

INITIATION OF COVERAGE

May 18, 2007

Key Metrics

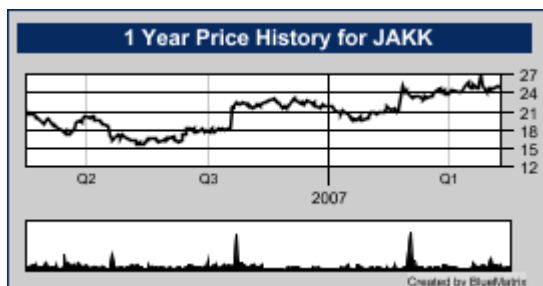
JAKK - NASDAQ (as of 5/17/07)	\$24.25
Price Target	\$29.00
52-Week Range	\$26.81-\$15.26
Shares Outstanding (mm)	32.8
Market Cap. (\$mm)	\$795.1
3-Mo. Average Daily Volume	362,123
Institutional Ownership	95.5%
Debt/Total Capital (3/07)	14.1%
ROE (3/07)	12.5%
Book Value/Share (3/07)	\$21.42
Price/Book Value	1.13x
Dividend Yield	NM
TEV/ LTM EBITDA	6.0x

EPS FY 12/31

	2006A	Prior 2007E	Curr. 2007E	Prior 2008E	Curr. 2008E
1Q	\$0.09	--	\$0.12A	--	\$0.14E
2Q	\$0.22	--	\$0.24E	--	\$0.25E
3Q	\$1.26	--	\$1.29E	--	\$1.37E
4Q	\$0.73	--	\$0.83E	--	\$0.90E
Year	\$2.30	--	\$2.47E	--	\$2.66E
P/E	10.5x		9.8x		9.1x

Revenue (\$mm)

	2006A	Prior 2007E	Curr. 2007E	Prior 2008E	Curr. 2008E
1Q	\$107.2	--	\$124.1A	--	\$126.5E
2Q	\$124.0	--	\$129.6E	--	\$136.1E
3Q	\$295.8	--	\$300.0E	--	\$320.0E
4Q	\$238.3	--	\$250.0E	--	\$260.0E
Year	\$765.4	--	\$803.7E	--	\$842.6E



Company Description: (www.jakksacific.com) JAKKS Pacific, Inc., develops, produces, and markets consumer products, including toys and related products, stationary and writing instruments, and pet toys and related products in the United States and internationally.

JAKKS Pacific, Inc.

JAKK – NASDAQ – BUY

Armed & Dangerous: Initiating Coverage on JAKK With a Buy Rating and \$29 PT.

Investment Highlights

- We are initiating coverage of JAKK with a Buy rating.** JAKKS has grown to be the fourth largest toy manufacturer in the United States. JAKKS has established itself as a legitimate contender to its larger and more established competitors, such as Hasbro and Mattel.
- Proven strategy turning around underperforming brands and licenses.** Since 1995, JAKKS has completed and integrated 14 acquisitions of companies and trademarks. We believe the management team at JAKKS has demonstrated an ability to identify hidden potential of certain under-marketed, but well-established brands and/or licenses.
- Ample ammunition for further acquisitions.** With cash exceeding debt by \$94mm and free cash flow expected to approach \$100mm annually, or \$3 to \$4 per share, the company's ammunition appears sufficient to hunt down additional acquisition targets.
- Low cost, high margined product offerings attractive to retailers.** JAKKS offers a variety of quality branded product lines typically selling at prices below \$20 while providing 30% to 50% retailer margins. We believe these products are particularly appealing to consumers and allow JAKKS to forge strong relationships with key retail clients.
- Shares trade at a significant discount to peers.** Currently trading at 10.5x 2006 results, JAKKS trades at a significant discount to its larger peers, now trading at an average 16.8x FY07E.
- Not for the weak at heart – discounted for a reason.** JAKKS is currently on the receiving end of a 2004 lawsuit from the World Wrestling Entertainment (WWE) that essentially claims JAKKS and THQ bribed people associated with the WWE for its joint venture license and toy line extension. Although our \$29 price target and valuation metrics assume a worst-case scenario, the loss of \$200mm in cash and the two WWE licenses, (estimated to contribute between \$0.35 to \$0.50 per share per year) resulting from a guilty verdict, could certainly negatively impact JAKKS' share price. However, a not guilty verdict would most likely provide a catalyst for the shares. While it is difficult to determine the timing and/or outcome of this litigation, we believe the potentially lost licenses could be overcome relatively quickly through another series of accretive acquisitions.

Investment Thesis

We are initiating coverage of JAKK with a Buy rating and \$29 price target. JAKKS Pacific designs, develops, and markets licensed and brand name children's toys, which it sells to virtually every retail channel worldwide. The company focuses upon core product lines or "evergreen" brands that have demonstrated steady consumer appeal and deliver consistent profitability and stable growth. JAKKS' core brands can be grouped in the following seven categories: Boys Action Toys, Dolls, Plush & Role-Play, Electronics, Pets, Stationary & Activities, and Seasonal. Whether it is through acquisitions, internal product development and/or license accruals, JAKKS has developed a healthy stable of products that generate a consistent base for higher margin revenue streams.

JAKKS strategy centers on developing and acquiring low priced toys and accessories in diverse merchandise and seasonality categories. In recent years, the company has achieved significant sales and earnings growth by acquiring established brands and licenses, growing sales through enhanced marketing while leveraging distribution and operating expenses. Once known primarily as a distributor of World Wrestling Entertainment (**WWE-\$17.95-NYSE**) merchandise, JAKKS has reduced WWE products, as a percentage of sales, from over 50% in 1997 to roughly 10% today and we think this downward trend will continue as the company adds to its overall product mix. Most recently, JAKKS acquired substantially all of the assets of Creative Design International, Ltd for \$111.1mm. In addition to adding licenses for some of Disney's classic characters, princesses and fairies, the acquisition added \$181.1mm to 2006 sales. Since its inception, JAKKS has purchased roughly fourteen companies for approximately \$460mm, driving overall sales to \$765mm in 2006. With cash exceeding debt by \$94mm and free cash flow expected to approach \$100mm annually, ammunition appears sufficient to hunt down additional acquisition targets not factored into our projections.

Despite strong sales and earnings growth over the past three years, during which sales increased from \$300mm to \$765mm and earnings grew from \$1.17 to \$2.30, the company continues to trade at a significant discount to its peer group. Currently trading at, from a price to EPS basis, 10.5x 2006 results and 6x, from an enterprise value to EBITDA basis, JAKKS' share price trades at a 71% and 99% discount, respectively, to its peer group. While some of the discount can be attributed to concerns over a pending lawsuit filed by the World Wrestling Entertainment, which we address on page 9 and below, previous concerns, such as corporate bonuses, appear to have been addressed and are now in line with creating shareholder value. Additional negatives appear to center around limited core product growth on a year-to-year basis. While, after eliminating the impact of acquisitions, this does appear to be a trend, it's nothing new to the company or the industry. Toys are inherently fickle and today's fad is in tomorrow's closet. The key is supplanting, via new product releases and/or acquisitions, dated merchandise with fresher, higher velocity product lines. This year appears to be no different for JAKKS as expected weakness from products such as Fly Wheels, Doodle Bear, and WWE should be offset by higher-profile items including Pokemon, Hannah Montana, and The Cheetah Girls. Outside of the extremely rare "Tickle Me Elmo" or "Barbie" lines, which still fluctuate year to year, which have been able to sustain phenomenal consumer penetration over time, most hit products and licenses quickly come and go and must be replenished on an annual basis. Whether it's through acquisitions, research and development, or license acquisition, we believe the bottom-line focus for investors is expanding sales, earnings per share, cash flow, and shareholders' equity, which JAKKS has consistently achieved, and oftentimes with its growth exceeding that of its larger and better-known competitors.

Table 1: Three-Year Growth Trends – JAKKS – Hasbro - Mattel

Company	Fiscal Year Results					Year over Year Growth				
	TTM Sales	TTM EPS	FCF Share	Shareholder Equity	Retained Earnings	TTM Sales	TTM EPS	FCF Share	Shareholder Equity	Retained Earnings
2004										
JAKKS	574.3	1.49	5.1	451.5	176.6	91.2%	27.5%	4671.1%	17.0%	25.2%
Hasbro	2997.5	0.95	1.4	1639.7	1721.2	-4.5%	-0.9%	-32.6%	16.7%	9.8%
Mattel Inc.	5102.8	1.18	1.0	2385.8	1093.3	2.9%	-2.8%	10.3%	7.7%	54.5%
2005										
JAKKS	661.5	2.06	2.5	524.7	240.1	15.2%	38.2%	-49.8%	16.2%	36.0%
Hasbro	3087.6	1.18	2.2	1723.5	1869.0	3.0%	25.2%	51.5%	5.1%	8.6%
Mattel Inc.	5179.0	1.18	0.8	2101.7	1309.8	1.5%	0.0%	-20.5%	-11.9%	19.8%
2006										
JAKKS	765.4	2.30	1.9	609.3	312.4	15.7%	11.5%	-25.7%	16.1%	30.1%
Hasbro	3151.5	1.31	2.2	1537.9	2020.3	2.1%	10.4%	0.0%	-10.8%	8.1%
Mattel Inc.	5650.1	1.38	1.9	2433.0	1652.1	9.1%	16.9%	139.5%	15.8%	26.1%

Source: Company reports

While near-term earnings growth does not currently measure up to recent Y/Y comparisons, ongoing growth via acquisitions remains a distinct possibility. Furthermore, even with expectations for relatively flat earnings growth in 2007, free cash flow could expand towards \$100mm, which would significantly bolster an already strong balance sheet.

Not for the weak at heart – some of the discount warranted, in our view – pending WWE lawsuit.

JAKKS is currently on the receiving end of a 2004 lawsuit from WWE that essentially claims JAKKS and/or the Joint Venture bribed people associated with the WWE for its joint venture license and toy line extension. Although our target and valuation metrics assume a worst case scenario, the loss of \$200mm in cash and the two WWE licenses (estimated to contribute between \$0.35 to \$0.50 per year), resulting from a guilty verdict, could certainly negatively impact JAKKS' share price, whereas a not guilty verdict would most likely provide a catalyst. While it is difficult to determine the timing and/or outcome of this litigation, we believe the potentially lost licenses could be overcome relatively quickly through another series of accretive acquisitions.

Investment Positives

JAKKS maintains a strong track record of growth through acquisitions. In addition to expanding current product lines through internal development, JAKKS has further diversified its product offerings through new product line acquisitions. The company has adopted an acquisition strategy targeting under-marketed evergreen brands. Since its inception, JAKKS has acquired fourteen companies for approximately \$460mm with revenue streams ranging from \$10mm to over \$150mm per year. Revenues associated with JAKKS acquisitions since 2004 represented approximately 24.3% and 10.1% of the company's total revenues in 2006 and 2005, respectively. The key criteria management seeks from potential targets include attractiveness of products, suitability of distribution channels, management ability, financial condition, results of operations and the degree to which acquired operations can be integrated into JAKKS' operations. The company's track record is strong as management targets accretive acquisitions with upside earnings potential developed through integration into JAKKS established model of operations.

