

September 2, 2008

**Key Metrics**

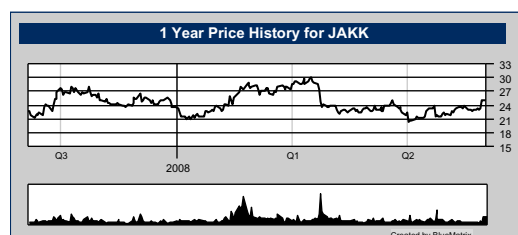
JAKK - NASDAQ	\$24.95
Pricing Date	09/01/2008
Price Target	\$30.00
52-Week Range	\$30.55-\$20.10
Shares Outstanding (mm)	27.4
Market Capitalization (\$mm)	\$683.6
3-Mo Average Daily Volume	398,185
Institutional Ownership	96%
Debt/Total Capital	12.7%
ROE	12.9%
Book Value/Share	\$20.60
Price/Book	1.2x
Dividend Yield	NM
LTM EBITDA Margin	14.51%

**EPS(\$)** FY: December

	2007A	Prior 2008E	Curr. 2008E	Prior 2009E	Curr. 2009E
1Q-Mar	0.12	--	0.03A	--	0.11E
2Q-Jun	0.17	--	0.15A	--	0.18E
3Q-Sep	1.45	--	1.53E	--	1.62E
4Q-Dec	1.06	--	1.02E	--	1.09E
FY	2.80	--	2.74E	--	3.00E
P/E	8.9x	--	9.1x	--	8.3x

**Revenue(\$mm)**

	2007A	Prior 2008E	Curr. 2008E	Prior 2009E	Curr. 2009E
1Q-Mar	124.1	--	130.9A	--	137.1E
2Q-Jun	129.5	--	145.3A	--	148.0E
3Q-Sep	318.4	--	340.0E	--	353.6E
4Q-Dec	285.1	--	275.0E	--	286.0E
FY	857.1	--	891.2E	--	924.7E



**Company Description:** JAKKS Pacific, Inc. ([www.jakkspace.com](http://www.jakkspace.com)) 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.

### Rating: Buy

#### JAKKS Prevails; CT State Court Dismisses WWE Lawsuit; Upgrading to Buy, \$30PT

**Investment Highlights:**

- Connecticut State Court dismisses bribery/anti-trust claims against JAKKS.** Based upon the basis of estoppel and statute of limitation grounds, the Connecticut State Court granted summary judgment dismissing World Wrestling Entertainment Inc. (WWE-\$16.27-NYSE) bribery and anti-trust claims. In December 2007, the U.S. District Court dismissed WWE's claims in Federal Court on multiple grounds, including statute of limitations.
- Not over yet, WWE appealing decision: JAKKS appears to be in the driver's seat.** The WWE continues to believe the federal court decision was wrong, and is taking steps to have the decision corrected on appeal.
- Dismissal would eliminate major investor concern.** While not over, it appears as if JAKKS is moving toward eliminating a major question mark for investors. Should this ruling be maintained after appeal, we believe the primary focus among investors should return to: the stock's attractive valuation multiples, in our view; the strong balance sheet (\$177mm in cash); and cash flow (roughly 2x annual free cash flow to shares outstanding). Additionally, this decision could induce short sellers to cover their positions. As of 8/15/08, the total short position was 4.1mm shares.
- Could open door for acquisitions.** While management has stated that the pending lawsuit had no impact on acquisitions and/or the future use of JAKKS' strong cash position, expectations for a positive outcome could alleviate some concerns that the cash may be required for damages and; therefore, potentially go toward further accretive acquisitions and/or share buy backs.
- Moving toward closure - focus should return to valuation.** Currently trading at 9x our 2008 EPS estimate of \$2.74 (versus peer group average of roughly 13x) and 4.7x TTM EV/EBITDA (versus peer group average of roughly 8.9x), our \$30 price target reflects a 10.6x FTM PE and 5.4x EV/FTM EBITDA multiple, both remaining conservatively below the peer group averages.

