in person or represented by proxy to constitute a quorum for the transaction of business. Shares which abstain or do not vote for any reason with respect to one or more of the matters presented for stockholder approval will be counted as present for purposes of determining whether a quorum is present.

Vote Required and Revocation of Proxies (see pages [24] and [25])

The merger agreement requires the approval of Toymax's stockholders of the matters presented hereby. The holders of a majority of the outstanding voting shares of Toymax common stock entitled to vote at the special meeting will be asked to approve, adopt and ratify these matters.

JAKKS, which owns approximately 66.8% of the outstanding shares of Toymax common stock, owns enough shares of Toymax common stock to approve the merger, adopt the merger agreement and ratify the stock purchase agreement without the vote of any other holders of Toymax common stock. JAKKS has indicated that it will vote its shares of Toymax common stock in favor of these matters.

No shares of capital stock of Toymax are owned by any director or officer of JAKKS.

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You may revoke your proxy at any time before your shares are voted at the special meeting by sending a written notice to the secretary of Toymax so that it is received prior to the special meeting, by executing and returning a later-dated proxy, or by voting in person at the special meeting.

If you send in your proxy card without instructions on how to vote, your shares will be voted **FOR** the matters presented hereby.

No other matters are expected to be voted on at the special meeting. If any other matters do properly come before the special meeting, the people named on the accompanying proxy card will vote the shares represented by all properly executed proxies in their discretion. However, shares represented by proxies that have been voted **AGAINST** the matters presented hereby will not be used to vote **FOR** adjournment of the special meeting to allow more time to solicit additional votes **FOR** adoption of the matters presented hereby.

Parties to the Merger (see page [23])

JAKKS Pacific, Inc. JAKKS develops, designs, produces and markets children's toys and related products which are sold in the United States and throughout the world.

Toymax International, Inc. Toymax is a consumer leisure products company that creates, designs and markets innovative and technologically advanced toys as well as other leisure products which are sold in the United States and throughout the world.

JP/TII Acquisition Corp. JP/TII Acquisition Corp., a newly-formed Delaware corporation, was formed solely for the purpose of completing the merger and is sometimes referred to as the merger subsidiary. It is a wholly-owned subsidiary of JAKKS.

Reasons for the Merger (see pages [26] through [35])

Toymax decided to be acquired by JAKKS and proceed with the merger for the following reasons:

diminished value of Toymax's common stock since Toymax's initial public offering;

uncertainty regarding Toymax's future growth prospects;

significant historical losses associated with our acquisition strategy; and

the costs of, and the burdens on management associated with, being a public company.

JAKKS decided to acquire Toymax and proceed with the merger for the following reasons:

Integrate Toymax's operations into JAKKS, thereby reducing Toymax's operating costs;

Acquire new and diversified product lines; and

Combine operational synergies of both companies to efficiently market and distribute toys and related products.

The Stock Purchase Agreement (see page [34])

Between December 2, 2001 and February 4, 2002, JAKKS purchased 132,754 shares of Toymax common stock on the open market for an aggregate purchase price of \$226,985.69. On March 11, 2002, JAKKS purchased 8,100,065 shares of Toymax common stock from four of Toymax's principal stockholders, pursuant to the stock purchase agreement. As a result of these transactions, as of May 17, 2002, JAKKS owns 8,232,819 shares of Toymax common stock, representing approximately 66.8% of the outstanding shares of Toymax common stock.

The Merger Agreement (see pages [42] through [47])

The merger agreement, including the significant conditions to the closing of the merger, is described on pages [40] through [45] and is attached as Appendix A to this joint proxy statement/prospectus. Toymax

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encourages you to read carefully the entire merger agreement, as it is the legal document that governs the merger.

Conditions to the Merger (see page [46])

We will complete the merger only if a number of conditions are satisfied or waived, including, but not limited to, the following:

the adoption of the merger agreement, the approval of the merger and the ratification of the stock purchase agreement by stockholders who hold a majority of the outstanding voting shares of Toymax common stock;

the fairness opinion received by Toymax on February 10, 2002 stating that the merger is fair, from a financial point of view, has not been withdrawn, rescinded or adversely updated or modified; and

the consummation of the merger is not restrained, enjoined or prohibited by any order, judgment or decree of a court of competent jurisdiction or any governmental entity, including any pending action seeking damages.

If all of these conditions are not satisfied or waived, the merger will not be completed.

The authorized capital stock of JAKKS is presently 26,000,000 shares, 25,000,000 of which are shares of common stock and 1,000,000 of which are shares of preferred stock. JAKKS has filed a preliminary proxy statement with the SEC for its 2002 Annual Meeting of Stockholders, which JAKKS expects to occur at the end of the second or beginning of the third quarter of 2002. One of the resolutions provided in the preliminary proxy statement that will be voted upon at that Annual Meeting will be to increase JAKKS authorized capital stock. If this proposal is approved, JAKKS will have authorized capital stock of 105,000,000 shares, 100,000,000 of which are shares of JAKKS common stock and 5,000,000 of which are shares of JAKKS preferred stock. The approval of this proposal is required for JAKKS to have a sufficient number of authorized shares available for issuance to the Toymax shareholders of the approximately 325,853 shares required to consummate the merger.

Termination of the Merger Agreement (see pages [46] and [47])

Toymax and JAKKS may agree to terminate the merger agreement at any time before the effective time of the merger. In addition, the merger agreement may be terminated:

by Toymax, if Toymax's fairness opinion has been withdrawn, rescinded or adversely updated or modified;

by either party, if there shall be any material breach of any representation or warranty by the other party or the other fails to perform any material covenant or obligation (subject to such other party's ability to cure such breach);

by either party, if the condition requiring that the merger agreement and the merger be approved and adopted by the affirmative vote of the holders of a majority of the outstanding shares of Toymax common stock is not met; or

by either party, if the merger has not been consummated on or before September 30, 2002.

No termination fee is payable by any party in the event of a termination performed in accordance with these conditions.

Tax Consequences of the Merger (see pages [37] and [38])

The merger will generally be treated as a taxable exchange by the Toymax stockholders of their shares of Toymax common stock for the merger consideration. Each Toymax stockholder will realize taxable gain, or loss, to the extent that the fair market value of the cash and JAKKS common stock received by the Toymax stockholder in the merger exceeds, or is less than, the stockholder's basis in the Toymax common

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stock exchanged in the merger. You should consult your own tax advisor for a full understanding of the merger's tax consequences. Additionally, no gain or loss will generally be recognized by Toymax or JAKKS as a result of the merger.

Accounting Treatment of the Merger (see page [37])

The merger will be accounted for as the acquisition of a minority interest by JAKKS, using the purchase method of accounting.

Regulatory Matters (see page [38])

There are no federal or state regulatory approvals required that have not already been obtained in order for us to complete the merger, except for:

the requirements of the Delaware General Corporation Law relating to stockholder approval for and completion of the merger; and

the requirements of the federal and state securities laws.

Appraisal Rights (see pages [38] through [41] and Appendix C)

Toymax is a Delaware corporation. Under the Delaware General Corporation Law, if you do not vote in favor of the merger and you follow all of the procedures for demanding appraisal rights described in Appendix C and summarized on Pages [38] through [41], you will be entitled to dissent and elect to have an appraisal of the fair value of your shares of common stock by the Delaware Court of Chancery. The value determined by the Delaware Court of Chancery may be more than, the same as or less than the per share payment (in cash and JAKKS common stock) you would have received for each of your shares in the merger if you had not exercised your appraisal rights. Generally, to exercise appraisal rights, among other things:

You must NOT vote in favor of the merger agreement and the merger; and

You must make a written demand for appraisal in compliance with Delaware law BEFORE the vote on the merger agreement and the merger.

Merely voting against the merger agreement and the merger will not preserve your appraisal rights under Delaware law. Appendix C to this joint proxy statement/prospectus contains the Delaware statute relating to your appraisal rights. **If you want to exercise your appraisal rights, you are urged to read and follow carefully the procedures on pages [38] through [41] and in Appendix C. Failure to follow all of the steps required under Delaware law will result in the loss of your appraisal rights.**

Comparison of Rights of Holders of JAKKS and Toymax Capital Stock (see pages [79] through [82])

There are differences between the rights you have as a holder of Toymax common stock and the rights you will have as a holder of JAKKS common stock. For a description of these differences, please read the section called Comparison of Rights of Stockholders of JAKKS and Toymax.

Comparative Per Share Market Price Data (see page [82])

The JAKKS common stock is traded on the NASDAQ National Market under the symbol JAKK. The Toymax common stock is traded on the NASDAQ National Market under the symbol TMAX.

The following table presents the closing prices per share of the Toymax common stock and the JAKKS common stock on the following dates:

February 8, 2002, the last trading day before the public announcement that JAKKS and Toymax had entered into the merger agreement; and

[May 29,] 2002, the last trading day before the date of this joint proxy statement/ prospectus.

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The chart also presents, in the line entitled Equivalent Per Share Price, the price per share of Toymax common stock you would have received if the merger consideration had been set under the terms of the merger agreement on each of February 8, 2002, the trading day prior to the public announcement of the merger, and May [29], 2002 the day prior to mailing this joint proxy statement/prospectus.

<u>Stock Date</u>	<u>February 8, 2002</u>	<u>May 29, 2002</u>
Toymax	\$ 3.05	\$
JAKKS	18.80	
Equivalent Per Share Price	4.50	

You should obtain current stock price quotations for the Toymax common stock and the JAKKS common stock.

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The following table presents historical per share data for JAKKS and pro forma per share data after giving effect to the proposed merger. The historical financial information is derived from the financial statements of JAKKS, included in or incorporated by reference into this joint proxy statement/ prospectus. The pro forma per share data is derived from the selected historical financial data and gives effect to the issuance of shares of JAKKS common stock in the merger. The pro forma per share data has been calculated based on the historical financial data of JAKKS adjusted for the acquisition of the minority interest related to Toymax upon the issuance of JAKKS common stock.

	Three Months Ended March 31, 2002		Fiscal Year Ended December 31, 2001	Fiscal Year Ended March 31, 2002
	JAKKS	Toymax	JAKKS	Toymax
(Unaudited)				
In thousands, except per share amounts)				
Per Share Data (Historical):				
Book Value per Common Share	\$ 13.26	\$ 1.19	\$ 12.98	\$ 1.19
Income (Loss) per Common Share from Continuing Operations:				
Basic	\$.33	\$ (1.61)	\$ 1.55	\$ (1.69)
Diluted	\$.32	\$ (1.61)	\$ 1.45	\$ (1.69)
Pro Forma Per Share Amounts:				
Book Value per Common Share	\$ 13.65	\$ 1.09	\$ 13.17	\$ 1.05
Income (Loss) per Common Share from Continuing Operations:				
Basic	\$ (0.15)		\$ 1.14	
Diluted	\$ (0.14)		\$ 1.07	

Table of Contents**SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA****Selected Historical Financial Data of JAKKS**

The following selected historical consolidated financial data have been derived from the JAKKS audited and unaudited consolidated financial statements, which are incorporated by reference in this joint proxy statement. You should read the financial data set forth below in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations of JAKKS and JAKKS consolidated financial statements and notes thereto incorporated by reference in this joint proxy statement/prospectus.

	Year Ended December 31,					Three Months Ended March 31,	
	1997	1998	1999	2000	2001	2001	2002
(In thousands, except per share data)							
CONSOLIDATED STATEMENT OF OPERATIONS DATA:							
Net sales	\$41,945	\$85,253	\$183,685	\$252,288	\$284,309	\$59,962	\$59,895
Cost of sales	25,875	52,000	107,602	149,881	164,222	35,494	33,425
Gross profit	16,070	33,253	76,083	102,407	120,087	24,468	26,470
Income from operations	4,175	9,246	24,929	20,503	29,298(1)	7,267	1,419(2)
(Profit)/loss from joint venture			(3,605)	(15,906)	(6,675)	(728)	(1,297)
Net income	\$ 2,786	\$ 6,375	\$ 21,970	\$ 28,637	\$ 28,233(1)	\$ 6,021	\$ 2,156(2)
Diluted earnings per share	\$ 0.35	\$ 0.59	\$ 1.39	\$ 1.41	\$ 1.45(1)	\$ 0.32	\$ 0.11(2)
Weighted average shares and equivalents outstanding diluted							
	9,103	11,403	15,840	20,281	19,410	18,920	20,236
(In thousands)							
	As of December 31,					As of March 31,	
	1997	1998	1999	2000	2001	2002	2002
(In thousands)							
CONSOLIDATED BALANCE SHEET DATA:							
Cash and cash equivalents	\$ 2,536	\$12,452	\$ 57,546	\$ 29,275	\$ 25,036	\$ 14,937	\$ 70,500
Marketable securities			39,334	13,618	37,119	16,706	16,706
Working capital	3,368	13,736	113,170	86,897	116,487	82,006	137,569
Total assets	43,605	58,736	232,878	248,722	284,041	330,704	386,267
Total long-term debt	6,000	5,940	9	1,000	73	76	76
Total stockholders' equity	25,959	37,754	187,501	204,530	244,403	260,890	316,453

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Year Ended December 31,

	1997	1998	1999	2000	2001(1)
(In thousands, except for percentages)					
OTHER FINANCIAL DATA:					
EBITDA(4)	\$6,161	\$12,993	\$29,575	\$31,377	\$44,104
EBITDA growth	293.7%	110.9%	127.6%	6.1%	40.6%
Net sales growth	248.0%	103.2%	115.5%	37.3%	12.7%
Net income growth	136.1%	128.8%	244.6%	30.3%	(1.4)%
EBITDA margin	14.7%	15.2%	16.1%	12.4%	15.5%
Gross profit margin	38.3%	39.0%	41.4%	40.6%	42.2%
Net income margin	6.6%	7.5%	12.0%	11.4%	9.9%

- (1) Results reflect a one-time charge of \$5.0 million relating to the bankruptcy filing of Kmart.
- (2) Results reflect one-time restructuring charges of \$6.6 million relating to our acquisitions of Kidz Biz and Toymax.
- (3) The adjusted balance sheet gives effect to receipt of the net proceeds from our sale of shares of our common stock in this offering at an assumed offering price of \$18.98 per share, after we deduct the underwriting discount and pay the expenses associated with this offering and the receipt of the option price from the selling stockholders of \$2,354,754 upon the exercise of options to purchase 350,078 shares that are being sold in this offering.
- (4) EBITDA is defined as earnings from continuing operations before interest and income taxes, net of nonrecurring items, plus depreciation and amortization of long-term assets. EBITDA does not include our profit from the joint venture with THQ in the amounts of \$3.6 million, \$15.9 million and \$6.7 million in the years ended 1999, 2000 and 2001, respectively. EBITDA is generally regarded as providing useful information regarding a company's financial performance, but it is not a measure of financial performance under generally accepted accounting principles. EBITDA should not be considered an alternative to measures of operating performance as determined in accordance with generally accepted accounting principles, including net income as a measure of our operating results and cash flows as a measure of our liquidity. Additionally, EBITDA may not be comparable to other similarly titled measures of other companies.

Table of Contents**Selected Historical Consolidated Financial Data of Toymax**

The following selected historical consolidated financial data have been derived from the audited consolidated financial statements of Toymax. The selected historical consolidated financial data should be read in conjunction with Toymax's consolidated financial statements and the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations of Toymax included elsewhere in this joint proxy statement/prospectus and incorporated herein by reference.

	Fiscal Years Ended March 31,				
	1998	1999	2000	2001	2002
(Dollars in thousands, except per share data)					
STATEMENT OF OPERATIONS DATA:					
Net sales	\$ 99,367	\$ 106,495	\$ 109,865	\$ 115,151	\$ 94,852
Cost of goods sold	55,907	65,524	75,517	72,770	71,424
Gross profit	43,460	40,971	34,348	42,381	23,428
Selling and administrative expenses	27,268	29,740	38,220	37,719	49,760(1)
Operating income (loss)	16,192	11,231	(3,872)	5,062	(26,332)
Income (loss) of joint venture			290	(2,560)	
Other income (expense), net	(507)	(196)	144	(102)	(615)
Interest income (expense), net	(212)	985	(536)	(885)	(978)
Income (loss) before income taxes	15,473	12,020	(3,974)	(1,115)	(27,925)
Income tax expense (benefit)	4,133	3,275	(2,207)	(1,087)	(7,498)
Income (loss) from continuing operations	11,340	8,745	(1,775)	29	(20,427)
Loss from discontinued operations		(129)	(134)	(9,776)	(3,435)
Net income (loss)	\$ 11,340	\$ 8,616	\$ (1,901)	\$ (9,747)	\$ (23,861)
Basic and diluted loss per share from:					
Continuing Operations	\$ 1.28	\$ 0.82	\$ (0.17)	\$	\$ (1.69)
Discontinued Operations		(0.01)	(0.01)	(0.86)	(0.28)
Basic and diluted loss per share	\$ 1.28	\$ 0.81	(0.18)	\$ (0.86)	\$ (1.97)
Cash dividends declared per common share	\$	\$	\$	\$	\$
Basic and diluted average common shares outstanding	8,847,781	10,605,000	10,596,677	11,280,804	12,116,843
March 31,					

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	1998	1999	2000	2001	2002
BALANCE SHEET DATA:					
Working capital (deficit)	\$31,755	\$30,417	\$ 6,163	\$ 7,693	\$(14,153)
Total assets	53,831	62,584	89,073	69,088	55,806
Short-term debt (including current portion of long term debt)	30	37	14,666	10,000	15
Long-term obligations	47	32	50	1,212	
Total stockholders equity	34,703	43,319	41,301	35,594	14,636

- (1) Included in selling and administrative expenses for year ended March 31, 2002 is \$15.6 million of restructuring charges as described in footnote 2 in the Toymax consolidated financial statements.

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This joint proxy statement/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 joint proxy statement/prospectus regarding JAKKS or Toymax's 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 words like intend, anticipate, believe, estimate, plan or expect, are used these are 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 below and elsewhere in this joint proxy statement/prospectus. You should understand that forward-looking statements made in connection with this joint proxy statement/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.

TRADEMARK AND LICENSING INFORMATION

JAKKS owns or has rights to various trademarks and brand or trade names that we use in conjunction with the sale of our products. These include *World Wrestling Entertainment*®, *Nickelodeon*®, *Rugrats*® and *Hello Kitty*®, among others. We also refer in this joint proxy statement/prospectus to other trademarks or brand or trade names that are owned or licensed by other companies.

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RISK FACTORS

If you hold your shares of Toymax common stock until the merger and receive JAKKS common stock, you will be investing in JAKKS. The following important factors, among others, in some cases have affected, and in the future could affect, JAKKS' actual results and could cause its actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, JAKKS. In addition to the other information contained in or incorporated by reference into this joint proxy statement/prospectus, you should carefully consider the following risk factors in deciding whether to vote for the matters presented hereby and, accordingly to elect to receive JAKKS common stock.

Risks Relating to the Merger

JAKKS may not achieve the expected benefits of the merger.

The merger is intended to achieve certain specific benefits, such as decreasing the combined operating expenses of JAKKS and Toymax, improving JAKKS' cash flow and increasing its net profit. The likelihood of achieving those benefits represents the subjective judgment of JAKKS' management and board of directors. Some of those benefits may not be achieved or, if achieved, may not be achieved in the time frame in which they are expected. Whether JAKKS will actually realize these anticipated benefits may depend on future events and circumstances beyond the control of JAKKS.

It is possible that JAKKS will not realize some or all of the benefits of the merger that formed the basis for the recommendation of Toymax's board of directors that you vote in favor of the matters presented hereby.

JAKKS may not have a sufficient number of shares authorized for issuance to effectuate the merger.

The authorized capital stock of JAKKS is presently 26,000,000 shares, 25,000,000 of which are shares of common stock and 1,000,000 of which are shares of preferred stock. JAKKS has filed a preliminary proxy statement with the SEC for its 2002 Annual Meeting of Stockholders, which JAKKS expects to occur at the end of the second or beginning of the third quarter of 2002. One of the resolutions provided in the preliminary proxy statement that will be voted upon at that Annual Meeting will be to increase JAKKS' authorized capital stock. If this proposal is approved, JAKKS will have authorized capital stock of 105,000,000 shares, 100,000,000 of which are shares of JAKKS common stock and 5,000,000 of which are shares of JAKKS preferred stock. The approval of this proposal is required for JAKKS to have a sufficient number of authorized shares available for issuance to the Toymax shareholders of the approximately 325,853 shares required to consummate the merger.

The value of the JAKKS common stock to be received in the merger may fluctuate.

The merger consideration may be subject to certain adjustments. For example, in the event the average closing price of JAKKS' common stock for the 10 days prior to the effective date of the merger is greater than \$20.6767 per share, JAKKS may elect, in its sole discretion, to pay the entire merger consideration in cash, at a price of \$4.50 per share of Toymax common stock. If the average closing price of JAKKS' common stock for the 10 days prior to the effective date of the merger is less than \$16.9173 per share (the adjusted closing price), the amount of JAKKS common stock you receive will be determined by dividing \$1.35 by the adjusted closing price. Other than the foregoing, the merger agreement does not contain any provisions for adjustment of the merger consideration and does not provide any right of termination by either party if there are fluctuations in the market price of either Toymax or JAKKS stock before the completion of the merger. Because no adjustment will be made to the merger consideration (except in the limited circumstances described above), Toymax stockholders that receive JAKKS common stock will not be able to determine the value of the merger consideration until the closing, which will depend upon the market price of JAKKS and Toymax common stock as of the completion of the merger. Variations in the trading prices of Toymax and JAKKS stock may result from:

changes in the business or results of operations of Toymax or JAKKS;

the prospects for the post-merger operations of JAKKS;

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the timing of the merger;

general stock market and economic conditions; and

other factors beyond the control of Toymax or JAKKS, including those described elsewhere in this Risk Factors section.

Before voting, stockholders are urged to obtain current market quotations for both JAKKS and Toymax common stock.

Risks Relating to the Operation of JAKKS

JAKKS is Subject to Changing Consumer Preferences and New Product Introductions

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

JAKKS cannot assure you that:

its current products will continue to be popular with consumers;

the product lines or products that it introduces will achieve any significant degree of market acceptance; or

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

JAKKS is Subject to Changing Popularity of Its Products

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

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

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

JAKKS will be successful in renewing licenses upon expiration on terms that is favorable to JAKKS; or

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

There Are Risks Associated with JAKKS License Agreements

JAKKS Current Licenses Require JAKKS to Pay Minimum Royalties

Sales of products under trademarks or trade or brand names licensed from others account for substantially all of JAKKS net sales. Product licenses allow JAKKS to capitalize on characters, designs,

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concepts and inventions owned by others or developed by toy inventors and designers. JAKKS license agreements generally require JAKKS to make specified minimum royalty payments, even if JAKKS fail to sell a sufficient number of units to cover these amounts. In addition, under certain of our license agreements, if JAKKS fails to achieve certain prescribed sales targets, JAKKS may be unable to retain or renew these licenses.

Some of JAKKS Licenses Are Restricted as to Use

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

New Licenses Are Difficult and Expensive to Obtain

JAKKS continued success will depend substantially on its ability to obtain additional licenses. Intensive competition exists for desirable licenses in the toy industry. JAKKS cannot assure you that it will be able to secure or renew significant licenses on terms acceptable to JAKKS. In addition, as JAKKS adds licenses, the need to fund additional royalty advances and guaranteed minimum royalty payments may strain its cash resources.

A Limited Number of Licensors Account for a Large Portion of JAKKS Net Sales

JAKKS derives a significant portion of its net sales from a limited number of licensors. If one or more of these licensors were to terminate or fail to renew JAKKS license or not grant JAKKS new licenses, JAKKS 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 JAKKS competitors have financial and strategic advantages over JAKKS, 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 JAKKS competitors offer similar products or alternatives to its products. JAKKS competitors have obtained and are likely to continue to obtain licenses that overlap JAKKS licenses with respect to products, geographic areas and markets. JAKKS cannot assure you that it will be able to obtain adequate shelf space in retail stores to support its existing products or to expand its products and product lines or that JAKKS will be able to continue to compete effectively against current and future competitors.

JAKKS Video Game Joint Venture with THQ Is Subject to Numerous Risks and Uncertainties

In addition to the risks relating to JAKKS and the toy industry, JAKKS 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 the World Wrestling Entertainment, in particular, is subject to changing consumer tastes and demands. The relative popularity of

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professional wrestling has fluctuated significantly in recent years. A decline in the popularity of the World Wrestling Entertainment could adversely affect the joint venture's and JAKKS' 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 JAKKS' 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 effect on consumer demand for titles released or to be released by the joint venture for such platforms.

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 JAKKS' 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 JAKKS' business and results of operations.

JAKKS May Not Be Able To Sustain or Manage its Rapid Growth

JAKKS has experienced rapid growth in net sales, operating income and net income over the last five years. As a result, comparing JAKKS period-to-period operating results may not be meaningful and results of operations from prior periods may not be indicative of future results. JAKKS cannot assure you that it will continue to experience growth in, or maintain our present level of, net sales or net income.

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

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

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JAKKS Needs To Be Able To Acquire and Integrate Companies and New Product Lines Successfully

JAKKS' growth strategy depends in part upon its ability to acquire companies and new product lines. Future acquisitions will succeed only if JAKKS 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.

JAKKS cannot assure you that it can identify attractive acquisition candidates or negotiate acceptable acquisition terms, and its failure to do so may adversely affect our results of operations and JAKKS' ability to sustain growth. JAKKS' acquisition strategy involves a number of risks, each of which could adversely affect its 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 JAKKS' 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 JAKKS' Net Sales

JAKKS' five largest customers accounted for 54.7% of its net sales in 2001. Except for outstanding purchase orders for specific products, JAKKS does not have written contracts with or commitments from any of its customers. A substantial reduction in or termination of orders from any of JAKKS' largest customers could adversely affect its 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 JAKKS to bear the risks and the cost of carrying inventory also could adversely affect JAKKS' business, financial condition and results of operations. If one or more of JAKKS' major customers were to experience difficulties in fulfilling their obligations to JAKKS, cease doing business with JAKKS, significantly reduce the amount of their purchases from us or return substantial amounts of JAKKS' products, it could have a material adverse effect on JAKKS' business, financial condition and results of operations. In addition, the bankruptcy or other lack of success of one or more of JAKKS' significant retailers could negatively impact JAKKS' revenues and bad debt expense. Kmart, one of JAKKS' major customers, filed for Chapter 11 bankruptcy protection on January 22, 2002. JAKKS recorded a \$5.0 million charge in its 2001 financial statements to allow for any losses that may result from Kmart's bankruptcy filing. However, it is not possible to predict the ultimate impact of Kmart's bankruptcy filing at this time.

JAKKS Depends on Its Key Personnel

JAKKS' success is largely dependent upon the experience and continued services of Jack Friedman, its Chairman and Chief Executive Officer, Stephen G. Berman, its President and Chief Operating Officer, and Michael Bianco, Jr., its Executive Vice President and Chief Merchandising Officer. JAKKS cannot assure you that it 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 JAKKS' business, financial condition and results of operations. JAKKS maintains, and is 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.

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JAKKS Depends on Third-Party Manufacturers

JAKKS depends on approximately 20 third-party manufacturers who develop, provide and use the tools, dies and molds that JAKKS owns to manufacture its products. However, JAKKS has 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.

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

Although JAKKS does not purchase the raw materials used to manufacture its products, it is potentially subject to variations in the prices JAKKS pays its third-party manufacturers for products, depending on what they pay for their raw materials.

JAKKS Has Substantial Sales and Manufacturing Operations Outside of the United States Subjecting It to Risks Common to International Operations.

JAKKS sells products and operates facilities in numerous countries outside the United States. For the fiscal year ended December 31, 2001, sales to JAKKS' international customers comprised approximately 14.1% of its net sales. JAKKS expects its sales to international customers to account for a greater portion of our revenues in future fiscal periods. Additionally, JAKKS utilizes third-party manufacturers located principally in The People's Republic of China. These 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.

JAKKS' 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 JAKKS were prevented from obtaining products or components for a material portion of our product line due to political, labor or other factors beyond its control, its 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 JAKKS from, or the loss of normal trade relations status by China, could significantly increase JAKKS' cost of products imported from that nation. Because of the importance of our international sales and international sourcing of manufacturing to JAKKS' business, its financial condition and results of operations could be significantly and adversely affected if any of the risks described above were to occur.

JAKKS' Business Is Subject to Extensive Government Regulation and to Potential Product Liability Claims

JAKKS' 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

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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. JAKKS cannot assure you that defects in its products will not be alleged or found. Any such allegations or findings could result in:

product liability claims;

loss of sales;

diversion of resources;

damage to our reputation;

increased warranty costs; and

removal of our products from the market.

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

JAKKS Depends on Its Proprietary Rights

JAKKS relies on trademark, copyright and trade secret protection, nondisclosure agreements and licensing arrangements to establish, protect and enforce its proprietary rights in its 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. JAKKS cannot assure you that JAKKS or its licensors will be able to successfully safeguard and maintain JAKKS' proprietary rights. Further, certain parties have commenced legal proceedings or made claims against JAKKS based on our alleged patent infringement, misappropriation of trade secrets or other violations of their intellectual property rights. JAKKS cannot assure you that other parties will not assert intellectual property claims against it in the future. These claims could divert JAKKS' attention from operating its business or result in unanticipated legal and other costs, which could adversely affect JAKKS' business, financial condition and results of operations.

Market Conditions and Other Third-Party Conduct Could Negatively Impact JAKKS' Margins and Implementation of Other Business Initiatives.

Economic conditions, such as rising fuel prices and decreased consumer confidence, may adversely impact JAKKS' 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 JAKKS' sales and profitability. Other conditions, such as the unavailability of electronics components, may impede JAKKS' 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 JAKKS' products, such as plastic.

The Market Price of JAKKS' Common Stock May Be Volatile

Market prices of the securities of toy companies are often volatile. The market price of our common stock may be affected by many factors, including:

fluctuations in our financial results;

the actions of our customers and competitors, including new product line announcements and introductions;

new regulations affecting foreign manufacturing;

other factors affecting the toy industry in general; and

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sales of JAKKS common stock into the public market.