Table 2: JAKKS Acquisition History

Target	Date	Cost
Creative Design Int. Ltd.	Feb-07	111.1
Pet Pal	Jun-07	10.6
Play Along	Jun-07	85.7
P&M Products	May-07	22.0
Trendmasters	Nov-07	19.2
ToyMax	Mar-02	62.8
Kidz Biz, Ltd.	Dec-01	12.4
Penteck	Jul-00	56.1
Flying Colors	Oct-99	52.9
Berk	Jun-99	3.1
Child Guidance/Remco	Oct-97	13.4
Road Champs	Feb-97	12.5

Source: Company reports

Creative Design International (CDI)

During February 2006, JAKKS announced that the company completed the acquisition of substantially all of the assets and liabilities of Creative Design International Ltd. (CDI), a twenty-six year old, privately held toy company based in Feasterville, PA, and a related Hong Kong company (Arbor Toys Company Limited). JAKKS acquired CDI for \$111.1mm, consisting of \$101.7mm in cash, 150,000 shares of JAKKS common stock at a value of approximately \$3.3mm, the assumption of \$6.1mm in liabilities, and an earnout of up to an aggregate amount of \$20.0mm through 2008. CDI is a leading manufacturer of girls' dress-up and role-play toys.

The acquisition was estimated to generate roughly \$140mm to \$150mm in sales and contribute \$0.40 to \$0.50 per share to full-year earnings; however, in 2006, The Creative Design line of products outpaced those estimates with sales of \$181.1mm and estimated EPS of \$0.55 to \$0.60. Its primary products include the Dirt Devil Jr. Upright Vacuum, McDonald's Electronic Cash Register, Farberware 7-Piece Cookware Set, and the Fairy Princess Gown Set, to name a few. JAKKS intends to bolster this roster by maximizing its line through the addition of the hit Disney licenses Hannah Montana and the Cheetah Girls. The items will be featured as role-play and dress-up items.

Pet Pal

During June 2005, JAKKS announced that the company had acquired a line of pet products from a privately-held company through a new subsidiary, Pet Pal Corporation. The Pet Pal product line is comprised of licensed and non-licensed pet toys, pet treats and other related products, including those based on American Kennel Club, SpongeBob SquarePants, Madagascar, Shrek, and Barbie, and are currently distributed in the United States and Canada. The total initial purchase price of \$10.6mm was paid in cash. In addition, JAKKS agreed to pay an earnout of up to an aggregate amount of \$25mm in cash over the three-year period ending June 30, 2008.

While representing roughly 3% of the company's total sales base, we find this addition intriguing and a clever source for further product and distribution channel diversification. Pet-related spending is at an all-time high and estimated to be around \$30bn. While the products target canines and felines rather than humans, the manufacturing process and strategy appears similar. Key licensing agreements include worldwide licensing with the American Kennel Club, Cat Fanciers Association, Disney (**DIS-\$35.99-NYSE**), the Meow Mix Company (part of Del Monte Foods Co. (**DLM-\$11.85-NYSE**)), and music rap artist Snoop Dogg. JAKKS appears to have aligned itself with high profile and well respected pet organizations as well as out-of-the-box, yet clever, associations with Snoop Dogg. Additional offerings include Halloween costumes for pets, Spider-Man 3 interactive toys, and oral care dog treats designed to freshen breath and whiten teeth.

Play Along

In April 2004, JAKKS purchased substantially all of the assets and assumed certain liabilities of Play Along, Inc. and related companies. The total initial purchase price of \$85.7mm consisted of cash paid in the amount of \$70.8mm and the issuance of 749,005 shares of common stock valued at \$14.9mm and resulted in goodwill of \$67.8mm. In addition, JAKKS agreed to pay an earnout of up to \$10mm per year for the three calendar years following the acquisition, up to an aggregate amount of \$30mm. For the three years, \$10.0mm, \$6.7mm, and \$6.7mm, respectively, of the earnout was earned and recorded as goodwill. Play Along designs and produces traditional toys, which it distributes domestically and internationally.

The acquisition expanded JAKKS product offerings in the pre-school area and brought with it proven toy licenses such as Cabbage Patch Kids, Care Bears, Doodle Bears, Sky Dancers and Trolls. In addition to these classic lines, Play Along sells Speed Stacks, the official equipment for the game of sports stacking. The sport, which is essentially stacking and unstacking cups, is included in Physical Education curriculums of over 11,000 schools and the World Sport Stacking Association (WSSA) hosted a World Sports Stacking Association Championship that aired on ESPN. It was named among the hottest toys for the 2006 holiday season by Toy Wishes Magazine and could be an ongoing staple for kids worldwide.

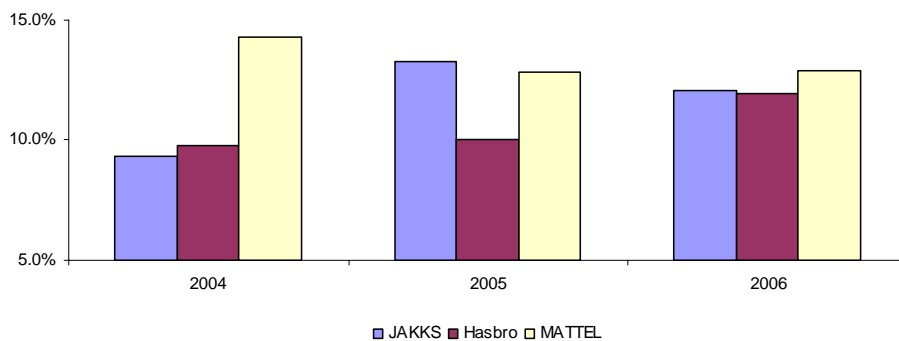
JAKKS has built a diverse product line that limits dependence upon any category.

While aggressively accumulating sales through acquisitions, we believe JAKKS has effectively utilized these assets to limit its dependence upon any particular product line. In addition to adding roughly \$180mm to annualized sales, the acquisition of CDI bolstered the company's offerings to young girls and tweens, a category that previously had limited penetration. CDI, along with JAKKS acquisition of Play Along, which carries classic toy lines such as Cabbage Patch Kids, Care Bears, Doodle Bear, Sky Dancers and Trolls, now gives the company a more appropriate split between girls and boys toys. Additionally, the company offers seasonal products including pens, pencils, and stationary, which typically sell more effectively in the slower spring and summer months. While the majority, roughly 70%, of the company's sales is still generated during 3Q and 4Q, which is in line with comparable peers, JAKKS does provide some product diversification during the slower periods.

Often overlooked, JAKKS generates industry-leading profit margins.

Often overlooked, in our opinion, is JAKKS' ability to generate consistent and industry leading profit margins. Despite the slightly higher, as a percentage of sales, royalty payments for licensed products, JAKKS has generated EBIT margins of 12%, 13%, and 9% in 2006, 2005, and 2004, respectively. These results compare favorably to its higher profile and larger competitors, Hasbro and Mattel. In order to maximize profits, the majority of JAKKS products are produced overseas by roughly eighty third-party manufacturers, which allows the company to avoid incurring fixed manufacturing costs. Because JAKKS merchandise typically targets lowered priced lines, the manufacturing of the products is relatively easy and JAKKS is required to purchase only the principal raw materials used in production, which limits its capital expenditure requirements. We believe these results are particularly impressive considering the amount of acquisitions JAKKS has recently closed. Typically, an acquired company's profit margins are far below that of JAKKS, which allows JAKKS to purchase the company for a lower value, and time is required to create synergies that allow for the acquired lines to reach required profit margins. Even with this potential hurdle, JAKKS' operating profit margins have remained relatively consistent and in line with the margins of its larger peers.

Table 3: Comparable Operating Profit Margins



Source: Company reports

We should also note that operating results do not take into consideration JAKKS' Joint Venture returns or limited debt payments. Moving down the income statement to pre-tax earnings, JAKKS profits become even more favorable and oftentimes exceed that of Hasbro and Mattel.

Table 4: Comparable Pre-Tax Profit Margins



Source: Company reports

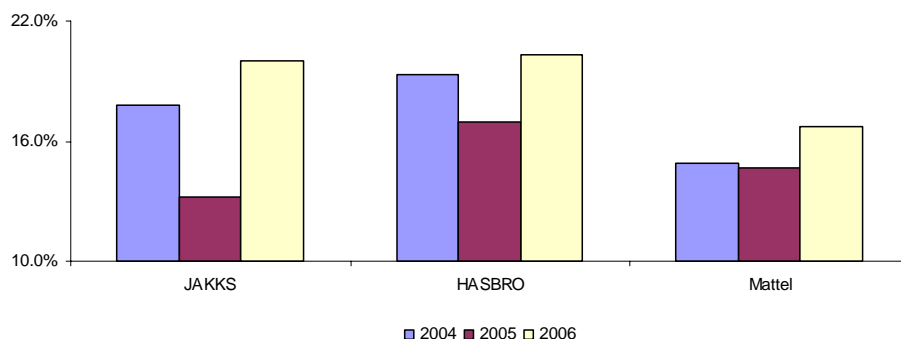
Going forward, we believe JAKKS can continue expanding its profit margins, particularly its gross margins. The company continues to search out efficiencies, such as utilizing lighter and smaller packaging, which would reduce freight costs, implementing slightly higher price points, and realizing greater synergies from recently acquired companies. Assuming no new acquisitions, which would move sales higher, yet potentially skew margins lower in the near term, we believe JAKKS can eventually return gross margins to pre-acquisition levels of 40% to 42%.

JAKKS maintains strong relationships with retail partners. JAKKS offers a variety of quality branded product lines typically selling at prices below \$20 while providing 30% to 50% retailer margins. The toy industry has undergone significant consolidation both at the manufacturing and retail levels. Discount stores such as Wal-Mart (**WMT-\$47.11-NYSE**) and Target Corp. (**TGT-\$57.69-NYSE**) have increased their share of the toy sales at the expense of smaller operators. As a result, and in our opinion, larger retailers have become more dependent on financially secure broad line suppliers to meet challenges in product supply, pricing, and distribution. We believe this dependence benefits the larger manufacturers, such as JAKKS, and helps provide a more consistent revenue stream year in and out. Highlighting this is the fact that 59% of the company's sales in 2006 and 2005 were generated by three companies: Wal-Mart, Target and Toys R Us. JAKKS appears to maintain strong relationships with these key customers and has been accredited with numerous awards highlighting those relationships.

