

October 20, 2008

Key Metrics

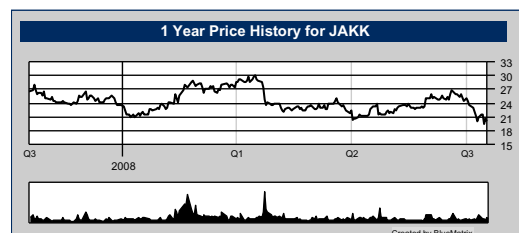
JAKK - NASDAQ	\$20.16
Pricing Date	10/17/2008
Price Target	\$28.00
52-Week Range	\$30.55-\$18.18
Shares Outstanding (mm)	27.4
Market Capitalization (\$mm)	\$553.0
3-Mo Average Daily Volume	402,552
Institutional Ownership	96%
Debt/Total Capital	12.7%
ROE	12.9%
Book Value/Share	\$20.60
Price/Book	1.0x
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	0.05E
2Q-Jun	0.17	--	0.15A	0.18E	0.16E
3Q-Sep	1.45	1.53E	1.49E	1.62E	1.57E
4Q-Dec	1.06	1.02E	0.98E	1.09E	1.05E
FY	2.80	2.74E	2.65E	3.00E	2.82E
P/E	7.2x		7.6x		7.1x

Revenue(\$mm)

	2007A	Prior 2008E	Curr. 2008E	Prior 2009E	Curr. 2009E
1Q-Mar	124.1	--	130.9A	137.1E	130.0E
2Q-Jun	129.5	--	145.3A	148.0E	145.0E
3Q-Sep	318.4	340.0E	330.0E	353.6E	343.2E
4Q-Dec	285.1	275.0E	270.0E	286.0E	280.8E
FY	857.1	891.2E	876.2E	924.7E	899.0E



Company Description: JAKKS Pacific, Inc. (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

3Q08 Preview: EPS Expected To Increase Slightly; PT to \$28 from \$30

Investment Highlights:

- **JAKKS is scheduled to report 3Q08 EPS on Tuesday before the market opens.** JAKKS is expected to report 3Q08 EPS on Tuesday, October 21st, before the market opens. We are projecting EPS of \$1.49, \$0.02 below the Street consensus and \$0.04 better than last year's comparable period. Our EPS estimate is based off of our expectation for sales to increase 4% Y/Y with slight gross and EBIT margin deterioration. A conference call is scheduled for Tuesday, October 21st, at 9:30 AM EST.
- **Sales expected to expand 4% Y/Y: More expansive product line anticipated.** We expect 3Q08 sales of \$330mm, up 4% Y/Y based upon solid sell-in of its most expansive, in our opinion, product line to date. In addition to Cabbage Patch Kids, CDI Disney, Eye-Clops, Pokémon, and WWE (WWE-\$15.93-NYSE), JAKKS is offering a more expansive Hannah Montana line as well as Cupcake Maker, Eye-Clops Night Vision Goggles, Girl Gourmet, and Spa Factory, to name a few.
- **Increased costs could decrease margins: offsets expected to be lower D&A and improved operating efficiencies.** Increased raw material/transportation/legal costs could reduce gross and EBIT margins 60bps and 50bps, respectively, Y/Y in 3Q08. Offsetting some of the impact should be operating efficiencies, lower D&A, and a more robust internally developed product line. Legal costs could also be up Y/Y but looks to be money well spent as the Connecticut State court recently dismissed the WWE lawsuit against JAKKS. The arbitration case with THQ Inc. (THQI-\$10.10-NASDAQ) remains pending.
- **Trimming EPS/Target for conservatism; Target to \$28 from \$30.** We are reducing our FY08 and FY09 EPS estimates by \$0.09 and \$0.18, respectively, to account for a weakening economic environment. Current management guidance for 2008 is \$2.80. Considering JAKKS recently announced two acquisitions, details not released but expected to be relatively small, and \$177mm in cash, any downside could be offset by additional acquisitions but, at this point, we would rather be conservative. We are also trimming our target multiple from an 11x to 10x FTM PE (4Q08E to 3Q09E).

EQUITY RESEARCH

JAKKS Pacific, Inc. Quarterly Earnings Model

(In \$millions, except per share data)