In addition, the stock market periodically has experienced significant price and volume fluctuations, which may have been unrelated to the operating performance of particular companies.

JAKKS Ability to Issue Blank Check Preferred Stock and JAKKS Obligation to Make Severance Payments Could Prevent or Delay Takeovers

JAKKS certificate of incorporation authorizes the issuance of blank check preferred stock (that is, preferred stock that our board of directors can create and issue without prior stockholder approval) with rights senior to those of its common stock. In addition, JAKKS employment agreements with certain of its senior officers require JAKKS, under certain conditions, to make substantial severance payments to them if they resign after a change of control. These provisions could delay or impede a merger, tender offer or other transaction resulting in a change in control of JAKKS, even if such a transaction would have significant benefits to its stockholders. As a result, these provisions could limit the price that certain investors might be willing to pay in the future for shares of JAKKS common stock.

JAKKS has not paid dividends on its common stock and does not expect to in the foreseeable future.

JAKKS has not paid dividends on its common stock since its inception and does not expect to in the foreseeable future, so JAKKS stockholders will not be able to receive a return on their investments without selling their shares. JAKKS presently anticipates that all earnings, if any, will be retained for development of its business and for future acquisitions. Any future dividends will be subject to the discretion of JAKKS board of directors and will depend on, among other things, future earnings, JAKKS operating and financial condition, JAKKS capital requirements and general business conditions.

The market price of JAKKS common stock could be adversely affected by sales of substantial amounts of common stock in the public market or the perception that such sales could occur.

As of May 17, 2002, JAKKS had 19,668,787 shares of common stock outstanding. The market price of JAKKS common stock could be adversely affected by the issuance of shares of common stock pursuant to the terms of the merger.

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PARTIES TO THE MERGER

JAKKS Pacific, Inc.

JAKKS develops, designs, produces and markets childrens toys and related products which are sold in the United States and throughout the world. JAKKS principal offices are located at 22619 Pacific Coast Highway, Malibu, California 90265 and the telephone number is (310) 456-7799.

JAKKS Annual Report on Form 10-K for the fiscal year ended December 31, 2001, as amended, and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 are incorporated by reference into this joint proxy statement/prospectus.

Toymax International, Inc.

Toymax is a consumer leisure products company that creates, designs and markets innovative and technologically advanced toys as well as other leisure products which are sold in the United States and throughout the world. Toymax s principal offices are located at 22619 Pacific Coast Highway, Malibu, California 90265 and the telephone number is (310) 456-7799.

Toymax s Annual Report on Form 10-K for the fiscal year ended March 31, 2001, its Quarterly Report on Form 10-Q for the quarter ended December 31, 2001 and its consolidated financial statements for the three year period ended March 31, 2002 accompany this joint proxy statement/prospectus.

JP/TII Acquisition Corp.

The merger subsidiary was formed in February 2002 solely for the purposes of engaging in the merger. The merger subsidiary is a wholly-owned subsidiary of JAKKS. The merger subsidiary has not carried on any activities to date other than those incident to its formation and the negotiation and execution of the merger agreement. The merger subsidiary s principal offices are located at 22619 Pacific Coast Highway, Malibu, California 90265 and the telephone number is (310) 456-7799.

THE SPECIAL STOCKHOLDERS MEETING

Date, Time, Place and Record Date of the Special Stockholders Meeting

The special stockholders meeting will be held on Thursday, [June 27,] 2002, 9:00 a.m., local time, at the Sherwood Country Club, 320 West Stafford Road, Thousand Oaks, California 91361. The accompanying proxy is being solicited by Toymax s Board of Directors and is to be voted at the special stockholders meeting or any adjournment(s) or postponement(s) thereof. The holders of record of Toymax s common stock as of the close of business on [May 28,] 2002 are entitled to receive notice of, and to vote at, the special stockholders meeting. On the record date, there were 12,316,186 shares of Toymax common stock entitled to vote. No other voting securities of Toymax are outstanding.

Matters to Be Voted Upon

At the special stockholders meeting, you will be asked to consider and vote upon three matters:

You are being asked to adopt a merger agreement that provides for JAKKS to acquire all of the remaining outstanding shares of Toymax common stock (not owned by JAKKS) in exchange for a combination of cash and JAKKS common stock.

The acquisition of the remaining outstanding shares of Toymax common stock will be effected by the merger of a wholly-owned subsidiary of JAKKS into Toymax with Toymax being the surviving corporation. You are being asked to approve that merger.

On February 10, 2002, Toymax and four of Toymax s principal stockholders entered into a stock purchase agreement with JAKKS, pursuant to which they agreed to sell to JAKKS approximately

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8.1 million shares of Toymax common stock, representing approximately, 66.3% of Toymax's outstanding common stock. You are being asked to ratify the stock purchase agreement.

If the merger agreement is adopted, the merger approved and subsequently completed and the stock purchase agreement ratified, Toymax will no longer be a publicly-held corporation and you will no longer own Toymax common stock. In the merger, unless you seek appraisal rights or except as described in the next paragraph, each issued and outstanding share of Toymax common stock held by you will be canceled and converted into the right to receive \$3.00 in cash plus .0798 shares of JAKKS common stock.

In the event the average closing price of JAKKS common stock for the 10 days prior to the effective date of the merger is less than \$16.9173 per share (the adjusted closing price), the amount of JAKKS common stock you receive (in addition to the cash payment described above) for each share of Toymax common stock will be determined by dividing \$1.35 by the adjusted closing price. Further, in the event that the average closing price of JAKKS common stock for the 10 days prior to the effective date of the merger exceeds \$20.6767 per share, JAKKS may elect, in its sole discretion, to pay you exclusively in cash consideration of \$4.65 for each share of Toymax common stock you own at the time of the merger.

Following the merger, JAKKS will hold directly 100% of the outstanding shares of stock in the surviving corporation. Treasury shares and shares of Toymax common stock owned by JAKKS or the merger subsidiary will be canceled. Shares held by stockholders who perfect their dissenters' rights will be subject to appraisal in accordance with Delaware law.

Recommendation of Toymax's Board of Directors

On February 10, 2002, Toymax's board of directors unanimously approved the merger agreement, the merger and the stock purchase agreement. The Toymax board of directors believed the merger agreement and the transactions contemplated by the merger agreement were advisable and in the best interests of the stockholders of Toymax. The Toymax board of directors based its decision, in part, upon the opinion of its independent financial advisor, Morgan, Lewis, Githen & Ahn, Inc., which stated that the merger agreement is fair, from a financial point of view, to Toymax's public stockholders. By resolution dated February 10, 2002, Toymax's board of directors unanimously recommended the Toymax common stockholders vote FOR adoption of the merger agreement, approval of the merger and ratification of the stock purchase agreement. For a more detailed discussion of the specific factors the Toymax board considered in making this recommendation, see Background and Reasons for the Merger, pages [26] to [35].

Voting Information

Each outstanding share of Toymax common stock is entitled to one vote. The three matters being voted upon must each be approved by holders of a majority of the outstanding shares of Toymax common stock entitled to vote at the special meeting. JAKKS, which owns approximately 66.8% of the outstanding Toymax common stock, owns enough shares of Toymax common stock to satisfy this vote requirement without the vote of any other holders of Toymax common stock. JAKKS has indicated that it will vote its shares of Toymax common stock in favor of the three matters being voted upon.

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of Toymax's common stock entitled to vote at the special stockholders meeting is necessary to constitute a quorum for the transaction of business at the special stockholders meeting. Abstentions are counted for purposes of determining whether a quorum exists at the special stockholders meeting.

Brokers who hold shares in street name for customers have the authority to vote on routine proposals when they have not received instructions from beneficial owners. However, absent specific instructions from the beneficial owner of the shares, brokers are not allowed to exercise their voting discretion with respect to the approval and adoption of non-routine matters such as the three matters being voted upon. Abstentions and properly executed broker non-votes will be treated as shares that are present and entitled to vote at the special stockholders meeting for purposes of determining whether a quorum exists and will have the same effect as a vote against approval of such matters.

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Solicitation, Revocation and Use of Proxies

Toymax will pay the costs of all mailing and filing fees incurred in connection with this joint proxy statement/prospectus. Some of Toymax's directors, officers and employees may solicit proxies by telephone, facsimile and personal contact, without separate compensation for those activities. Copies of solicitation materials will be furnished to fiduciaries, custodians and brokerage houses for forwarding to beneficial owners of common stock, and these persons will be reimbursed for their reasonable out-of-pocket expenses.

The grant of a proxy on the enclosed form does not preclude you from attending the special stockholders meeting and voting in person. You may revoke your proxy at any time before it is voted at the special stockholders meeting. If you are a record holder, you may revoke your proxy by:

delivering to the Secretary of Toymax, before the vote is taken at the special stockholders meeting, a written notice of revocation bearing a later date than the proxy;

duly executing a later dated proxy relating to the same shares of common stock and delivering it to the Secretary of Toymax before the vote is taken at the special stockholders meeting; or

attending the special stockholders meeting and voting in person.

Attendance at the special stockholders meeting will not in and of itself constitute a revocation of a proxy. Any written notice of revocation or subsequent proxy should be sent to the Secretary of Toymax at 22619 Pacific Coast Highway, Malibu, California 90265, or hand delivered to the Secretary of Toymax before the vote is taken at the special stockholders meeting. All valid proxies will be voted at the special stockholders meeting in accordance with the instructions given. If no instructions are given, the shares represented by the proxy will be voted at the special stockholders meeting for adoption of the merger agreement, approval of the merger and ratification of the stock purchase agreement. If you hold your shares in street name and have instructed a broker to vote your shares, you must follow the directions received from your broker as to how to change your vote.

Stockholders who do not vote in favor of adoption of the merger agreement, approval of the merger and ratification of the stock purchase agreement, and who otherwise comply with the applicable statutory procedures of the Delaware General Corporation law summarized elsewhere in this proxy statement, will be entitled to seek appraisal of the value of their common stock under Section 262 of the Delaware General Corporation law. See The Merger Dissenters Rights of Appraisal.

Please do not send in your stock certificates at this time. Once the merger is completed, Toymax will send you instructions regarding the procedures for exchanging your existing stock certificates for the merger consideration.

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BACKGROUND AND REASONS FOR THE MERGER

This section of the joint proxy statement/ prospectus describes the proposed merger. While Toymax and JAKKS believe that this description covers the material terms of the merger, this summary may not contain all of the information that is important to you. You should read carefully this entire joint proxy statement/ prospectus and the documents we incorporate by reference for a more complete understanding of the merger. In addition, certain important business and financial information are incorporated about each of JAKKS and Toymax into this joint proxy statement/ prospectus by reference. You may obtain the information incorporated by reference into this joint proxy statement/ prospectus without charge by following the instructions in the section entitled "How to Obtain Additional Information on page [2] and in the section entitled "Where You Can Find More Information" that begins on page [85].

Background and Reasons for the Merger – Toymax

History of the Negotiations

On November 5, 2001, Steve Lebensfeld, Toymax's Chief Executive Officer, and Jack Friedman, JAKKS' Chairman, met to discuss the possible acquisition by JAKKS of Toymax. In early December 2001, Murray Skala, a member of the firm of Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine LLP, outside counsel of JAKKS, and a director of JAKKS, and Joel M. Handel, a member of the firm of Brown Raysman Millstein Felder & Steiner, LLP (then Baer Marks & Upham LLP), outside counsel of Toymax, and a director of Toymax, discussed the possibility of the acquisition of Toymax by JAKKS. On December 12, 2001, a meeting was held at Mr. Skala's office with Mr. Handel and Mr. Dan Almagor, also a director of Toymax and a partner in the investment banking firm Datex Consulting Group, which firm was later retained to provide investment banking services to Toymax, to discuss this possible transaction. A general outline of preliminary terms for the transaction was discussed and a memorandum with those terms, subject to numerous conditions, was prepared. On January 10, 2002, non-disclosure agreements were signed by each of the parties and the preparation of documents and due diligence was commenced.

On December 31, 2001, the Toymax board of directors was notified of the possibility of a transaction with JAKKS. At a meeting of the Toymax board of directors held on January 28, 2002, a special committee, consisting of Oren Asher and Eric Inspektor, was formed for the purpose of reviewing the terms of the proposed transaction with JAKKS and providing a recommendation to the full board of directors. After interviewing several firms, the special committee retained the investment banking firm of Morgan Lewis Githens & Ahn (Morgan Lewis) to review the transaction with the purpose of providing a recommendation and a fairness opinion. On January 29-30, 2002, JAKKS performed a due diligence review of Toymax at the offices of Brown Raysman Millstein Felder & Steiner, LLP. Present at that time were Joel Bennet, JAKKS Executive Vice President and Chief Financial Officer, Jason Bitsky of the law firm of Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine LLP, Michael Sabatino, Toymax's Chief Financial Officer, and Betty Tse, assistant to Farra Chan, an employee of David Chu (who at that time was the majority stockholder and Chairman of Toymax). Others present at that time were Mr. Almagor and Mr. Handel. On February 7, 2002, representatives of Morgan Lewis met with the special committee and reviewed in great detail their opinion and analysis concerning the transaction. On the afternoon of February 7, 2002, the entire board of directors of Toymax met with representatives of Morgan Lewis. Its representatives reviewed the entire transaction for the board of directors and recommended that the transaction was fair, from a financial point of view, to Toymax's stockholders. The special committee recommended to the full board at that time that Toymax proceed with the transaction. The full Toymax board, by resolution dated February 10, 2002, unanimously approved the transaction. The stock purchase agreement (providing for the sale to JAKKS by the principal shareholders of Toymax of their approximately 8.1 million shares of Toymax) and the agreement of merger, along with other significant documents, were executed on Sunday evening, February 10, 2002.

Toymax's Reasons for the Merger

The Toymax board of directors, in reaching its unanimous recommendation, considered a number of factors, both positive and negative, including the following:

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The valuation of Toymax's outstanding shares of common stock had diminished substantially from the time of its initial public offering, at a price of \$8.50 per share, and had traded at prices from below \$1.00 to \$1.50 per share during a recent period. The proposal from JAKKS would enable the Toymax stockholders to receive significantly enhanced value for their shares.

Toymax had suffered significant operating losses during the last several years stemming in large part from its acquisition and operation of the Monogram companies and its investments in the Yaboom joint venture and the Maxverse subsidiary. As a result of the losses, Toymax lacked any excess working capital for possible future acquisitions or investments in the expansion and growth of its existing business. The low price for Toymax's common stock made acquisitions through the use of its securities difficult, if not impossible.

Toymax's business plan for a return to profitability would have resulted in a potential downsizing of its business and the risks inherent in continuation of operating a public company and its overhead with a business on a smaller scale. Moreover, the business relied heavily on credit extended to Toymax, principally through the personal credit of David Chu, Chairman of the board. There was no assurance that this credit would or could continue to be available indefinitely in the future which may have caused significant financial problems for Toymax.

Based on the current financial condition of Toymax, it was becoming exceedingly difficult for Toymax to attract and keep key executives with the risk that persons important to Toymax might leave if new capital and expansion was not provided for the business.

Fairness of the Merger; Opinion of Toymax's Financial Advisor

The members of Toymax's board of directors also determined that the merger was fair to the public stockholders because, among other things:

at the time the board of directors adopted the merger agreement, Toymax's board of directors consisted solely of directors who are not officers or employees of JAKKS or Toymax, and was given exclusive authority to, among other things, consider, negotiate and evaluate the terms of any proposed transaction, including the merger;

the Toymax board of directors retained and received advice from legal counsel selected and engaged by it in negotiating and evaluating the terms of the JAKKS proposal and the merger agreement; and

the merger consideration and the other terms and conditions of the merger agreement resulted from arm's-length bargaining between the Toymax board of directors and its representatives, on the one hand, and JAKKS and its representatives, on the other hand.

Prior to adopting the merger and the merger agreement, Toymax's board of directors sought independent verification of its conclusions as to the fairness of the merger to Toymax's public stockholders by obtaining a fairness opinion from an independent financial advisor. Pursuant to an engagement letter dated February 5, 2002, a special committee of the board of directors of Toymax retained Morgan Lewis as its financial advisor in order to render an opinion as to the fairness of the proposed merger.

At the meeting of Toymax's board of directors on February 10, 2002, Morgan Lewis gave its oral opinion, subsequently confirmed in writing, to the board of directors that, as of such date and based upon and subject to various considerations set forth in the opinion, the consideration to be paid pursuant to the proposed merger was fair from a financial point of view to Toymax's public stockholders. Toymax's board of directors did not limit Morgan Lewis in any way in the investigations it made or the procedures it followed in giving its opinion.

Appendix F that accompanies this joint proxy statement/prospectus is the full text of Morgan Lewis's written opinion. This opinion sets forth the assumptions made, matters considered and limits on the review undertaken. Morgan Lewis's opinion is incorporated in its entirety into this document by reference. Morgan Lewis addressed its written opinion only to the Toymax board of directors. The opinion addresses only the consideration pursuant to the merger and is not a recommendation to any Toymax stockholder as to how such stockholder should vote at the Toymax special meeting. The summary of the opinion of Morgan Lewis set

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forth in this joint proxy statement/prospectus is qualified in its entirety by reference to the full text of such opinion. Toymax's stockholders are urged to, and should, read the opinion carefully and in its entirety.

In arriving at its opinion, Morgan Lewis reviewed and analyzed, among other things, the following:

- (i) the merger agreement dated as of February 10, 2002;
- (ii) the stock purchase agreement dated as of February 10, 2002;
- (iii) Toymax's Form 10-K for the year ended March 31, 2001, Toymax's Forms 10-Q for the three months ended June 30, 2001 and the six months ended September 30, 2001, and Toymax's Form 8-K dated November 9, 2001;
- (iv) JAKKS's Form 10-K for the year ended December 31, 2000, and JAKKS's Forms 10-Q for the three months ended March 31, 2001, the six months ended June 30, 2001, and the nine months ended September 30, 2001;
- (v) certain other publicly available information concerning Toymax and JAKKS and the trading markets for their respective common stocks;
- (vi) certain internal information and other data relating to Toymax and JAKKS and their business and prospects, including forecasts and projections provided to Morgan Lewis by management of Toymax and JAKKS, respectively;
- (vii) certain publicly available information concerning certain other companies engaged in businesses which Morgan Lewis believed to be generally comparable to Toymax and JAKKS and the trading markets for certain of such other companies' securities; and
- (viii) the financial terms of certain recent business combinations which Morgan Lewis believed to be relevant.

Morgan Lewis also held discussions with members of the management of Toymax and JAKKS on various aspects of the merger, the past and current business operations of Toymax and JAKKS, the financial condition and future prospects and operations of Toymax and JAKKS, the effect of the merger on the financial condition and future prospects and operations of Toymax and JAKKS and other matters that Morgan Lewis believed necessary or appropriate to its inquiry. In addition, Morgan Lewis visited representative facilities of Toymax and reviewed other financial studies and analyses and considered other information that it deemed appropriate for the purposes of its opinion.

Morgan Lewis relied upon and assumed, without independent verification, the accuracy and completeness of all information that was publicly available or furnished to it by Toymax or JAKKS or otherwise reviewed by Morgan Lewis from third party sources. Morgan Lewis has stated that it is not responsible or liable for that information or its accuracy. Morgan Lewis did not conduct any valuation or appraisal of any assets or liabilities, nor were any valuations or appraisals provided to Morgan Lewis.

In relying on other financial analyses provided to it, Morgan Lewis stated that it assumed that they had been reasonably prepared based on assumptions reflecting the best currently available estimates as to the financial condition of Toymax to which those analyses relate.

Morgan Lewis based its opinion on economic, market and other conditions as in effect on, and the information made available to Morgan Lewis as of, the date of the opinion. Morgan Lewis stated that subsequent developments may affect Morgan Lewis's opinion and Morgan Lewis does not have any obligation, to update, revise, or reaffirm its opinion. Morgan Lewis expressed no opinion as to the price at which JAKKS Common Stock will trade at any future time.

The terms of the proposed merger were determined through negotiations between Toymax and JAKKS and were approved by the Toymax board of directors. Although Morgan Lewis provided advice to Toymax during the course of these negotiations, the decision to enter into the merger was solely that of Toymax's board of directors. As described above, the opinion of Morgan Lewis and its presentation to the Toymax board of

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directors were only two of a number of factors taken into consideration by the Toymax board of directors in making its determination to approve the proposed merger.

Morgan Lewis employed generally accepted valuation methods in reaching its opinion. The following is a summary of the material financial analyses that Morgan Lewis utilized in providing its opinion. Some of the summaries of financial analyses have been presented in tabular format. In order to understand the financial analyses used by Morgan Lewis more fully, you should read the tables together with the text of each summary. The tables alone do not constitute a complete description of Morgan Lewis's financial analyses.

Premium Analysis

Morgan Lewis reviewed the premium by which the estimated offer price for Toymax exceeded Toymax's stock price prior to the announcement of the transaction and compared such merger premium to other historical merger and acquisition transactions that Morgan Lewis determined to be relevant to the proposed acquisition of Toymax.

Based on JAKKS's average stock price for the 10 business days prior to February 7, 2002, the implied value of the consideration to be received by Toymax's shareholders was estimated to be approximately \$4.50 per share (the Offer Price). The Offer Price presents a premium to the last reported sales price of Toymax common stock on the NASDAQ National Market System during each of the following periods prior to the signing of the merger agreement:

	February 7, 2002	February 6, 2002	February 5, 2002	30-Day Average(a)	60-Day Average(a)	90-Day Average(a)
Price	\$2.62	\$2.40	\$2.09	\$1.85	\$1.55	\$1.37
Premium	72%	88%	115%	143%	190%	228%

(a) All averages calculated for the period ending February 5, 2002.

Morgan Lewis also reviewed a sample of historical merger and acquisition transactions that were determined to be relevant to the proposed acquisition of Toymax. The following represents the median premiums paid for the sample transactions reviewed by Morgan Lewis:

	Median Premium Paid in Comparable M&A Transactions	Toymax Stock Price(a)	Implied Toymax Price	Premium/(Discount) of Estimated Offer Price to Implied Price(b)
1 Day Prior to Announcement	50%	\$2.09	\$3.14	44%
4 Weeks Prior to Announcement	84%	\$1.75	\$3.22	40%

(a) Assumed an announcement date of February 6, 2002.

(b) Assumed an implied value for the Toymax acquisition of \$4.50 per share.

Morgan Lewis concluded that the premium by which the estimated Offer Price for Toymax exceeded Toymax's stock price prior to the announcement of the transaction exceeded the premium for comparable merger and acquisition transactions.

Comparable Transaction Analysis

Morgan Lewis computed the estimated enterprise value for Toymax implied by the Offer Price (representing the estimated equity value implied by the Offer Price plus Toymax's total debt and minority interest minus its cash and cash equivalents) and compared such enterprise value to Toymax's then recent operating results, including revenues, operating income (EBIT) and operating cash flow before depreciation and amortization (EBITDA) each for the then latest twelve month period for which such financial information was available. In addition, Morgan

Lewis compared such valuation multiples for Toymax to the valuation multiples for other historical merger and acquisition transactions that it determined to be relevant to

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the proposed acquisition of Toymax. The following table presents a comparison of the merger valuation multiples for the then latest available twelve month period:

Enterprise Value as a Multiple of Latest Twelve Months:	Selected Valuation Multiples for Comparable M&A Transactions	
	Toymax Acquisition(a)	Mean of Comparable Company Transactions
Revenue	0.6x	0.7x
EBITDA	Not meaningful	7.2x
EBIT	Not meaningful	12.8x

(a) Assumes an implied value for the Toymax acquisition of \$4.50 per share.

Toymax's EBITDA and EBIT for the period examined by Morgan Lewis were negative. Therefore, the multiple of Toymax's estimated enterprise value (as implied by the Offer Price) to its historical EBITDA and EBIT was not meaningful. The fact that Toymax's historical EBITDA and EBIT for the then latest available twelve months were negative was a factor considered by Morgan Lewis in rendering its fairness opinion. Morgan Lewis also compared the multiple of Toymax's estimated enterprise value (as implied by the Offer Price) to its historical revenues and compared such valuation multiple to the valuation multiples for other historical merger and acquisition transactions that it determined to be relevant to the proposed acquisition of Toymax. Morgan Lewis concluded that the revenue multiple implied by the proposed acquisition of Toymax was comparable to the mean revenue multiple for the other historical merger and acquisition transactions that Morgan Lewis determined to be relevant to the proposed acquisition of Toymax (as summarized above).

Selected Public Trading Multiples

Morgan Lewis computed the estimated enterprise value for Toymax implied by the Offer Price and compared such enterprise value to Toymax's then recent operating results, including revenues, EBIT and EBITDA for the then latest twelve month period for which such financial information was available. In addition, Morgan Lewis compared such valuation multiples for Toymax to the valuation multiples for selected publicly traded companies engaged in businesses that Morgan Lewis judged to be reasonably comparable to Toymax. These companies were:

- Action Performance
- DSI Toys
- Equity Marketing
- JAKKS Pacific
- Marvel Enterprises
- Ohio Art
- Racing Champions
- Radica Games

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Morgan Lewis selected these companies because they engaged in businesses reasonably comparable to those of Toymax. Morgan Lewis used publicly available financial information to determine the ratio of enterprise value to the then latest twelve months revenues for each of these companies. The following table presents a comparison of the mean revenue multiples of the comparable companies and the implied merger multiples for Toymax based on a range of the then latest twelve months revenues:

Enterprise Value as a Multiple of Latest Twelve Months:	Selected Trading Valuation Multiples for Comparable Companies	
	Toymax(a)	Mean of Comparable Companies
Revenue	0.6x	1.2x
EBITDA	Not meaningful	7.2x
EBIT	Not meaningful	10.4x

(a) Assumes an implied value for the Toymax acquisition of \$4.50 per share.

Toymax's EBITDA and EBIT for the period examined by Morgan Lewis were negative. Therefore, the multiple of Toymax's estimated enterprise value (as implied by the Offer Price) to its historical EBITDA and EBIT is not meaningful. The fact that Toymax's historical EBITDA and EBIT for the then latest twelve months were negative was a factor considered by Morgan Lewis in rendering its fairness opinion. Morgan Lewis also compared the multiple of Toymax's estimated enterprise value (as implied by the Offer Price) to its historical revenues and compared such valuation multiple to the valuation multiples for selected publicly traded companies engaged in businesses that Morgan Lewis judged to be reasonably comparable to Toymax. Morgan Lewis concluded that the revenue multiple implied by the proposed acquisition of Toymax was below the mean revenue multiple for the selected publicly traded companies engaged in businesses that Morgan Lewis judged to be reasonably comparable to Toymax. (as summarized above).

No company or transaction used in the premium analysis, the comparable transaction analysis or the comparable public company trading analysis is identical to Toymax. Accordingly, an evaluation of the results of these analyses is not simply a mathematical calculation. It involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading value of the companies being analyzed. The summary above is not a comprehensive description of all analyses and examinations actually conducted by Morgan Lewis in the preparation of its opinion. In evaluating companies and transactions identified by Morgan Lewis as comparable to Toymax and the acquisition of Toymax, Morgan Lewis made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which were beyond the control of Toymax, such as the impact of competition on the business of Toymax and the industry generally, industry growth and the absence of any material change in the financial condition and prospects of Toymax or the industry or in the financial markets in general. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses and of the factors considered by Morgan Lewis, without considering all analyses and factors would create an incomplete view of the process underlying Morgan Lewis's presentation to the board of directors of Toymax. In addition, Morgan Lewis may have given some analyses more or less weight than other analyses and may have deemed various assumptions more or less probable than other assumptions. For a description of the assumptions Morgan Lewis made in rendering its fairness opinion see the actual text of the fairness opinion which is attached as Appendix F to this joint proxy statement/ prospectus. The ranges of valuations resulting from any particular analysis described above should not be taken to be Morgan Lewis's or Toymax's view of the actual value of Toymax or the shares of Toymax common stock. To the contrary, Morgan Lewis expressed no opinion on the actual value of Toymax, or shares of Toymax's common stock.

The analyses performed by Morgan Lewis are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than those suggested by these analyses. Morgan Lewis prepared these analyses as part of its analysis for the board of directors of Toymax of the fairness from a financial

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point of view of the merger consideration to be received by holders of Toymax common stock and provided these analyses to the Toymax board of directors and the special committee in connection with their consideration of the merger. The analyses do not purport to be appraisals or to reflect the prices at which a company might actually be sold or the prices at which any securities may trade at any time in the future. Morgan Lewis used in its analyses various projections of future performance prepared and supplied by the management of Toymax. The projections were based on numerous uncertain variables and assumptions that are inherently unpredictable. Accordingly, actual results could vary significantly from those assumed in these projections.

The opinion of Morgan Lewis and the presentation to the special committee and the board of directors summarized above were among the many factors taken into consideration by the board of directors of Toymax in determining whether to approve and to recommend that the Toymax stockholders vote in favor of the matters being presented hereby. During Morgan Lewis's presentations to the special committee and the board of directors, the members of the special committee and board of directors asked numerous questions regarding the analyses performed by Morgan Lewis and its conclusion as to the fairness from a financial point of view of the consideration to be received pursuant to the merger agreement. Morgan Lewis, however, did not make any recommendation to any stockholders or to any other person or entity as to how any stockholder should vote with respect to the merger agreement. Morgan Lewis's opinion did not address the relative merits of the merger, any alternatives to the merger, or Toymax's underlying business decision to proceed with or effect the merger.

Under its engagement letter with Morgan Lewis, Toymax agreed to pay Morgan Lewis a customary fee for the financial advisory services provided by Morgan Lewis in connection with the delivery of the fairness opinion. In addition, Toymax agreed to reimburse Morgan Lewis for its expenses incurred in connection with its services, including the fees and disbursements of counsel, and will indemnify Morgan Lewis against certain liabilities, including liabilities arising under the federal securities laws.