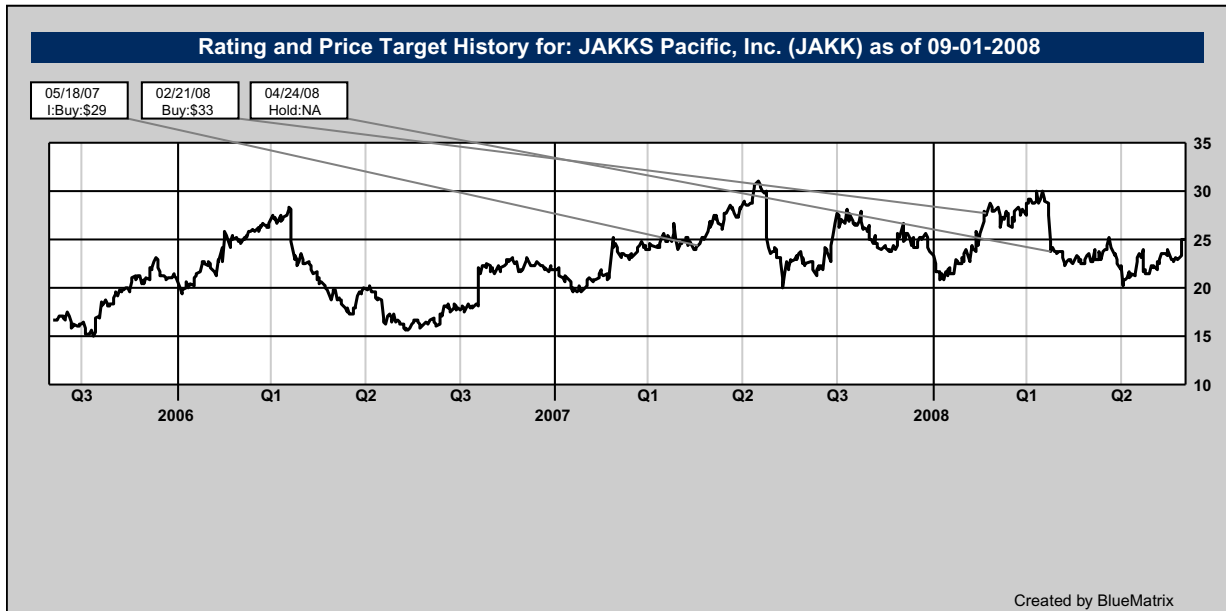
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**JAKKS Pacific, Inc. Quarterly Earnings Model**  
(In \$millions, except per share data)