- ◆ Wal-Mart names JAKKS Pacific Vendor Partner of the Year for 2004 and Wal-Mart Canada Vendor Partners of the Year for 2004
- ◆ Wal-Mart names Creative Designs International as Vendor of the Year 2005
- ◆ Target gives Creative Design International the Partner Award of Excellence of the Year 2005
- ◆ Toys “R” Us names JAKKS Vendor of the Year for 2004 and 2005
- ◆ Toys “R” Us Vendor of the Year for 2006 for WWE action figures, Fly Wheels, and Play Along division for its Doodle Bear Line

Historically strong free cash flow should expand in 2007. In 2004, 2005, and 2006, JAKKS generated free cash flow of \$126mm, \$63mm, and \$53mm, respectively. The company’s 2006 balance sheet saw accounts receivable increase \$65.9mm, generating a \$52.9mm use of cash on the cash flow statement, reducing the potential for higher returns. We believe the increase in receivables as a percentage of trailing twelve month sales, from 13% in 2005 to 20% in 2006, is more of a timing issue within the quarter and not indicative of a dramatic shift in customer payments. JAKKS’ three largest customers are Wal-Mart, Target, and Toys R Us, which represented approximately 58.7% of net sales in 2006, certainly should not be considered a credit risk, in our view. Similarly, Mattel and Hasbro experienced a similar Y/Y increase, as a percentage of sales, which further leads us to believe that the timing was not isolated to JAKKS.

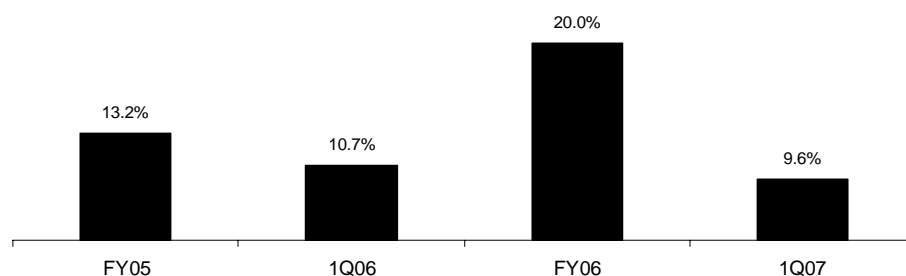
Table 5: Annual Receivable to TTM Sales Breakdown



Source: Company reports

Looking at the recent first quarter results, these financial metrics appear to have returned to normal. Whereas receivables as a percent of trailing twelve month sales (TTM) in 1Q06 was 10.7%, receivables as a percentage of TTM sales in 1Q07 fell to 9.6%.

Table 6: Annual Receivable to TTM Sales Breakdown



Source: Company Reports

If we are correct and the difference is purely timing, receivables should present a significant source of cash flow in 2007. We currently forecast free cash flow in 2007 at \$96mm. This projection assumes receivables as a percentage of sales fall from 20% in 2006 to 18% in 2007; thus providing an inflow of \$7mm in cash, roughly a \$59mm difference. Should conditions remain as is or even worsen slightly, a 2% increase in receivables as a percentage of sales would still result in a \$26mm to \$40mm difference in cash usage for receivables Y/Y.

Table 7: Annual Receivables to TTM Sales Breakdown

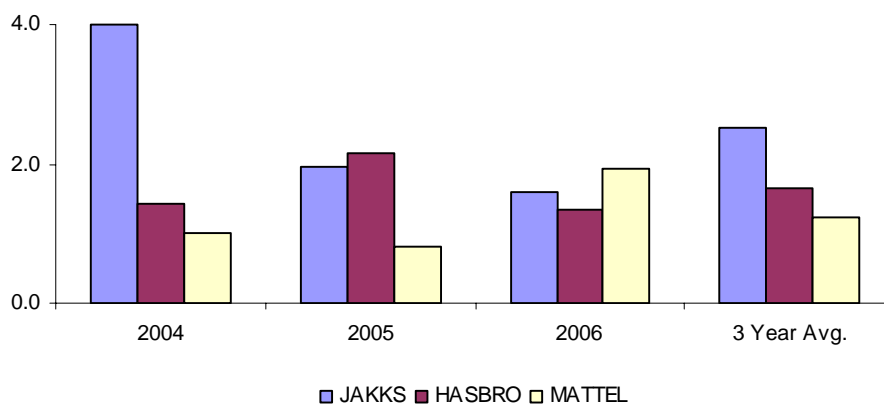
	2004	2005	2006	2007E	2007E	2007E	2007E	2007E
Net Income	43.6	63.5	72.4	79.5	79.5	79.5	79.5	79.5
D & A	21.5	15.5	26.2	26.7	26.7	26.7	26.7	26.7
Other	14.5	4.4	1.4	0.0	0.0	0.0	0.0	0.0
Receivables	-4.3	16.7	-52.9	8.5	32.6	8.5	-7.6	-23.7
Inventories	0.8	-13.3	-8.4	-3.6	-3.6	-3.6	-3.6	-3.6
Payables	19.2	-9.4	12.6	-1.3	-1.3	-1.3	-1.3	-1.3
Other	36.2	-6.3	12.4	0.0	0.0	0.0	0.0	0.0
Cash Operations	131.4	71.1	63.7	109.8	133.9	109.8	93.7	77.6
Capital Expenditures	-5.9	-8.3	-11.2	-11.5	-11.5	-11.5	-11.5	-11.5
Free Cash Flow (FCF)	125.5	62.8	52.5	98.3	122.4	98.3	82.2	66.1
Shares Out.	31.4	32.2	32.7	33.0	33.0	33.0	33.0	33.0
FCF/Shares	\$4.00	\$1.95	\$1.61	\$2.98	\$3.71	\$2.98	\$2.49	\$2.00
FCF Yield	21.9%	10.1%	7.6%	12.4%	15.5%	12.4%	10.4%	8.4%
Receivables % Sales	17.8%	13.2%	20.0%	9.6%	15.0%	18.0%	20.0%	22.0%

Source: Company Reports and Morgan Joseph Estimates

Right side of chart shows change in cash flow to varying levels of receivables to sales

Regardless of the specific changes in JAKKS' 2007 working capital, on an annual basis, JAKKS' compares favorably, if not superior, to the company's larger and higher-valued competitors. JAKKS' average free cash flow yield (based off of year end free cash flow per share to the average monthly share price for that year) over the past three years is 13.2%, higher than Hasbro's and Mattel's 8.3% and 7.1% average, respectively.

Table 8: Annual Free Cash Flow to TTM Sales Analysis



Source: Company reports

International opportunities could present added avenues for growth. JAKKS' international sales accounted for approximately 12.9%, or \$99.1mm, of 2006 total sales. While the United States is the world's largest toy market at approximately \$22.3bn, according to Toy Industry Association, Inc., Japan and Western Europe are right behind the U.S. in terms of purchasing power. The worldwide market, according to TIA, is roughly \$40.0bn, of which JAKKS has just begun to penetrate. While slow to develop internationally, in comparison to Hasbro and Mattel's 25% to 30% of total sales overseas, JAKKS has the potential to improve upon this category by expanding relationships with foreign distributors and retailers and achieving greater acceptance overseas of U.S.

product lines. One challenge JAKKS has had internationally is the high percentage of license products within its mix. While popular in the United States, they do not always transfer effectively within other countries. We believe the addition of CDI and Play Along adds to the company's reach. Furthermore, the WWE brand continues to televise and market overseas and Pokemon remains an international staple. Additional opportunities for growth could also materialize as domestic television and movie programming becomes more commonplace overseas; thus providing a more fertile landscape for growth.

Investment Risks

WWE lawsuit over THQ License. In 2004, World Wrestling Entertainment, Inc. filed a lawsuit against JAKKS Pacific, THQ, Stanley Shenker (a former licensing agent for the WWE) & Associates and Bell Licensing concerning the video game license between WWE and the joint venture company operated by THQ and JAKKS. The suit also names as defendants certain individuals employed by JAKKS, including Jack Friedman (CEO), Stephen Berman (COO) and Joel Bennett (CFO). The suit alleges violations of the Racketeer Influence and Corrupt Organization Act (RICO); violations of the anti-bribery provisions of the Robinson-Patman Act; and various claims arising under state law. WWE sought treble, punitive and other damages (including disgorgement of profits) in an undisclosed amount and a declaration that the video game license with the joint venture, which is scheduled to expire in 2009 (subject to joint venture's right to extend that license for an additional five years) along with an amendment to its toy licenses with the WWE, which are scheduled to expire in 2009, are void and unenforceable. In March, 2006, the U.S. District Court of the Southern District of New York dismissed two of the three substantive federal claims brought against JAKKS by WWE. The court granted the company's motion to dismiss WWE's Robinson-Patman and Sherman Act claims, but denied the company's motion to dismiss the allegation of a RICO enterprise. Subsequently, in October 2006, the WWE filed a lawsuit in the Connecticut state court involving a claim previously reported in Securities and Exchange Commission filings concerning allegedly improper sales of WWE video games in Japan and other countries in Asia.

Essentially, the WWE believes the defendants made a series of payments to Stanley Shenker's foreign bank account via two foreign subsidiaries of JAKKS. The payments were allegedly to procure the video-game license that was awarded to JAKKS and THQ. Stanley Shenker pleaded guilty in U.S. District Court to defrauding the WWE by paying approximately \$1mm in kickbacks to Mr. James Bell, WWE's former senior vice president of licensing and merchandising, for future business. The payments were concealed as consulting services. James Bell pleaded guilty in 2005 to related charges.

The Class Action suits seek compensatory damages and a declaration that the video game license and amendment to the toy license are void and unenforceable. JAKKS believes that the claims in the WWE action are without merit and intends to defend against them. Should the RICO claim go against JAKKS, JAKKS could lose its Joint Venture and WWE license as well as be subject to, according to the RICO Act, a judgment in the amount of three times their actual damages, including costs and attorney fees. Going back to 1998, when the alleged infraction took place, JAKKS has accrued approximately \$68mm from its joint venture. Multiply that by three and we estimate that potential damages could be slightly over \$200mm. We estimate that the WWE toy license generates anywhere from \$60mm to \$100mm, depending upon the year, in sales per annum. Factoring in the estimated toy license and joint venture profits, a negative verdict has the potential, in addition to any damages awarded, to eliminate between \$0.30 and \$0.52 per share of JAKKS' annual earnings.

Table 9: Estimated Potential Losses From a Negative Verdict (\$ in millions, except EPS)

Estimated WWE Toy Sales	\$60.0	\$100.0
Pre-Tax Profit (12% margin)	\$7.2	\$12.0
Joint Venture	\$7.0	\$13.0
Total Pre-Tax Profit	\$14.2	\$25.0
Taxes (32%)	\$9.7	\$17.0
Earnings Per Share	\$0.30	\$0.52
Shares Outstanding	32.7	32.7

Source: Morgan Joseph estimates

Final clarity on the situation remains cloudy and could linger on for months or years. Eventually, even with a successful verdict, we believe that JAKKS will most likely lose the toy license in 2009, but will certainly be in the bidding for the contract.