Prior to advising Toymax on this transaction, Morgan Lewis had no relationship with Toymax. Morgan Lewis has no financial advisory or other relationship with JAKKS. In the ordinary course of their businesses, Morgan Lewis and its affiliates may actively trade the equity securities of Toymax and JAKKS for their own accounts or for the accounts of customers and, accordingly, they may hold long or short positions in those securities at any given time.

The foregoing discussion addresses the material information and factors considered by the Toymax board of directors in their consideration of the merger, including factors that support the merger as well as those that may weigh against it. In view of the variety of factors and the amount of information considered, the Toymax board did not find it practicable to, and did not specifically, make assessments of, quantify or otherwise assign relative weights to the various factors and analyses considered in reaching its determination. The determination to approve the merger agreement and the merger was made after consideration of all the factors as a whole.

Background and Reasons for the Merger – JAKKS

History of the Negotiations

On February 11, 2001, Jack Friedman, JAKKS' Chairman and Chief Executive Officer, and Stephen Berman, JAKKS' President and Chief Operating Officer, advised Murray L. Skala, a director of JAKKS and partner of Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine LLP, the law firm that represents JAKKS, of JAKKS' interest in the acquisition of Toymax. Mr. Skala then discussed with Mr. Friedman and Mr. Berman a possible structure for the deal. On July 17, 2001, Mr. Skala had a conference with Mr. Friedman and Joel Handel, a director of Toymax and a member of the firm of Brown, Raysman Millstein Felder & Steiner LLP (then Baer Marks & Upham LLP), counsel to Toymax, regarding the possibility of a transaction. In early September 2001, Mr. Skala discussed with Mr. Friedman a potential purchase price. In October 2001, Mr. Skala discussed the possible terms of the acquisition with Mr. Friedman and Mr. Berman on a continuing basis.

On November 5, 2001, Mr. Friedman informed Joel Bennett, Executive Vice President and Chief Financial Officer of JAKKS, of a meeting scheduled for the evening of November 5, 2001 in New York, New

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York between Mr. Friedman and Steve Lebensfeld, Chief Executive Officer of Toymax, the purpose of which was to discuss a potential transaction. From that time until the execution of the stock purchase agreement, there was constant communication amongst Messrs. Friedman, Berman and Bennett regarding the transaction.

During early December 2001, Mr. Skala, Mr. Handel and Dan Almagor, a director of Toymax and a partner in the investment banking firm of Datex Consulting Group, which firm was later retained to provide investment banking services to Toymax, began working through the terms of the transaction.

During such period, Messrs. Friedman and Berman were in constant communication with Mr. Skala concerning the status and terms of the transaction. On or about December 10, 2001, Mr. Berman informed Mr. Bennett of the status of the transaction and that JAKKS was going to commence purchasing shares of Toymax in the open market.

On December 11, 2001, Mr. Berman informed George Bevis, Senior Managing Director of the investment banking firm Advest, Inc., via telephone of the pending transaction on a confidential basis and instructed his firm to begin purchasing for JAKKS Toymax common stock in the open market. Mr. Bevis conferred with Larry McIntosh, Supervisor Compliance Officer of Advest, and Advest commenced purchasing Toymax shares for JAKKS on December 12, 2001.

On or about December 19, 2002, Mr. Bennett informed Rex Poulsen, Director of Audit, and John Englebrecht, Director of Taxation, of PKF, Certified Public Accountants, A Professional Corporation, JAKKS independent accounting firm, to discuss the transaction including the structure, timing, financial reporting and tax implications of the transaction.

On January 10, 2002, JAKKS and Toymax signed non-disclosure agreements and on January 29-30, 2002, JAKKS performed a due diligence review at the offices of Brown Raysman Millstein Felder & Steiner LLP. The primary participants were Mr. Bennett, Jason Bitsky, of Feder, Kaszovtitz, Isaacson, Weber, Skala, Bass & Rhine LLP, JAKKS outside counsel, Michael Sabatino, Chief Financial Officer of Toymax, and Betty Tse, assistant to Farra Chan, an employee of David Chu (who at that time was the majority stockholder and Chairman of Toymax). Others present from time to time were Mr. Almagor, and Mr. Handel.

On January 29, 2002, Mr. Berman advised Genna Goldeberg, JAKKS Director of Corporate Communications, of the pending transaction so that she would be able to prepare the necessary press release announcing the transaction.

On February 1, 2002, Mr. Bennett informed JAKKS senior lender, the Bank of America, N.A., of the details of the transaction in order to obtain the waivers that would be necessary for JAKKS to remain in compliance with its senior credit facility and provide guidance to JAKKS on various other aspects of the transaction including structure and financing. Draft purchase agreements were provided to the Bank of America along with public financing information relating to Toymax to facilitate this process.

On February 1, 2002, written materials about the transaction including a description of the transaction and Toymax along with public historical Toymax operating results were sent via Federal Express for delivery on Saturday, February 2, 2002, to the non-employee directors of JAKKS board of directors, David Blatte, Robert Glick, Michael Miller and Murray L. Skala, in preparation for their meeting held on February 4, 2002 in New York, NY.

On or about February 7 and 8, 2002, Mr. Bennett discussed details relating to the transaction and JAKKS via telephone with J. Buckner Brown, Managing Director, and Jeffrey Jacobs, Associate, of Morgan Lewis in connection with Toymax's fairness opinion on the transaction. The discussion included JAKKS business strategy and how Toymax fits into JAKKS business strategy.

On February 10, 2002, the JAKKS board of directors reviewed Morgan Lewis fairness opinion and discussed the transaction. The full board then adopted the merger agreement and approved the merger and stock purchase agreement.

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JAKKS Reasons for the Merger

On February 10, 2002, the JAKKS board of directors adopted the merger agreement and approved the merger and stock purchase agreement. The JAKKS board of directors considered a number of factors, as more fully described below, in making its determination and unanimous recommendation. The JAKKS board of directors in reaching its unanimous recommendation considered a number of factors, both positive and negative, including the following material factors:

recent trends in the price of Toymax common stock;

the relative lack of liquidity for Toymax common stock;

JAKKS ability to finance the merger, including its available working capital;

the net overall cost of the transaction and its benefits, including the transaction's contribution to JAKKS earnings;

the impact on JAKKS common stock of the issuance of shares proposed to be used for this transaction; and

the conclusions of the fairness opinion provided to the Toymax board of directors.

After consideration of the factors identified above, JAKKS determined that the advantages of acquiring all of the outstanding shares of Toymax common stock outweighed the disadvantages and approved JAKKS acquisition of the outstanding shares of Toymax common stock not already owned by JAKKS pursuant to the terms of the merger agreement.

The Stock Purchase Agreement

Between December 2, 2001 and February 4, 2002, JAKKS purchased 132,754 shares of Toymax common stock on the open market for an aggregate purchase price of approximately \$0.2 million. On March 11, 2002, JAKKS purchased 8,100,065 shares of Toymax common stock (the Shares) from four of Toymax's principal stockholders, in a transaction pursuant to a stock purchase agreement dated as of February 10, 2002 among JAKKS, Toymax and those four principal stockholders.

The aggregate purchase price for the Shares was approximately \$24.3 million in cash and 646,384 shares of JAKKS common stock, based on a price per share consisting of \$3.00 in cash and 0.0798 share of JAKKS common stock (with cash payable in lieu of any fractional share). In connection with the JAKKS acquisition of the Shares, all options to purchase Toymax common stock held by the principal stockholders or David Chu (an affiliate of one of the principal stockholders) were cancelled. In addition, JAKKS entered into employment or consulting agreements with certain Toymax executives, whose prior employment agreements with Toymax were terminated, and Toymax entered into new agreements with certain affiliates of one of the principal stockholders with respect to certain of Toymax's manufacturing and agency arrangements.

The purchase price and the compensation payable under the employment, consulting, manufacturing and agency agreements were determined through arms-length negotiations between JAKKS, on the one hand, and Toymax and the other respective parties to such agreements, on the other hand.

The entire cost of the Shares, including, without limitation, the purchase price, the closing payments to certain former affiliates of Toymax and the fees and expenses incurred by JAKKS, was funded out of JAKKS working capital/cash reserves.

As a result of these transactions, as of May 17, 2002, JAKKS owns 8,232,819 shares of Toymax common stock, representing approximately 66.8% of the outstanding shares of Toymax common stock.

Reconfiguration of the Toymax Board of Directors

Pursuant to the stock purchase agreement, Toymax's board of directors was reconfigured to consist of six directors designated by JAKKS and two directors designated by Toymax. In addition, the executive officers of JAKKS were appointed to serve as the executive officers of Toymax. Further, until the effective time of the

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merger, Toymax's board of directors is required to consult with the individuals who were officers and directors of Toymax immediately prior to the closing of the transactions set forth in the stock purchase agreement with respect to any matter that may arise significantly affecting Toymax, its business or its assets.

To complete JAKKS's acquisition of Toymax, JAKKS and Toymax propose to effect the merger of JAKKS's wholly-owned merger subsidiary with and into Toymax. JAKKS currently estimates that the merger consideration payable in the merger (which is subject to certain conditions and contingent adjustments) will consist of approximately \$11.7 million in cash and approximately 325,853 shares of JAKKS common stock.

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THE MERGER

Effects of the Merger; Plans for Toymax Following the Merger

At the effective time of the merger, Toymax's public stockholders will cease to have ownership interests in Toymax or rights as Toymax stockholders. Upon completion of the merger, Toymax will be a wholly-owned subsidiary of JAKKS. JAKKS will be the sole beneficiary of the future earnings and growth of Toymax, if any.

As a result of the merger, Toymax will be a privately-held corporation with no public market for its common stock. After the merger, the common stock will cease to be quoted on the Nasdaq National Market System and bid and ask prices with respect to sales of shares of common stock in the public market will no longer be available. After the effective time of the merger, Toymax will no longer be required by law to file periodic reports with the Securities and Exchange Commission.

At the effective time of the merger, the certificate of incorporation and bylaws of JAKKS merger subsidiary in effect immediately prior to the effective time will be the certificate of incorporation and bylaws of the surviving corporation; provided however, that the certificate of incorporation will be amended to provide that the name of the surviving entity is Toymax International, Inc. Subject to applicable law, the directors of Toymax immediately prior to the effective time of the merger will be the directors of the surviving corporation immediately following the effective time and will hold office until their respective successors are duly elected and qualified, or their earlier death, resignation or removal. The officers of Toymax immediately prior to the effective time of the merger will be the officers of the surviving corporation immediately following the effective time and will hold office until their respective successors are duly elected and qualified, or their earlier death, resignation or removal.

Following the merger, JAKKS expects that it will manage Toymax's business and assets in a manner to appropriately address the existing condition of Toymax's business and the toy industry in general. In this regard, after the merger, JAKKS expects it will evaluate Toymax's business practices, operations, properties, corporate structure, management and personnel to determine what changes, if any, are desirable.

JAKKS does not have any current plans or proposals relating to any extraordinary corporate transactions, such as a merger, reorganization, or liquidation involving Toymax, any sale or transfer of a material amount of the assets of Toymax or any other material change in Toymax's corporate structure or business. JAKKS will continue, however, to review and explore any opportunities to maximize stockholder value and may elect in the future to evaluate any transactions involving its business, including a potential sale of Toymax or some or all of its assets, as they arise.

Risk that the Merger Will Not Be Completed

JAKKS currently owns 66.8% of the outstanding voting securities of Toymax and intends to vote such shares in favor of the merger, thereby assuring its approval by the stockholders of Toymax. Nevertheless, completion of the merger is subject to various other conditions, including, but not limited to, the following:

performance in all material respects of the parties' obligations contained in the merger agreement at or before the effective time of the merger;

consummation of the merger is not restrained, enjoined or prohibited by any order, judgment or decree of any court or governmental authority;

no law or regulation is enacted or applicable to the merger that prevents the consummation of the merger or makes the consummation of the merger illegal; and

certain representations and warranties made by the parties in the merger agreement must be true and correct in all material respects.

The authorized capital stock of JAKKS is presently 26,000,000 shares, 25,000,000 of which are shares of common stock and 1,000,000 of which are shares of preferred stock. JAKKS has filed a preliminary proxy statement with the SEC for its 2002 Annual Meeting of Stockholders, which JAKKS expects to occur at the

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end of the second or beginning of the third quarter of 2002. One of the resolutions provided in the preliminary proxy statement that will be voted upon at that Annual Meeting will be to increase JAKKS' authorized capital stock. If this proposal is approved, JAKKS will have authorized capital stock of 105,000,000 shares, 100,000,000 of which are shares of JAKKS common stock and 5,000,000 of which are shares of JAKKS preferred stock. The approval of this proposal is required for JAKKS to have a sufficient number of authorized shares available for issuance to the Toymax shareholders of the approximately 325,853 shares required to consummate the merger.

As a result of these various conditions to the completion of the merger, we cannot assure you that the merger will be completed even if the requisite stockholder approval is obtained.

It is expected that, if Toymax stockholders do not approve and adopt the merger agreement and the merger, or if the merger is not completed for any other reason, the current management of Toymax, under the direction of the Toymax board, will continue to manage Toymax as an ongoing business.

Certain Relationships and Related Transactions

Pursuant to the sale of Toymax common stock as described in the stock purchase agreement, JAKKS owns approximately 66.8% of Toymax's common stock. JAKKS also controls the Toymax board of directors with six members of the Toymax board of directors also being members of the JAKKS board of directors and/or officers of JAKKS. Those six individuals owe fiduciary duties to JAKKS and its stockholders and each of them also owns securities of JAKKS.

Joel Handel, one of Toymax's directors who is not an employee, director or officer of JAKKS, is a partner in the law firm of Brown Raysman Millstein Felder & Steiner, LLP which provided approximately \$905,540 of legal services to Toymax during Toymax's fiscal year ended March 31, 2002.

Dan Almagor, one of Toymax's directors who is not an employee, director or officer of JAKKS, is a principal in an investment banking firm that received approximately \$700,000 from Toymax for services rendered thereby in connection with the stock purchase agreement and which firm is entitled to receive an additional approximately \$300,000 from Toymax upon completion of the merger.

Stock Options

Pursuant to the merger agreement, upon the merger, all of the outstanding options to acquire Toymax common stock that Toymax has granted will be exchanged for fully-exercisable options to acquire JAKKS common stock (or, in certain limited circumstances, for cash), in an amount and at an exercise price determined in accordance with the formula set forth in the merger agreement. The stock purchase agreement further provides that the new JAKKS options will remain exercisable for a period of six months after the effective date of the merger.

Employment Agreements

At the time the stock purchase agreement closed, the employment agreements with Toymax and its officers and executives were terminated. Certain of these individuals entered into new employment or consulting agreements with JAKKS. Consummation of the merger will not trigger any severance payments under any agreements of Toymax.

Accounting Treatment of the Merger

The merger will be accounted for as the acquisition of a minority interest by JAKKS using the purchase method of accounting.

Material Federal Income Tax Consequences

The following is a summary of the material United States federal income tax consequences of the merger. This summary is based on laws, regulations, rulings and decisions now in effect, all of which are subject to

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change, possibly with retroactive effect. This summary does not address all of the United States federal income tax consequences that may be applicable to a particular holder of Toymax's common stock or to holders who are subject to special treatment under United States federal income tax law (including, for example, banks, insurance companies, tax-exempt investors, S corporations, dealers in securities, non-United States persons, holders who hold their Toymax common stock as part of a hedge, straddle or conversion transaction, and holders who acquired Toymax common stock through the exercise of employee stock options or other compensation arrangements). In addition, this summary does not address the tax consequences of the merger under applicable state, local or foreign tax laws. **You should consult your tax advisor as to the particular tax consequences to you of the merger, including the application of any state, local or foreign tax laws.**

Tax Consequences of the Receipt of the Merger Consideration to Holders of Toymax Common Stock

The merger will be treated as a taxable transaction, and not a tax free reorganization, by the Toymax stockholders with respect to their shares of Toymax common stock. As a result, subject to certain exceptions, each Toymax stockholder will have a sale or exchange and recognize taxable gain, or loss, to the extent that the fair market value of the cash and JAKKS common stock received by the stockholder in the merger exceeds, or is less than, the stockholder's basis in the Toymax stock surrendered. Such gain or loss will be a capital gain if the stockholder's Toymax shares are held as a capital asset. The stockholder's basis in any JAKKS common stock received in the merger will equal its fair market value at the effective time of the merger, and the holding period for such stock will commence on the day following the merger.

Dissenters

A holder of Toymax common stock who perfects dissenters' rights will recognize capital gain or loss at the effective time of the merger equal to the difference between the amount realized by such holder and such holder's basis in such holder's shares of common stock. For this purpose, the amount realized generally will equal the trading value per share of JAKKS common stock at the effective time of the merger. Such gain or loss will be capital gain or loss and will be long-term if such holder's holding period for the common stock at the effective time of the merger exceeds one year. Additional capital gain (or loss) will be recognized by such holder at the time the appraised fair value is received to the extent such payment exceeds (or is less than) the amount realized by such holder at the effective time of the merger. Also, a portion of such payment may be characterized as interest income.

Tax Consequences of the Merger to Toymax and JAKKS

No gain or loss will be realized by Toymax or JAKKS as a result of the merger.

The foregoing summary of Federal income tax consequences is included herein for general information purposes only. Accordingly, each holder of Toymax common stock is urged to consult his or her tax advisor regarding the Federal, state, local, foreign and other tax consequences of the merger.

Regulatory Matters

Toymax and JAKKS have determined that no material governmental or regulatory approvals are required for the merger to occur. In particular, on February 26, 2002 JAKKS and Toymax received early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

Dissenters' Rights of Appraisal

Under Section 262 of the Delaware General Corporation Law, which is referred to as the "DGCL" in this joint proxy statement/prospectus, any holder of Toymax common stock who does not wish to accept the merger consideration being paid by JAKKS as described in this joint proxy statement/prospectus may dissent from the merger and elect to have the fair value of their shares of common stock (exclusive of any element of value arising from the accomplishment or expectation of the merger) judicially determined and paid to the

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holder in cash, together with a fair rate of interest, if any, provided that the holder complies with the provisions of Section 262 of the DGCL.

The following discussion is not a complete statement of the law pertaining to appraisal rights under the DGCL, and is qualified in its entirety by the full text of Section 262, which is provided in its entirety as Appendix C to this joint proxy statement/prospectus. All references in Section 262 and in this summary to a stockholder are to the record holder of the shares of common stock as to which appraisal rights are asserted. **A person having a beneficial interest in shares of Toymax common stock held of record in the name of another person, such as a broker or nominee, must act promptly to cause the record holder to follow properly the steps summarized below in a timely manner to perfect appraisal rights.**

Under Section 262, where a proposed merger is to be submitted for approval and adoption at a meeting of stockholders, as in the case of the special stockholders meeting, the corporation, not less than 20 days before the meeting, must notify each of its stockholders entitled to appraisal rights that appraisal rights are available and include in that notice a copy of Section 262. This joint proxy statement/prospectus constitutes that notice and the applicable statutory provisions of the DGCL are attached to this proxy statement as Appendix C. Any stockholder who wishes to exercise appraisal rights or who wishes to preserve the right to do so should review carefully the following discussion and Appendix C to this joint proxy statement/prospectus. **Failure to comply with the procedures specified in Section 262 timely and properly will result in the loss of appraisal rights.** Moreover, because of the complexity of the procedures for exercising the right to seek appraisal of the common stock, Toymax believes that stockholders who consider exercising such appraisal rights should seek the advice of counsel.

Any holder of Toymax common stock wishing to exercise the right to demand appraisal under Section 262 of the DGCL must satisfy each of the following conditions:

as more fully described below, the holder must deliver to Toymax a written demand for appraisal of the holder's shares before the vote on the merger agreement at the special stockholders meeting, which demand will be sufficient if it reasonably informs Toymax of the identity of the holder and that the holder intends to demand the appraisal of the holder's shares;

the holder must not vote the holder's shares of common stock in favor of the merger agreement; a proxy which does not contain voting instructions will, unless revoked, be voted in favor of the merger agreement and, therefore, a stockholder who votes by proxy and who wishes to exercise appraisal rights must vote against the merger agreement or abstain from voting on the merger agreement; and

the holder must continuously hold the shares from the date of making the demand through the effective time of the merger; a stockholder who is the record holder of shares of common stock on the date the written demand for appraisal is made but who thereafter transfers those shares before the effective time of the merger will lose any right to appraisal in respect of those shares.

Neither voting (in person or by proxy) against, abstaining from voting on or failing to vote on the proposal to approve and adopt the merger agreement and the merger will constitute a written demand for appraisal within the meaning of Section 262. The written demand for appraisal must be in addition to and separate from any such proxy or vote.

Only a holder of record of shares of Toymax common stock issued and outstanding immediately before the effective time of the merger is entitled to assert appraisal rights for the shares in that holder's name. A demand for appraisal should be executed by or on behalf of the stockholder of record, fully and correctly, as the stockholder's name appears on the stock certificates, and should specify the stockholder's name and mailing address, the number of shares of common stock owned and that the stockholder intends to demand appraisal of the stockholder's common stock. If the shares are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, execution of the demand should be made in that capacity. If the shares are owned of record by more than one person, as in a joint tenancy or tenancy in common, the demand should be executed by or on behalf of all owners. An authorized agent, including one or more joint owners, may execute a demand for appraisal on behalf of a stockholder; however, the agent must identify the record owner or owners and expressly disclose the fact that, in executing the demand, the agent is acting as agent for such

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owner or owners. A record holder such as a broker who holds shares as nominee for several beneficial owners may exercise appraisal rights with respect to the shares held for one or more beneficial owners while not exercising appraisal rights with respect to the shares held for one or more other beneficial owners. In such case, the written demand should set forth the number of shares as to which appraisal is sought, and where no number of shares is expressly mentioned the demand will be presumed to cover all shares held in the name of the record owner. **Stockholders who hold their shares in brokerage accounts or other nominee forms and who wish to exercise appraisal rights are urged to consult with their brokers to determine appropriate procedures for the making of a demand for appraisal by the nominee.**

A stockholder who elects to exercise appraisal rights under Section 262 should mail or deliver a written demand to: Toymax International, Inc., 22619 Pacific Coast Highway, Malibu, California 90265, Attention: Corporate Secretary.

Within ten days after the effective time of the merger, Toymax must send a notice as to the effectiveness of the merger to each former Toymax stockholder who has made a written demand for appraisal in accordance with Section 262 and who has not voted to approve and adopt the merger agreement and the merger. Within 120 days after the effective time of the merger, but not thereafter, either Toymax or any dissenting stockholder who has complied with the requirements of Section 262 may file a petition in the Delaware Court of Chancery demanding a determination of the value of the shares of common stock held by all dissenting stockholders. Toymax is under no obligation to and has no present intention to file a petition for appraisal, and stockholders seeking to exercise appraisal rights should not assume that Toymax will file such a petition or that Toymax will initiate any negotiations with respect to the fair value of the shares. Accordingly, stockholders who desire to have their shares appraised should initiate any petitions necessary for the perfection of their appraisal rights within the time periods and in the manner prescribed in Section 262. Inasmuch as Toymax has no obligation to file such a petition, the failure of a stockholder to do so within the period specified could nullify the stockholder's previous written demand for appraisal.

Within 120 days after the effective time of the merger, any stockholder who has complied with the provisions of Section 262 to that point in time will be entitled to receive from Toymax, upon written request, a statement setting forth the aggregate number of shares not voted in favor of the merger agreement and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. Toymax must mail that statement to the stockholder within 10 days after receipt of the request or within 10 days after expiration of the period for delivery of demands for appraisals under Section 262, whichever is later.

A stockholder timely filing a petition for appraisal with the Delaware Court of Chancery must deliver a copy to Toymax, which will then be obligated within 20 days to provide the Delaware Court of Chancery with a duly verified list containing the names and addresses of all stockholders who have demanded appraisal of their shares. After notice to those stockholders, the Delaware Court of Chancery is empowered to conduct a hearing on the petition to determine which stockholders are entitled to appraisal rights. The Delaware Court of Chancery may require stockholders who have demanded an appraisal for their shares and who hold stock represented by certificates to submit their certificates to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings, and if any stockholder fails to comply with the requirement, the Delaware Court of Chancery may dismiss the proceedings as to that stockholder.

After determining the stockholders entitled to an appraisal, the Delaware Court of Chancery will appraise the fair value of their shares, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. The costs of the action may be determined by the Delaware Court of Chancery and taxed upon the parties as the Delaware Court of Chancery deems equitable. Upon application of a dissenting stockholder, the Delaware Court of Chancery may also order that all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorneys' fees and the fees and expenses of experts, be charged pro rata against the value of all of the shares entitled to appraisal. **Stockholders considering seeking appraisal should be aware that the fair value of their shares as determined under Section 262 could be more than, the same as or less than the value of the shares**

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of JAKKS common stock they would receive under the merger agreement if they did not seek appraisal of their shares. Stockholders should also be aware that banking opinions, such as the one obtained by Toymax from Morgan Lewis and otherwise described herein, are not opinions as to fair value under Section 262.

In determining fair value and, if applicable, a fair rate of interest, the Delaware Court of Chancery is to take into account all relevant factors. In *Weinberger v. UOP, Inc.*, the Delaware Supreme Court discussed the factors that could be considered in determining fair value in an appraisal proceeding, stating that proof of value by any techniques or methods that are generally considered acceptable in the financial community and otherwise admissible in court should be considered, and that fair price obviously requires consideration of all relevant factors involving the value of a company. The Delaware Supreme Court stated that, in making this determination of fair value, the court must consider market value, asset value, dividends, earnings prospects, the nature of the enterprise and any other facts that could be ascertained as of the date of the merger that throw any light on future prospects of the merged corporation. In *Weinberger*, the Delaware Supreme Court stated that elements of future value, including the nature of the enterprise, which are known or susceptible of proof as of the date of the merger and not the product of speculation, may be considered. However, Section 262 provides that fair value is to be exclusive of any element of value arising from the accomplishment or expectation of the merger.

Any Toymax stockholder who has duly demanded an appraisal in compliance with Section 262 will not, after the effective time of the merger, be entitled to vote the shares subject to that demand for any purpose or be entitled to the payment of dividends or other distributions on those shares (except dividends or other distributions payable to holders of record of shares as of a record date before the effective time of the merger).

Any stockholder may withdraw its demand for appraisal and accept the merger consideration shares by delivering to Toymax a written withdrawal of the stockholder's demand for appraisal, except that (1) any such attempt to withdraw made more than 60 days after the effective time of the merger will require written approval of Toymax and (2) no appraisal proceeding in the Delaware Court of Chancery will be dismissed as to any stockholder without the approval of the Delaware Court of Chancery, and such approval may be conditioned upon such terms as the Delaware Court of Chancery deems just. If Toymax does not approve a stockholder's request to withdraw a demand for appraisal when that approval is required or if the Delaware Court of Chancery does not approve the dismissal of an appraisal proceeding, the stockholder would be entitled to receive only the appraised value determined in any such appraisal proceeding, which value could be more than, the same or less than the value of the JAKKS shares to be received under the merger agreement.

Failure to comply strictly with all of the procedures set forth in Section 262 of the DGCL may result in the loss of a stockholder's statutory appraisal rights. Consequently, any stockholder wishing to exercise appraisal rights is urged to consult legal counsel before attempting to exercise appraisal rights.

Listing of JAKKS Common Stock

JAKKS will apply for listing on the Nasdaq National Market of the shares of JAKKS common stock to be issued in the merger.

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THE MERGER AGREEMENT

The description of the merger agreement contained in this joint proxy statement/prospectus describes the material terms of the merger agreement. The merger agreement may be found in its entirety in Appendix A to this joint proxy statement/prospectus and is incorporated herein by reference. You are urged to read the entire merger agreement as it is the legal document that governs the merger.

The Merger

The merger agreement provides that, subject to conditions summarized below, the merger subsidiary, a Delaware corporation and wholly-owned subsidiary of JAKKS, will merge with and into Toymax. Following the completion of the merger, the merger subsidiary will cease to exist as a separate entity, and Toymax will be the surviving corporation and a wholly-owned subsidiary of JAKKS.

Effective Time of the Merger

The merger will become effective when a certificate of merger is filed with the Secretary of State of the State of Delaware in accordance with the DGCL or at such later time as is specified in the certificate of merger. This time is referred to as the effective time in this joint proxy statement/prospectus. The filing is expected to occur as soon as practicable after approval and adoption of the merger agreement by Toymax's stockholders at the special stockholders meeting and satisfaction or waiver of the other conditions to the merger contained in the merger agreement. Toymax cannot guarantee that all conditions contained in the merger agreement will be satisfied or waived. See Conditions to the Merger.

Structure; Merger Consideration

Unless you seek appraisal rights, you will be entitled to receive \$3.00 in cash plus .0798 of a share of JAKKS common stock in exchange for each share of Toymax common stock you own at the time of the merger. In the event that the average closing price of JAKKS common stock for the 10 days prior to the effective time of the merger is less than \$16.9173 per share (the adjusted closing price), the amount of JAKKS common stock you receive (in addition to the cash payment described above) for each share of Toymax common stock will be determined by dividing \$1.35 by the adjusted closing price. In the event that the average closing price of JAKKS common stock for the 10 days prior to the effective time of the merger exceeds \$20.6767 per share, JAKKS may elect, in its sole discretion, to pay you exclusively in cash consideration of \$4.65 for each share of Toymax common stock you own at the time of the merger.

The merger agreement provides for the following further conditions relating to the payment of the merger consideration:

Each holder of shares of Toymax common stock that would otherwise be entitled to receive a fractional share of JAKKS common stock by virtue of the merger will otherwise be paid cash without any interest, equal to the product of the fractional share that would have been issued multiplied by \$18.797. If the average closing price of JAKKS common stock for the 10 days prior to the effective time of the merger is less than \$16.9173 per share at the effective time of the merger, then the cash to be paid to each Toymax stockholder for such fractional share will be the product of such fractional share that would have been issued and the average closing price of JAKKS common stock for the ten days prior to the effective time of the merger;

Treasury shares and shares of Toymax common stock owned by any wholly-owned subsidiary of Toymax will be canceled without any payment therefor;

Shares of Toymax common stock owned by JAKKS or the merger subsidiary will be canceled without any payment therefor; and

Shares held by stockholders who have perfected their dissenters' rights will be subject to appraisal in accordance with Delaware law.