Quarter End	FY 2006	Q1 Mar-07	Q2 Jun-07	Q3 Sep-07	Q4 Dec-07	FY 2007	Q1 Mar-08	Q2 Jun-08	Q3E Sep-08	Q4E Dec-08	FYE 2008	Q1E Mar-09	Q2E Jun-09	Q3E Sep-09	Q4E Dec-09	FYE 2009
<b>Total Sales</b>	<b>\$765.4</b>	<b>\$124.1</b>	<b>\$129.5</b>	<b>\$318.4</b>	<b>\$285.1</b>	<b>\$857.1</b>	<b>\$130.9</b>	<b>\$145.3</b>	<b>\$340.0</b>	<b>\$275.0</b>	<b>\$891.2</b>	<b>\$137.1</b>	<b>\$148.0</b>	<b>\$353.6</b>	<b>\$286.0</b>	<b>\$924.7</b>
<i>% Increase</i>	15.7%	15.7%	4.4%	7.6%	19.6%	12.0%	5.5%	12.2%	6.8%	-3.5%	4.0%	4.7%	1.9%	4.0%	4.0%	3.8%
Cost of Goods Sold	470.6	78.6	84.3	194.3	176.3	533.4	83.5	93.2	209.2	170.1	556.0	85.9	94.4	216.8	175.8	573.0
<i>As % of total sales</i>	61.5%	63.3%	65.0%	61.0%	61.8%	62.2%	63.8%	64.2%	61.5%	61.8%	62.4%	62.6%	63.8%	61.3%	61.5%	62.0%
<b>Gross Profit</b>	<b>294.8</b>	<b>45.5</b>	<b>45.3</b>	<b>124.1</b>	<b>108.8</b>	<b>323.6</b>	<b>47.4</b>	<b>52.1</b>	<b>130.8</b>	<b>104.9</b>	<b>335.2</b>	<b>51.2</b>	<b>53.6</b>	<b>136.8</b>	<b>110.2</b>	<b>351.7</b>
Margin	38.5%	36.7%	35.0%	39.0%	38.2%	37.8%	36.2%	35.8%	38.5%	38.2%	37.6%	37.4%	36.2%	38.7%	38.5%	38.0%
<i>% Increase</i>	10.5%	3.0%	-8.1%	9.9%	23.0%	9.8%	4.2%	14.9%	5.4%	-3.6%	3.6%	7.9%	2.9%	4.6%	5.0%	4.9%
Direct Expenses	79.0	11.8	9.0	20.1	30.4	71.3	12.1	12.3	22.5	31.0	77.9	12.5	12.8	23.3	32.0	80.6
<i>As % of total sales</i>	10.3%	9.5%	6.9%	6.3%	10.7%	8.3%	9.2%	8.5%	6.6%	11.3%	8.7%	9.1%	8.6%	6.6%	11.2%	8.7%
SG&A Expenses	105.5	26.4	25.8	34.8	41.4	128.5	33.5	31.3	37.6	41.0	143.4	34.6	32.4	38.9	42.5	148.5
<i>As % of total sales</i>	13.8%	21.3%	19.9%	10.9%	14.5%	15.0%	25.6%	21.6%	11.1%	14.9%	16.1%	25.3%	21.9%	11.0%	14.9%	16.1%
Dep./Amort.	18.0	4.0	4.0	4.1	3.9	15.9	2.8	2.8	2.8	2.8	11.2	2.0	2.0	2.0	2.0	8.0
<i>As % of total sales</i>	7.6%	3.2%	3.1%	1.3%	1.4%	5.6%	2.1%	1.9%	0.8%	1.0%	4.1%	1.5%	1.4%	0.6%	0.7%	2.8%
Operating/SG&A Expense	202.5	42.2	38.8	59.0	75.7	215.7	48.3	46.5	62.9	74.8	232.5	49.2	47.2	64.2	76.5	237.1
<i>As % of Total Sales</i>	26.5%	34.0%	30.0%	18.5%	26.5%	25.2%	36.9%	32.0%	18.5%	27.2%	26.1%	35.9%	31.9%	18.2%	26.7%	25.6%
<b>Operating Profit</b>	<b>92.3</b>	<b>3.3</b>	<b>6.5</b>	<b>65.1</b>	<b>33.1</b>	<b>108.0</b>	<b>-0.9</b>	<b>5.6</b>	<b>67.9</b>	<b>30.1</b>	<b>102.7</b>	<b>2.0</b>	<b>6.3</b>	<b>72.6</b>	<b>33.7</b>	<b>114.6</b>
Margin	12.1%	2.7%	5.0%	20.4%	11.6%	12.6%	-0.7%	3.8%	20.0%	11.0%	11.5%	1.5%	4.3%	20.5%	11.8%	12.4%
<i>% Increase</i>	4.9%	48.1%	-27.6%	11.8%	44.7%	17.0%	-126.9%	-14.2%	4.4%	-9.1%	-4.9%	-328.4%	13.9%	6.9%	11.7%	11.6%
Interest Income	3.8	1.5	1.8	1.8	1.7	6.8	1.3	0.8	1.6	1.6	5.3	1.5	1.5	1.5	1.5	6.0