JAKKS is dependent upon licensed brands. In exchange for immediate brand recognition, JAKKS usually pays minimum guarantees and/or royalty fees (typically ranging from 1% to 14% of net sales), which limit profit margins relative to owned merchandise that carry no comparable costs. These licenses are time-based and subject to renewal at the end of each contract. Should any license expire or minimum guarantees not be met, JAKKS could lose the rights to a particular license and forfeit future sales projected for that brand.

Ideally, toy manufacturers would prefer core owned brands that are highly recognizable, such as Mattel's Barbie or Hasbro's G.I. Joe, which typically generate more consistent sales, but that scenario is not often realistic. For example, in 2006, JAKKS paid out \$71mm in royalty payments, or 9.2% of sales. While slightly higher than that of competitor Hasbro's 2006 royalty payment (as a percent of sales) of \$170mm or 5.4%, historically, Hasbro has operated around 8%.

JAKKS' three largest customers accounted for 59% of its 2006 sales. In 2006, 59% of the company's sales were derived from three customers. Risk therefore exists that these retailers could seek other toy vendors in order to exert pricing pressure on JAKKS. In addition, inventory reduction programs could negatively impact the company's near-term sales and earnings results.

Sales and operations outside the United States subject to uncontrollable changes. With third-party manufacturers principally in China, sales are subject to the normal risks associated with international operations. Currency fluctuations, taxes, political instability, foreign laws, and potential transportation delays or interruptions all could adversely affect business.

Valuation

\$29 price target assumes a worst-case scenario for discounted cash flow value. We arrive at our \$29 price target based on a worst-case scenario in terms of the WWE lawsuit, and discounted cash flow analysis of expected cash flows. As we mentioned within the risks segment, we estimate that, at the upper end of annual profits, JAKKS' WWE toy sales and joint venture licenses generate pre-tax profits of \$25mm per year. Eliminating those profits and \$200mm in cash from the company's balance sheet, we arrive at a price target of \$29 per share.

Table 10: Worst Case Scenario Discounted Cash Flow Analysis

	2006	2007E	2008E	2009E	2010E	2011E	1012E	
Revenues	765.4	803.7	842.6	863.7	785.3	804.9	825.0	
Less WWE revenues	0.0	(100.0)	(100.0)	(100.0)	0.0	0.0	0.0	
Adjusted revenues	765.4	703.7	742.6	763.7	785.3	804.9	825.0	
Operating Profit	92.3	93.3	103.5	101.6	104.4	107.1	109.7	
WWE JV Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Terminal Value
Pretax income	92.3	93.3	103.5	101.6	104.4	107.1	109.7	
Tax Rate	31.7%	32.0%	33.0%	33.0%	33.0%	33.0%	33.0%	
EAT	63.1	63.4	69.4	68.1	70.0	71.7	73.5	
Less: Non-recurring Charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net Earnings	63.1	63.4	69.4	68.1	70.0	71.7	73.5	
Plus: Depreciation	26.2	26.7	28.0	28.0	30.0	31.0	32.0	
Plus: Change in Working Capital	(34.8)	3.6	(6.4)	(3.5)	12.9	(3.2)	(3.3)	
Cash from Operations	54.4	93.7	90.9	92.6	112.9	99.5	102.2	
Less: Cap X	(11.2)	(11.5)	(13.0)	(14.0)	(15.0)	(16.0)	(16.0)	
Free Cash Flow	43.2	82.2	77.9	78.6	97.9	83.5	86.2	1,268.2
Weighted Average Cost of Capital Calculations								
Cost of Debt	4.6%	Risk Free Rate	4.5%					
Tax Rate	32.0%	Risk Premium	5.0%					
After-tax Cost of Debt	3.1%	Beta	1.20					
Debt Weight	14.1%	Cost of Equity	10.5%					
		Equity Weight	85.9%					
Weighted Average Cost of Capital (WACC):			9.5%					
Discounted Cash Flow Fair Value Calculation:								
Discount Rate:			9.5%					
Estimated Long Term Growth Rate in FCFs:			2.5%					
Net Present Value of Estimated FCFs:			\$1,045					
Less Long-Term Debt			\$98					
Plus Cash			\$0					
Fair Market Value			\$947					
Shares Outstanding			32.8					
Discount FCF Value per Share (Fair Value)			\$28.9					

Source: Company reports and Morgan Joseph estimates

Less WWE revenues – assumes loss of \$100mm in annual sales and license not renewed after 2009
WWE JV Income – Assumes no cash received for Joint Venture

* Assumes current cash balance of \$192.4mm utilized to pay for damages

Taking it a step further, eliminating \$0.50 or share, or \$25mm in pre-tax income, in earnings per year and reducing cash by roughly \$200mm we calculate 2007E P/E and EV/EBITDA estimate ratios of 15x and 10x, respectively, on our \$29 price target. Even at these adjusted levels, our \$29 price target assumes a conservative 14% and 7% discount to JAKKS' peer group comparables. With the litigation, in this worst-case scenario, behind the company, we believe a multiple in line with its peer group is warranted.

Table 11: Worst Case Scenario P/E and EV/EBITDA Analysis

	2007E P/E	2008E P/E	2007 EV/EBITDA
Peer group average	16.8x	15.6x	10.6x
JAKK current price	12.2x	11.1x	8.4x
Discount to group	-37.8%	-40.5%	-26.2%
JAKK \$29 Target	14.7x	13.4x	9.9x
Discount to group	-14.0%	-16.3%	-6.6%

Source: Company reports and Morgan Joseph estimates

Positive verdict makes valuation extremely compelling. Our \$29 price target reflects a 12x multiple to our 2007 EPS estimate of \$2.47. This multiple reflects a material 43% and 63% discount to JAKKS' peer group on its 2007E P/E and EV/EBITDA estimate ratios, respectively.

Table 12: Valuation Breakdown – Positive Verdict

	2007E P/E	2008E P/E	2007 EV/EBITDA
Peer group average	16.8x	15.6x	10.6x
JAKK current price	9.8x	9.1x	5.3x
Discount to group	-70.9%	-71.2%	-98.6%
JAKK \$29 Target	11.7x	10.9x	6.5x
Discount to group	-42.9%	-43.2%	-62.5%

Source: Company reports and Morgan Joseph estimates

A price target, based off of discounted cash flow analysis that factors in a positive verdict from the WWE lawsuit, correlates to a value of \$38 per share. We note that, within our model, after 2008 we assume what we believe to be extremely conservative 2.5% Y/Y sales growth and flat operating profit margins of 13.3%. Additionally, after 2009, we eliminate \$100mm in sales with the assumption that the WWE license is awarded to a competitor. Finally, our model does not factor in potential acquisitions, which are highly likely, in our opinion, based upon the company's growth model, which could further fuel additional cash flow development and share price appreciation.

Table 13: JAKKS' Discounted Cash Flow Analysis – Positive Verdict

	2006	2007E	2008E	2009E	2010E	2011E	2012E	
Revenues	765.4	803.7	842.6	863.7	785.3	804.9	825.0	
Less: Operating expenses	659.5	686.8	713.7	739.3	672.2	689.0	706.2	Terminal Value
Pre-tax Income	105.9	116.9	128.9	124.4	113.1	115.9	118.8	
Tax Rate	0.32	0.32	0.33	0.33	0.33	0.33	0.33	
EAT	72.4	79.5	86.3	83.3	75.8	77.7	79.6	
Less: Non-recurring Charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net Earnings	72.4	79.5	86.3	83.3	75.8	77.7	79.6	
Plus: Depreciation	26.2	26.7	28.0	28.0	30.0	31.0	32.0	
Plus: Change in Working Capital	(34.8)	3.6	(6.4)	(3.5)	12.9	(3.2)	(3.3)	
Cash from Operations	63.7	109.8	107.9	107.9	118.7	105.4	108.3	
Less: Cap X	(11.2)	(11.5)	(13.0)	(14.0)	(15.0)	(16.0)	(16.0)	
Free Cash Flow	52.5	98.3	94.9	93.9	103.7	89.4	92.3	1,357.7
Weighted Average Cost of Capital Calculations								
Cost of Debt	4.6%	Risk Free Rate	4.5%					
Tax Rate	32.0%	Risk Premium	5.0%					
After-tax Cost of Debt	3.1%	Beta	1.20					
Debt Weight	14.1%	Cost of Equity	10.5%					
		Equity Weight	85.9%					
Weighted Average Cost of Capital (WACC):			9.5%					
Discounted Cash Flow Fair Value Calculation:								
Discount Rate:			9.5%					
Estimated Long Term Growth Rate in FCFs:			2.5%					
Net Present Value of Estimated FCFs:			\$1,144					
Less Long-Term Debt			\$98					
Plus Cash			\$192					
Fair Market Value			\$1,238					
Shares Outstanding			32.8					
Discount FCF Value per Share (Fair Value)			\$37.8					

Source: Company reports and Morgan Joseph Estimates

Company Background

JAKKS Pacific designs, develops and markets licensed and brand name children's toys, which it sells through mass merchants, toy stores, and specialty retailers throughout the United States and international markets. The company focuses on core product lines or "evergreen" lines that have demonstrated steady customer appeal and that have delivered consistent profitability and stable growth. JAKKS' core brands can be grouped in the following four categories: traditional toys, craft/activity/writing products, seasonal/outdoor, and pet products. As of December 31, 2006, the bulk, or 86%, of JAKKS' sales were generated from its traditional product lines with 7%, 4%, and 3% sales growth driven by craft/activity/writing products, seasonal/outdoor and pet products, respectively.

Traditional Toys

JAKKS' traditional toy line is the largest and most mature segment of its business. This segment can be broken down to include action figures and accessories, wheels division products, electronic products, Role-play and dress-up products, Infant and pre-school toys, and dolls.

Action Figures and Accessories

WWE License

In 1996, JAKKS entered into a licensing agreement with Titan Sports, Inc., giving the company the exclusive right to develop and market various World Wrestling Entertainment (WWE) action figures and accessories in the United States and Canada. Since launching the line in 1996, JAKKS and the WWE have extended the license agreement through December 31, 2009, and have expanded the distribution channel in international markets, including Europe, Africa, and Australia. While the first WWE product lines were not introduced until late in the second quarter of 1996, WWE merchandise experienced dramatic growth and accounted for nearly 50% of JAKKS total revenues at the end of the fiscal year. WWE maintains strong live event attendance and ranks among the top-rated shows on cable television. While we do not expect the WWE to garner the television ratings achieved in early 2000, we believe the popularity of the "sport" is solid and could benefit from WWE's ongoing attempts to expand overseas. WWE product sales remain a solid contributor to JAKKS' overall portfolio, but could be in for a challenging year. With the recent launch of Spider Man III, and anticipated launches of The Transformers and Harry Potter, competition within this segment should be fierce.