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Treatment of Options

Pursuant to the merger agreement, upon the merger, all of the outstanding options to acquire Toymax common stock will be exchanged for fully-exercisable options to acquire JAKKS common stock (or, in certain limited circumstances, for cash), in an amount and at an exercise price determined in accordance with the formula set forth in the merger agreement. The stock purchase agreement further provides that the new JAKKS options will remain exercisable for a period of six months after the effective date of the merger.

Payment for Shares; Exchange of Toymax Certificates

At the effective time, JAKKS will deliver the cash, certificates representing the shares of JAKKS common stock to be issued and the cash to be paid in lieu of fractional shares in the merger, which is referred to as the merger consideration in this joint proxy statement/prospectus, to American Stock Transfer and Trust Company, the paying agent. Promptly after the effective time, the paying agent will mail to each record holder of Toymax common stock a letter of transmittal and instructions to effect the surrender of the stock certificates that, immediately before the effective time, represented the record holder's shares of Toymax common stock in exchange for payment of the merger consideration. When you deliver your certificates of Toymax common stock to the paying agent, along with a properly executed letter of transmittal and any other required documents, you will receive cash and certificates representing, or statements indicating book-entry ownership of, the number of shares of JAKKS common stock that you are entitled to receive under the merger agreement. The surrendered certificates will be canceled.

Each holder of Toymax common stock will be entitled to receive the merger consideration only upon surrender to the paying agent the relevant share certificates. No interest will accrue or will be paid on the cash portion, if any, of the merger consideration upon the surrender of any certificate. The paying agent will not issue any securities or make payments to any person who is not the registered holder of the certificate surrendered unless the certificate is properly endorsed and otherwise in proper form for transfer. Further, the person requesting such certificates or payment will be required to pay any transfer or other taxes required by reason of the payment to a person other than the registered holder of the certificate surrendered or establish to the satisfaction of the paying agent that such tax has been paid or is not payable.

Neither JAKKS, the paying agent nor any other person will be liable to any former Toymax stockholder for any amount properly delivered to a public official pursuant to applicable abandoned property, escheat or similar laws.

YOU SHOULD NOT FORWARD STOCK CERTIFICATES WITH THE ENCLOSED PROXY CARD. YOU SHOULD SUBMIT YOUR STOCK CERTIFICATES WHEN YOU RECEIVE THE TRANSMITTAL INSTRUCTIONS AND A FORM OF LETTER OF TRANSMITTAL FROM THE PAYING AGENT.

Transfer of Shares

At and after the effective time, Toymax's transfer agent will not record on the stock transfer books transfers of any shares of Toymax common stock that were outstanding immediately prior to the effective time of the merger.

Officers, Directors and Governing Documents

Pursuant to the transactions set forth in the stock purchase agreement, between February 10, 2002 and March 10, 2002 five of Toymax's directors resigned and were replaced by six directors, all of whom are members of JAKKS' board of directors. After the effective time, the current Toymax board of directors will resign and the board of directors of the merger subsidiary will serve as the Toymax board of directors until their successors are duly elected and qualified. At the effective time of the merger, Toymax's officers will resign and the officers of the merger subsidiary will serve as the officers of Toymax until their successors are duly elected and qualified.

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From and after the effective time of the merger, the certificate of incorporation and by-laws of the merger subsidiary will become the certificate of incorporation and by-laws of the surviving corporation unless and until the same are amended, restated or revoked, as the case may be.

Representations and Warranties

The merger agreement contains various representations and warranties made by Toymax to JAKKS, subject to identified exceptions, including representations and warranties relating to:

the due incorporation, valid existence, good standing, and full corporate power and authority of Toymax to own its assets and carry on its business;

the capitalization of Toymax;

Toymax having full corporate power and authority to execute, deliver and enforce the merger agreement;

the Toymax board of directors' unanimous (i) determination that the merger agreement and the merger are advisable and in the best interests of Toymax, (ii) approval of the merger agreement and the merger and (iii) recommendation that Toymax's stockholders adopt the merger agreement, approve the merger and ratify the stock purchase agreement;

the absence of any conflicts between the merger agreement and Toymax's certificate of incorporation or bylaws, any applicable laws and any other material contracts or documents; and

the absence of any required consents, approvals or authorizations of any governmental authorities, except those specified in the merger agreement, in order for Toymax to complete the merger.

The merger agreement contains various representations and warranties made by JAKKS and the merger subsidiary to Toymax, subject to identified exceptions, including representations and warranties relating to:

the due incorporation, valid existence, good standing and full corporate power and authority of JAKKS and the merger subsidiary;

the authorization, execution, delivery and enforceability of the merger agreement;

JAKKS having full corporate power and authority to execute, deliver and enforce the merger agreement;

the absence of any conflicts between the merger agreement and JAKKS or the merger subsidiary's certificate of incorporation or bylaws, any applicable laws and any other material contracts or documents; and

the absence of any required consents, waivers, approvals or authorizations of governmental authorities, except those specified in the merger agreement, in order for JAKKS and the merger subsidiary to complete the merger.

None of the representations and warranties in the merger agreement will survive after the completion of the merger.

Conduct of Business Pending the Merger

In the merger agreement, Toymax and its subsidiaries has agreed, before completion of the merger, to:

conduct its business in its ordinary course;

use commercially reasonable efforts to preserve the business and maintain its respective relations with suppliers, customers and others having material business dealings with Toymax;

use commercially reasonable efforts to maintain all material permits and consents; and

not amend Toymax s articles of incorporation or bylaws.

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Stockholders Meeting; Recommendation of Board of Directors

In the merger agreement, Toymax has agreed to:

prepare and file with the Securities and Exchange Commission preliminary proxy materials including the notice of the special meeting, proxy statement and form of proxy and make any changes thereto pursuant to Securities and Exchange Commission comment;

duly call, give notice of, and hold a special stockholders meeting as soon as reasonably practicable after the date of the merger agreement including printing and mailing definitive proxy materials; and

except as described below, include in the proxy statement sent to stockholders in connection with the solicitation of proxies relating to the merger the recommendation of Toymax's board of directors that Toymax's stockholders vote in favor of adoption of the merger agreement, approval of the merger and ratification of the stock purchase agreement, unless that inclusion would cause any of Toymax's directors to breach his fiduciary duty or cause Toymax or any of its directors, officers, employees or agents to violate the law.

The merger agreement also provides that Toymax shall not take any action to:

withdraw its approval or recommendation of the merger;

modify or qualify such approval or recommendation in a manner materially adverse to JAKKS or which would prevent, impede or materially delay the consummation of the merger; or

accept or recommend any Alternative Proposal (as defined in the next paragraph) except, subject to the provisions of the merger agreement and the payment of the Termination Fee, if applicable, that (i) is made in writing, (ii) Toymax's board of directors determines in good faith in the exercise of its business judgment is reasonably capable of being completed on the terms proposed and if so completed would result in an Alternative Transaction (as defined in the next paragraph) that, from a financial point of view, would be superior and more beneficial to Toymax's stockholders than the merger, and (iii) Toymax's board of directors determines in good faith that its failure to consider such Alternative Proposal or to withdraw, modify or qualify its approval or recommendation of the merger would cause it to violate its fiduciary duties under applicable law.

The merger agreement defines Alternative Proposal as any bona fide bid, offer or other proposal relating to an Alternative Transaction. The merger agreement defines Alternative Transaction as (a) any merger, consolidation or other business combination or reorganization pursuant to which a substantial portion of Toymax's business or assets (including without limitation any portion that accounts for, or is reasonably expected to generate over the ensuing 12-month period, 10% or more of Toymax's accounts) is sold or otherwise transferred to, or combined with that or those of, another person; (b) a transaction as a result of which any person (other than JAKKS, Toymax or one of Toymax's subsidiaries) becomes the holder, directly or indirectly, of securities of Toymax having 10% or more of the voting power of all voting securities of Toymax; or (c) the acquisition, directly or indirectly, by another person (other than JAKKS) of control of Toymax, in each case, other than the merger.

Regulatory and Other Consents and Approvals

Subject to the terms and conditions of the merger agreement, Toymax, JAKKS and the merger subsidiary have agreed to cooperate and use their reasonable best efforts to make all filings necessary, proper or advisable under applicable laws to consummate the merger and to do all other things necessary, proper or advisable under applicable laws to consummate the merger. Each of the parties has also agreed to use its reasonable best efforts to obtain as promptly as practicable all consents of any governmental entity or any other person required in connection with the consummation of the merger.

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Conditions to the Merger

The obligations of Toymax, JAKKS and the merger subsidiary to complete the merger are subject to the satisfaction of certain conditions, including the following:

stockholders who hold a majority of the voting power of the outstanding shares of Toymax common stock must adopt the merger agreement, approve the merger and ratify the stock purchase agreement;

the fairness opinion that Toymax received stating that the merger and the merger consideration is fair, from a financial point of view, to the holders of Toymax common stock, will not have been withdrawn, rescinded or adversely updated or modified; and

the consummation of the merger is not restrained, enjoined or prohibited by any order, judgment or decree of a court of competent jurisdiction or any governmental entity, including any pending action seeking damages.

The obligations of JAKKS and the merger subsidiary to complete the merger are subject to the satisfaction of each of the following conditions:

each of the representations and warranties made by Toymax in the merger agreement that is qualified by materiality or a material adverse effect on Toymax must be true and each of the representations and warranties made by Toymax in the merger agreement that is not so qualified must be true, in each case, as of the date of the merger agreement and, with respect to certain representations and warranties, as of the effective time (provided that if a representation or warranty was made regarding a specific date, it need only be true as of that date);

Toymax must have observed and performed in all material respects all of its material covenants under the merger agreement;

each holder of a Toymax option that does not by its terms or pursuant to the Toymax option plan terminate at the effective time of the merger, executes and delivers to JAKKS an agreement terminating such option as of the effective time of the merger; and

there shall have not been any event or occurrence that has had or would reasonably be expected to have a material adverse effect on Toymax.

The obligations of Toymax to complete the merger is subject to the satisfaction of each of the following conditions:

each of the representations and warranties made by JAKKS in the merger agreement that is qualified by materiality or a material adverse effect on JAKKS must be true and each of the representations and warranties made by JAKKS in the merger agreement that is not so qualified must be true, in each case, as of the date of the merger agreement and as of the effective time (provided that if a representation or warranty was made regarding a specific date, it need only be true as of that date); and

each of JAKKS and the merger subsidiary must have observed and performed in all material respects all of its material covenants under the merger agreement.

The merger agreement defines a material adverse effect as a material adverse effect on the business, assets or the operations, financial conditions or results of operation of Toymax and its subsidiaries, taken as a whole.

Termination of the Merger Agreement by JAKKS or Toymax

At any time before the effective time of the merger, JAKKS and Toymax may terminate the merger agreement and abandon the merger by mutual written consent, regardless of whether the stockholders of

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Toymax have adopted and approved the merger and the merger agreement. Either party may also terminate the merger agreement if:

Toymax stockholder approval of the matters presented hereby is not obtained; or

the effective time has not occurred on or before September 30, 2002, or such later date to which JAKKS or Toymax may agree.

Termination by JAKKS. JAKKS may terminate the merger agreement before the effective time of the merger upon a material breach by Toymax of any of its representations, warranties, covenants or agreements which would give rise to a material change relating to Toymax and is not cured within 30 days after written notice thereof or is not curable by Toymax.

Termination by Toymax. Toymax may terminate the merger agreement before the effective time of the merger upon a breach by JAKKS or the merger subsidiary of any of their representations, warranties, covenants or agreements which would give rise to a material change relating to JAKKS and is not cured within 30 days after written notice thereof or is not curable by JAKKS.

Amendment and Waiver

Any provision of the merger agreement may be amended before the effective time of the merger provided that after stockholder approval has been obtained no further amendment may be made which is prohibited by law or would require further stockholder action. Further, at any time before the effective time, any party to this agreement may extend, in writing, the time for the performance of any obligation of any other party, waive any inaccuracy in the representations and warranties of any other party in the merger agreement or in any other document and waive compliance with any agreement or condition to its obligations.

No Termination Fee

Toymax is not required by the terms of the merger agreement to pay any termination fees to JAKKS if the merger agreement is terminated in accordance with its terms.

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UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited pro forma consolidated financial statements as of March 31, 2002 and for the year ended December 31, 2001 and three months ended March 31, 2002 give effect to the acquisition of Toymax. The pro forma consolidated balance sheet presents JAKKS financial position as if the acquisition of Toymax had occurred on March 31, 2002. The pro forma consolidated statement of operations presents JAKKS results as if the acquisition of Toymax had occurred on January 1, 2001. JAKKS fiscal year end is December 31 and Toymax's fiscal year end is March 31. The fourth quarter for JAKKS most recent fiscal year ended December 31, 2001, while the third quarter of Toymax's fiscal year ended December 31, 2001. The historical consolidated balance sheet represents the initial acquisition by JAKKS on March 11, 2002 of 66.8% of Toymax's common stock. The pro forma consolidated balance sheet reflects the acquisition of the remaining shares described herein. The consolidated statements of operations for the year ended December 31, 2001 and three months ended March 31, 2002 reflect both the initial acquisition of 66.8% of Toymax's common stock and the acquisition of the remaining shares of Toymax common stock described herein. The pro forma consolidated statement of operations for the year ended December 31, 2001 is based on JAKKS historical consolidated statement of operations and the statement of operations of Toymax for the twelve months ended December 31, 2001.

The pro forma consolidated statement of operations for the three months ended March 31, 2002 is based on JAKKS historical consolidated statement of operations including Toymax from March 12, 2002 to March 31, 2002 and the statement of operations of Toymax for the period January 1, 2002 to March 11, 2002.

The combined consolidated financial statements include, in JAKKS opinion, all material adjustments necessary to reflect the acquisition of Toymax. However, the pro forma goodwill is subject to final allocation based on JAKKS determination. The pro forma consolidated financial statements do not represent JAKKS actual results of operations, including the acquisitions, nor do they purport to predict or indicate our financial position or results of operations at any future date or for any future period. The pro forma consolidated financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, JAKKS consolidated financial statements and the related notes thereto and Toymax's consolidated financial statements and the related notes thereto either incorporated herein by reference or included with this joint proxy statement/prospectus.

Table of Contents**JAKKS PACIFIC, INC. AND SUBSIDIARIES****PRO FORMA CONSOLIDATED BALANCE SHEET**

	March 31, 2002		
	Historical JAKKS	Pro Forma Adjustments	Pro Forma Balance Sheet
(unaudited)			
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 14,937,184	\$(11,800,000)(1)	\$ 3,137,184
Marketable securities	16,705,506		16,705,506
Accounts receivable, net	65,999,551		65,999,551
Inventory, net	39,641,751		39,641,751
Prepaid expenses and other current assets	7,367,573		7,367,573
	<u>144,651,565</u>	<u>(11,800,000)</u>	<u>132,851,565</u>
Total current assets			
Property and equipment, at cost	35,631,991		35,831,991
Less accumulated depreciation and amortization	19,377,915		19,377,915
	<u>16,254,076</u>	<u></u>	<u>16,254,076</u>
Property and equipment, net			
Deferred income taxes	13,743,777		13,743,777
Notes receivable Officers	2,224,000		2,224,000
Goodwill, net	134,040,200	18,741,767(1)	152,781,967
Trademarks, net	11,567,679		11,567,679
Investment in joint venture	4,166,705		4,166,705
Other	4,055,830		4,055,830
	<u>\$330,703,832</u>	<u>\$ 6,941,767</u>	<u>\$337,645,599</u>
Total assets			
LIABILITIES AND STOCKHOLDERS EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 56,355,932		\$ 56,355,932
Short term debt including current portion of long term debt	31,631		31,631
Income taxes payable	6,257,632		6,257,632
	<u>62,645,195</u>	<u></u>	<u>62,645,195</u>
Total current liabilities			
Long term debt	76,064		76,064
Deferred income taxes	2,207,429		2,207,429
	<u>64,928,688</u>	<u></u>	<u>64,928,688</u>
Total liabilities			
Minority interest	4,885,322	(4,885,322)(1)	
STOCKHOLDERS EQUITY			
Common stock	21,162	313(1)	21,475
Additional paid-in capital	182,444,305	11,826,776(1)	194,271,081
Treasury stock	(12,911,483)		(12,911,483)
Retained earnings	91,335,838		91,335,838

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Total stockholders equity	<u>260,889,822</u>	<u>11,827,089</u>	<u>272,716,911</u>
Total liabilities and stockholders equity	<u>\$ 330,703,832</u>	<u>\$ 6,941,767</u>	<u>\$ 337,645,599</u>

See notes to unaudited pro forma consolidated financial statements.

Table of Contents**JAKKS PACIFIC, INC. AND SUBSIDIARIES****UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS**

Year Ended December 31, 2001

	Actual			Pro Forma Adjustments	Pro Forma Results
	JAKKS	Toymax	Combined		
Net Sales	\$ 284,309,021	\$ 102,894,216	\$ 387,203,237	\$ (3,655,610)(2)	\$ 383,547,627
Cost of sales	164,222,261	75,893,456	240,115,717	(6,937,612)(2),(3)	233,178,105
Gross Profit	120,086,760	27,000,760	147,087,520	3,282,002	150,369,522
Selling, general and administrative expenses	89,574,503	36,366,509	125,941,012	(2,584,728)(2),(4)	123,356,284
Acquisition shutdown & product recall costs	1,214,101		1,214,101		1,214,101
Income from operations	29,298,156	(9,365,749)	19,932,407	5,888,730	25,799,137
Interest, net	(2,056,526)	827,069	(1,229,457)	961,923(5)	(267,534)
Other (income) expense	(6,675,428)	7,783,336	1,107,908	(5,257,793)(2)	(4,149,885)
Income (loss) before provision for income taxes	38,030,110	(17,976,154)	20,053,956	10,162,600	30,216,556
Provision for (benefit from) income taxes	9,797,209	(3,574,398)	6,222,811	2,237,825(2),(6)	8,460,636
Minority interest		(858,297)	(858,297)	858,297(7)	
Income (loss) from continuing operations	28,232,901	(13,543,459)	14,689,442	7,066,478	21,755,920
Loss from discontinued operations		(1,210,145)	(1,210,145)	1,210,145(2)	
Gain on disposal of discontinued operations		500,000	500,000	(500,000)(2)	
Net income (loss)	\$ 28,232,901	\$ (14,253,604)	\$ 13,979,297	\$ 7,776,623	\$ 21,755,920
Basic earnings per share	\$ 1.55				\$ 1.14
Weighted average shares outstanding	18,199,108			958,884	19,157,992
Diluted earnings per share	\$ 1.45				\$ 1.07
Weighted average shares and equivalents outstanding	19,409,925			958,884	20,368,809

Three Months Ended March 31, 2002

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	<u>Combined</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Results</u>
Net Sales	\$ 66,264,038	2,200,000 (3)	\$68,464,036
Cost of sales	44,331,855	(1,146,700)(4)	43,185,155
Gross Profit	21,932,163	3,346,700	25,278,883
Selling, general and administrative expenses	36,219,037	(12,379,272)(5)	23,839,765
Acquisition shutdown & product recall costs	11,176,546	(4,634,149)(6)	6,542,397
Loss from operations	(25,463,400)	20,360,121	(5,103,279)
Interest, net	13,159	84,808 (7)	97,967
Other (income) expense	(1,130,101)		(1,130,101)
Loss before provision for income taxes	(24,346,458)	20,275,313	(4,071,145)
Benefit from income taxes	(6,573,544)	5,474,335 (8)	(1,099,209)
Minority interest	22,747	(22,747)(9)	
Net Loss	\$ (17,795,661)	\$ 14,823,725	\$ (2,971,936)
Basic earnings per share	\$ (0.91)		\$ (0.15)
Weighted average shares outstanding	19,517,955	815,243	20,333,198
Diluted earnings per share	\$ (0.86)		\$ (0.14)
Weighted average shares and equivalents outstanding	20,737,394	\$ 815,243	21,552,637

See notes to unaudited pro forma consolidated financial statements.

Table of Contents**NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS**

The unaudited pro forma consolidated financial statements have been adjusted for the items relating to the acquisition of Toymax as set forth below:

Balance Sheet

(1) Consideration paid on or about the closing of the merger with Toymax:	
Cash paid to Toymax Stockholders	\$ 11,800,000
	<u> </u>
312,500 shares of JAKKS common stock issued to Toymax Stockholders	\$ 5,875,000
	<u> </u>
Conversion of Toymax Stock Options to JAKKS Stock Options	\$ 5,952,089
	<u> </u>

Statement of Operations

(2) Adjustments to reflect the divestiture of the discontinued operations of Toymax:

	Year Ended December 31, 2001 Total	Three Months Ended March 31, 2002 Total
	<u> </u>	<u> </u>
Net sales	\$ 3,655,610	
Cost of sales	3,310,028	—
	<u> </u>	<u> </u>
Gross profit	345,582	
Selling, general and administrative expenses	3,427,700	—
	<u> </u>	<u> </u>
Loss from operations	(3,082,118)	
Other (income) expense	5,257,793	—
	<u> </u>	<u> </u>
Loss before provision for income taxes	(8,339,911)	
Benefit from income taxes	(218,934)	
Minority interest	(1,716,594)	—
	<u> </u>	<u> </u>
Loss from continuing operations	(6,404,383)	—
	<u> </u>	<u> </u>
Loss from discontinued operations	(1,210,145)	
Gain on disposal of discontinued operations	500,000	—
	<u> </u>	<u> </u>
Net loss	\$ (7,114,528)	<u> </u>
	<u> </u>	<u> </u>

Reflects discontinued operations of Monogram and Candy Planet in the discontinued operations line as it occurred in December 2001. Maxverse was subsequently discontinued, so the respective income statement line items represent the income statement of Maxverse.

Table of Contents**NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Pro Forma Year Ended Dec. 31, 2001	Pro Forma Three Months Ended March 31, 2002
(3) Net sales is adjusted to reflect:		
Restructuring charge	\$	\$ 2,200,000
(See Note 2 of the Toymax consolidated financial statements.)		
(4) Cost of sales is adjusted to reflect:		
Elimination of agency fee (Toymax cancelled an agency agreement March 11, 2002 for services that JAKKS does internally.)	\$ (3,627,584)	\$ (146,700)
Restructuring charge (See Note 2 of the Toymax consolidated financial statements.)		\$ (1,000,000)
	\$ (3,627,584)	\$ (1,146,700)
(5) Selling, general and administrative expenses are adjusted to reflect:		
Adjustment in salaries and fees to Toymax Directors	\$ (697,544)	\$ (103,689)
Adjustment in severance to Toymax employees (Adjustments to reflect new employment agreements as a result of the transaction.)	\$	\$ 357,307
Restructuring charge (See Note 2 of the Toymax consolidated financial statements.)	\$	\$ (12,632,690)
Amortization of goodwill (Toymax early adopted FAS 142)	\$ 1,540,516	\$
	\$ 842,972	\$ 12,379,272
(6) Acquisition and shutdown expense is adjusted to reflect:		
Restructuring charge	\$	\$ (4,634,149)
(See Note 2 of the Toymax consolidated financial statements.)		
(7) Other (income) expense is adjusted to reflect:		
The elimination of interest expense related to borrowings made by Toymax as if they had been repaid on January 1, 2001	\$ (950,077)	\$ (172,917)
The elimination of interest income related to lower cash balances held by JAKKS	\$ 1,912,000	\$ 257,725
	\$ 961,923	\$ 84,608
(8) Provision for income taxes is adjusted to reflect the tax effect of pro forma adjustments		
	\$ 2,018,891	5,474,335
(9) Elimination of Toymax minority interest		
	\$ 858,297	\$ (22,747)

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BUSINESS OF THE PARTIES TO THE MERGER

INFORMATION CONCERNING JAKKS

In this section Information Concerning JAKKS, references to we, us and our refer to JAKKS and, where the context requires (such as when JAKKS discusses its business, operations properties or products) its subsidiaries.

Company Overview

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

Action figures and accessories including licensed characters, principally based on the *World Wrestling Entertainment*, 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 *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; and

Fashion and mini dolls and related accessories, including *Disney Princesses* sold exclusively 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 evergreen portfolio of brands;

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

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

In addition to developing our proprietary brands and marks, we license brands such as *World Wrestling Entertainment*, *Nickelodeon*, *Rugrats*, *Blue's Clues*, *Mickey Mouse*, *Barney*, *Sesame Street*, *Winnie the Pooh* and *Hello Kitty 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.

We have capitalized on our relationship with the WWE by obtaining an exclusive worldwide license for our joint venture with 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 11 new titles. We have received \$27.5 million as our share of the joint venture's profit through March 31, 2002.

Our March 11, 2002, we acquired a controlling interest in Toymax, a developer and marketer of toys and related products, which 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 diversify our portfolio with products popular in the spring and summer seasons.

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Most of our current products are relatively simple and inexpensive toys. In 2001, approximately 70% of our revenue came from products priced less than ten dollars 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

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in retail distribution channels. As of March 31, 2002, 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 Target, Kmart, Toys R Us, Wal-Mart, and Kay Bee Toys, which collectively accounted for approximately 54.7% of our net sales in 2001. We have over 10,000 other customers, none of which accounted for more than 2.0% of our net sales in 2001.

Our Growth Strategy

The successful execution of our growth strategy has resulted in increased revenues and earnings. From 1996 to 2001, our net sales, EBITDA and net income grew at a compound annual rate of 88.2%, 95.0% and 88.7%, respectively. In 2001, we generated net sales and EBITDA of \$284.3 million and \$44.1 million, respectively. Key elements of our growth strategy include:

Expand Core Products. We manage our existing and new brands through strong product development initiatives, including introducing new products, modifying existing products and extending existing product lines. Our product designers strive to develop new products or product lines to offer added technological, aesthetic and functional improvements to our product lines. In 2001, we expanded the use of real-scan technology in our action toys, which produces higher quality and better likenesses of the representative characters and vehicle parts. In addition, we introduced action figures with significantly greater ranges of motion, and expanded our electronic action figure recognition play sets.

Enter New Product Categories. We will continue to use our extensive experience in the toy and other industries to evaluate products and licenses in new product categories and to develop additional product lines. We have entered the plush toy category through the licensing of *Pound Puppies*TM, as well as through the creation of our own *Limbo Legs*, and expanded into slumber bags through the licensing of this category from our current licensors, such as Nickelodeon.

Pursue Strategic Acquisitions. We intend to supplement our internal growth rate with selected strategic acquisitions. Since our inception in 1995, we have successfully completed and integrated nine acquisitions of companies and trademarks. These include our acquisitions of Justin Products, Road Champs, *Remco*, *Child Guidance*, Berk, Flying Colors, Pentech, Kidz Biz and most recently, our controlling interest in Toymax. We will continue focusing our acquisition strategy on businesses or brands that have compatible product lines and offer valuable trademarks or brands.

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 2001, our sales generated outside the United States grew 78% to approximately \$40.0 million, or 14.1% of total 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

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acquired Kidz Biz for its distribution channels in the United Kingdom and surrounding territories. We expect both initiatives to contribute to our continued international growth in 2002.

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

Industry Overview

According to the TIA, the leading toy industry trade group, the United States is the world's largest toy market, followed by Japan and Western Europe. Total retail sales of toys, excluding video games, in the United States, were approximately \$25.0 billion in 2001. Sales by domestic toy manufacturers to foreign customers exceeded \$5.0 billion in 2001. We believe the two largest United States toy companies, Mattel and Hasbro, collectively hold a dominant share of the domestic non-video toy market. In addition, hundreds of smaller companies compete in the design and development of new toys, the procurement of character and product licenses, and the improvement and expansion of previously introduced products and product lines. In the United States video game segment, total retail sales of video game software were approximately \$9.4 billion in 2001.

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

Products

We focus our business on acquiring or licensing well-recognized trademarks or brand names, and we seek to acquire evergreen brands which are less subject to market fads or trends. Some of our license agreements for products and concepts call for royalties ranging from 1% to 6% of net sales, and some may require minimum guarantees and advances. Our principal products include:

World Wrestling Entertainment Action Figures and Accessories

We have an extensive toy license with the WWE pursuant to which we have the exclusive worldwide right, until December 31, 2009, to develop and market a full line of toy products based on the popular *World Wrestling Entertainment* professional wrestlers. These wrestlers perform throughout the year at live events that attract large crowds, many of which are broadcast on free and cable television, including pay-per-view specials. We launched this product line in 1996 with various series of 6 inch articulated action figures that have movable body parts and feature real-life action sounds from our patented bone-crunching mechanism that allows the figures' bones to crack when they are bent. We continually expand and enhance this product line by using technology in the development and in the products themselves. The 6 inch figures currently make up a substantial portion of our overall *World Wrestling Entertainment* line, which has since grown to include many other new products including playsets using interactive technology. Our strategy has been to release new figures and accessories frequently to keep the line fresh and to retain the interest of the consumers.

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

Through our acquisition of Flying Colors Toys we entered into the toy activity category with compounds and plastic molded activity cases containing a broad range of activities, such as make and paint your own characters, jewelry making, art studios, posters, puzzles and other projects. The activity cases, with molded and painted likenesses of popular characters, such as Nickelodeon's *Rugrats* and *Blue's Clues*, *Powerpuff Girls*®, *Looney Tunes*®, *Hello Kitty* and *Scooby Doo*®, have immediate visual appeal. Using a related production technology, our lunch boxes complement this line with similarly-styled molded and painted likenesses featuring these and other popular characters. Through our acquisition of Pentech International in 2000, we expanded the other categories of products offered by Flying Colors, which now include stationery, back-to-school pens, pencils, markers and notebooks.

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Our compounds represent another significant area of emphasis for Flying Colors. Launched under the *Blue s Clues* license, this line has expanded from play clay in a bucket to an entire *Blue s Clues* playset featuring book molds, extrusion and other devices. We are continuing to expand the compound area and have introduced a full line of innovative compounds under the *Nickelodeon* brand, including *Gooze*®, *Zyrofoam*® and *Gak Splat*™, among others.