	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
Total Sales	\$765.4	\$124.1	\$129.5	\$318.4	\$285.1	\$857.1	\$130.9	\$145.3	\$330.0	\$270.0	\$876.2	\$130.0	\$145.0	\$343.2	\$280.8	\$899.0
<i>% Increase</i>	15.7%	15.7%	4.4%	7.6%	19.6%	12.0%	5.5%	12.2%	3.6%	-5.3%	2.2%	-0.7%	-0.2%	4.0%	4.0%	2.6%
Cost of Goods Sold	470.6	78.6	84.3	194.3	176.3	533.4	83.5	93.2	203.1	167.0	546.9	81.7	92.7	210.7	172.7	557.7
<i>As % of total sales</i>	61.5%	63.3%	65.0%	61.0%	61.8%	62.2%	63.8%	64.2%	61.6%	61.9%	62.4%	62.8%	63.9%	61.4%	61.5%	62.0%
Gross Profit	294.8	45.5	45.3	124.1	108.8	323.6	47.4	52.1	126.9	103.0	329.3	48.3	52.3	132.5	108.1	341.3
Margin	38.5%	36.7%	35.0%	39.0%	38.2%	37.8%	36.2%	35.8%	38.4%	38.1%	37.6%	37.2%	36.1%	38.6%	38.5%	38.0%
<i>% Increase</i>	10.5%	3.0%	-8.1%	9.9%	23.0%	9.8%	4.2%	14.9%	2.3%	-5.4%	1.8%	1.9%	0.4%	4.5%	5.0%	3.6%
Direct Expenses	79.0	11.8	9.0	20.1	30.4	71.3	12.1	12.3	21.8	31.0	77.3	12.5	12.8	22.6	32.0	79.9
<i>As % of total sales</i>	10.3%	9.5%	6.9%	6.3%	10.7%	8.3%	9.2%	8.5%	6.6%	11.5%	8.8%	9.6%	8.8%	6.6%	11.4%	8.9%
SG&A Expenses	105.5	26.4	25.8	34.8	41.4	128.5	33.5	31.3	36.5	41.0	142.3	34.6	32.4	37.8	42.5	147.3
<i>As % of total sales</i>	13.8%	21.3%	19.9%	10.9%	14.5%	15.0%	25.6%	21.6%	11.1%	15.2%	16.2%	26.6%	22.4%	11.0%	15.1%	16.4%
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	61.1	74.8	230.7	49.2	47.2	62.4	76.5	235.2
<i>As % of Total Sales</i>	26.5%	34.0%	30.0%	18.5%	26.5%	25.2%	36.9%	32.0%	18.5%	27.7%	26.3%	37.8%	32.6%	18.2%	27.2%	26.2%
Operating Profit	92.3	3.3	6.5	65.1	33.1	108.0	-0.9	5.6	65.7	28.2	98.6	-0.8	5.1	70.2	31.6	106.0
Margin	12.1%	2.7%	5.0%	20.4%	11.6%	12.6%	-0.7%	3.8%	19.9%	10.4%	11.3%	-0.6%	3.5%	20.4%	11.3%	11.8%
<i>% Increase</i>	4.9%	48.1%	-27.6%	11.8%	44.7%	17.0%	-126.9%	-14.2%	1.1%	-15.0%	-8.7%	-6.3%	-9.2%	6.7%	12.3%	7.5%
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
Pretax Profit	105.9	4.8	7.4	67.1	51.3	130.5	1.3	6.0	67.8	44.2	119.3	1.1	6.2	71.6	47.5	126.3
Margin	13.8%	3.8%	5.7%	21.1%	18.0%	15.2%	1.0%	4.1%	20.6%	16.4%	13.6%	0.8%	4.3%	20.9%	16.9%	14.1%
<i>% Increase</i>	9.6%	45.1%	-19.0%	16.0%	43.8%	23.2%	-72.7%	-19.0%	1.1%	-13.9%	-8.6%	-18.3%	2.9%	5.5%	7.6%	5.9%
Taxes/(benefit)	33.6	1.5	2.4	19.8	16.9	40.6	0.4	1.8	21.0	13.7	37.0	0.3	1.9	22.2	14.7	39.2
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%
Net Income	72.4	3.2	5.0	47.3	34.4	90.0	0.9	4.2	46.8	30.5	82.3	0.7	4.3	49.4	32.8	87.2
Margin	9.5%	2.6%	3.9%	14.9%	12.1%	10.5%	0.7%	2.9%	14.2%	11.3%	9.4%	0.6%	2.9%	14.4%	11.7%	9.7%
<i>% Increase</i>	14.0%	38.9%	-20.9%	16.8%	48.4%	24.3%	-72.9%	-17.4%	-1.1%	-11.4%	-8.5%	-16.4%	2.4%	5.5%	7.6%	5.9%
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
EPS--Operations	\$2.30	\$0.12	\$0.17	\$1.45	\$1.06	\$2.80	\$0.03	\$0.15	\$1.49	\$0.98	\$2.65	\$0.05	\$0.16	\$1.57	\$1.05	\$2.82
<i>% Increase</i>	11.5%	23.0%	-19.5%	15.1%	44.9%	21.8%	-73.4%	-13.8%	2.5%	-7.7%	-5.6%	NM	3.9%	5.4%	7.4%	6.4%
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 \$28.

Valuation Methodology

Our price target assumes a roughly 10x 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]	57.45	37.04
HOLD [H]	41.49	30.77
SELL [S]	1.06	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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