THQ Joint Venture

In June 1998, JAKKS further enhanced its relationship with the WWE and announced a 50/50 joint venture with THQ, Inc., a developer and distributor of interactive entertainment software. The two companies signed a ten-year exclusive license agreement with the WWE to develop World Wrestling Entertainment video games. Under the agreement, JAKKS will help market the WWE video game line while THQ will manage the design, development, and distribution of the line. 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, assuming a negative verdict is not brought down by the pending WWE lawsuit. Under the joint venture agreement, JAKKS was to receive preferred returns through June 30, 2006, at which time the two parties were to renegotiate the terms to be set until December 31, 2009. However, the two parties, JAKKS and THQ, have not been able to come to a mutually acceptable understanding, and in accordance with the contract, the terms will be decided by an arbitrator, who has not ruled yet. Should a ruling come in below the current rate, JAKKS may be forced to re-state some past earnings as they have been accounted for under the previous agreement. JAKKS currently has an estimated receivable of \$13.5mm accrued through the six months ended December 31, 2006. Either way, JAKKS should receive additional cash, which has been withheld to this point pending the arbitrators' verdict.

Table 14: JAKKS' Joint Venture Annual Releases and Profits (\$ in millions)

Year	New Game Titles		Profit from video game joint venture
	Platforms		
	Console	Hand-held	
1999	1	1	\$3.6
2000	4	1	\$15.9
2001	1	2	\$6.7
2002	3	1	\$8.0
2003	5	0	\$7.4
2004	2	1	\$7.9
2005	3	1	\$9.4
2006	2	1	\$13.2

Source: Company reports

Pokemon

Looking to offset and bolster any potential decline in WWE sales is the anticipated launch of JAKKS' Pokemon products. JAKKS and Pokemon U.S.A., Inc. announced that the two companies have signed a master toy license agreement under which JAKKS will develop, manufacture, and distribute a diverse line of toys and related products based off of the popular Pokemon brand. The products were launched this spring in North and South America. Categories covered within the agreement include action figures, play sets, accessories, role-play items, craft activity sets, stationary, writing instruments, and seasonal products. The ninth season of the animated Pokemon TV series will air on the Cartoon Network and a new direct-to-video title, the eighth Pokemon movie, is set for release in September. Over the past ten years, Pokemon has generated over \$25bn in worldwide retail sales. While not the license powerhouse it once was, Pokemon remains a very strong brand with an excellent following. We believe Pokemon could develop into one of JAKKS' top-selling brands in 2007 and beyond.

Dragon Ball Z

JAKKS offers a wide variety of action figures and play sets based off of the Dragon Ball franchise. The Dragon Ball franchise consists of Dragon Ball, Dragon Ball Z and Dragon Ball GT. Initiated in Japan as a comic in the 1980s, Dragon Ball has become an extremely successful anime trilogy with over 500 episodes and 17 movies/features while generating over \$3bn in related merchandising sales. JAKKS' Dragon Ball Z line-up consists of an assortment of five-inch characters found in the basic series. Also available are energy-blasting figures with sound effects, and voice recordings from programming, double pack sets, collectible action figures, and play sets based on the Dragon Ball Z movies. Beginning in April, Dragon Ball Z returned to Cartoon Network's Toonami block. Additionally, FUNimation Entertainment, a wholly-owned subsidiary of Navarre Corporation (NAVR - \$4.03- NASDAQ), announced that in May, a restored and digitally remastered (in high definition) Dragon Ball Z series season set (all 291 episodes) will be available for retail purchases.

Rocky Balboa

Attempting to capitalize upon the successful movie series and recently released "Rocky Balboa" film, JAKKS introduced six series of Rocky action figures, toy boxing gloves, and championship belts. Available nationwide, this category may appeal to nostalgic Rocky lovers, but probably not to too many others. Although the movie did a respectable \$70mm in 2006 box office sales, we do not believe the movie re-energized the brand, nor created the buzz necessary to generate significant sales. This line will most likely fall under "the you can't win them all" category. Fortunately, the category appears to mimic WWE products and overhead for the product is probably minimal.

Wheels Division Products

Road Champs

In February 1997, JAKKS added vehicle product offerings with the acquisition of Road Champs, Inc. for approximately \$11.7mm. Strategically, the Road Champ's acquisition enhanced the company's presence in the toy vehicle category in two key ways. The addition of Road Champs allowed JAKKS to expand its SKU count in the fast growing toy vehicle segment with a line of highly detailed die cast new and classic cars, trucks, motorcycles, emergency and service vehicles, buses, and aircraft primarily in 1/43 scale, offered at low retail prices, which range from \$2.99 to \$7.99 individually and in playsets from \$9.99 to \$24.99 each. Additionally, JAKKS incorporated several value-enhancing licenses to produce the Road Champs line of collectible vehicles replicas from Ford, Chevrolet, and Porsche. Road Champs' primary offerings are die-cast collectibles, RC & Infrared Remote Control Vehicles, and MXS Action Sports Toys.

Remco

JAKKS expanded this category with the acquisition of the Remco brand from Azrak-Hamway International, Inc. In October 1997, JAKKS purchased a line of rugged die-cast and plastic vehicles that range in size from four and three quarters inches to big wheeled seventeen-inch vehicles. While some of the vehicles feature sound, light, voice and/or infrared radio controlled vehicles, the product line typically caters to those consumers seeking an inexpensive alternative to higher priced, branded merchandise.

Electronics

JAKKS' electronic categories include Plug It In & Play TV Games, Vmigo virtual pet gaming system, and its Laser Challenge product line. The Plug It In & Play Games attempt to take advantage of the growing trend towards video consoles, yet differentiates itself from the larger players by focusing upon low-cost (under \$19.99 each) systems that contain multiple games and plug directly into the television. The hardware and software are already built in and easy to travel with. Plug It In & Play does feature more mature game titles such as Wheel of Fortune, Deal or No Deal, and 1 VS. 100, but also caters to young kids through licenses such as Dora the Explorer, Disney Princesses, Ms. Pac-Man and Pac-Man, to name a few. The latest offering is JAKKS' TeleStory learning system that provides an interactive reading experience. As the kids read the story, they can, with a click of the button, bring licensed characters such as Dora the Explorer, Go Diego Go, and SpongeBob SquarePants to life. Other notable licenses include Disney and Disney/Pixar characters.

Infant and Pre-school Toys

See Play Along Line listed earlier.

Craft, Activity and Writing Products (Flying Colors/Pentech)

Flying Colors brings further diversity to JAKKS' product offerings with new SKUs ranging from modeled plastic activity sets, stationary, writing instruments, and back-to-school supplies. JAKKS bolstered the Flying Colors division's position in the play-and-activity sets with the addition of Pentech International in May of 2000. Pentech is a leading marketer of drawing, markers and coloring products. With seasonal strength in the back-to-school second quarter, Pentech reduces quarterly fluctuations in what has historically been a third quarter weighted business. Recently JAKKS announced three new licensing agreements with HIT Entertainment under which JAKKS will develop multiple activity arts & crafts items based on Thomas & Friends, Bob the Builder, and Barney. Other licenses include Nickelodeon & Viacom Consumer Products Dora the Explorer, Go Diego Go, SpongeBob Squarepants, The Backyardigans and Hasbro, Inc.'s Littlest Pet Shop brand.

Seasonal/Outdoor Products

JAKKS seasonal and outdoor products are offered through its Go Fly A Kite, Funnoodle, and Storm product lines. Go Fly A Kite, as you would expect, is the leader in specialty kites. Its number-one selling kite, Super Flyers, was supported in 2006 by the Power Flyer, a rubber-band glider that can fly up to two hundred yards, and the Storm Series, which also features a booster kit that allows for kite upgrades. Funnoodle has been the number-one selling summer toy brand in America since 1995 and is best known for its simple, yet effective, long floatable tube that can be seen at almost any pool in the country. The final installation of seasonal/outdoor products is its Storm water guns, gliders and sports balls and Laser Challenge guns.

Competition

The United States is the world leader in design, development, and marketing of toy products. According to recent estimates published by the Toy Manufacturers of America (TMA), the United States market is roughly \$22.3bn. With the exception of industry giants Hasbro and Mattel, and to a lesser extent JAKKS Pacific, the U.S. toy industry is highly fragmented, consisting of numerous small companies competing to manufacture, market, and distribute toy products. While the toy industry is mature, annual manufacturer shipments have been relatively steady. Based upon recent estimates compiled by TMA, total domestic retail sales of traditional toys and games in 2006 (excluding video games and accessories) reached \$22.3bn, up 0.3% from \$22.2bn in 2005.

Mattel Inc. (MAT-\$28.53-NYSE)

Mattel is a global toy company that designs, manufactures, and markets a wide range of products including: fashion dolls and accessories, vehicles and playsets, and games and puzzles. Mattel's key businesses are Barbie, Hot Wheels, Matchbox, Fisher-Price and the American Girls Collection. In 2006, the company generated sales of \$5.7bn.

Hasbro Inc. (HAS-\$31.14-NYSE)

Hasbro is a global toy company that designs, manufactures, and markets a wide range of products including games (traditional board, card, and hand-held), action figures, vehicles, and playsets. Its core business includes PLAYSKOOL, TONKA, SUPER SOAKER, MILTON BRADLEY, PARKER BROTHERS, TIGER, and Wizards of the Coast. In 2006, the company generated sales of \$3.2bn.

RC2 Corporation (RCRC-\$42.90-NASDAQ)

RC2 designs, produces and markets toys, collectibles, hobby, and infant care products. Its popular brands include The First Years and Lamaze brands as well as licensed products featuring Thomas & Friends, Bob the Builder, Winnie the Pooh, John Deere, and Sesame Street. It also offers collectible, die cast, and hobby products sold under the Racing Champion brand name. In 2006, RC2 Corporation generated sales of \$520mm.

LeapFrog Enterprises Inc. (LF-\$10.14-NYSE)

Leapfrog is a leading designer, developer, and marketer of innovative technology-based educational products and related properties. Leapfrog is best known for its LEAPSTER, FLY, LeapPad, and SCHOOLHOUSE line of products. In 2006, the company generated sales of \$500mm.

While slightly different and accounted for separate from the toy industry, video game sales are becoming a larger part of the overall market. In 2000, video game sales were roughly a \$5bn market, yet expanded rapidly to \$12.5bn in 2006, which represented a 19% increase versus 2005 results. Video games compete with toys for discretionary income and should continue to outpace the more mature category as more advanced platforms develop.

Activision Inc. (ATVI-\$18.96-NASDAQ)

Activision Inc., is a leading international publisher of interactive entertainment software products. The company maintains a diverse portfolio of products that span a wide range of categories and target markets and can be used on a variety of game hardware platforms and operating systems. The company's portfolio of games includes Call of Duty, Guitar Hero, Shrek, Spider-Man, Tony Hawk and X-Men. In fiscal year 2006 Activision generated sales of \$1.5bn.