Wheels Division Products

Road Champs die-cast collectible and toy vehicles

The *Road Champs* product line consists of highly detailed, die-cast replicas of new and classic cars, trucks, motorcycles, emergency vehicles and service vehicles, primarily in 1/43 scale (including police cars, fire trucks and ambulances), buses and aircraft (including propeller planes, jets and helicopters). Through licenses, we produce replicas of well-known vehicles including those from *Ford*®, *Chevrolet*® and *Porsche*®. We believe that these licenses, increase the perceived value of the products and enhance their marketability.

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

In 1999, we launched our extreme sports category with a new line of die-cast bicycles called *BXS*®. These BMX-style bicycles feature removable and interchangeable parts for complete customization by users as well as working cranks. We have licensed the *Schwinn*®, *GT*® and *Haro*® brand names, among others, as well as the names of some of the top riders, such as Dave Mirra and Ryan Nyquist, for use in connection with this product line.

In 2000, we expanded our extreme sports offerings with the introduction of our *MXS*® line of motorcycles with riders featuring click n grip functionality which allows the user to release the rider from the motorcycle seat and perform the signature moves of the sport's top riders. Other additions included off-road vehicles, personal watercraft, surfboards and skateboards, all sold individually and with playsets and accessories.

BattleBots® and *Junkyard Wars*™

We introduced product lines featuring assembled and non-assembled vehicles and playsets, which create a do-it-yourself play pattern, based on the *BattleBots* and *Junkyard Wars* television shows.

Remco toy vehicles and role-play

Our *Remco* toy line includes toy vehicles, role-play and other toys. Our toy vehicle line is comprised of a large assortment of rugged die-cast and plastic vehicles that range in size from four and three-quarter inch to big-wheeled seventeen inch vehicles. The breadth of the line is extensive, with themes ranging from emergency, fire, farm and construction, to racing and jungle adventure.

We offer a variety of branded and non-branded role playsets in this new category under the *Remco* name. Themes include *Caterpillar*® construction, *B.A.S.S. Masters*® fishing, police, fire and *NASA*®. Additionally, capitalizing on the popularity of the World Wrestling Entertainment, we introduced a *World Wrestling Entertainment* role-play product, which will give children the opportunity to dress like and imagine being one of their favorite wrestling superstars.

Child Guidance

Infant and pre-school toys

Our line of pre-school electronic toys features products that enhance sensory stimulation and learning through play, while offering value to the trade as well as to the consumer. Our products are designed for children ages two and under. We have combined the fun of music, lights, motion and sound with the early introduction of numbers, letters, shape and color recognition, all at a value price. These products carry the *Good Housekeeping Seal of Approval*®. In 2001, we introduced a line of musical toys in conjunction with Baby Genius, the marketer of a popular line of music-oriented CDs and home videos whose aim is to stimulate the development of young children through music.

In addition to creating products internally, we often acquire products and concepts from numerous toy inventors with whom we have ongoing relationships. Both development of internally-created items and

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acquiring items are ongoing efforts. In either case, it may take as long as nine months for an item to reach the market. As part of an effort to keep the product line fresh and to extend the life of the item, we create new packaging, change sound chips and change product colors from time to time.

Plush toys

In 2000, we entered this category by licensing for reintroduction *Pound Puppies* and have since expanded our offerings with the internally developed *Limbo Legs*, a collection of 6 inch and 12 inch long-legged animals in a variety of colors and fabrics.

Foam puzzle mats and playsets

The acquisition of Berk in 1999 added the foam toy category to our business. We incorporated this new toy category into our *Child Guidance* product line, based on the demographics and target market for foam toy products. This line further expanded the breadth of our *Child Guidance* brand. The foam toy products include puzzle mats featuring licensed characters, such as *Winnie the Pooh*, *Blue's Clues*, *Barney*, *Teletubbies*® and *Sesame Street*, among others, as well as letters of the alphabet and numbers. The inter-locking puzzle pieces can also be used to build houses and other play areas. Other products include foam puzzles of the United States, foam vehicles and outdoor foam products.

Fashion and Mini Dolls and Related Accessories

We produce various proprietary and licensed fashion and mini dolls and accessories for children between the ages of three and ten. The proprietary product lines include 11 1/2 inch fashion dolls customized with high-fashion designs that correspond with particular holidays, events or themes, and fashion dolls based on children's classic fairy tales and holidays. We also produce licensed 15 1/2 inch dolls based on the fashion magazine *Elle*®, and 11 1/2 inch dolls based on the feature films, *Charlie's Angels*™ and *Josie and the Pussycats*™. These dolls feature a new skeleton with more realistic features and movement. We also have an agreement with The Disney Store to manufacture a full line of dolls under a private label which features *Disney Princesses* and classic Disney characters.

For 2002, we created a new assortment of 6 inch dolls called the *Fresh Look Friends*™ and a line of 4 inch dolls consisting of puppies that have magnetic mechanisms that allow children to perform tricks and to create action with the toys. We also created playsets in the form of houses for these dolls, which are sold under the *Tiny Tots in Puppy Towne*™ label.

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

World Wrestling Entertainment Video Games

In June 1998, we formed a joint venture with THQ, a developer, publisher and distributor of interactive entertainment software for the leading hardware game platforms in the home video game market. The joint venture entered into a license agreement with the WWE under which it acquired the exclusive worldwide right to publish *World Wrestling Entertainment* video games on all hardware platforms. The term of the license agreement expires on December 31, 2009, and the joint venture has a right to renew the license for an additional five years under various conditions.

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

Through June 30, 2006, we are entitled to receive a guaranteed preferred return from the joint venture at varying rates of net sales of the video games depending on the cumulative unit sales and platform of each particular game, as well as on the royalties earned by the joint venture from the publishing of game guides by third parties. After June 30, 2006, the amount of our preferred return from the joint venture will be subject to renegotiation between THQ and us. The minimum preferred return from the joint venture to be distributed to

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us in each of the years in the period ending December 31, 2003 is \$2.6 million per year. THQ is entitled to receive the balance of the profits.

The joint venture currently publishes titles for the Sony *PlayStation*® and *PlayStation 2*®, *Nintendo 64*® and *GameCube*® and Microsoft *Xbox*® consoles, *Nintendo Game Boy Color*® and *Game Boy Advance*® hand-held platforms and personal computers. The joint venture launched its first products, a video game for the Nintendo 64 platform and a video game for *Game Boy Color*, in November 1999. It will also publish titles for new hardware platforms, when and as they are introduced to the market and have established a sufficiently installed base to support new software. These titles are marketed to our existing customers as well as to game, electronics and other specialty stores, such as Electronics Boutique and Best Buy.

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

	New Game Titles		Profit from Joint Venture ⁽¹⁾
	Console Platforms	Hand-held Platforms	
			(\$ in millions)
1999	1	1	\$ 3.6
2000	4	1	15.9
2001	1	2	6.7
2002 (through March 31, 2002)	1		1.3

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

In the first quarter of 2002, we released one new game title for *Xbox*, and we anticipate releasing one new game title for *GameCube* during the second quarter of 2002, as well as several other titles during the second half of the year which include titles for *PlayStation 2*, personal computers and *Game Boy Advance*.

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

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

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Sales, Marketing and Distribution

We sell all of our products through our own in-house sales staff and independent sales representatives to toy and mass-market retail chain stores, department stores, office supply stores, drug and grocery store chains, club stores, toy specialty stores and wholesalers. The *Road Champs*, *Flying Colors* and *Pentech* product lines are also sold to smaller hobby shops, specialty retailers and corporate accounts, among others. Our five largest customers are Target, Kmart, Toys R Us, Wal-Mart, and Kay Bee Toys, which accounted for approximately 63.2% of our net sales in 2000 and 54.7% of our net sales in 2001. Except for purchase orders relating to products on order, we do not have written agreements with our customers. Instead, we generally sell products to our customers pursuant to letters of credit or, in some cases, on open account with payment terms typically varying from 30 to 90 days. From time to time, we allow our customers credits against future purchases from us in order to facilitate their retail markdown and sales of slow-moving inventory. We also sell our products through e-commerce sites, including Toysrus.com.

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

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

engaged representatives to oversee sales in certain territories,

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

established direct relationships with retailers in certain territories.

Outside of the United States, we currently sell our products primarily in Europe, Australia, Canada, Latin America and Asia. Sales of our products abroad accounted for approximately \$22.5 million, or 8.9% of our net sales, in 2000 and approximately \$40.0 million, or 14.1% of our net sales, in 2001. We believe that foreign markets present an attractive opportunity, and we plan to intensify our marketing efforts and further expand our distribution channels abroad.

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

We obtain, directly, or through our sales representatives, orders for our products from our customers and arrange for the manufacture of these products as discussed below. Cancellations generally are made in writing, and we take appropriate steps to notify our manufacturers of these cancellations.

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

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

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Product Development

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

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

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

Manufacturing and Supplies

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

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

The principal raw materials used in the production and sale of our toy products are plastics, zinc alloy, plush, printed fabrics, paper products and electronic components, all of which are currently available at reasonable prices from a variety of sources. Although we do not manufacture our products, we own the tools, dies and molds used in the manufacturing process, and these are transferable among manufacturers if we choose to employ alternative manufacturers. Tools, dies and molds represent substantially all of our long-lived assets, and amounted to \$14.4 million in 2000 and \$10.7 million in 2001. Substantially all of these assets are located in China.

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Trademarks and Copyrights

Most of our products are produced and sold under trademarks owned by or licensed to us. We typically register our properties, and seek protection under the trademark, copyright and patent laws of the United States and other countries where our products are produced or sold. These intellectual property rights can be significant assets. Accordingly, while we believe we are sufficiently protected, the loss of some of these rights could have an adverse effect on our business, financial condition and results of operations.

Competition

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

Seasonality and Backlog

In 2001, approximately 54.3% of our net sales were made in the third and fourth quarters. Generally, the first quarter is the period of lowest shipments and sales in our business and the toy industry generally and therefore the least profitable due to various fixed costs. Seasonality factors may cause our operating results to fluctuate significantly from quarter to quarter. However, Pentech's writing instrument and activity products generally are counter-seasonal to the traditional toy industry seasonality due to the higher volume generally shipped for back-to-school beginning in the second quarter. In addition, Toymax's *Funnoodle* and *Go Fly a Kite* products are primarily sold in the spring and summer seasons. Our results of operations may also fluctuate as a result of factors such as the timing of new products (and related expenses) introduced by us or our competitors, the advertising activities of our competitors, delivery schedules set by our customers and the emergence of new market entrants. We believe, however, that the low retail price of most of our products may be less subject to seasonal fluctuations than higher priced toy products.

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

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Government and Industry Regulation

Our products are subject to the provisions of the Consumer Product Safety Act (CPSA), the Federal Hazardous Substances Act (FHSA), the Flammable Fabrics Act (FFA) and the regulations promulgated thereunder. The CPSA and the FHSA enable the Consumer Products Safety Commission (CPSC) to exclude from the market consumer products that fail to comply with applicable product safety regulations or otherwise create a substantial risk of injury, and articles that contain excessive amounts of a banned hazardous substance. The FFA enables the CPSC to regulate and enforce flammability standards for fabrics used in consumer products. The CPSC may also require the repurchase by the manufacturer of articles. Similar laws exist in some states and cities and in various international markets. We maintain a quality control program designed to ensure compliance with all applicable laws. In addition, many of our *Child Guidance* products are sold under the *Good Housekeeping Seal of Approval*. To qualify for this designation, our products are tested by Good Housekeeping to ensure compliance with its product safety and quality standards.

Employees

As of May 20, 2002, we employed 314 persons, all of whom are full-time employees. We employ 227 people in the United States, 16 in the United Kingdom, 51 in Hong Kong and 20 in China. We believe that we have good relationships with our employees. None of our employees is represented by a union.

Environmental Issues

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

Properties

Our principal executive offices occupy approximately 17,000 square feet of space in Malibu, California under a lease expiring on February 28, 2008. In addition, we have a lease, expiring August 31, 2007, for approximately 11,000 square feet of space in Malibu, California which contains our design offices. We lease showroom and office space of approximately 8,000 square feet at the International Toy Center in New York City. We also have leased office and showroom space of approximately 5,000 square feet in Hong Kong from which we oversee our China-based third-party manufacturing operations, 318,000 square feet of warehouse space in City of Industry, California, 10,000 square feet of office space in Surrey, England and approximately 100,000 square feet of warehouse space in New Brunswick, New Jersey. In connection with our acquisition of Toymax, we have assumed various leases for office, warehouse and showroom space. Relating to Toymax, we occupy approximately 27,000 square feet of office space in Plainview, New York under a lease expiring on April 30, 2004. We lease showroom and office space of approximately 14,500 square feet at the International Toy Center in New York City. We occupy approximately 25,000 square feet of office and warehouse space in Clinton, Connecticut under a lease expiring September 30, 2007 from which the operations of Toymax's *Go Fly a Kite* division are carried out. We also lease an additional 4,800 square feet of office space in Hong Kong. We believe that our facilities in the United States, Hong Kong and England are adequate for the reasonably foreseeable future.

Legal Matters

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

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INFORMATION CONCERNING TOYMAX

In this section, Information Concerning Toymax, references to we, us, our and the Company refer to Toymax and, where the context requires (such as when Toymax discusses its business, operations, properties or products) its subsidiaries.

Company Overview

Toymax is a consumer leisure products company that creates, designs and markets innovative and technologically advanced toys as well as other leisure products, which are sold in the United States (United States) and throughout the world. Toymax products promote fun and creative play, and are available under several brands: *Toymax*® toys, such as *R.A.D.[™] Robot*, *Mighty Mo[™]* vehicles, the award-winning *Laser Challenge[™]* brand, *Creepy Crawlers[™]* activities brand and *TMX RC[™]* radio control vehicles; *Funnoodle*® pool and water toys and accessories; and *Go Fly a Kite*® kites, banners, *WindWheels[™]*, weathervanes and wind chimes. Management believes that the major strengths of Toymax include its ability to develop and design new toys, such as *Singing Starz[™] Video Karaoke*; to identify and satisfy niche opportunities with brands such as *Mighty Mo* s; to extend existing core brands such as *Laser Challenge*; and to identify acquisitions, such as *Go Fly A Kite, Inc.* (GFK), and *Funnoodle Inc.* (Funnoodle), that further its plan to diversify into other leisure product categories and selling seasons.

In 1998, we began to take a number of important steps designed to better position us for future and balanced growth through the diversification of our product line. In December 1998, we acquired the business of *Go Fly A Kite, Inc.*, a leading developer and marketer of kites, windsocks, banners, mini flags and *WindWheels[™]*. In November 1999, we completed the acquisition of the *Funnoodle* product line. *Funnoodle Inc.* is a leader in the pool and backyard water recreational products categories.

We have incurred losses for the past three fiscal years. For the year ended March 31, 2002, we had net sales of \$94.9 million and a pre-tax loss from continuing operations of \$12.3 million, excluding restructuring charges of \$15.6 million, compared to a pre-tax loss from continuing operations of \$1.1 million in fiscal 2001. The restructuring charges relate to the acquisition of 66% of the outstanding common stock by JAKKS, by which we were reorganized. The restructuring charges include the write-off of assets that will not be utilized by the combined companies, the accrual of certain fees for the early terminations of certain agreements, severance payments and a one time charge for the changing of the terms of our stock options.

Our Internet address is www.toymax.com, which provides information about us and our products. The site also contains games, information about where to purchase our products, a strictly monitored kid s chat area and hotlinks to affiliated web sites, such as those of licensors, industry related parties and financial institutions. Our GFK, Monogram and Candy Planet affiliates have separate Internet addresses at www.goflykite.com, www.monintl.com, and www.candy-planet.com, respectively.

Notwithstanding the proposed merger, we believe that we are well positioned for future growth and have taken steps to return to profitability. The key elements of our growth strategy are to: (i) penetrate new markets, by product and customer expansion and diversification; (ii) smooth our revenue stream throughout the year by adding non-promotional items to our product portfolio; (iii) extend existing core brands; (iv) develop new core product categories; and (v) continue to license recognized brand names such as *Jeep*, *Chevrolet* and *Mercedes-Benz*.

Industry and Competition

We compete in several industries, with toys representing the largest portion. The majority of the toys sold in the United States are manufactured, either in whole or in part, overseas where labor rates are comparatively lower than in the United States. The largest foreign manufacturing market is the People s Republic of China (China), followed by Japan and Taiwan. Such operations require greater lead times than domestic manufacturing operations and also result in greater shipping costs, particularly for larger toys. The design, production and sale of toy products in the United States and throughout most of the world are subject to various regulations.

Toy manufacturers sell their products either directly to retailers or to wholesalers who carry the product lines of many manufacturers. There are thousands of retail outlets in the United States which sell toys and

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games. These outlets include: mass merchandisers, small independent toy stores, gift and novelty shops, grocery and drug chains, warehouse clubs, e-retailers and mail order catalogs. Despite the broad number of toy outlets, retail toy sales have been increasingly generated by a small number of large chains, such as Toys R Us, Wal-Mart, Kay-Bee, Kmart and Target. Despite this consolidation in recent years, both at the retail and manufacturing level, many small and mid-sized companies continue to compete in the design and development of new toys, the procurement of licenses, the improvement and expansion of previously introduced products and product lines and the marketing and distribution of toy products. This has resulted in an increased reliance among retailers on the large toy companies because of their financial stability and ability to support products through advertising and promotion and to distribute products on a national basis. Such consolidation may have a negative effect on small and mid-sized toy companies, such as Toymax.

The toy industry is highly competitive. Competition within the industry is based on consumer preferences, order fulfillment, pricing and new product development. In recent years, the toy industry has experienced rapid consolidation. We compete with many toy companies that have greater financial resources, greater name recognition, larger sales, marketing and product development departments and greater economies of scale. Due to the low barriers to entry into the toy industry, we also compete with smaller domestic and foreign toy manufacturers, importers and marketers.

We chose to expand into new leisure product categories in order to decrease reliance on the highly competitive toy industry. In this regard we acquired GFK and Funnoodle.

GFK competes in the kite, flag/windsock and lawn ornament markets in which it is estimated to have a large share. There are numerous specialty kite manufacturers, which are characterized by very small volume and higher pricing, and several larger companies distributing banners and lawn ornaments. Funnoodle competes primarily in the water and pool toy market, in which it is a leader.

Seasonality and Backlog

Sales of toy products are seasonal, with the majority of retail sales occurring in the third and fourth calendar quarters. We have taken steps to reduce our dependence on these highly seasonal products, including the acquisitions of GFK and Funnoodle, which are largely sold in the first and second calendar quarters. While we have taken these steps to level sales over the entire year, sales are expected to remain heavily influenced by the seasonality of our toy products.

The result of these seasonal patterns is that operating results and demand for working capital vary significantly by quarter and net losses may be expected in the first and last quarters of the fiscal year for the foreseeable future. Orders placed with us for shipment are cancelable until the date of shipment. The combination of seasonal demand and the potential for order cancellation makes accurate forecasting of future sales difficult and causes us to believe that backlog may not be an accurate indicator of our future sales. Similarly, financial results for a particular quarter may not be indicative of results for the entire year.

Products

Our existing product lines and calendar 2002 product introductions and extensions fall into six categories: Action Toys, Spring/ Summer, Children's Activity Toys, Girls Toys, Vehicles and Electronics.

Action Toys

The *Laser Challenge* brand was introduced in 1996, and continues to be the top-selling laser game. The *Laser Challenge* system uses an advanced infrared light technology, which is effective at longer firing distances than competing systems. We continue to redesign and extend the *Laser Challenge* brand, a strategy which supports our expectation that *Laser Challenge* will be marketed over a long period of time. In fiscal 2002, we introduced *Laser Challenge Gotcha Extreme Mini Mayhem*[™], a compact sized version of the Extreme segment first introduced in 2000 as *Gotcha Extreme*[™] and extended in 2001 as *Radar Extreme*[™]. In fiscal 2002, we will be launching *Virtual Paintball*[™], which combines the technology and proven play pattern of *Laser Challenge* with the excitement of paintball, one of the fastest growing alternative sports in the United States.

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In fiscal 2003, we intend to introduce a new and improved *N.R.G. Paintball*TM for tween consumers who may be too mature to play *Laser Challenge* but are too young to be playing real paintball. *N.R.G. Paintball* includes a blaster which fires totally safe blobs of paint.

Spring/Summer

We entered the Spring/ Summer seasonal business in fiscal 1999 with the acquisition of GFK, whose product line includes youth and adult kites and a wide array of decorative flags, windsocks, door banners, mini flags and the WindWheels line of colorful lawn ornaments. In fiscal 2001, a series of kites designed by Joel K. Scholz, a renowned designer, was added to the GFK product line. In addition, the lawn ornament line was expanded to include weathervanes and wind chimes. In fiscal 2000, we expanded our seasonal offerings in this category with the acquisition of the Funnoodle product line. Funnoodle is a highly recognized brand of pool and recreational products. The product line's most visible item, the basic Funnoodle, is a 5-foot long, brightly colored, floating foam tube that has been one of the best selling summer toys in the United States since its introduction in 1994. The Funnoodle product line continues to be expanded with the introduction of products such as pool floats, swim rings, lawn sprinklers, and tumbling and exercise mats.

Children's Activity Toys

We have historically been a significant factor in Children's Activity Toys and reestablished ourself in fiscal 2001 with the successful re-introduction of the Creepy Crawlers® brand. We are extending the brand in fiscal 2002 to include *Creepie People*® and *Graveyard Ghoulies*sm *Creator Paks*®, which are mold and play sets. In fiscal 2002, we are also re-introducing the *Dollymaker*TM *Fashion Maker* consisting of a molding oven, molds and *Glamour-Goop*TM compound whereby girls can design and make mini dolls and fashions in an endless variety of designs and colors.

Girls' Toys

Our Girls' Toys product line includes the *Beauty Works*TM brand of role play activities such as *Nail Salon* and *Fragrance Designer*TM; the *Jam Rope*TM, a musical jump rope; and the *Talking Tina*® brand of fashion dolls and soft furniture which fits any 11 1/2" fashion doll.

Vehicles

In fiscal 2003, we intend to introduce the *TMX RC*sm *Equalizer*sm a radio control vehicle with X-Tech Wheels technology, which allows the vehicle to slide across the floor and to perform a series of exciting stunts.

We introduced the *Mighty Mo*TM brand of innovative vehicles late in fiscal 1998. The first product utilized an infrared key chain controller to activate these light, sound and motion vehicles and is marketed in our patented try me package. In fiscal 2000, the *Mighty Mo's Infrared Vehicles* category was extended to include specialty vehicles with unique, stunt actions; this line will expand in fiscal 2002 to include a rollover car and a wheelie quad. The *Mighty Mo's* brand also includes monster trucks and a line of flywheel powered endurance vehicles. We currently have license arrangements to produce *Mighty Mo's* versions of *Chevrolet*, *Jeep*, *Dodge*, *Mercedes*, *BMW*, *Porsche*, *Audi*, *Porsche*, *Humvee* and *Ford* styles.

Mighty Mo's Jr., the pre-school segment of our vehicle business, is a line of products with moving eyes and mouth, and speech and motion capabilities. This segment includes *Preston Pushbutton*sm, a battery operated programmable robot which walks, talks and has light-up eyes and mouth; *Denny the Dump Truck*sm and *Dougie Chug-Along*sm, which are infrared remote control vehicles; and *Rick and Robbie Racers*sm, which are infrared remote vehicles which interact with each other as they race.

Electronics

We continue to successfully manage our key brands in this category while expanding our popular T.V. games line of palm sized controllers that plug directly into a television set and includes 10 classic video games licensed from Activision. New for fiscal 2003, we plan to ship Atari T.V. games utilizing a joystick that

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connects directly to the television. The controller is completely portable and does not require a console. Additionally in the current fiscal year, we have introduced *Singing Starz™ Video Karaoke*, the first home karaoke player with a built in video camera that puts you on the television screen.

Product Design and Development

We have built a knowledgeable in-house product development team and a network of independent designers to create new products. Employees in the Marketing and Research and Development departments coordinate efforts to design and develop the majority of our toy and innovative new product lines. Current technologies have been utilized to redesign, redevelop and extend major brands and products from the past, *E.G. Creepy Crawlers* and *Popples*. GFK strives to maintain a product line that displays cutting edge graphics and reflects current cultural trends. Funnoodle has sought to develop new products largely by applying extruded foam manufacturing techniques and designs to traditionally successful products. Our success is dependent on our ability to continue these activities. Our sponsored research and development expenses for fiscal 2000, 2001 and 2002 were \$4.2 million, \$3.4 million and \$3.7 million, respectively.

We continually evaluate new product ideas generated by a number of outside designers to maintain access to a wide range of development talent. When a product is developed based on the idea presented by an independent designer, we typically enter into a royalty agreement with the designer.

Licensing

Licensing is a major influence on the leisure products industry affecting virtually all product categories. Although historically we have not significantly relied on entertainment-related licenses, we have marketed and continue to market products based on licensed popular characters and trademarks from major entertainment companies and other widely known corporate trademarks. This allows us to benefit from pre-existing awareness of a character or brand and from the marketing efforts and prior goodwill attached to it. A principal licensor is *Activision©*, as well as many of the world's leading auto makers for use of their most popular model names on our *Mighty Mo's* vehicle line.

In return for the use of the licensed character or brand name, we typically pay licensing fees based upon net sales from products marketed under the subject license. Furthermore, the acquisition of a license generally involves the payment of non-refundable minimum royalty payments.

Sales and Distribution

We operate in two reporting segments: (i) Toymax Brands (primarily consisting of sales activities conducted through Toymax Inc. (*TMI*); and (ii) Toymax (H.K.) Limited (*THK*) and Toymax Enterprises (consisting of GFK and Funnoodle).

Sales conducted by *TMI* consist of sales of our promotional product lines to primarily United States customers pursuant to customer purchase orders. Customers purchasing products on this basis include Toys 'R Us, Kay-Bee Toys, Costco Wholesale, Wal-Mart Stores, Inc., and Target Stores, Inc. Sales conducted by *THK* consist of sales on a free on board (*FOB*) Hong Kong basis which are generally based on letters of credit, and include sales of primarily lower priced basic products to the United States and international retailers including Toys 'R Us International, Index (U.K.), Wal-Mart (Canada) and sales of our promotional product lines to approximately 50 international distributors.

Funnoodle and GFK sales are made primarily to United States customers, on standard credit terms, pursuant to customer purchase orders. Sales conducted by GFK are on a COD, prepaid or credit card basis for those customers who do not qualify for credit terms. Extended credit terms are periodically offered to qualifying customers. To a lesser extent, the GFK operations sell to customers internationally. These international customers generally purchase products utilizing a direct letter of credit and shipments are made directly from the overseas factory on a *FOB* Hong Kong basis.

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Our products are sold in over 45 countries around the world. The following table depicts our net sales in these two segments for the last three fiscal years:

Sales

	Fiscal Year		
	2000	2001	2002
	(In thousands)		
Toymax Brands	\$ 91,062	\$ 85,496	\$65,568
Toymax Enterprises	18,803	29,655	29,284
Net Sales	\$ 109,865	\$ 115,151	\$94,852

Toymax Brands Sales. This segment's United States sales activities are conducted through its nationwide network of independent sales representatives, an in-house sales staff and, with respect to certain major accounts, by senior management. Comprised of more than 50 sales executives and 14 sales organizations at March 31, 2002, this sales network maintains close customer relationships, develops new accounts and presents new products to its established customers. Our leading United States customers (not including THK sales to the United States) include major toy retailers, mass merchandisers, department stores and catalog companies. TMI sales constituted 55.3%, 41.0% and 37.5% of consolidated net sales in fiscal 2000, 2001 and 2002, respectively.

THK sales are comprised of sales to international retailers and distributors and to certain United States retailers. Such sales are conducted on a FOB Hong Kong basis and generally require either the opening of a letter of credit or are backed by credit insurance. Since our inception in 1990, we have emphasized international sales, and today our products are sold in over 50 countries worldwide. Our international sales network consists of approximately 50 international distributors and 11 international sales representative organizations. In fiscal 2000, 2001 and 2002, Toymax HK sales accounted for 27.5%, 26.3% and 31.6% of net sales, respectively.

Toymax Enterprises Sales. GFK sales are comprised primarily of sales to kite stores, hobby stores, gift, specialty and bookstores and toy stores. Products are also distributed by mail order catalogs, such as L.L. Bean, sporting goods stores, and other mass-market retailers. In addition to our in-house sales and customer service staff, GFK employs a network of 96 independent sales representatives. GFK products are currently sold to over 20,000 customers.

Funnoodle products were sold through the in-house sales staff of the prior owner under a servicing agreement and a network of sales representative organizations primarily to the largest mass-market chains in the United States. The servicing agreement terminated effective August 2001, and, thereafter, such activities have been performed by our personnel. Historically, domestic sales have accounted for substantially all of Funnoodle's sales.

Customers

Only Toys 'R Us and WalMart each accounted for more than 10% of invoiced sales during fiscal 2002.

Marketing

We employ a variety of methods to market our new and existing products. New toys, existing toys and line extensions are marketed primarily by members of our executive and sales management at our showrooms in Hong Kong, New York and Dallas during major international toy shows. We are also represented at additional toy and kite shows both domestically and internationally.

Product packaging and placement is a large part of our overall marketing strategy. Our products are sold in brightly colored, eye-catching packages with strong brand identity. All packaging must meet strict guidelines for communication effectiveness and for the ability to stand out from the competitive clutter. We

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utilize try me packaging whenever possible. We also employ traditional marketing methods such as couponing, in-store demonstrations adjacent to our toy products, and public relations.

We currently allocate a significant portion of our marketing resources to television advertising, which we believe is the most cost-effective way to reach our primary target audience of children. The commercials are run on national television and in local spot television markets to support the promotional efforts and distribution patterns of our key retailers. We use other media, such as print and on-line advertising, when appropriate.