Interest Expense	-3.4	-1.6	-1.6	-0.7	-1.6	-5.5	-1.6	-1.6	-1.6	-1.6	-6.4	-1.6	-1.6	-1.6	-1.6	-6.4
Income From JV	13.2	1.5	0.7	0.9	18.1	21.2	2.4	1.3	2.0	16.0	21.8	2.0	1.2	1.5	16.0	20.7
<b>Pretax Profit</b>	<b>105.9</b>	<b>4.8</b>	<b>7.4</b>	<b>67.1</b>	<b>51.3</b>	<b>130.5</b>	<b>1.3</b>	<b>6.0</b>	<b>70.0</b>	<b>46.1</b>	<b>123.4</b>	<b>3.9</b>	<b>7.5</b>	<b>74.0</b>	<b>49.6</b>	<b>134.9</b>
Margin	13.8%	3.8%	5.7%	21.1%	18.0%	15.2%	1.0%	4.1%	20.6%	16.8%	13.8%	2.9%	5.0%	20.9%	17.3%	14.6%
<i>% Increase</i>	9.6%	45.1%	-19.0%	16.0%	43.8%	23.2%	-72.7%	-19.0%	4.3%	-10.1%	-5.5%	203.3%	24.3%	5.7%	7.5%	9.4%
Taxes/(benefit)	33.6	1.5	2.4	19.8	16.9	40.6	0.4	1.8	21.7	14.3	38.3	1.2	2.3	22.9	15.4	41.8
Rate	31.7%	32.0%	32.0%	29.5%	32.9%	31.1%	32.5%	30.7%	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income</b>	<b>72.4</b>	<b>3.2</b>	<b>5.0</b>	<b>47.3</b>	<b>34.4</b>	<b>90.0</b>	<b>0.9</b>	<b>4.2</b>	<b>48.3</b>	<b>31.8</b>	<b>85.1</b>	<b>2.7</b>	<b>5.1</b>	<b>51.0</b>	<b>34.2</b>	<b>93.1</b>
Margin	9.5%	2.6%	3.9%	14.9%	12.1%	10.5%	0.7%	2.9%	14.2%	11.6%	9.6%	2.0%	3.5%	14.4%	12.0%	10.1%
<i>% Increase</i>	14.0%	38.9%	-20.9%	16.8%	48.4%	24.3%	-72.9%	-17.4%	2.0%	-7.5%	-5.4%	210.2%	23.7%	5.7%	7.5%	9.4%
Interest Add Back	2.95	0.00	0.74	0.74	0.74	2.95	0.00	0.74	0.74	0.74	2.95	0.74	0.74	0.74	0.74	2.95
<b>EPS--Operations</b>	<b>\$2.30</b>	<b>\$0.12</b>	<b>\$0.17</b>	<b>\$1.45</b>	<b>\$1.06</b>	<b>\$2.80</b>	<b>\$0.03</b>	<b>\$0.15</b>	<b>\$1.53</b>	<b>\$1.02</b>	<b>\$2.74</b>	<b>\$0.11</b>	<b>\$0.18</b>	<b>\$1.62</b>	<b>\$1.09</b>	<b>\$3.00</b>
<i>% Increase</i>	11.5%	23.0%	-19.5%	15.1%	44.9%	21.8%	-73.4%	-13.8%	5.7%	-3.7%	-2.4%	NM	22.4%	5.6%	7.3%	9.7%
Shares Outstanding	32.7	28.0	33.1	33.1	33.3	33.1	28.5	32.6	32.0	32.0	32.2	32.0	32.0	32.0	32.0	32.0

Source: Company reports and Morgan Joseph estimates

**Required Disclosures**



**Price Target**

Our price target is \$30.

**Valuation Methodology**

Our price target assumes a roughly 11x PE multiple to our FTM EPS estimate.

**Risk Factors**

- WWE lawsuit.
- JAKKS is dependent upon licensed brands.
- JAKKS' three largest customers account for the majority of its sales.
- Sales and operations outside the U.S. subject to uncontrollable changes.

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Rating	Investment Banking Services/Past 12 Mos.	
	Percent	Percent
BUY [B]	55.68	36.73
HOLD [H]	43.18	28.95
SELL [S]	1.14	0.00

Meaning of Ratings

A) Buy means reasonable outperformance relative to the market over 12-18 months.

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

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