Electronic Arts (ERTS-\$48.41-NASDAQ)

Electronic Arts is the largest publisher of video games. Founded in 1982, the company develops, publishes, and distributes interactive software worldwide for videogame systems, personal computers, cellular handsets and the internet. Electronic Arts markets its products under four brand names: EA, EA SPORTS, EA SPORTS BIG, and POGO. In fiscal 2007, Electronic Arts generated sales of \$3.1bn.

Take Two Interactive Software Inc. (TTWO-\$18.85-NASDAQ)

Take-Two Interactive Software Inc. is a leading worldwide publisher, developer and distributor of interactive entertainment software, hardware, and accessories. The company publishes and develops products through its wholly owned labels Rockstar Games, 2K and 2K Sports, and Global Star Software; and distributes software, hardware and accessories in North America through its Jack of All Games subsidiary. In fiscal 2006, Take-Two Interactive Software generated sales of \$1.0bn.

THQ Inc. (THQI-\$33.01-NASDAQ)

THQ Inc. is a leading global developer and publisher of interactive entertainment software for all popular console and handheld game systems. In addition, THQ provides games, ring tones, wallpapers, and other content for its wireless devices. In fiscal year 2007, THQ generated sales of \$1.0bn.

Financial Discussion

Income Statement**2Q07E**

For 2Q07, we expect the company to expand sales 4.5% Y/Y with growth generated primarily from recently acquired CDI, Play Along, and Pet Pal lines. While the newly added Pokemon line should continue to add to sales, action toys, such as WWE's, could suffer from the recent release of Spider Man III. The company's seasonal product lines should garnish a higher percentage of sales, due to seasonal trends, but significant growth within these categories is unlikely as they appear to have flattened out in recent years. Other categories that bear watching include Hannah Montana and the Cheetah Girls.

With a full year of CDI under its belt, we expect slightly improved sales leverage and greater efficiencies, from the acquisition, to boost EBIT margins slightly Y/Y to 7.7%. Expectations for joint venture returns are minimal in the quarter as software purchases typically do not materialize until the nearing of the holiday season. Earnings and EBITDA are both projected to increase 9% Y/Y with earnings of \$0.24, versus \$0.22 in last year's comparable period, and EBITDA of \$15.9mm.

2007E

For 2007, we are forecasting 5.0% year over year sales growth with new licenses and product lines offsetting declines in WWE, Doodle Bear and Fly Wheels. Areas expected to expand include new products for the new Pokemon license, Eyeclips, Hannah Montana, The Cheetah Girls, and Barney. Overall, we expect the boys division to be

challenged by hot movie releases during the year, including Spider Man III, The Transformer, and Harry Potter, but this should be offset by an improving array of girls' licenses and products.

Margins should improve across the board with additional synergies created at CDI, and ongoing initiatives to improve shipping and packaging costs, as well as operational expenses. We project EBIT margins to expand 120 basis points to 13.3% with \$10.5mm in joint venture funds. Earnings per share should expand 7.4% to \$2.47 with EBITDA of \$131.2mm.

2008E

Projecting out roughly two years for a toy company can be challenging. Projecting out two years for JAKKS Pacific often times is impossible and fruitless. With nearly \$200mm in cash and a well-established trend of making roughly one acquisition per year, we would not be surprised to see a different landscape evolve over the next year or two. With that said, we conservatively forecast roughly 5% sales growth with gross margins moving closer to 2005, pre-CDI acquisition levels. Similarly, EBIT margins should reach and exceed 2005 levels with Y/Y expansion of 60 basis points to 13.9%. Earnings per share should expand similarly, about 7.5%, to \$2.66, with EBITDA improving to \$143.4mm.

Balance Sheet

We believe a key strength for JAKKS is its strong balance sheet. As we mentioned earlier in the report, JAKKS currently has \$192.2mm in cash on its balance sheet with \$98.0mm in 4.63% Convertible Senior Notes due June 15, 2023. The notes may be converted into shares at an initial conversion price of \$20.00 per share, under certain circumstances. Working capital appears to be in good shape with year-end TTM receivable, inventory and payable turns at 6.3x, 6.3x and 5.9x, respectively, representing a cash conversion cycle of 54.2 days. These turns are roughly in line with other peers and have improved Y/Y from 80.1 days. The one blemish, which is common for firms with aggressive acquisition strategies, is \$338mm in goodwill. All inclusive, JAKKS book value is \$21.42 per share. Eliminating goodwill and intangible assets, the company's tangible book value is \$7.30.

Management Team

A past criticism of JAKKS' management team had been its criteria for determining corporate bonuses. Prior to 2004, JAKKS' management compensation was based upon pre-tax profits. While on the surface, this does not appear to be a significant problem, the company's decision, at that time, to finance acquisitions through equity offerings, gave the appearance of a conflict between compensation and shareholder value. With this program in place, pre-tax profits expanded at a faster rate than earnings due to share dilution, and therefore, compensation also rose at a faster rate. Currently, management's bonuses are structured so that performance bonuses are awarded based on earnings per share, with a maximum bonus equal to 200% of base salary. In 2006, with EPS up about 12%, the company did not meet the minimum target level and therefore, Mr. Friedman and Mr. Berman did not earn a bonus based upon earnings growth. Based off of other discretionary bonuses, Mr. Friedman received \$250,000, or approximately 25% of his base salary, and Mr. Berman received \$550,000, or 83% of his base salary, due to maintaining and building a strong cash position and balance sheet.

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

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

Joel Bennett, Chief Financial Officer (CFO). Joel Bennett joined JAKKS in September 1995 as Chief Financial Officer and was given the additional title of Executive Vice President in May 2000. From August 1993 to September 1995, he served in several financial management capacities at Time Warner Entertainment Company, L.P. (TWX-\$21.52-NYSE), including as Controller of Warner Brothers Consumer Products Worldwide Merchandising and Interactive Entertainment. From June 1991 to August 1993, Mr. Bennett was Vice President and Chief Financial Officer of TTI Technologies, Inc., a direct-mail computer hardware and software distribution company. From 1986 to June 1991, Mr. Bennett held various financial management positions at the Walt Disney Company, including Senior Manager of Finance for its international television syndication and production division. Mr. Bennett holds a Master of Business Administration degree and is a Certified Public Accountant.

Table 15: Quarterly and Annual Income Statements 2005-2008E (\$ in millions)

Quarter End	FY 2005	Q1 Mar-06	Q2 Jun-06	Q3 Sep-06	Q4 Dec-06	FY 2006	Q1 Mar-07	Q2E Jun-07	Q3E Sep-07	Q4E Dec-07	FYE 2007	Q1E Mar-08	Q2E Jun-08	Q3E Sep-08	Q4E Dec-08	FYE 2008
Total Sales	\$661.5	\$107.2	\$124.0	\$295.8	\$238.3	\$765.4	\$124.1	\$129.6	\$300.0	\$250.0	\$803.7	\$126.5	\$136.1	\$320.0	\$260.0	\$842.6
% Increase	15.2%	-20.4%	-2.4%	26.7%	43.3%	15.7%	15.7%	4.5%	1.4%	4.9%	5.0%	2.0%	5.0%	6.7%	4.0%	4.8%
Cost of Goods Sold	394.8	63.1	74.8	182.9	149.8	470.6	78.6	77.8	180.6	150.1	487.1	77.6	81.6	190.8	155.6	505.7
As % of total sales	59.7%	58.8%	60.3%	61.8%	62.9%	61.5%	63.3%	60.0%	60.2%	60.0%	60.6%	61.4%	60.0%	59.6%	59.8%	60.0%
Gross Profit	266.7	44.2	49.3	112.9	88.5	294.8	45.5	51.8	119.4	99.9	316.6	48.9	54.5	129.2	104.4	336.9
Margin	40.3%	41.2%	39.7%	38.2%	37.1%	38.5%	36.7%	40.0%	39.8%	40.0%	39.4%	38.6%	40.0%	40.4%	40.2%	40.0%
% Increase	18.0%	-18.5%	2.5%	20.8%	24.7%	10.5%	3.0%	5.1%	5.8%	12.9%	7.4%	7.4%	5.2%	8.2%	4.5%	6.4%
Direct Expenses	79.0	14.3	12.1	21.9	30.7	79.0	11.8	13.0	24.0	32.5	81.3	12.7	13.3	26.2	33.3	85.5
As % of total sales	11.9%	13.4%	9.7%	7.4%	12.9%	10.3%	9.5%	10.0%	8.0%	13.0%	10.1%	10.0%	9.8%	8.2%	12.8%	10.1%
SG&A Expenses	89.6	23.1	24.0	28.5	29.9	105.5	26.4	24.9	30.0	30.8	112.0	26.8	26.1	32.0	31.2	116.1
As % of total sales	13.5%	21.5%	19.4%	9.6%	12.5%	13.8%	21.3%	19.2%	10.0%	12.3%	13.9%	21.2%	19.2%	10.0%	12.0%	13.8%
Acquisition-shut-down costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As % of total sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dep./Amort.	10.1	4.5	4.2	4.3	5.1	18.0	4.0	4.0	4.0	4.8	16.8	4.2	4.2	4.4	5.0	17.8
As % of total sales	6.1%	4.2%	3.4%	1.4%	2.1%	7.6%	3.2%	3.1%	1.3%	1.9%	6.7%	3.3%	3.1%	1.4%	1.9%	6.8%
Operating/SG&A Expense	178.7	41.9	40.3	54.7	65.6	202.5	42.2	41.8	58.0	68.1	210.1	43.7	43.7	62.6	69.5	219.5
As % of Total Sales	27.0%	39.1%	32.5%	18.5%	27.5%	26.5%	34.0%	32.3%	19.3%	27.2%	26.1%	34.5%	32.1%	19.6%	26.7%	26.0%
Operating Profit	88.0	2.2	9.0	58.2	22.9	92.3	3.3	9.9	61.4	31.9	106.5	5.2	10.8	66.6	34.9	117.5
Margin	13.3%	2.1%	7.2%	19.7%	9.6%	12.1%	2.7%	7.7%	20.5%	12.7%	13.3%	4.1%	7.9%	20.8%	13.4%	13.9%
% increase	63.8%	-83.6%	-38.7%	23.3%	83.5%	4.9%	48.1%	10.9%	5.5%	39.1%	15.4%	56.0%	8.7%	8.4%	9.6%	10.3%
Interest Income	1.8	1.4	0.0	1.0	1.4	3.8	1.5	1.5	1.6	1.6	6.2	1.6	1.7	1.7	1.8	6.8
Interest Expense	-1.1	-1.1	0.0	-1.1	-1.1	-3.4	-1.6	-1.6	-1.6	-1.6	-6.4	-1.6	-1.6	-1.6	-1.6	-6.4
Income From JV	9.4	0.8	0.2	-0.2	12.5	13.2	1.5	0.5	0.5	8.0	10.5	0.5	0.5	1.0	9.0	11.0
Other Income/(Expense)	-1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Profit	96.6	3.3	9.1	57.9	35.7	105.9	4.8	10.3	61.9	39.9	116.9	5.7	11.4	67.7	44.1	128.9
Margin	14.6%	3.1%	7.4%	19.6%	15.0%	13.8%	3.8%	8.0%	20.6%	15.9%	14.5%	4.5%	8.4%	21.1%	17.0%	15.3%
% Increase	63.5%	-75.9%	-41.9%	24.9%	70.0%	9.6%	45.1%	13.2%	7.0%	11.7%	10.3%	19.4%	10.3%	9.3%	10.7%	10.3%
Taxes/(benefit)	33.1	1.0	2.8	17.4	12.5	33.6	1.5	3.3	19.8	12.8	37.4	1.9	3.8	22.3	14.6	42.5
Rate	34.3%	29.0%	30.4%	30.0%	35.0%	31.7%	32.0%	32.0%	32.0%	32.0%	32.0%	33.0%	33.0%	33.0%	33.0%	33.0%
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	63.5	2.3	6.4	40.5	23.2	72.4	3.2	7.0	42.1	27.1	79.5	3.8	7.6	45.3	29.6	86.3
Margin	9.6%	2.2%	5.1%	13.7%	9.7%	9.5%	2.6%	5.4%	14.0%	10.8%	9.9%	3.0%	5.6%	14.2%	11.4%	10.2%
% Increase	45.8%	-76.9%	-45.4%	23.6%	157.2%	14.0%	38.9%	10.6%	4.0%	16.9%	9.8%	17.6%	8.7%	7.7%	9.1%	8.7%
Interest Add Back	2.98	0.74	0.74	0.74	0.74	2.95	0.00	0.74	0.74	0.74	2.21	0.74	0.74	0.74	0.74	2.95
EPS--Operations	\$2.06	\$0.09	\$0.22	\$1.26	\$0.73	\$2.30	\$0.12	\$0.24	\$1.29	\$0.83	\$2.47	\$0.14	\$0.25	\$1.37	\$0.90	\$2.66
% Increase	38.2%	-72.0%	-44.1%	20.5%	144.2%	11.5%	23.0%	8.8%	2.4%	14.3%	7.4%	17.6%	6.3%	6.3%	7.6%	7.5%
Shares Outstanding	32.2	32.6	32.8	32.7	32.8	32.7	28.0	33.0	33.2	33.4	33.0	33.4	33.5	33.6	33.8	33.6