Our GFK subsidiary primarily markets its products through its annual catalogs. GFK's and Funnoodle's other marketing channels include trade shows, seasonal brochures, advertisements in trade magazines, personal sales calls, co-op advertising and telemarketing.

Purchasing and Manufacturing

TMI and THK currently contract for all of their manufacturing requirements. We believe that this practice provides us with the most efficient use of our capital at this time. Tai Nam Industrial Company Limited (Tai Nam), which is based in Hong Kong, served as our purchasing agent for our core toy business pursuant to an agency agreement (the Agency Agreement) which terminated March 11, 2002, between Tai Nam and Toymax NY. Tai Nam is owned by David Chu, our former Chairman and principal stockholder. As our purchasing agent, Tai Nam arranged for the manufacturing of our products based on purchase orders placed with Tai Nam by us. In addition, Tai Nam handled all shipping documents, letters of credit, bills and payments, served as liaison with other vendors and performed quality control functions. For these services, Tai Nam generally received an agency fee of 7% of the gross invoiced value of products purchased by us. Pursuant to the Agency Agreement, we purchase products from Tai Nam at Yantian (China) FOB prices. We paid all expenses associated with the making of molds for new products. Pursuant to the Agency Agreement, we owned the tooling and molds for our products. Effective March 12, 2002, we perform these functions directly.

As purchasing agent, Tai Nam arranged for the manufacturing of our toy products based on purchase orders placed with Tai Nam by us. The majority of such products have been and are currently manufactured by Jauntway Investments Limited (Jauntway). Jauntway is an OEM toy manufacturer with two ISO certified manufacturing facilities in the southern portion of China. Jauntway is also owned by Mr. Chu. Since our inception, Jauntway has been our single most important manufacturer and we have been Jauntway's leading customer. In fiscal 2001 and 2002, approximately 60% and 56%, respectively, of all our products were manufactured by Jauntway (some utilizing subcontractors). We entered into a manufacturing agreement with Tai Nam and Jauntway dated September 22, 1997. Effective March 11, 2002, this agreement was terminated and replaced by a new three-year agreement with standard manufacturing terms.

Manufacturing commitments are made on a purchase order basis. We base our production schedules on customer estimates and orders, historical trends, the results of market research and current market information. We closely monitor market activity and adjust production schedules accordingly. We utilize Electronic Data Interchange programs maintained by certain of our largest customers, which allows us to monitor actual store sales and inventories, and thereby to schedule our production to meet anticipated re-orders.

Jauntway also obtains products or components from other independent manufacturers located principally in the southern portion of China, particularly during peak production periods. These suppliers are selected based on the quality of their products, prices and service.

The basic raw materials used by Jauntway in manufacturing our toy products are petrochemical resin derivatives. Integrated circuits have also become an important component of our technologically advanced toys. Costs of petrochemical derivatives and integrated circuits are affected by demand and supply as well as the value of the United States dollar in relation to foreign currencies, and have been subject to volatility in recent years. There can be no assurance as to the timing or extent to which we will be able to pass on any raw material or component price increases to our customers.

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In addition, a large portion of Jauntway's petrochemical derivatives and integrated circuits are imported from Taiwan via Hong Kong. Any disruption of trade between Taiwan and China may have a significant adverse effect on Jauntway's operations and, therefore, could have a significant adverse effect on our results of operations.

GFK utilizes four manufacturers, three in China and one in Taiwan, to make approximately 85% of its products, based upon its product specifications. Tai Nam acted as its agent in Hong Kong for all products produced in China pursuant to an agency agreement dated September 1, 2000. This agreement was also terminated on March 11, 2002. Manufacturing commitments are made on a purchase order basis. GFK typically has an annual agreement with each supplier, which is cancelable at any time. The suppliers are paid primarily on terms, and occasionally in cash or on terms with a letter of credit.

The bulk of Fun noodle's products are manufactured through an exclusive outsourcing arrangement with two United States-based manufacturers. This arrangement allows us to minimize capital investments in tools and fixtures, reduces our working capital requirements and eliminates the need for warehousing facilities. The remainder of Fun noodle's products are manufactured through outsourcing arrangements with various other contract manufacturers. Although Tai Nam and Fun noodle did not currently execute an agency agreement, Fun noodle and Tai Nam do have an existing relationship, whereby Tai Nam was acting as a purchasing agent for Fun noodle. Effective March 11, 2002, this arrangement was terminated.

Government and Industry Regulation

We are subject to the provisions of the Federal Hazardous Substances Act, the Federal Consumer Product Safety Act, the Flammable Fabrics Act and the regulations promulgated under each such act. Such acts empower the Consumer Product Safety Commission (CPSC) to protect the public from hazardous goods. The CPSC has the authority to exclude from the market goods that are found to be hazardous and requires a manufacturer to repurchase such goods under certain circumstances. We send samples of all of our marketed products to independent laboratories to test for compliance with the CPSC's rules and regulations, as well as with the product standards of the Toy Manufacturers of America, Inc. (TMA). We are not required to comply with the product standards of the TMA, but do so voluntarily. Similar consumer protection laws exist in state and local jurisdictions within the United States, as well as certain foreign countries. We design our products to exceed the highest safety standards imposed or recommended either by government or industry regulatory authorities.

We are not required by the United States government to obtain any quality or safety approvals prior to sales in the United States. However, prior to shipment, our products are tested by independent laboratories on behalf of us and major retailers. We, however, are required to have and have obtained European Community (CE) approval, European's toy safety standard, for our products sold in Europe.

Candy Planet's products are subject to inspection by the Food and Drug Administration and various other governmental agencies, and must comply with regulations under the Federal Food, Drug and Cosmetic Act and with various comparable state statutes regulating the manufacturing and marketing of food products.

Our advertising is subject to the Children's Television Act of 1990 and the rules promulgated by the United States Federal Communications Commission as well as the laws of certain countries that place certain limitations on television commercials during children's programming. We are subject to various other federal, state and local laws and regulations applicable to our business and believe that we are in substantial compliance with these laws and regulations.

Tariffs and Duties

In December 1994, the United States approved a trade agreement pursuant to which import duties on toys, games, dolls and other specified items were eliminated effective January 1, 1995 from products manufactured in all most favored nation countries (including China). The imposition or increases in quotas, duties, tariffs or other changes or trade restrictions, which may be imposed in the future, would have a material adverse effect on our financial condition, operating results or ability to import products. In particular,

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our costs would be increased if China's most favored nation status was revoked. In October 2000, the United States Congress approved permanent normal trade relations status for China, which was intended to eliminate the United States' annual review of China's trade relations status. China has signed similar agreements with the European Union and other World Trade Organization members in order to gain support for its entry into the World Trade Organization, although such entry is not guaranteed at this time. However, the imposition of trade sanctions by the United States or the European Union, or the loss of permanent normal trade relations status by China could result in substantial duties on the cost of toy, candy and kite related products manufactured in China and imported into the United States and Europe.

In addition, several of our operations and our primary agent, Tai Nam, are based in Hong Kong, formerly a British Crown Colony. On July 1, 1997, sovereignty of Hong Kong reverted back to China. To date, this change has not impacted our business.

Patents, Trademarks and Proprietary Technology

We own or control numerous patents and trademarks, which limit the ability of third parties to directly compete with us in our major brands. Key patents cover the *Creepy Crawlers Workshop* and the *Creature Creator* ovens, as well as aspects of the *Laser Challenge* system and infrared remote control vehicles. Key trademarks include *Creepy Crawlers*, *Plasti-Goop*, *Laser Challenge*, *Arcadia*, *Mighty Monsters*, *R.A.D!*, *Funnoodle*, *WindWheels* and *WindDesigns*.

Certain of our product lines also incorporate concepts or technologies created by outside designers, some of which are patented. In addition, many of our products incorporate intellectual property rights, such as characters or brand names that are proprietary to third parties. We typically enter into a license agreement to acquire the rights to the concepts, technologies or other rights for use with our products. These license agreements typically provide for the retention of ownership of the technology, concepts or other intellectual property by the licensor and the payment of a royalty to the licensor. Such royalty payments generally are based on the net sales of the licensed product for the duration of the license and, depending on the revenues generated from the sale of the licensed product, may be substantial. In addition, such agreements often provide for an advance payment of royalties and may require us to guarantee payment of a minimum level of royalties that may exceed the actual royalties generated from net sales of the licensed product. Some of these agreements have fixed terms and may need to be renewed or renegotiated prior to their expiration in order for us to continue to sell the licensed product.

Inflation

We do not believe that the relatively moderate rates of inflation in the United States in recent years have had a significant effect on our operations. Although rates of inflation in Asia have periodically resulted in an increase in the cost of manufacturing our products and such increased costs have had a modest impact on margins, we do not believe that inflation in Asia has had a materially adverse effect on our results of operations. We will continue our policy of monitoring costs and adjusting prices accordingly.

Employees

As of May 20, 2002, we had 66 employees, substantially all of which were full time. We are not subject to any collective bargaining agreements. We believe that our relationship with our employees is satisfactory.

Legal Proceedings

In March 2001, George G. Grillo, a product consultant, filed a complaint against us as well as against Monogram International, Inc., Monogram Products (H.K.) Ltd., Steven Lebensfeld and David Ki Kwan Chu, in the Supreme Court of the State of New York, County of Suffolk, alleging breach of express and implied contracts, violation of New York State Labor Law, unjust enrichment and unfair competition. The plaintiff seeks monetary damages totaling \$280,000 in compensatory damages, \$2,500,000 in exemplary damages plus costs and attorney's fees. We intend to defend the action vigorously, as well as file

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counterclaims, and do not believe that the lawsuit will have a material adverse effect on our financial position or results of operations, however, there can be no assurance of the outcome of the lawsuit.

We are involved in various other legal proceedings and claims incident to the normal conduct of our business. We believe that such legal proceedings and claims, individually and in the aggregate, are not likely to have a material adverse effect on our financial position or results of operations.

Our tax returns for 1992 through 2000 are under examination by the Internal Revenue Service and the statute has been extended through December 2002. We cannot predict at this time what the outcome of the examination will be or the impact, if any, on our results of operations.

Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended March 31, 2002.

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF JAKKS**

The information contained in JAKKS' Annual Report on Form 10-K for the fiscal year ended December 31, 2001, as amended, and in JAKKS' quarterly report on Form 10-Q for the quarter ended March 31, 2002 under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations is incorporated herein by reference.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF TOYMAX

Toymax and its subsidiaries is a consumer leisure products company that creates, designs and markets innovative and technologically advanced toys as well as other leisure products, which are sold in the United States and throughout the world. Toymax products promote fun and creative play, and are available under several brands: Toymax® toys, such as *R.A.D.*™ *Robot*, *Mighty Mo*™ vehicles, the award-winning *Laser Challenge*™ brand, *Creepy Crawlers*™ activities brand and *TMX RC*™ radio control vehicles; *Funnoodle*® pool and water toys and accessories; *Go Fly a Kite*® kites, banners, *WindWheels*™, weathervanes and wind chimes.

Results of Operations

The following table sets forth the percentages of net sales of certain income and expense items of Toymax for the last three fiscal years:

	Percentage of Net Sales Year Ended March 31,		
	2000	2001	2002
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	68.7	63.2	75.3
Gross profit	31.3	36.8	24.7
Selling and administrative expenses	34.8	32.8	52.5
Operating income (loss)	(3.5)	4.0	(27.8)
Income (loss) of joint venture	0.3	(2.2)	
Other income (expense), net	0.1	(0.1)	(0.6)
Interest income (expense), net	(0.5)	(0.8)	(1.0)
Provision (benefit) for income taxes	(2.0)	(0.9)	(7.9)
Income (loss) from continuing operations	(1.6)		(21.5)
Loss from discontinued operations	(0.1)	(8.5)	(3.6)
Net loss	(1.7)%	(8.5)%	(25.1)%

For purposes of the fiscal year comparisons which follow, figures referring to the financial performance of Toymax Inc. (TMI) and Toymax (H.K.) Limited (THK), are referred to as Toymax Brands and those referring to the performance of Go Fly a Kite, Inc. (GFK), and the Funnoodle product line (Funnoodle) are referred to as Toymax Enterprises .

Recent Developments:

On March 11, 2002, JAKKS acquired approximately a 66.8% controlling interest in Toymax. In connection with this acquisition by JAKKS, Toymax developed and began to implement a restructuring plan to maximize its future operating results. The fiscal 2002 results reflect this restructuring plan. As part of this plan Toymax has determined not to continue the operations of Maxverse Interactive, Inc. (Maxverse) thus, Maxverse is treated as a discontinued operation along with Monogram International, Inc. and Candy Plant which were both sold effective November 30, 2001.

Table of Contents**Fiscal Year Ended March 31, 2002 Compared With Fiscal Year Ended March 31, 2001**

Net Sales. Net sales for fiscal 2002 decreased \$20.3 million, or 17.6%, to \$94.9 million from \$115.2 million in fiscal 2001.

Net sales of Toymax Brands decreased 23.3% to \$65.6 million, or 69.1% of total net sales, from \$85.5 million, or 74.2% of total net sales, in fiscal 2001. The decrease in net sales was primarily due to a decrease in sales of IR and programmable vehicles and an increase in sales discounts and allowances.

Net sales of Toymax Enterprises decreased 1.3% to \$29.3 million, or 30.9% of total net sales, from \$29.7 million, or 25.8% of total net sales, in fiscal 2001. The decrease in net sales was primarily the result of a decrease in the selling prices of pool and backyard water recreational products offset somewhat by an increase in kites and windwheels.

Gross Profit. Gross profit for fiscal 2002 decreased by \$19.0 million, or 44.7%, to \$23.4 million from \$42.4 million for fiscal 2001, with a decrease in gross margin from 36.8% of net sales for fiscal 2001 to 24.7% in fiscal 2002.

The gross profit for Toymax Brands decreased by \$16.9 million, or 53.3%, to \$14.8 million, or 22.7% of net sales, from \$31.8 million, or 37.2% of net sales for fiscal 2001. The decrease in the gross profit and margin was primarily the result of the decrease in sales volume, along with the increase in sales discounts and allowances.

The gross profit for Toymax Enterprises decreased \$2.0 million, or 19.0%, to \$8.6 million, or 29.3% of net sales, from \$10.6 million, or 35.7% of net sales for fiscal 2001. The decrease in both gross profit and margin was primarily the result of reduced selling prices of Toymax's pool and backyard water recreation products and to a lesser extent margins realized by GFK primarily as a result of product mix.

Selling and Administrative Expenses. Selling and administrative expenses for fiscal 2002 increased by \$12.0 million, or 31.9%, to \$49.8 million, or 52.5% of net sales, from \$37.7 million, or 32.8% of net sales, for fiscal 2001. Selling and administrative expenses of Toymax Brands for fiscal 2002 increased by \$13.5 million, or 44.1%, to \$44.1 million, or 67.2% of net sales, from \$30.6 million, or 35.8% of net sales, for fiscal 2001. This increase was a result of the restructuring charge of \$15.6 million relating to the acquisition of approximately 66.8% of Toymax by JAKKS. This charge includes a \$7.1 million write-off of certain assets which will not be utilized by the combined companies, as well as severance accruals of \$1.4 million, termination costs of certain agreements of \$2.2 million, professional fees and other charges of \$2.2 million and a one time charge of \$2.7 million for changing the terms of the existing stock options. This charge was offset by decreases in advertising and royalties related to the decrease in sales. Selling and administrative expenses of Toymax Enterprises for fiscal 2002 decreased \$1.5 million, or 20.0%, to \$5.6 million, or 19.4% of net sales, from \$7.1 million, or 23.9% of net sales, for fiscal 2001. The decrease was primarily the result of a decrease in amortization of goodwill and consulting fees offset by the restructuring charge.

Operating Income (Loss). As a result of the foregoing, fiscal 2002 had a loss of \$26.3 million compared to income of \$4.6 million in fiscal 2001. Toymax Brands incurred an operating loss of \$29.2 million in fiscal 2002 compared to operating income of \$1.2 million in fiscal 2001. Toymax Enterprises had operating income of \$2.9 million in fiscal 2002, compared to operating income of \$3.5 million in fiscal 2001.

Other Income (Expense), Net. Net other expense decreased from \$2.8 million, in fiscal 2001, to \$0.6 million, in fiscal 2002. This decrease was the result of the write-off of advances and the investment in the Yaboom Limited joint venture of \$1.9 million and the equity in the loss of the joint venture of \$0.7 million in fiscal 2001. In fiscal 2002, there were no such charges.

Interest Income (Expense), Net. Net interest expense for fiscal 2002 increased \$0.1 million, or 10.5%, to \$1.0 million from \$0.9 million in fiscal 2001. The increase in net interest expense was primarily due to increased bank borrowings in fiscal 2002.

Income (Loss) Before Income Taxes. Loss before income taxes for fiscal 2002 was \$27.9 million, compared to income before income taxes of \$1.1 million in fiscal 2001. In fiscal 2002, Toymax Brands had a

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loss before income taxes of \$30.6 million, compared to a loss of \$2.3 million in fiscal 2001. Toymax Enterprises had income before taxes of \$2.7 million in fiscal 2002, compared to income before income taxes of \$3.4 million in fiscal 2001.

Provision (Benefit) For Income Taxes. The effective rate for fiscal 2002 decreased to a benefit of 26.9% from an effective rate of 97.4% for fiscal 2001. The change in the effective rate is primarily related to the write-off of the investment in and advances to the joint venture in fiscal 2001 which did not result in any income tax benefit.

Income (Loss) From Continuing Operations. Loss from continuing operations was \$20.4 million in fiscal 2002, compared to a nominal profit in fiscal 2001.

Loss From Discontinued Operations. The loss from discontinued operations decreased by \$6.3 million, to a net loss of \$3.4 million in fiscal 2002, compared to a loss of \$9.8 million in fiscal 2001.

Net Loss. As a result of the foregoing, the net loss for fiscal 2002 increased \$14.1 million to \$23.9 million (\$1.97 per diluted share) from \$9.7 million (\$0.86 per diluted share) for fiscal 2001.

Fiscal Year Ended March 31, 2001 Compared with Fiscal Year Ended March 31, 2000

Net Sales. Net sales for fiscal 2001 increased \$5.3 million, or 5.0%, to \$115.2 million from \$109.9 million in fiscal 2000.

Net sales of Toymax Brands decreased 6.1% to \$85.5 million, or 74.2% of total net sales, from \$91.1 million, or 82.9% of total net sales, in fiscal 2000. The decrease in net sales was primarily due to a decrease in the sales of electronic toys that was partially offset by an increase in sales of infrared, radio-controlled and programmable vehicles.

Net sales of Toymax Enterprises increased 57.7% to \$29.7 million, or 25.8% of total net sales, from \$18.8 million, or 17.1% of total net sales, in fiscal 2000. The increase was primarily the result of the incorporation of a full year's net sales of Fun noodle, which was acquired in November 1999.

Gross Profit. Gross profit for fiscal 2001 increased by \$8.0 million, or 23.4%, to \$42.4 million from \$34.3 million the gross margin also increased from 31.3% in fiscal 2000 to 36.8% in fiscal 2001.

The gross profit of Toymax Brands increased by \$4.1 million, or 14.6%, to \$31.8 million, or 37.2% of net sales, from \$27.7 million, or 30.5% of net sales, for fiscal 2000. The increase in gross margin was primarily attributable to the decrease in markdowns, allowances and other promotional costs, which were adversely affected by the product recall in the prior year.

The gross profit of Toymax Enterprises increased by \$4.0 million, or 60.1%, to \$10.6 million, or 35.7% of net sales, from \$6.6 million, or 35.2% of net sales, for fiscal 2000. The increase in gross profit was primarily due to a full year's net sales of Fun noodle combined with better pricing.

Selling and Administrative Expenses. Selling and administrative expenses for fiscal 2001 decreased by \$0.5 million, or 1.3%, to \$37.7 million, or 32.8% of net sales, from \$38.2 million, or 34.8% of net sales, for fiscal 2000. Selling and administrative expenses of Toymax Brands for fiscal 2001 decreased by \$3.1 million, or 9.2%, to \$30.6 million, or 35.8% of net sales, from \$33.7 million, or 37.0% of net sales, for fiscal 2000. The decrease reflects a decrease in advertising costs of almost 30%, which was partially offset by higher royalties and research and development costs. Selling and administrative expenses of Toymax Enterprises were \$7.1 million, or 23.9% of net sales, as compared to \$4.2 million, or 22.4% of net sales in fiscal 2000. Selling and administrative expenses for Toymax Enterprises in fiscal 2001 reflect a full year's operating expenses of Fun noodle.

Operating Income (Loss). As a result of the foregoing, the operating income for fiscal 2001 increased by \$8.5 million, or 220.4%, to \$4.7 million from an operating loss of \$3.9 million for fiscal 2000. Operating income for Toymax Brands increased by \$7.4 million, or 118.4%, to \$1.2 million from an operating loss of \$6.3 million for fiscal 2000. Operating income for Toymax Enterprises increased by \$1.1 million to \$3.5 million from operating income of \$2.5 million in fiscal 2000.

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Other Income (Expense), Net. In fiscal 2001, Toymax recorded a write-off of its advances and investment in the Yaboom joint venture of \$1.9 million. Including this charge and the increase in the Company's equity in the operating loss of the Yaboom venture in fiscal 2001, net other income for fiscal 2001 decreased by \$3.2 million from \$0.4 million in fiscal 2000 to net other expense of \$2.8 million in fiscal 2001.

Interest Income (Expense), Net. Net interest expense for fiscal 2001 increased by \$0.4 million, or 65.1%, to \$0.9 million from \$0.5 million in fiscal 2000. The increase in net interest expense was primarily due to the use of working capital funds to finance Toymax's acquisitions and operations.

Income (Loss) Before Income Taxes. Income before taxes for fiscal 2001 increased by \$5.1 million to \$1.1 million, compared to a loss before taxes of \$4.0 million for fiscal 2000. Income before taxes for Toymax Brands increased by \$4.0 million, or 63.8%, to a loss before taxes of \$2.3 million, compared to a loss before taxes of \$6.3 million for fiscal 2000. Income before taxes for Toymax Enterprises increased by \$1.1 million to \$3.4 million, compared to income before taxes of \$2.3 million in fiscal 2000.

Provision (Benefit) for Income Taxes. The effective tax rate for fiscal 2001 increased to 97.4% from a benefit of 55.5% for fiscal 2000. The increase in the effective tax rate was primarily a result of the geographic distribution of income, as well as the reduction in the tax benefit attributable to the write-off of the investment in and advances to the joint venture.

Income (Loss) From Continuing Operations. Income from continuing operations increased from a loss of \$1.8 million in fiscal 2000, compared to break even in fiscal 2001.

Loss From Discontinued Operations. The loss from discontinued operations increased by \$9.7 million, to a net loss of \$9.8 million, in fiscal 2001, from a loss of \$0.1 million in fiscal 2000.

Net Income (Loss). As a result of the foregoing, the net loss for fiscal 2001 increased \$7.8 million to \$9.7 million (\$0.86 per diluted share) from \$1.9 million (\$0.18 per diluted share) for fiscal 2000.

Liquidity and Capital Resources

Toymax historically has funded its operations and capital requirements from cash generated from operations and from financing activities. During fiscal 2002, cash and cash equivalents decreased \$0.8 million to \$0.9 million. The Company's operating activities provided net cash of \$2.3 million, which was primarily due to net loss offset by net non-cash charges of \$0.4 million, an increase in net operating assets of \$25.8 million. Net operating assets included an increase of \$13.2 million in accounts payable and accrued expenses, which was offset by a decrease in due to affiliates of \$6.3 million and decreases of \$5.0 million from factor and accounts receivable, \$1.8 million in inventories and other assets of \$12.0 million.

Investing activities used \$4.7 million in net cash as compared to \$5.6 million in fiscal 2001. Investing activities in the current year consisted of \$3.5 million of capital expenditures and the payment of \$1.2 million of additional purchase price for the Funnoodle product line. Investing activities in the prior year included \$2.6 million related to business acquisitions and \$3.0 million for capital expenditures. Capital expenditures in both periods consist principally of the purchase of tooling for new products and equipment.

Financing activities provided \$1.6 million in net cash, primarily due from funding received by JAKKS of \$11.3 million substantially offset by the repayment of \$10.0 million of bank debt. Toymax also received \$0.2 million from the exercise of stock options.

In March 2002, Toymax's \$25.0 million bank facility was paid off in full and terminated.

In April 2002, Toymax (H.K.) Limited subsidiary terminated its credit facility with The Hongkong and Shanghai Banking Corporation Limited. The facility had provided for an import line of credit of \$500,000 and the acceptance of an export letter of credit guarantee for documents presented with discrepancies of up to approximately \$2.3 million.

Toymax expects to fund its near-term and long-term cash requirements from a combination of existing cash balances, cash flow from operations and borrowings from JAKKS. There can be no assurance that sufficient cash flows from operations will materialize or that financing from JAKKS or under a credit facility

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will be available in amounts, at rates, or on terms and conditions acceptable to Toymax. In such event, additional funding would be required.

New Accounting Standards

The Financial Accounting Standards Board (FASB) issued SFAS No. 141, Business Combinations, and No. 142, Goodwill and Intangible Assets. SFAS No. 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS No. 141 also requires that Toymax recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS No. 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. It also requires, upon adoption of SFAS No. 142, that Toymax reclassify, if necessary, the carrying amounts of intangible assets and goodwill based on the criteria of SFAS No. 141.

In April 2001, Toymax elected to adopt SFAS No. 142. SFAS No. 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS No. 142 requires that Toymax identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life.

Toymax's previous business combinations were accounted for using the purchase method and as of April 1, 2001, the net carrying amount of goodwill from prior purchase transactions was approximately \$14.5 million. Annual amortization of this amount, which ceased being effective as of April 1, 2001, amounted to approximately \$1.5 million.

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

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 14, 2001 and, generally, is to be applied prospectively. Toymax has elected to early adopt SFAS No. 144 in the current fiscal year.

Barter Transaction

In December 1998 and April 1999, Toymax entered into agreements with a broker of media advertising, whereby Toymax sold and transferred title to merchandise of Toymax having a fair value of approximately \$6.9 million in exchange for approximately \$8.7 million in trade credits. In March, 2002, the total remaining net asset balance of approximately \$4.0 million which is not expected to be utilized as a result of the acquisition by JAKKS, was expensed.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK OF JAKKS

The information contained in JAKKS' Annual Report on Form 10-K for the fiscal year ended December 31, 2001, as amended, and JAKKS' Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, under the caption "Quantitative and Qualitative Disclosures About Market Risk" is incorporated herein by reference.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK OF TOYMAX

Toymax is exposed to certain market risks, which arise from transactions entered into in the normal course of business. Toymax's primary exposures are changes in interest rates with respect to its debt and foreign currency exchange fluctuations.

Interest Rate Risk

The interest payable on Toymax's revolving line-of-credit is variable based on LIBOR and/or the prime rates in the United States and Hong Kong, and therefore, affected by changes in market interest rates. Toymax does not use derivative financial instruments.

Foreign Currency Risk

While the Toymax product purchases are transacted in United States dollars, most transactions among the suppliers and subcontractors of Jauntway Investments Limited, an OEM toy manufacturer that has been Toymax's most important manufacturer since inception, are effected in Hong Kong dollars. Accordingly, fluctuations in Hong Kong monetary rates may have an impact on Toymax's cost of goods. However, since 1983, the value of the Hong Kong dollar has been tied to the value of the United States dollar, eliminating fluctuations between the two currencies. Despite the announcements by the Hong Kong Government that it is determined to maintain such fixed exchange rate, there can be no assurance that the Hong Kong dollar will continue to be tied to the United States dollar in the near future or longer term. Furthermore, appreciation of Chinese currency values relative to the Hong Kong dollar could increase the cost to Toymax of the products manufactured in China, and thereby have a negative impact on Toymax.

Financial Statements and Supplementary Data

The Consolidated Financial Statements and Financial Statement Exhibits are included in this joint proxy statement/ prospectus beginning on page F-1 and incorporated herein by reference.

Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Table of Contents**PRICE RANGE OF COMMON STOCK**

JAKKS common stock is traded on the Nasdaq National Market under the symbol JAKK. The following table sets forth the high and low closing sale prices of JAKKS common stock for the periods indicated as reported by the Nasdaq National Market. The prices have been adjusted to give retroactive effect to the two-for-one stock split effected on May 11, 2000.

	<u>High</u>	<u>Low</u>
2000		
First Quarter	\$25.19	\$13.91
Second Quarter	25.00	13.25
Third Quarter	20.75	9.00
Fourth Quarter	10.56	7.00
2001		
First Quarter	\$15.00	\$8.00
Second Quarter	19.44	8.78
Third Quarter	21.80	12.68
Fourth Quarter	25.38	12.44
2002		
First Quarter	\$25.70	\$15.85
Second Quarter (through May 20, 2002)	23.49	16.37

Toymax's common stock is traded on the Nasdaq National Market under the symbol TMAX. The following table sets forth the high and low closing sale prices of Toymax's common stock for the periods indicated as reported by the Nasdaq National Market.

	<u>High</u>	<u>Low</u>
Fiscal Year Ended March 31, 2001		
First Quarter	\$3.25	\$2.31
Second Quarter	3.69	2.31
Third Quarter	2.63	1.19
Fourth Quarter	2.69	1.38
Fiscal Year Ended March 31, 2002		
First Quarter	\$2.50	\$1.27
Second Quarter	1.78	0.89
Third Quarter	1.70	0.80
Fourth Quarter	4.49	1.50
Fiscal Year Ended March 31, 2003		
First Quarter (through May 20, 2002)	\$4.49	4.33

As of May [21], 2002, JAKKS had 103 stockholders of record, as indicated on the records of its transfer agent, and Toymax had 2,051 stockholders of record, as indicated on the records of its transfer agent.

The table below sets forth the high and low sale prices per share of JAKKS common stock on the Nasdaq National Market on February 8, 2002, the last completed trading day prior to the public announcement of the proposed merger. Also set forth is the implied equivalent value of one share of JAKKS common stock on such date, using an exchange ratio of .0798 of a share of Toymax common stock for each share of JAKKS common stock.