Source: Company Reports and Morgan Joseph & Co. Inc. estimates

Table 16: Annual Balance Sheets 2005-2008E (\$ in millions)

Quarter End	FY 2005	Q1 Mar-06	FY 2006	Q1 Mar-07	FYE 2007	FYE 2008
Assets						
Cash & Equivalents	\$240.2	\$123.7	\$184.5	\$192.0	\$232.8	\$279.7
Marketable securities	0.0	0.0	0.2	0.2	0.0	0.0
Accounts receivable	87.2	67.8	153.1	75.1	144.7	151.7
Inventory, Net	66.7	62.2	76.8	69.0	80.4	84.3
Deferred Income Taxes	13.6	13.6	10.6	10.9	0.0	0.0
Deferred product dev. Costs	0.0	0.0	0.0	0.0	0.0	0.0
Advance royalty payments	0.0	0.0	0.0	0.0	0.0	0.0
Prepaid expenses/other assets	17.5	35.7	26.5	21.7	28.1	29.5
Total Current Assets	425.3	303.0	451.7	369.0	485.9	545.1
Property/Equipment, at cost	38.1	41.5	49.8	52.0	43.3	43.3
(Depreciation/Amortization)	25.4	27.2	32.9	35.7	25.4	25.4
Property/Equipment, Net	12.7	14.2	16.9	16.3	17.9	17.9
Investment in joint venture	10.4	3.2	14.9	16.4	14.9	14.9
Goodwill, Net	269.3	345.1	338.0	338.0	338.0	338.0
Trademarks, net	17.8	19.2	19.6	57.0	19.6	19.6
Intangibles and deposits	18.5	31.6	40.8	0.0	40.8	40.8
Other	0.0	0.0	0.0	1.5	0.0	0.0
Total Assets	754.0	716.3	881.9	798.1	917.1	976.3
Liabilities & Shareholders' Equity						
Accounts Payable	50.5	27.2	65.6	59.1	64.3	67.4
Accrued expenses	44.4	26.9	54.7	0.0	56.3	59.0
Reserve for sales returns	25.1	22.0	32.6	18.1	34.2	35.8
Income taxes payable	3.8	0.0	18.5	7.7	18.5	18.5
Current portion of long term debt	0.0	0.0	0.0	0.0	0.0	0.0
Current Portion of Cap Leases	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	123.9	76.1	171.4	84.9	173.3	180.7
Long term debt	98.0	98.0	98.0	98.0	48.0	0.0
Deferred rent liability	1.0	1.0	0.9	5.3	1.0	1.0
Deferred Income taxes	6.4	7.0	2.4	2.4	2.4	2.4
Other	0.0	0.0	0.0	8.1	0.0	0.0
Total Liabilities	229.3	182.1	272.6	198.7	223.6	183.1
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Total Shareholders' Equity	524.7	534.2	609.3	599.4	693.5	793.2
Total Liabilities & Shareholders' Equity	754.0	716.3	881.9	798.1	917.1	976.3
Shares Outstanding	32.2	32.6	32.8	28.0	33.0	33.6
Ratio Analysis						
	2005	Mar 06	2006	Mar 07	2007	2008
Tangible Book Value per Share	6.80	4.24	6.43	7.30	8.9	11.8
Book Value Per Share	16.30	16.38	18.57	21.42	21.0	23.6
Working Capital	301.5	226.9	280.4	284.1	312.7	364.4
Current Ratio	3.4	4.0	2.6	4.3	2.8	3.0
Total Debt to Cap	15.7%	15.5%	13.9%	14.1%	6.5%	0.0%
Return on Average Assets (ROAA)	8.7%	7.6%	9.1%	8.9%	8.7%	8.8%
Return on Equity (ROAE)	12.9%	10.9%	12.7%	12.5%	11.1%	10.5%

Source: Company reports and Morgan Joseph & Co. Inc. estimates

Table 17: Annual Cash Flow Statements 2005-2008E (\$ in millions)

	FY 2005	FY 2006	FYE 2007	FYE 2008
Cash Flow From Operations:				
Net Income	\$ 63.5	\$ 72.4	\$ 79.5	\$ 86.3
Depreciation/amortization	15.5	26.2	26.7	28.0
Share based compensation expense	3.4	6.5	0.0	0.0
Acquisition earn-out	0.0	0.0	0.0	0.0
Investment in video game joint venture	-0.5	-5.1	0.0	0.0
Loss on disposal of property and equipment	0.1	0.0	0.0	0.0
Write-off of investment in Chinese joint venture	1.4	0.0	0.0	0.0
Changes in operating assets and liabilities:				
Accounts Receivable	16.7	-52.9	8.5	-7.0
Inventory	-13.3	-8.4	-3.6	-3.9
Prepaid expenses and other	1.1	-8.3	-1.6	-1.4
Accounts Payable	-9.4	12.6	-1.3	3.1
Accrued expenses	-1.9	1.9	1.6	2.7
Income taxes payable	-2.9	14.8	0.0	0.0
Reserve for sales returns and allowances	1.7	5.3	0.0	0.0
Deferred rent liability	1.0	-0.1	0.0	0.0
Deferred income taxes	-5.3	-1.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Cash From Operations (CFO)	71.1	63.7	109.8	107.9
Investing Activities:				
Purchase of property and equipment	-8.3	-11.2	-11.5	-13.0
Purchase of other assets	0.1	-0.7	0.0	0.0
Cash paid for net assets	-20.4	-109.8	0.0	0.0
Net Sales of marketable securities	19.0	-0.2	0.0	0.0
Other:	0.0	0.0	0.0	0.0
Cash From Investing Activities (CFI)	-9.5	-121.9	-11.5	-13.0
Financing Activities:				
Proceeds from stock options exercised	3.2	1.6	0.0	0.0
Tax benefit from stock options exercised	0.0	1.5	0.0	0.0
Repayment of debt	0.0	0.0	-50.0	-48.0
Other	0.0	0.0	0.0	0.0
Cash From Financing Activities (CFF)	3.2	3.1	-50.0	-48.0
Foreign currency translation adjustment	-1.1	-0.6	0.0	0.0
Net Increase (Decrease) in Cash	63.7	-55.7	48.3	46.9
Beginning Cash and Equivalents	176.5	240.2	184.5	232.8
Cash at End of Year	240.2	184.5	232.8	279.7