<u>JAKKS Common Stock</u>	<u>Approximate Toymax Common Stock Equivalent</u>

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	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
February 8, 2002	\$ 18.82	\$ 17.41	\$ 1.50	\$ 1.39

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COMPARISON OF RIGHTS OF STOCKHOLDERS OF JAKKS AND TOYMAX

Both Toymax and JAKKS were incorporated under the laws of the State of Delaware. At the time the merger becomes effective, the stockholders of Toymax who elect to receive JAKKS common stock will become stockholders of JAKKS. As stockholders of JAKKS, their rights will be governed by the Delaware General Corporation Law and JAKKS certificate of incorporation and bylaws, which differ in certain respects from Toymax's certificate of incorporation and bylaws.

The following is a summary of the material differences between the rights of the holders of JAKKS common stock and Toymax capital stock. You might regard as important other differences that we do not include here. You should refer to the documents and statutory sections we mention in this section if you want more information. **The summary contained in the chart below is not intended to be a complete statement of**

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the rights of holders of JAKKS common stock and Toymax common stock under the Delaware General Corporation Law or the charter or bylaws of either company.

	Toymax	JAKKS
Authorized Capital Stock	<p>The authorized capital stock of Toymax consists of 55,000,000 shares, 50,000,000 of which are shares of common stock and 5,000,000 of which are shares of preferred stock. The Toymax charter grants specific authority to the board of directors, without action by the stockholders, to issue preferred stock with designations, preferences, and special rights and qualifications, limitations, or restrictions designated by the board of directors. At May 17, 2002, 12,316,186 shares of Toymax common stock were outstanding, and no shares of Toymax preferred stock were outstanding. Toymax's charter does not provide for cumulative voting and no preemptive rights are granted by Toymax's charter or bylaws.</p>	<p>The authorized capital stock of JAKKS is presently 26,000,000 shares, 25,000,000 of which are shares of common stock and 1,000,000 of which are shares of preferred stock. JAKKS has filed a preliminary proxy statement with the SEC for its 2002 Annual Meeting of Stockholders, which JAKKS expects to occur at the end of the second or beginning of the third quarter of 2002. One of the resolutions provided in the preliminary proxy statement that will be voted upon at that Annual Meeting will be to increase JAKKS authorized capital stock. If this proposal is approved, JAKKS will have authorized capital stock of 105,000,000 shares, 100,000,000 of which are shares of JAKKS common stock and 5,000,000 of which are shares of JAKKS preferred stock. The approval of this proposal is required for JAKKS to have a sufficient number of authorized shares available for issuance to the Toymax shareholders of the approximately 325,853 shares required to consummate the merger. The JAKKS charter grants specific authority to the board of directors, without action by the stockholders, to issue preferred stock with designations, preferences, and special rights and qualifications, limitations, and restrictions designated by the board of directors. At May 17, 2002, 19,668,789 shares of JAKKS common stock were outstanding. No preemptive rights are granted by JAKKS charter or bylaws. On April 23, 2002, JAKKS filed with the Securities and Exchange Commission a registration statement for the sale of 3,500,000 shares of its common stock sold by JAKKS and 500,000 shares of its common stock underlying options to be sold by certain selling stockholders pursuant to an underwritten offering. Upon the completion of this offering (including the underwriter's exercise of its 525,000 share overallotment option) JAKKS will have 23,546,865 shares of its common stock issued and outstanding. The JAKKS bylaws provide that the number of directors shall be determined from time to time by the board of directors and without any such determination the number of directors on the board shall be at least one. Each director shall be elected at the annual meeting and each director shall hold office for the term for which he is elected, until a successor shall have been elected and qualified or until his earlier resignation, or removal.</p>
Number, Term and Election of Directors	<p>The Toymax charter and bylaws provides for three classes of directors and a board which shall consist of not less than three directors. One-third of the directors is to be elected at every annual meeting of stockholders, and each director shall serve until the director's successor shall be elected and qualified.</p>	

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	Toymax	JAKKS
Vacancies on the Board of Directors	The Toymax bylaws provide that if there is any vacancy on the board of directors, the directors, by a majority vote, may appoint any qualified person to fill such vacancy, and that person shall hold office for the unexpired term until his successor shall be duly chosen.	The JAKKS bylaws provide that vacancies may be filled by a majority of the directors then in office, although less than a quorum, or a sole remaining director, and any director so chosen shall hold office until the next annual election and until his successor shall be duly elected and qualified.
Removal of Directors	The Toymax bylaws provide that any director may be removed either for or without cause at any time by the affirmative vote of the holders of a majority of all the shares of stock outstanding and entitled to vote, at a special meeting of the stockholders called for the purpose of removal.	The JAKKS charter and bylaws do not contain any specific provisions regarding the procedures to be followed in removing directors, and, therefore, such removal is governed by the Delaware General Corporation Law, which provides that a director or the full board may be removed, with or without cause, by the holders of a majority of shares entitled to vote at an election of directors.
Action by Written Consent and Special Meetings of Stockholders	Toymax's bylaws provide that any action required to be taken at any annual or special meeting of stockholders, or any action which may be taken at any meeting, may be taken without a meeting, without prior notice and without a vote, if a consent in writing shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. The Toymax bylaws also provide that special meetings of the stockholders for any purpose or purposes may be called by resolution of the board of directors or by the Secretary of the board of directors upon the written request stating the purpose of such meeting by the holders of at least 30% of the outstanding shares of Toymax's capital stock.	JAKKS's bylaws provide that special meetings may be held by resolution of JAKKS's board of directors.
Indemnification of Directors and Officers	The Toymax charter provides that the corporation shall have the power to indemnify and advance expenses to the fullest extent permitted by Section 145 of the Delaware General Corporation Law any person who was or is a director or officer of the corporation. Any expenses (including attorneys' fees) incurred by each person who is or was a director or officer of the corporation, and the heirs, executors and administrators of such a person in connection with defending any such proceeding in advance of its final disposition shall be paid by the corporation; provided, however, that if the Delaware General Corporation Law requires, an advancement of expenses incurred by an indemnitee in his capacity as a director or officer (and not in any other capacity in which service was or is tendered by such indemnitee, including, without limitation, service in an employee benefit plan) shall be made only upon delivery to the corporation of an undertaking by or on	The JAKKS charter provides that the corporation indemnify to the fullest extent permitted by Section 145 of the Delaware General Corporation Law each person who may be so indemnified thereunder.

behalf of such indemnitee, to repay all amounts so advanced. If it shall ultimately be determined that such indemnitee is not entitled to be indemnified for such expenses under this article or otherwise.

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	Toymax	JAKKS
Limitation of Director Liability	Toymax's charter provides that the personal liability of directors is eliminated, to the fullest extent permitted by Section 102(b)(7) of the Delaware General Corporation Law.	JAKKS' charter provides that, to the fullest extent permitted by the Delaware General Corporation Law, a director shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except if and to the extent required by paragraph (7) of subsection (b) of Section 102 of the Delaware General Corporation Law.

SECURITY OWNERSHIP OF CERTAIN**BENEFICIAL OWNERS AND MANAGEMENT****JAKKS**

The information in JAKKS' Annual Report on Form 10K for the fiscal year ended December 31, 2001, as amended, under the caption Security Ownership of Certain Beneficial Owners and Management, is incorporated herein by reference.

Toymax

The following table furnishes information concerning all persons known to beneficially own 5% or more of Toymax common stock as of May 20, 2002.

Name and Address of Beneficial Owner	Shares Beneficially Owned	Percent of Class
JAKKS Pacific, Inc. 22619 Pacific Coast Highway Malibu, California 90265	8,232,819	68.7%

The following table furnishes information concerning the ownership by directors, officers and directors and officers as a group of Toymax common stock as of May 20, 2002.

Name and Address of Beneficial Owner(1)	Shares Beneficially Owned	Percent of Class
Jack Friedman(2)(3)	0	*
Stephen G. Berman(2)(3)	0	*
Joel M. Bennett(2)	0	*
David C. Blatte(3)	0	*
Robert E. Glick(3)	0	*
Michael G. Miller(3)	0	*
Murray L. Skala(3)	0	*
Joel Handel(3)(4)	73,476	*
Dan Almagor(3)(5)	30,000	*
Directors and officers as a group (9 persons)	103,476	*

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- (1) The address of Toymax's directors is 22619 Pacific Coast Highway, Malibu, California 90265.
 - (2) Serves as an executive officer of Toymax. None of Toymax's executive officers own Toymax stock or have employment agreements with Toymax. All of Toymax's executive officers are executive officers of JAKKS and have employment agreements with JAKKS.
 - (3) Serves as a director of Toymax.
 - (4) Includes 73,476 options that will become exercisable upon the earlier of the effective date of the merger and September 30, 2002.
 - (5) Includes 30,000 options that will become exercisable upon the earlier of the effective date of the merger and September 30, 2002.
- * Represents less than 1%.

DIRECTORS AND EXECUTIVE OFFICERS OF JAKKS

The information in JAKKS' Annual Report on Form 10K for the fiscal year ended December 31, 2001, as amended, under the caption Directors and Executive Officers, is hereby incorporated by reference.

EXECUTIVE COMPENSATION FOR JAKKS

The information in JAKKS' Annual Report on Form 10-K for the fiscal year ended December 31, 2001, as amended, under the caption Executive Compensation, is incorporated herein by reference.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS FOR JAKKS

The information contained in JAKKS' Annual Report on Form 10-K for the fiscal year ended December 31, 2001, as amended, under the caption Certain Relationships and Related Transactions, is incorporated herein by reference.

OTHER MATTERS

The Toymax board of directors does not presently know of any matters to be presented for consideration at the special stockholders meeting other than matters described in the notice of special stockholders meeting mailed together with this joint proxy statement/prospectus. If other matters are presented, the persons named in the accompanying proxy to vote on such matters will have discretionary authority to vote in accordance with their best judgment.

LEGAL OPINION

The validity of the shares of JAKKS common stock offered by this joint proxy statement/prospectus will be passed upon for JAKKS by the law firm of Feder, Kaszovitz, Isaacson, Weber, Skala, Bass & Rhine LLP.

EXPERTS

The consolidated financial statements and schedule of JAKKS Pacific, Inc. as of December 31, 2001 and 2000, and for each of the years in the three year period ended December 31, 2001, have been included in and incorporated by reference herein in reliance upon the reports of PKF, Certified Public Accountant, Professional Corporation, included in and incorporated by reference herein, and upon the authority of said firms as experts in accounting and auditing.

The consolidated financial statements and schedule of Toymax International, Inc. at March 31, 2002 and 2001, and for each of the three years in the period ended March 31, 2002, appearing in this joint proxy statement/prospectus and the Toymax financial statements and schedule

incorporated by reference in this

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joint proxy statement/prospectus have been audited by BDO Seidman, LLP, independent auditors as set forth in their reports thereon appearing elsewhere herein and incorporated by reference, and are included and incorporated by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

FUTURE STOCKHOLDER PROPOSALS

If the merger is completed there will be no public participation in any future meetings of stockholders of Toymax.

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WHERE YOU CAN FIND MORE INFORMATION

Both JAKKS and Toymax file annual, quarterly and current reports, proxy statements, and other information with the Securities and Exchange Commission. You may read and copy any reports, statements, or other information that JAKKS or Toymax files at the Securities and Exchange Commission's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing the Securities and Exchange Commission. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of the public reference rooms. JAKKS' and Toymax's Securities and Exchange Commission filings are also available to the public on the SEC Internet site (<http://www.sec.gov>). As described below under INFORMATION INCORPORATED BY REFERENCE, you may also obtain the documents that JAKKS and Toymax are incorporating by reference into this prospectus/ joint proxy statement at no charge from JAKKS or Toymax.

JAKKS has filed a Registration Statement on Form S-4 (File No. 333-) to register with the SEC the JAKKS common stock to be issued to Toymax stockholders in the merger. This joint proxy statement/prospectus is part of that Registration Statement and constitutes a prospectus of JAKKS in addition to being a proxy statement of Toymax for the Toymax special stockholders meeting. As allowed by Securities and Exchange Commission rules, this joint proxy statement/prospectus does not contain all of the information that you can find in the Registration Statement or the exhibits to the Registration Statement.

JAKKS Internet address is www.jakkspace.com. Toymax's Internet address is www.toymax.com. The information contained on either website, and on any website linked to either JAKKS' or Toymax's website, is not part of this joint proxy statement/prospectus and you should not rely on such information in deciding whether to invest in the securities offered hereby or approve the matters presented hereby.

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INFORMATION INCORPORATED BY REFERENCE

The Securities and Exchange Commission allows JAKKS and Toymax to incorporate by reference information into this prospectus/ joint proxy statement, which means that JAKKS and Toymax can disclose important information to you by referring you to another document filed separately by JAKKS and Toymax with the Securities and Exchange Commission. The information incorporated by reference is deemed to be part of this prospectus/ joint proxy statement, except for any information superseded by any information in this prospectus/ joint proxy statement.

This joint proxy statement/ prospectus incorporates by reference the documents set forth below that JAKKS has previously filed with the Securities and Exchange Commission. These documents contain important information about JAKKS and its finances:

Annual Report on Form 10-K for the year ended December 31, 2001, as amended;

Quarterly Report on Form 10-Q for the quarter ended March 31, 2002;

Current Reports on Form 8-K filed on March 5, 2002, and March 22, 2002 and an amendment to the March 22, 2002 filing on April 23, 2002 which includes pro forma information about JAKKS acquisition of Toymax;

JAKKS Statement on Schedule 13D relating to JAKKS acquisition of a controlling interest in Toymax filed March 20, 2002; and

The Description of Registrant's Securities to be Registered contained in JAKKS Registration Statement on Form 8-A (File No. 0-28104), filed March 29, 1996 and the Description of Securities Common Stock incorporated therein by reference to JAKKS Registration Statement on Form SB-2 (Reg. No. 333-2048-LA).

This joint proxy statement/prospectus also incorporates by reference the documents set forth below and that accompany this joint proxy statement/ prospectus that Toymax has previously filed with the Securities and Exchange Commission. These documents contain important information about Toymax:

Annual Report on Form 10-K for the year ended March 31, 2001;

Quarterly Reports on Form 10-Q for the quarters ended June 30, 2001, September 30, 2001 and December 31, 2001; and

Current Reports on Form 8-K filed on November 13, 2001, February 14, 2002 and February 19, 2002.

Any documents JAKKS or Toymax files pursuant to Section 13(a) or 15(d) of the Exchange Act (File Nos. 0-28104 and 5-53691, respectively) after the date of this joint proxy statement/prospectus and prior to the termination of the offering will automatically be deemed to be incorporated by reference in this joint proxy statement/prospectus and to be part of the joint proxy statement/prospectus from the date of filing those documents (except that each time either company files a new annual report on Form 10-K, any of such documents filed prior to such filing shall no longer be incorporated into this prospectus). Any statement contained in this joint proxy statement/prospectus or in a document incorporated by reference shall be deemed to be modified or superseded for all purposes to the extent that a statement contained in those documents modifies or supersedes that statement. Any statement so modified or superseded will not be deemed to constitute a part of this joint proxy statement/prospectus, except as so modified or superseded. In addition, any prospectus supplement filed in relation to this joint proxy statement/prospectus shall be deemed to supercede for all purposes any earlier prospectus supplement filed in relation to this prospectus.

JAKKS will provide without charge to each person to whom this joint proxy statement/ prospectus is delivered, upon written or oral request, a copy of any or all of the documents referred to above which have been or may be incorporated by reference in this joint proxy statement/ prospectus. Requests for these

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documents should be directed to Joel M. Bennett, Chief Financial Officer, JAKKS Pacific Inc., 22619 Pacific Coast Highway, Malibu, California 90265 (310) 456-7799.

You should rely only on the information contained in or incorporated by reference into this joint proxy statement/prospectus. Neither JAKKS nor Toymax has authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The information in this joint proxy statement/prospectus is current as of its date.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders of

Toymax International, Inc.

We have audited the accompanying consolidated balance sheets of Toymax International, Inc. and Subsidiaries as of March 31, 2001 and 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Toymax International, Inc. and Subsidiaries at March 31, 2001 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

BDO Seidman, LLP

New York, New York
May 8, 2002

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Table of Contents**TOYMAX INTERNATIONAL, INC.****AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	March 31,	
	2001	2002
Assets		
Current:		
Cash and cash equivalents	\$ 1,718,754	\$ 940,136
Due from Factor	9,241,280	9,084,009
Accounts receivable, less allowance for possible losses of \$476,000 and \$341,000	6,668,456	3,750,699
Inventories	9,220,010	8,954,348
Prepaid expenses and other current assets	3,526,569	1,233,352
Assets of discontinued operations	4,917,113	
Income tax refunds receivable	2,236,624	2,405,741
Deferred income taxes	1,966,948	648,612
	<u>39,495,754</u>	<u>27,016,897</u>
Total current assets		
Property and equipment, net	4,805,925	1,533,625
Property, equipment and other assets of discontinued operations, net	894,868	
Deferred income taxes	2,168,509	10,470,003
Goodwill, net of accumulated amortization of \$1,984,367	14,497,309	15,739,482
Other assets	7,225,227	1,045,984
	<u>\$ 69,087,592</u>	<u>\$ 55,805,991</u>
Liabilities and Stockholders Equity		
Current:		
Bank credit facility	\$ 9,971,578	\$
Accounts payable	7,290,912	6,643,487
Accrued expenses	3,649,697	6,203,858
Accrued rebates and allowances	2,490,481	11,234,533
Due to affiliates	6,273,154	13,404,492
Current portion of long-term obligations	27,926	14,790
Current liabilities of discontinued operations	1,090,704	406,555
Income taxes payable	1,008,062	3,262,417
	<u>31,802,514</u>	<u>41,170,132</u>
Total current liabilities		
Long-term obligations	1,211,566	
Total liabilities	<u>33,014,080</u>	<u>41,170,132</u>
Minority interest	479,882	
	<u>479,882</u>	
Commitments and contingencies		
Stockholders Equity		
Preferred stock, par value \$.01 per share; 5,000,000 shares authorized; none outstanding		

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Common stock, par value \$.01 per share; 50,000,000 shares authorized; 12,166,441 and 12,316,241 shares issued	121,664	123,162
Additional paid-in capital	27,144,942	30,079,944
Retained earnings (deficit)	8,520,065	(15,341,692)
Treasury stock, 35,000 and 66,200 shares at cost	(177,889)	(210,403)
Accumulated other comprehensive income	(15,152)	(15,152)
	<u> </u>	<u> </u>
Total stockholders' equity	35,593,630	14,635,859
	<u> </u>	<u> </u>
	\$ 69,087,592	\$ 55,805,991
	<u> </u>	<u> </u>

See accompanying notes to consolidated financial statements.

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Table of Contents**TOYMAX INTERNATIONAL, INC.****AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended March 31,		
	2000	2001	2002
Net sales	\$ 109,864,677	\$ 115,151,485	\$ 94,852,252
Costs and expenses			
Cost of goods sold	75,516,553	72,769,988	71,424,452
Selling and administrative (including restructuring charges in 2002 of \$15,600,000)	38,220,075	37,718,929	49,760,442
	113,736,628	110,488,917	121,184,894
Operating income (loss)	(3,871,951)	4,662,568	(26,332,642)
Other income (expenses):			
Other income, net	853,041	567,065	349,071
Interest income	533,933	247,883	157,188
Interest expense	(1,069,742)	(1,133,129)	(1,135,391)
Equity in income (loss) of joint venture	289,768	(699,500)	
Write-off of investment in and advances to joint venture		(1,859,906)	
Finance charges	(709,127)	(668,925)	(963,877)
	(102,127)	(3,546,512)	(1,593,009)
Income (loss) before income tax expense (benefit)	(3,974,078)	1,116,056	(27,925,651)
Income tax expense (benefit)	(2,206,877)	1,087,477	(7,499,176)
Income (loss) from continuing operations	(1,767,201)	28,579	(20,426,475)
Loss from discontinued operations	(134,159)	(9,776,209)	(3,935,282)
Gain on disposal of discontinued operations			500,000
Net loss	\$ (1,901,360)	\$ (9,747,630)	\$ (23,861,757)
Basic and diluted loss per share from:			
Continuing operations	\$ (0.17)	\$ (0.86)	\$ (1.69)
Discontinued operations	(0.01)	(0.86)	(0.28)
Basic and diluted loss per share	\$ (0.18)	\$ (0.86)	\$ (1.97)
Shares used in computing basic and diluted loss per share:	10,596,677	11,280,804	12,116,843

See accompanying notes to consolidated financial statements.

Table of Contents**TOYMAX INTERNATIONAL, INC.****AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

Three Years Ended March 31, 2002	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders Equity
	Shares	Amount					
Balance, April 1, 1999	10,605,000	\$ 106,050	\$ 23,059,355	\$ 20,169,055	\$	\$(15,152)	\$ 43,319,308
Issuance of common stock purchase warrants			61,201				61,201
Issuance of common stock	28,108	281	(281)				0
Purchase of treasury stock					(177,889)		(177,889)
Net loss				(1,901,360)			(1,901,360)
Balance, March 31, 2000	10,633,108	106,331	23,120,275	18,267,695	(177,889)	(15,152)	41,301,260
Issuance of common stock	1,533,333	15,333	4,024,667				4,040,000
Net loss				(9,747,630)			(9,747,630)
Balance, March 31, 2001	12,166,441	121,664	27,144,942	8,520,065	(177,889)	(15,152)	35,593,630
Issuance of common stock	149,800	1,498	235,002				236,500
Purchase of treasury stock					(32,514)		(32,514)
Stock option compensation			2,700,000				2,700,000
Net loss				(23,861,757)			(23,861,757)
Balance, March 31, 2002	12,316,241	\$ 123,162	\$ 30,079,944	\$ (15,341,692)	\$ (210,403)	\$ (15,152)	\$ 14,635,859

See accompanying notes to consolidated financial statements.

Table of Contents**TOYMAX INTERNATIONAL, INC.****AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended March 31,		
	2000	2001	2002
Cash flows from operating activities:			
Net loss	\$ (1,901,360)	\$ (9,747,630)	\$ (23,861,757)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,370,271	5,599,269	2,732,313
Minority interest		(474,547)	(479,882)
Bad debts	53,749	364,966	355,768
Equity in unconsolidated joint venture	(289,768)	699,500	
Non-cash compensation	61,201		2,700,000
Write-off of barter credits			3,973,624
Non-cash revenue barter credits	(377,433)		
Loss on disposal and write-off of property and equipment	28,054		4,580,311
Loss on impairment of asset valuation and write-off of investment and advances to joint venture		7,123,153	
Changes in deferred income taxes	(702,140)	(551,000)	(6,983,158)
Changes in operating assets and liabilities:			
Due from Factor and accounts receivable	(9,601,301)	9,206,230	4,689,024
Due to/from affiliates	1,646,936	1,678,287	(4,206,353)
Inventories	(1,712,620)	860,288	1,996,484
Prepaid expenses and other	(803,480)	(696,585)	6,006,565
Income tax refunds receivable	(1,843,533)	641,266	(169,117)
Accounts payable and accruals	10,164,566	(12,784,638)	8,755,073
Income taxes payable	(112,373)	(252,589)	2,254,355
	<u>(1,019,231)</u>	<u>1,665,970</u>	<u>2,343,250</u>
Net cash provided by (used in) operating activities (continuing and discontinuing)			
Cash flows from investing activities:			
Acquisition of property and equipment	(3,997,858)	(2,997,987)	(3,436,658)
Proceeds from disposals of property and equipment	28,661		
Business acquisitions, investments and advances	(19,316,841)	(2,587,808)	(1,242,173)
	<u>(23,286,038)</u>	<u>(5,585,795)</u>	<u>(4,678,831)</u>
Net cash used in investing activities			
Cash flows from financing activities:			
Increase (decrease) in bank credit facility	10,620,661	(4,057,466)	(9,971,578)
Increase (decrease) in long-term obligations	(62,707)	552,222	(13,136)
Increase in due to affiliate			11,337,691
Proceeds from issuance of common stock		4,600,000	236,500
Purchase of treasury stock	(177,889)		(32,514)
	<u>10,380,065</u>	<u>1,094,756</u>	<u>1,556,963</u>
Net cash provided by financing activities			
Net decrease in cash and cash equivalents	(13,925,204)	(2,825,069)	(778,618)

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Cash and cash equivalents, beginning of year	18,469,027	4,543,823	1,718,754
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents, end of year	\$ 4,543,823	\$ 1,718,754	\$ 940,136
	<u> </u>	<u> </u>	<u> </u>
Supplemental cash flow information:			
Interest paid	\$ 1,222,412	\$ 1,637,562	\$ 1,106,269
Income taxes paid	\$ 992,891	\$ 1,740,812	\$ 97,905
	<u> </u>	<u> </u>	<u> </u>
Supplemental disclosures of non-cash activities:			
Issuance of common stock for license rights and services	\$	\$ 494,429	\$
Capital leases entered into during the year	\$ 64,754	\$	\$
	<u> </u>	<u> </u>	<u> </u>

See accompanying notes to consolidated financial statements.

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TOYMAX INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2000, 2001 and 2002

1. Organization and Summary of Significant Accounting Policies

On February 10, 2002, the Company entered into an agreement with Jakks Pacific Inc. (*Jakks*) for Jakks to acquire all of the outstanding shares of the Company. In a two-step transaction, Jakks acquired approximately 66% of the Company's outstanding shares from the Company's principal shareholders pursuant to a stock purchase agreement effective March 11, 2002, and then will acquire the remainder pursuant to a definitive merger agreement that is subject to stockholder approval. For the remaining Company shares, Jakks will pay \$4.50 per share consisting of \$3 per share in cash and the remainder in shares valued at \$1.50 each.

The financial statements do not reflect any adjustments related to a step-up in valuation or other adjustments related to the change in control.

Principles of consolidation

The consolidated financial statements include the accounts of Toymax International, Inc. (*Toymax*) and the Company) and its subsidiaries after elimination of intercompany accounts and transactions.

Business

The Company's operations consist principally of its traditional toy products business and the businesses of its acquired enterprises. The toy products business is conducted by the Company's subsidiaries, Toymax, Inc. (*TMI*) and Toymax (H.K.) Limited (*Toymax HK*), which are involved in designing, marketing and distributing toy products (collectively with the Yaboom Ltd. joint venture, *Toymax Brands*). The Company's other ventures include Go Fly A Kite, Inc. (*GFK*), Funnoodle, Inc., and Funnoodle (H.K.) Limited (together with Funnoodle (H.K.) Limited, *Funnoodle* , formerly Sun Master Investment Limited) (collectively *Toymax Enterprises*). GFK and Funnoodle were formed to acquire the businesses described in Note 3.

Effective November 30, 2001, the Company sold the net assets of Monogram International, Inc. and Monogram Products (H.K.) Limited (collectively *Monogram*) and the Candy Planet division of TMI to an entity controlled by David Chu, the former chairman of the Company for \$2.25 million. In March 2002, the Company, in connection with its restructuring (Note 2), abandoned the operations of Maxverse Interactive, Inc. (*Maxverse*). Accordingly, the financial statements have been adjusted to reflect Monogram, Candy Planet and Maxverse as discontinued operations (Note 16).

Cash and cash equivalents

Cash and cash equivalents includes investments with original maturities of three months or less at the date of acquisition. Such investments, consisting primarily of investments in commercial paper, are stated at cost, which approximates market value, and amounted to approximately \$0.6 million and \$0.3 million at March 31, 2001 and 2002, respectively.

Inventories

Inventories are stated at the lower of cost (first-in, first-out basis) or market value. Inventories consist principally of purchased finished goods.

Property and equipment

Property and equipment are stated at original cost. Depreciation of machinery, equipment, molds and furniture and fixtures is computed by the straight-line method over the estimated useful lives of the assets.

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TOYMAX INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Leasehold improvements are amortized by the straight-line method over the shorter of their economic lives or the terms of the leases.

Translation of foreign currency financial statements

Assets and liabilities of foreign subsidiaries are translated at year-end rates of exchange, and revenues and expenses are translated at the average rates of exchange for the year. Gains and losses resulting from translation are accumulated in a separate component of stockholders equity. Gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the functional currency) are included in net income or loss. Substantially all of the Company's foreign subsidiaries are located in Hong Kong. Since the value of the Hong Kong dollar has been tied to the value of the United States dollar, foreign currency fluctuations have been eliminated.

Income taxes

Deferred income taxes are recognized based on the differences between the tax bases of assets and liabilities and their reported amounts in the financial statements which will result in taxable or deductible amounts in future years. Further, the effects of enacted tax law or rate changes are included in income as part of deferred tax expenses or benefits in the period that includes the enactment date. A valuation allowance is recognized if, in the opinion of management, it is more likely than not that some portion of, or all of, a deferred tax asset will not be realized.

Revenue recognition

Sales are recorded upon shipment, free on board from the point of shipment. The Company provides, as a reduction of sales, for anticipated returns, allowances and other sales incentives, based on known and anticipated claims.

Shipping and handling costs

The consolidated financial statements reflect, for all periods presented, the adoption of the classification requirements pursuant to Emerging Issued Task Force (EITF) 00-10, *Accounting for Shipping and Handling Fees and Costs*, which was effective in the Company's fourth quarter of fiscal 2001. The Company reclassified income from freight charges to customers to Net sales and warehousing, shipping and handling costs to Cost of goods sold. Such costs, net of the related revenue, were historically included in Selling, general and administrative expenses.

Advertising

Advertising costs are charged to operations as incurred and were approximately \$13.3 million, \$9.5 million and \$8.1 million for the years ended March 31, 2000, 2001 and 2002, respectively.

Advertising costs associated with customer benefit programs are accrued as the related revenues are recognized and reflected in Net sales.

Royalties

Minimum guaranteed royalties, as well as royalties in excess of minimum guarantees, are expensed based on the sales of related products. The realizability of minimum guaranteed royalties paid is evaluated by the Company based on the projected sales of the related products.