Source: Company reports and Morgan Joseph & Co. Inc. estimates

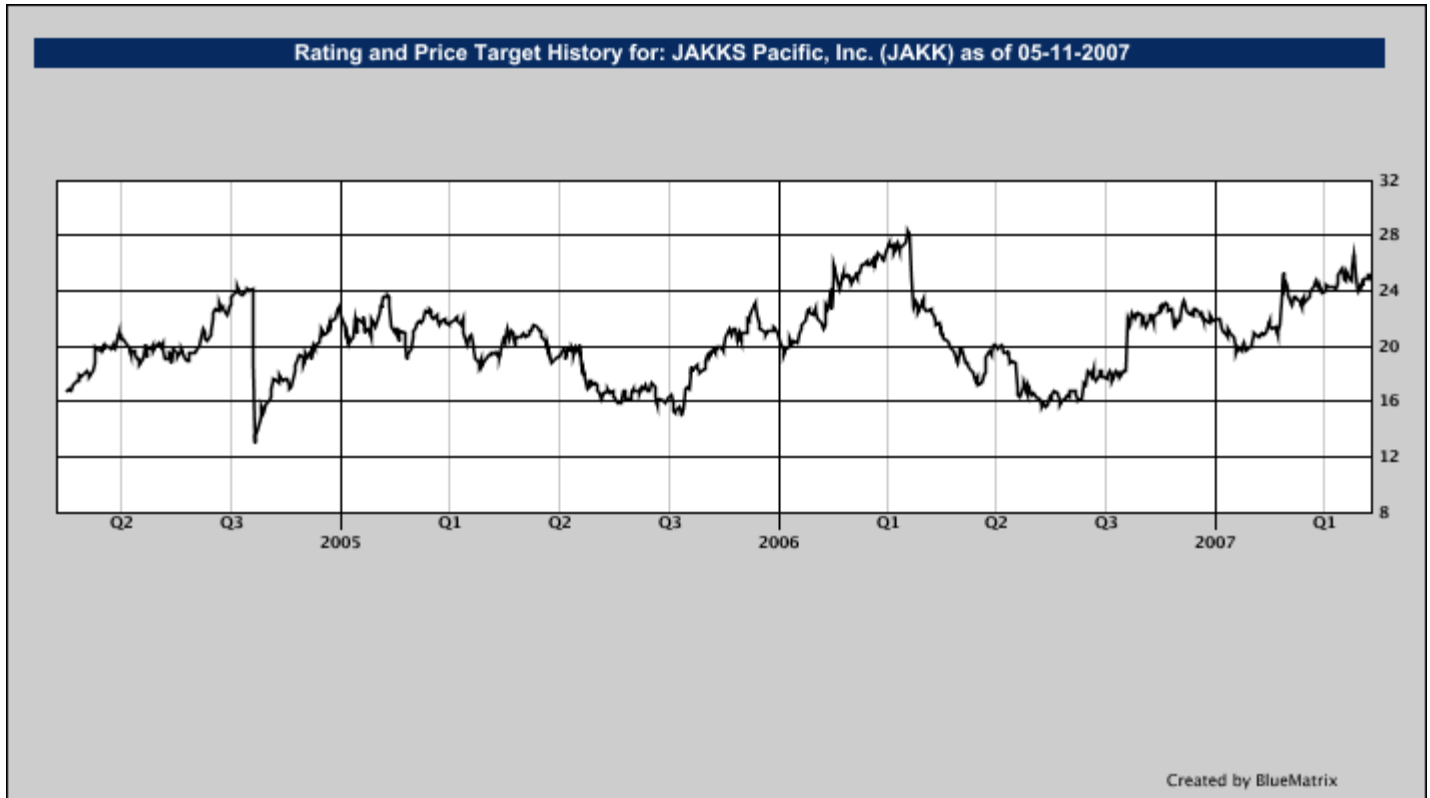
Table 18: Comparable Valuation Analysis

As of (Quarter/Year) Company	Apr-07 Hasbro Inc. HAS Price \$31.1 Rating NR Target NA	Mar-07 JAKKS Pacific Inc. JAKK Price \$24.3 Buy \$29.0	Dec-06 LeapFrog Ent Inc. LF Price \$10.1 NR NA	Mar-07 Mattel Inc. MAT Price \$28.5 NR NA	Dec-06 RC2 Corp. RCRC Price \$42.9 NR NA	Dec-06 Russ Berrie & Co. RUS Price \$15.5 NR NA	Dec-06 4 Kids Ent KDE Price \$16.1 NR NA	NA Industry Avg. NA Price \$24.1 NR NA
(In \$ millions, except EPS) Income Statement LTM								
Sales	3308.6	782.2	502.3	5797.1	518.8	294.8	71.8	1610.8
COGS	1361.2	486.1	355.2	3098.6	277.6	176.7	11.3	823.8
Gross Profit	1947.3	296.1	147.0	2698.5	241.2	118.1	60.5	787.0
SG&A	1515.1	202.7	271.7	1917.1	169.0	112.0	69.7	608.2
Operating Profit	432.2	93.4	-124.7	781.4	72.2	6.1	-9.1	178.8
Interest Exp.	26.6	3.8	0.1	79.2	3.5	10.4	0.0	17.6
Other Exp.	9.1	-17.9	-6.3	-33.8	0.5	-10.9	-4.1	-9.1
Pretax Income	396.5	107.4	-118.5	736.0	68.2	6.7	-5.0	170.2
Taxes	128.7	34.1	26.6	161.2	24.5	5.8	-3.5	53.9
Net Income	267.8	75.5	-145.1	574.8	43.8	0.9	-1.5	116.6
EPS	1.52	2.30	-2.30	1.45	2.07	0.04	-0.11	0.71
Shares Out	176.7	32.8	63.2	396.8	21.1	21.1	13.2	103.5
Margins								
Gross Profit	58.9%	37.9%	29.3%	46.5%	46.5%	40.1%	84.3%	48.9%
Operating Profit	13.1%	11.9%	-24.8%	13.5%	13.9%	2.1%	-12.7%	11.1%
Tax Rate	32.5%	31.8%	-22.5%	21.9%	35.9%	86.3%	70.2%	31.7%
Net Income	8.1%	9.7%	-28.9%	9.9%	8.4%	0.3%	-2.1%	7.2%
(In \$ millions) Balance Sheet Data								
Cash & Equiv.	703.6	192.2	148.1	984.2	25.4	11.5	113.5	311.2
Receivables	327.1	75.1	143.0	730.6	122.1	60.5	35.0	213.3
Inventories	265.4	69.0	73.0	448.6	83.7	48.0	0.0	141.1
Current Assets	1548.0	369.0	387.4	2365.4	237.0	132.1	159.1	742.6
Total Assets	2892.1	798.1	450.4	4467.6	614.6	303.8	183.9	1387.2
Curr. LT Debt	7.4	0.0	0.6	90.0	22.4	30.8	0.0	21.6
Payables	160.0	59.1	95.6	375.9	84.2	55.4	24.2	122.1
Curr. Liabilities	622.0	84.9	97.4	846.7	107.4	86.2	29.5	267.7
LT Debt	494.9	98.0	0.0	560.0	0.0	23.5	0.0	168.1
Tot. Liabilities	1359.9	198.7	116.5	1834.9	162.7	113.1	30.5	545.2
Share Equit.	1532.3	599.4	334.0	2632.7	451.9	190.7	153.4	842.0
Liquidity Ratios								
Working Cap	926.0	284.1	290.0	1518.7	129.6	45.9	129.6	474.8
Current	2.5	4.3	4.0	2.8	2.2	1.5	5.4	2.8
Quick	1.7	3.1	3.0	2.0	1.4	0.8	5.0	2.0
Cash	1.1	2.3	1.5	1.2	0.2	0.1	3.8	1.2
Turnovers								
Receivables	10.1x	10.4x	3.5x	7.9x	4.3x	4.9x	2.1x	7.6x
Inventory	5.1x	7.0x	4.9x	6.9x	3.3x	3.7x	NA	5.8x
Payables	8.5x	8.2x	3.7x	8.2x	3.3x	3.2x	0.5x	6.7x
Cash Conv.	64.3	42.5	80.7	54.6	85.2	59.7	NA	56.8
Receivable Payment Period	36.1	35.0	103.9	46.0	85.9	0.0	0.0	0.0
Inventory Processing Period	71.2	51.8	75.0	52.8	110.0	99.2	NA	62.5
Payable Collection Period	42.9	44.4	98.3	44.3	110.6	114.4	785.4	54.1
Cash Conversion Cycle	64.3	42.5	80.7	54.6	85.2	-15.2	NA	8.5
Operating Performance (Efficiencies) Ratios								
Asset Turnover	1.1x	1.0x	1.1x	1.3x	0.8x	1.0x	0.4x	1.2x
Equity Turnover	2.2x	1.3x	1.5x	2.2x	1.1x	1.5x	0.5x	1.9x
Work. Cap. Turn	3.6x	2.8x	1.7x	3.8x	4.0x	6.4x	0.6x	3.4x
Oper. Return on Assets	14.9%	11.7%	-27.7%	17.5%	11.8%	2.0%	-5.0%	12.9%
Return on Capital	14.5%	11.4%	-43.3%	19.9%	10.0%	4.6%	-1.0%	13.0%
Tot. Debt to Capital	24.7%	14.1%	0.2%	19.8%	4.7%	22.2%	0.0%	18.4%
Debt to Equity	32.8%	16.3%	0.2%	24.7%	5.0%	28.5%	0.0%	22.5%
ROE	17.5%	12.6%	-43.4%	21.8%	9.7%	0.5%	-1.0%	13.1%
ROA	9.3%	9.5%	-32.2%	12.9%	7.1%	0.3%	-0.8%	8.4%
Cash Flow Statements								
Cash Operations	320.6	63.7	90.4	875.9	59.1	6.4	-1.1	202.2
Cash Investing	-83.6	-121.9	-77.5	-314.8	-6.6	-1.8	-18.0	-89.2
Cash Financing	-467.3	3.1	4.2	-374.1	-46.5	-22.3	1.4	-128.8
Total Cash	-230.2	-55.1	17.1	-187.0	6.0	-17.7	-17.7	-15.8
Cap X	-82.1	-11.2	-20.3	-69.3	-14.2	-4.4	-0.8	-28.9
Free Cash Flow	238.5	52.5	70.1	806.6	45.0	2.0	-1.9	173.3
(Mkt. Cap. and Enterprise Value in \$M) Other Valuation Parameters								
Price (5/17/07)	31.1	24.3	10.1	28.5	42.9	15.5	16.1	34.19
Market Cap.	5501.2	795.1	640.8	11320.7	905.6	326.5	211.5	3540.2
Est. FY2007EPS	1.80	2.47	-0.57	1.61	2.71	NA	0.13	2.04
Est. FY2008EPS	1.80	2.66	0.05	1.74	3.03	NA	0.25	2.19
FY2007E P/E	17.3	9.8	-17.8	17.7	15.8	NA	123.5	16.8
FY2008E P/E	17.3	9.1	202.8	16.4	14.2	NA	64.2	15.6
Enterprise Value	5299.9	700.9	493.3	10986.5	902.7	369.3	98.0	5729.7
EBITDA	578.9	117.5	-106.7	953.7	88.2	14.6	22.4	540.3
EV/EBITDA	9.2	6.0	-4.6	11.5	10.2	25.3	4.4	10.6

Source: Company reports and Morgan Joseph & Co. Inc. estimates

NOTE: Estimates for NR companies are based on First Call consensus estimates.

Required Disclosures



For important disclosures and price charts with our ratings and target price changes go to <http://www.morganjoseph.com>

Price Target: Our price target is \$29.

Valuation: We arrive at our \$29 price target, factoring in a worst case scenario regarding the WWE lawsuit, on discounted cash flow analysis of expected cash flows. We estimate that, at the upper end of annual profits, JAKKS' WWE toy sales and joint venture licenses generate pre-tax profits of about \$25mm per year. Eliminating those profits and \$200mm in cash from the company's balance sheet, we arrive at a price target of \$29 per share.

Risks:

- WWE lawsuit over THQ License - JAKKS is currently on the receiving end of a 2004 lawsuit from the World Wrestling Entertainment (WWE) that essentially claims JAKKS and THQ bribed people associated with the WWE for its joint venture license and toy line extension. The loss of \$200mm in cash and the two WWE licenses, (estimated to contribute between \$0.35 to \$0.50 per share per year) resulting from a guilty verdict, could certainly negatively impact JAKKS' share price.
- JAKKS is dependent upon licensed brands.
- JAKKS' three largest customers accounted for 59% of its 2006 sales.
- Sales and operations outside the United States are subject to uncontrollable changes.

I, Jeffrey Blaeser, the author of this research report, certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers, and no part of my compensation was, is, or will be directly or indirectly tied to the specific recommendations or views contained in this research report.

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 B) Hold means market-type risk adjusted performance; potential source of funds.
 C) Sell means expected to underperform the market.

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