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TOYMAX INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Research and development expenses

Research and development expenses are charged to operations as incurred and are included in selling and administrative expenses. Research and development expenses for the years ended March 31, 2000, 2001 and 2002 were approximately \$4.2 million, \$3.4 million and \$3.7 million, respectively.

Fair value of financial instruments

The carrying amounts of certain financial instruments, including cash, due from Factor, accounts receivable, accounts payable and bank obligations, approximate fair value as of March 31, 2001 and March 31, 2002 because of the relatively short-term maturity of these instruments. Fair value of the amounts due to or from affiliates cannot be readily determined because of the nature of the terms.

Accounting for the impairment of long-lived assets

Long-lived assets, which include goodwill and property and equipment, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows from the use of these assets. When any such impairment exists, the related assets will be written down to fair value. In fiscal 2001, the Company recognized an impairment loss of approximately \$1.9 million related to the valuation of goodwill and the investment in and advances to the Company's joint venture. See Note 2 for impairment charges recorded in connection with the Company's restructuring.

Goodwill

Goodwill represents the excess purchase price paid over the fair market value of the net assets of the acquired company. Goodwill was amortized over 10-15 years on a straight-line basis prior to April 1, 2001. Commencing fiscal 2002, amortization of goodwill ceased in accordance with by Statement of Financial Accounting Standards (SFAS) No. 142.

The carrying value of goodwill is based on management's current assessment of recoverability. Management evaluates recoverability using both objective and subjective factors. Objective factors include management's best estimates of projected future earnings, cash flows and analysis of historical and recent sales and earnings trends. Subjective factors include competitive analysis and the Company's strategic focus.

Earnings (loss) per share

Basic earnings per share includes no dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects, in periods in which they have a dilutive effect, the effect of common shares issuable upon exercise of stock options and warrants.

Options and warrants to purchase an aggregate of 2,738,620, 2,393,545 and 2,097,910 shares of common stock were outstanding at March 31, 2000, 2001 and 2002, respectively, at exercise prices ranging from \$3.75 to \$10.20 per share in fiscal 2000, \$1.34 to \$8.63 per share in fiscal 2001, and \$0.94 to \$8.63 in fiscal 2002. Such options and warrants are not included in the computation of diluted earnings per share because they are anti-dilutive (Note 11).

Accounting for stock based compensation

The Company accounts for its stock option awards to employees under the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*. Under the intrinsic value based method, compensation cost is the excess, if any, of the

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TOYMAX INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

quoted market price of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock. The Company makes pro forma disclosures of the net income and earnings per share as if the fair value based method of accounting had been applied as required by SFAS No. 123, *Accounting for Stock-Based Compensation*.

The Financial Accounting Standards Board (FASB) issued Interpretation (FIN) No. 44, *Accounting for Certain Transactions Involving Stock Compensation*. FIN No. 44 clarifies the application of APB No. 25 for the accounting consequences of various modifications of the terms of a previously fixed stock option. Significant modifications to the option terms could cause a charge to compensation as the options are treated as variable options.

Use of estimates

The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Among the more significant estimates included in these consolidated financial statements are the estimated allowance for doubtful accounts receivable and accrued rebates and allowances and the realizability of goodwill. Actual results could differ from those and other estimates.

Concentration of credit risks

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash balances deposited in financial institutions which exceed FDIC insurance limits, receivables due from Factor and accounts receivable not sold to a factor.

The Company established an allowance for accounts receivable based upon factors surrounding the credit risk of specific customers historical trends and other information. See Note 13 for information relating to the concentration of sales to major customers.

Comprehensive loss

Comprehensive loss refers to revenue, expenses, gains and losses that under generally accepted accounting principles are excluded from net loss, as these amounts are recorded directly as an adjustment to shareholders' equity. The Company's comprehensive loss is comprised of foreign currency translation adjustments. The comprehensive loss for the three years ended March 31, 2002 is the same as the reported net loss.

Recent Accounting Standards

The FASB issued SFAS No. 141, *Business Combinations*, and No. 142, *Goodwill and Intangible Assets* in June 2001. SFAS No. 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS No. 141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS No. 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. It also requires, upon adoption of SFAS No. 142, that the Company reclassify, if necessary, the carrying amounts of intangible assets and goodwill based on the criteria of SFAS No. 141.

In April 2001, the Company elected to adopt SFAS No. 142. SFAS No. 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS No. 142 requires that the Company identify reporting units for the purposes of assessing

Table of Contents**TOYMAX INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life.

The Company's previous business combinations were accounted for using the purchase method and as of April 1, 2001, the net carrying amount of goodwill from prior purchase transactions was approximately \$14.5 million. Annual amortization of this amount, which ceased effective April 1, 2001, amounted to approximately \$1.5 million.

The effect of adoption of SFAS No. 142 on the reported net loss for prior periods are as follows:

	For the Year Ended March 31,		
	2000	2001	2002
Reported net loss	\$(1,901,360)	\$(9,747,630)	\$(23,861,757)
Amortization of goodwill, net of tax effect	638,666	1,114,111	_____
Net loss, as adjusted	\$(1,262,694)	\$(8,633,519)	\$(23,861,757)
Basic and diluted earnings per share:			
Reported net loss	\$ (0.18)	\$ (0.86)	\$ (1.97)
Amortization of goodwill	.06	.10	_____
Basic and diluted earnings per share, as adjusted	\$ (0.12)	\$ (0.76)	\$ (1.97)

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

In October 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. The Company has elected to early adopt SFAS No. 144 in the current fiscal year in connection with its discontinued operations (Note 16).

Reclassifications

Certain March 31, 2000 and 2001 amounts were reclassified to conform to the March 31, 2002 presentation.

2. Restructuring

On March 11, 2002 Jakks Pacific, Inc. acquired approximately 66% of the Company (Note 1). In connection with that acquisition, the Company began a plan of reorganization. Included in selling and administrative expenses is approximately \$15.6 million of restructuring charges.

Table of Contents**TOYMAX INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A summary of the restructuring charge for the year ended March 31, 2002 is as follows:

	March 31, 2002
Facility closure costs	\$ 842,000
Employee termination benefits	1,400,000
Impairment of fixed assets (Note 5)	2,263,000
Barter credit write-off (Note 6)	3,974,000
Stock option compensation (Note 11)	2,700,000
Termination of agreements	2,200,000
Other	2,221,000
	\$ 15,600,000

As a result of the acquisition, the Company terminated certain of its employees, giving stay bonuses and severance packages to 20 of its employees.

As a result of the acquisition, the Company terminated various license agreements and its factor agreement resulting in a charge. The Company also accrued for minimum guarantees for royalties associated with discontinued product lines. Included in accrued liabilities is approximately \$3.6 million related to the restructuring charge, of which approximately \$2.8 million is expected to be paid within the next six months. The remaining \$0.8 million related to the facility lease, will be paid over the lease term expiring in April 2004.

3. Business Acquisitions and Joint Ventures

In December 1998, the Company acquired substantially all of the operating assets, business operations and facilities of GFK. The aggregate maximum purchase price of approximately \$6.3 million consisted of up to \$5.9 million in cash and a non-interest bearing contingent note and \$0.4 million in related direct costs. A portion of the purchase price, \$1.3 million, was contingent upon the achievement of certain operating results for the twelve months ending August 31, 1999 and \$150,000 was contingent upon the achievement of certain operating results from the date of the acquisition until August 31, 1999. Both contingencies were incurred and paid in fiscal 2000. The acquisition has been accounted for using the purchase method. The Company recorded approximately \$5.8 million of goodwill, including goodwill related to the contingent payment of \$1.5 million, for the excess of the total purchase price over the fair value of the net assets acquired.

In November 1999, the Company acquired the Funnoodle product line from Kidpower, Inc. (Kidpower), pursuant to an asset purchase agreement dated October 25, 1999. The Funnoodle product line is a highly recognized consumer brand of pool and backyard water recreational products which include the original Funnoodle® water toys, floating pool mats, lawn sprinkler toys and exercise mats. The consideration for the acquisition was \$8.7 million paid in cash at the closing, the assumption of certain commitments of Kidpower in an amount of \$500,000, plus up to \$7.0 million payable to Kidpower after the closing if certain contingencies occur through October 31, 2002. The Company recorded approximately \$8.1 million of goodwill for the excess of the total purchase price over the fair value of the net assets acquired. The funding for the acquisition was out of the working capital of the Company. Based on the occurrence of certain contingencies contained in the acquisition agreement, the Company recorded and paid approximately \$3.8 million as additional goodwill through fiscal 2002.

In connection with the Funnoodle acquisition, the Company entered into a management services agreement dated November 30, 1999 with Kidpower (the *Kidpower Management Agreement*). Pursuant to the Kidpower Management Agreement, Kidpower will manage the day-to-day operations with respect to the Funnoodle product line. Pursuant to the Kidpower Management Agreement, a management fee of seven percent (7%) of the cost of all finished goods with respect to the Funnoodle product line is payable to

Table of Contents**TOYMAX INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Kidpower. The Kidpower Management Agreement, which has an initial term through November 15, 2002, is subject to termination or renewal on an annual basis at the Company's option. In August 2001, the Company terminated the Kidpower Management Agreement.

In October 1999, the Company and a private investor formed Yaboom Ltd. (Yaboom), a joint venture. The Company's investment in Yaboom includes \$1.0 million for the equity ownership and \$1.1 million in non-interest bearing advances. Yaboom was formed to develop, manufacture and market innovative high-tech consumer products, which incorporate music and other intellectual property rights from popular recording artists. Under the terms of the joint venture, the Company, through a wholly-owned Hong Kong subsidiary, and the private investor each own fifty percent of Yaboom. The Company has accounted for the joint venture using the equity method and intends to permanently reinvest the earnings derived from the joint venture. Based on the uncertainty of the operations, the Company recognized an impairment in the value of the goodwill and investment in and advances to Yaboom of approximately \$1.9 million in fiscal 2001. The equity investment had no value at March 31, 2001 and 2002.

4. Due From Factor and Accounts Receivable

In the normal course of business, TMI and Funnoodle sell substantially all of their accounts receivable, without recourse, to the CIT Group, Inc. (the Factor), and receive payment from the Factor when the accounts are collected.

Effective April 1, 2002, the factoring agreement was terminated.

Accounts receivable consists mainly of sales not factored and amounts charged back by the Factor as a result of disputes primarily relating to unearned discounts and damaged shipments, net of allowances for possible losses.

5. Property and Equipment

Property and equipment consists of:

	March 31,		Estimated Useful Lives
	2001	2002	
Machinery, equipment and molds	\$ 14,829,209	\$ 17,859,717	2-5
Furniture and fixtures	593,854	610,027	5
Leasehold improvements	1,067,038	1,059,754	2-8
	<u>16,490,101</u>	<u>19,529,498</u>	
Less: Accumulated depreciation and amortization	11,684,176	17,995,873	
	<u>\$ 4,805,925</u>	<u>\$ 1,533,625</u>	

Depreciation and amortization of property and equipment charged to operations were approximately \$2.7 million, \$3.5 million and \$2.7 million in 2000, 2001 and 2002, respectively. The Company recorded an impairment charge of \$2.3 million on molds and other fixed assets that will not be utilized as a result of the acquisition by Jakks (Note 2).

6. Prepaid Expenses and Other Current Assets

In December 1998 and April 1999, the Company entered into agreements with a broker of media advertising, whereby the Company through the Toymax Brands segment sold and transferred title to merchandise of the Company having a fair value of approximately \$6.9 million in exchange for approximately \$8.7 million in trade credits. The Company recorded a gross margin on this transaction of approximately

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TOYMAX INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

\$3.2 million. The Company expensed the net remaining prepaid advertising of approximately \$4.0 million in March 2002 which is not expected to be utilized as a result of the acquisition by Jakks, which historically has not used this type of advertising program (Note 2).

7. Bank Credit Facility

In December 2000, the Company replaced the Toymax Inc. (TMI) and Go Fly A Kite, Inc. (GFK) subsidiaries existing \$30.0 million credit facility and the Funnoodle \$5.0 million line of credit with a \$40.0 million facility for all of its U.S. based operating subsidiaries. Borrowings, which are subject to availability according to a formula based on eligible accounts receivable and inventory, bear interest at either the lender's U.S. prime rate or LIBOR plus 2.50%. The credit agreement, which expires in December 2003, is secured by the accounts receivable and inventories of the Company's domestic subsidiaries, as well as other properties, and is guaranteed by Toymax. The agreement contains certain restrictions relating to limitations on debt, certain investments and the payment of dividends. The Agreement was terminated by mutual consent in March 2002.

Effective April 2000, the Company's Toymax HK subsidiary renewed its credit facility with The Hongkong and Shanghai Banking Corporation Limited (*Hongkong Bank*). The facility provides for a clean export loan of \$1,000,000 and the acceptance of an export letter of credit guarantee for documents presented with discrepancies of up to approximately \$2.3 million. The facility, which is jointly available to the Company's affiliates in Hong Kong, was terminated by mutual consent in April 2002.

8. Related Party Transactions

The former majority stockholder of the Company owns significant interests in several other companies, including Tai Nam Industrial Company Limited (*Tai Nam*) and Jauntiway Investments Limited (*Jauntiway*). TMI and Toymax HK have purchased the majority of their merchandise directly from Tai Nam. The majority of the merchandise is manufactured in the People's Republic of China (*PRC*) by Jauntiway.

The Company has significant transactions with Tai Nam. These transactions include purchases of the majority of the Company's and its subsidiary's merchandise and certain sales of the subsidiary's products. Tai Nam has occasionally provided extended payment terms for these purchases.

Prior to the Jakks acquisition (Note 1), Toymax HK and TMI had an agency agreement with Tai Nam, which provided for an agency fee of 7% on products purchased. The agency agreement also requires Tai Nam to provide all administrative services to Toymax HK.

In September 1997, the Company entered into a manufacturing agreement with Tai Nam and Jauntiway. This agreement provides, among other things, that the Company shall not be required to provide a letter of credit or other security to Tai Nam or Jauntiway in connection with its purchase orders.

GFK maintains some raw materials for manufacturing but purchases the majority of its product from manufacturers in the PRC and Taiwan based upon the company's product specifications. Prior to the Jakks acquisition, Tai Nam acted as GFK's agent in Hong Kong for all products produced in the PRC pursuant to an agency agreement dated September 1, 2000.

In April 2000, Funnoodle entered into an agency agreement with Tai Nam, which provides for an agency fee of 7% on products purchased.

Effective March 11, 2002, all agency agreements were terminated.

In March 2002, Jakks advanced approximately \$11.3 million to the Company on a non-interest bearing basis. The funds were used to retire bank and related party debt.

Table of Contents**TOYMAX INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following is a summary of balances and transactions with affiliated companies:

	March 31,		
	2001	2002	
Due to affiliates:			
Tai Nam	\$6,273,154	\$ 2,066,801	
Jakks Pacific, Inc.		11,337,691	
	_____	_____	
	Year Ended March 31,		
	2000	2001	2002
Purchases from:			
Tai Nam	\$56,257,427	\$52,865,582	\$52,418,056
	_____	_____	_____
Sales to:			
Tai Nam	\$ 475,803	\$ 342,319	\$ 197,557
	_____	_____	_____
Mold purchases from:			
Tai Nam	\$ 2,275,530	\$ 2,109,445	\$ 2,195,349
	_____	_____	_____
Agency fees charged by:			
Tai Nam	\$ 3,997,980	\$ 3,443,280	\$ 3,329,346
	_____	_____	_____
Reimbursed expenses charged by:			
Tai Nam	\$ 1,036,903	\$ 15,066	\$ 164,672
	_____	_____	_____

Table of Contents**TOYMAX INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. Income Taxes**

The components of income (loss) before income tax expense (benefit) and the related provision for income taxes consist of the following:

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Income (loss) before income taxes:			
Hong Kong	\$ 3,614,605	\$ (926,532)	\$ 1,290,163
U.S.	(7,588,683)	2,042,588	(29,215,814)
	<u>\$(3,974,078)</u>	<u>\$ 1,116,056</u>	<u>\$(27,925,651)</u>
Income tax expense (benefit):			
Current:			
Hong Kong	\$ 326,005	\$ 291,251	\$ 398,806
U.S. Federal	(1,700,472)	462,287	(1,008,787)
U.S. State and City	(260,483)	184,938	93,963
	<u>\$(1,634,950)</u>	<u>\$ 938,476</u>	<u>\$ (516,018)</u>
Deferred:			
Hong Kong	\$ 82,179	\$	\$ 97,025
U.S. Federal	(601,058)	348,815	(6,913,878)
U.S. State and City	(53,048)	(199,814)	(116,305)
	<u>\$(571,927)</u>	<u>\$ 149,001</u>	<u>\$ (6,983,158)</u>
Income tax expense (benefit)	<u>\$(2,206,877)</u>	<u>\$ 1,087,477</u>	<u>\$ (7,499,176)</u>

The income tax expense (benefit) varies from the U.S. Federal statutory rate. The following reconciliation shows the significant differences in the tax at statutory and effective rates:

	<u>Year Ended March 31,</u>		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Federal income tax expense (benefit), at statutory rate of 34%	\$(1,351,187)	\$ 379,459	\$(9,494,721)
State income tax expense (benefit), net of federal tax effect	(206,930)	8,625	(81,943)
Increase in deferred tax valuation allowance			500,000
Non-deductible expenses	48,710	110,900	280,248
Non-cash compensation			918,000
Effect of differences in U.S. and Hong Kong statutory rates	(820,782)	606,272	379,240
Other	123,312	(17,779)	
Income tax expense (benefit)	<u>\$(2,206,877)</u>	<u>\$ 1,087,477</u>	<u>\$(7,499,176)</u>



Table of Contents**TOYMAX INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The components of deferred tax assets/ (liabilities) are as follows:

	March 31,	
	2001	2002
Deferred tax assets:		
Current:		
Reserve for sales allowances and possible losses	\$ 793,118	\$ 457,466
Inventory	629,320	812,566
Accrued expenses	385,062	671,550
Other	159,448	912,912
	<u>1,966,948</u>	<u>2,854,494</u>
Long term:		
Barter credits		1,470,241
Design costs	504,280	
Property and equipment	317,245	303,338
Goodwill, licenses and other intangibles	618,522	327,033
Legal fees-trademarks	501,527	1,442,768
Federal net operating loss carryforwards		4,574,551
State net operating loss carryforwards	425,676	941,956
	<u>2,367,250</u>	<u>9,059,887</u>
Total deferred tax assets	4,334,198	11,914,381
Less: Valuation allowance		(500,000)
Deferred tax liabilities:		
Property and equipment	(198,741)	(295,766)
Net deferred tax assets	<u>\$4,135,457</u>	<u>\$11,118,615</u>

Deferred taxes result from temporary differences between tax bases of assets and liabilities and their reported amounts in the financial statements. The temporary differences result from costs required to be capitalized for tax purposes by the U.S. Internal Revenue Code, and certain items accrued for financial reporting purposes in the year incurred but not deductible for tax purposes until paid.

As of March 31, 2002, the Company has federal and state net operating loss carryforwards of \$13.7 million and \$31.4 million, respectively, expiring through 2022. Due to the change in control, which occurred during fiscal 2002, utilization of these losses to offset future income may be limited under IRC § 382. A valuation allowance has been recorded related to the limited realization of state net operating loss carryforwards. Based on Jakks ability to use the carryforwards, the Company believes it is more likely than not that these carryforwards will be utilized. Therefore, no further allowance was deemed necessary.

10. Capital Stock***Stock Repurchase Program***

In May 1999, the Company announced that its Board of Directors had approved the repurchase of up to \$2.0 million of Toymax common stock from time to time on the open market, as well as through private transactions. The timing of the stock repurchases and the total number of

shares repurchased will be determined by overall financial and market conditions. The Company's credit facility restricts it from

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purchasing shares of its capital stock in excess of \$2.0 million during any fiscal year. As of March 31, 2002, a total of 66,200 shares of Toymax common stock have been repurchased for a total purchase price \$210,403.

Private Placement

In December 2000, the Company announced the private placement of \$4.6 million for the purchase of common stock of Toymax and its subsidiary, Maxverse, had been accepted. Pursuant to the offering, the Company offered units at \$300,000 per unit consisting of 100,000 shares of Toymax common stock and 3 million shares of Maxverse, which was developing wireless communication products for children and young adults. Through March 31, 2002, 1,533,333 shares of common stock of Toymax and approximately 46 million shares common stock of the subsidiary had been issued. The Company retains controlling interest in the subsidiary. In March 2002, the Company discontinued the operations of Maxverse (Note 16).

11. Stock Options and Warrants

The Stock Option Plan (the *Plan*), which was initiated in fiscal 1998 and amended in January 1999 and 2000, is administered under the direction of the Compensation Committee of the Board of Directors, which has complete discretion to select the optionee and to establish terms and conditions of each option, subject to the provisions of the Plan. A total of 3,500,000 shares of Common Stock were reserved by the Company for issuance upon exercise of stock options granted or which may be granted under the Plan.

Stock options outstanding have a life of 10 years for non-qualified options and 5 years if the grant is an Incentive Stock Option (the *Incentive Options*), as defined in Section 422 of the Internal Revenue Code. These options may not be exercised more than 10 years after the grant or 5 years if the grant is an Incentive Option to any employee who owns more than 10% of the outstanding voting power of the Company.

Incentive Options granted may not be less than 100% of the fair market value of the Common Stock as of the date of the grant or 110% of the fair market value if the grant is to an employee who owns more than 10% of the outstanding voting power of the Company.

The following table summarizes information about stock option activity for the years ended March 31, 2000, 2001 and 2002:

	Option Shares	Exercise Price Range Per Share	Weighted Average Price
Balance, March 31, 1999	716,500	\$6.75-\$8.63	\$8.01
Granted	1,948,625	3.75-7.94	4.30
Exercised			
Cancelled	(26,150)	5.25-8.63	7.11
Balance, March 31, 2000	2,638,975	3.75-8.63	5.28
Granted	311,750	1.34-2.62	1.38
Exercised			
Cancelled	(656,825)	1.34-8.63	7.85
Balance, March 31, 2001	2,293,900	1.34-8.63	4.01
Granted	1,099,000	0.94-3.75	1.74
Exercised	(149,594)	1.30-1.82	1.58
Cancelled	(1,245,041)	1.30-8.63	3.55

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Balance, March 31, 2002	1,998,265	\$0.94-\$8.63	\$3.25
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Statement of Financial Accounting Standards No. 123 (*SFAS No. 123*), *Accounting for Stock-Based Compensation*, requires the Company to provide pro forma information regarding net income and net income per common share as if compensation costs for the Company's stock option plans had been determined in accordance with the fair value method prescribed in SFAS No. 123. Had compensation expense been recorded under the provisions of SFAS No. 123, the impact on the Company's net earnings and earnings per share would have been:

	Year Ended March 31,		
	2000	2001	2002
Net income (loss):			
As reported	\$ (1,901,360)	\$ (9,747,630)	\$ (23,861,757)
Pro forma compensation expense, net of tax	(656,150)	(1,457,066)	(1,566,838)
Pro forma	\$ (2,557,510)	\$ (11,204,696)	\$ (25,428,595)
Pro forma earnings (loss) per share:			
Basic and diluted	\$ (0.24)	\$ (0.99)	\$ (2.10)

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for all grants in 2000, 2001 and 2002: dividend yield of 0.00%; risk-free interest rate ranges from 3.97% to 4.81%; an expected life of options ranging from 5 to 10 years for 10-year options and a volatility of 46.5% for the year ended March 31, 2000, 89% for the year ended March 31, 2001 and 100% for the year ended March 31, 2002. The weighted average fair value of options granted was \$2.44, \$1.09 and \$0.91 for the years ended March 31, 2000, 2001 and 2002, respectively.

The following table summarizes information about stock options outstanding at March 31, 2002:

Option Price Range	Outstanding	
	Number of Shares	Weighted Average Exercise Price
\$0.94 - \$1.30	214,000	\$ 1.25
\$1.34 - \$1.47	248,100	\$ 1.39
\$1.63 - \$1.63	7,500	\$ 1.63
\$1.82 - \$1.82	245,365	\$ 1.82
\$2.00 - \$2.15	55,000	\$ 2.07
\$2.62 - \$2.62	10,000	\$ 2.62
\$3.75 - \$3.75	850,000	\$ 3.75
\$5.25 - \$5.25	269,800	\$ 5.25
\$5.31 - \$5.31	50,000	\$ 5.31
\$8.63 - \$8.63	48,500	\$ 8.63
\$0.94 - \$8.63	1,998,265	\$ 3.25

Pursuant to the Stock Purchase Agreement dated February 10, 2002 between Jakks Pacific, Inc. and the Company, the options outstanding on March 11, 2002 were amended to be fully exercisable for a six-month period commencing on the earliest of the effective date of the merger, or its termination, or September 30, 2002. Upon the expiration of the six-month exercise period, the outstanding options will terminate. In

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accordance with FIN No. 44, the modification of option terms resulted in a \$2.7 million charge to operations and a credit to additional paid in capital.

In conjunction with its initial public offering, the Company issued warrants to the underwriter to purchase 195,750 shares of Common Stock at an exercise price of \$10.20 per share. There was no charge to operations

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as a result of the issuance of the warrants to the underwriter. In August 1999, the underwriter exercised 106,105 warrants on a cashless basis, resulting in the issuance of an additional 28,108 shares of the Company's common stock.

On August 30, 1999, the Company issued 10,000 warrants at an exercise price of \$5.50 per warrant in conjunction with the execution of a license agreement. The warrants, which are fully vested, expire on August 31, 2002 and resulted in a charge of \$61,201 based on the fair value of the warrants issued.

12. Commitments and Contingencies*Lease obligations*

The Company leases general and administrative, warehouse and showroom facilities under non-cancelable operating leases which expire at various dates. Certain of the leases on real estate include the payment of property taxes. Additional warehouse space is leased on a monthly basis.

TMI leases certain equipment under capital leases. The gross amount of assets recorded under capital leases is \$211,245. Depreciation expense provided on such assets is included in both cost of goods sold and selling and administrative expenses in the statements of operations.

Future minimum lease payments under all leases with non-cancelable lease terms in excess of one year are as follows:

Year Ended March 31,	Operating Leases	Capital Leases
2003	\$1,117,554	\$ 15,716
2004	1,138,744	
2005	675,370	
2006	637,426	
2007	641,120	
Thereafter	1,468,589	
	<u>\$5,678,803</u>	<u>\$ 15,716</u>
Less amounts representing interest		926
Present value of capital lease payments		14,790
Less current portion		14,790
Long-term obligation		<u>\$ 0</u>

Rent expense for the years ended March 31, 2000, 2001 and 2002 was approximately \$1.1 million, \$1.4 million, and \$1.2 million, respectively.

Royalties

The Company has certain licensing agreements which involve the payment of royalties based on sales. Royalties for the years ended March 31, 2000, 2001 and 2002 amounted to approximately \$6.4 million, \$5.6 million and \$1.8 million, respectively.

Executive bonus plan

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The Company's Executive Bonus Plan (the *Bonus Plan*), is administered by the Compensation Committee of the Board of Directors (the *Compensation Committee*). The Compensation Committee determines the key management employees of the Company who will be eligible to participate in the Bonus

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TOYMAX INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Plan and the amount, if any, of each participant's award based on such participant's performance. The aggregate amount of awards made under the Bonus Plan for a fiscal year may not exceed an amount equal to 15% of the profit of the Company and its designated affiliates for such year (as defined), reduced by 15% of the shareholders' equity of the Company and such affiliates during such year.

Litigation

The Company is involved in various legal proceedings in the ordinary course of its business activities. The Company believes that the resolution of such legal proceedings and claims, individually and in aggregate, are not likely to have a material adverse effect on its financial position or results of operations.

In March 2001, George G. Grillo, a product consultant, filed a complaint against the Company as well as against Monogram International, Inc., Monogram Products (H.K.) Ltd., Steven Lebensfeld and David Ki Kwan Chu, in the Supreme Court of the State of New York, County of Suffolk, alleging breach of express and implied contracts, violation of New York State Labor Law, unjust enrichment and unfair competition. The plaintiff seeks monetary damages totaling \$280,000 in compensatory damages, \$2,500,000 in exemplary damages plus costs and attorney's fees. The Company, which intends to defend the action vigorously as well as interpose counterclaims, does not believe that the suit will have a material adverse effect on its financial position or results of operations, however, there can be no assurance of the outcome.

The Company's federal tax returns for 1992 through 2000 and New York State returns for 1999 through 2001 are under examination. The tax authorities have raised no issues to date that would have a material effect on the financial statements.

13. Major Customers and Products

Invoiced sales to Toys 'R' US and WalMart accounted for a total of 43%, 36% and 35% of total invoiced sales for the years ended March 31, 2000, 2001 and 2002, respectively.

14. Employee Benefit Plan

The Company has a tax deferred retirement savings plan that is intended to qualify under Section 401(k) of the Internal Revenue Code. Eligible participants may contribute a percentage of their compensation, but not in excess of the maximum allowed under the Internal Revenue Code. The plan provides for matching contributions at TMI's option. TMI made no contributions for the years ended March 31, 2000, 2001 and 2002.

15. Segment and Geographic Data

The Company operates two reportable segments: Toymax Brands (primarily toy products, together with the Yaboom joint venture) and Toymax Enterprises (primarily leisure and recreational products).

Table of Contents**TOYMAX INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following tables present summarized information about the Company's operations by different geographic areas (net of consolidating eliminations) as of and for the three years ended March 31, 2002:

Year Ended March 31, 2000	Toymax Brands	Toymax Enterprises	Consolidated
Revenues-Net sales	\$91,061,966	\$ 18,802,711	\$ 109,864,677
Income (loss) before income tax	(6,269,276)	2,295,198	(3,974,078)
Total assets	45,236,966	43,836,231	89,073,197
Interest income	533,933		533,933
Interest expense	(1,067,436)	(2,306)	(1,069,742)
Depreciation and amortization	1,981,742	2,388,529	4,370,271
Capital expenditures	2,941,379	1,056,479	