

October 22, 2008

Key Metrics

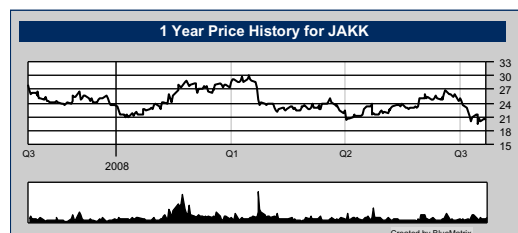
JAKK - NASDAQ	\$20.25
Pricing Date	10/21/2008
Price Target	\$28.00
52-Week Range	\$30.55-\$18.18
Shares Outstanding (mm)	27.4
Market Capitalization (\$mm)	\$554.9
3-Mo Average Daily Volume	396,276
Institutional Ownership	96%
Debt/Total Capital	11.9%
ROE	11.9%
Book Value/Share	\$22.55
Price/Book	0.9x
Dividend Yield	NM
LTM EBITDA Margin	14.12%

EPS(\$) FY: December

	2007A	Prior 2008E	Curr. 2008E	Prior 2009E	Curr. 2009E
1Q-Mar	0.12	--	0.03A	--	0.05E
2Q-Jun	0.17	--	0.15A	--	0.16E
3Q-Sep	1.45	1.49E	1.41A	--	1.57E
4Q-Dec	1.06	--	0.98E	--	1.05E
FY	2.80	2.65E	2.60E	--	2.82E
P/E	7.2x		7.8x		7.2x

Revenue(\$mm)

	2007A	Prior 2008E	Curr. 2008E	Prior 2009E	Curr. 2009E
1Q-Mar	124.1	--	130.9A	130.0E	135.0E
2Q-Jun	129.5	--	145.3A	145.0E	150.0E
3Q-Sep	318.4	330.0E	357.8A	343.2E	358.0E
4Q-Dec	285.1	--	270.0E	280.8E	285.0E
FY	857.1	876.2E	904.1E	899.0E	928.0E



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 Sales Beat; EPS Down \$0.04 Y/Y; 2008 EPS Guidance of \$2.80 Maintained

Investment Highlights:

- **3Q08 EPS roughly \$0.08 below expectations; strong sales offset by weak gross margins.** JAKKS reported 3Q08 EPS of \$1.41 (ex-one time benefits/charges of roughly \$0.29), \$0.08 below our estimate. Sales (up 12.4% Y/Y) came in roughly \$28mm above our projection, yet weaker than expected gross margins offset the top-line growth. Included within the \$1.41 was approximately \$5mm, or about \$0.11 in license write-downs. If excluded, EPS would have exceeded our estimate by \$0.03.
- **Top-line growth not reflective of slowing economy - demand for JAKKS product lines appears strong.** 3Q08 sales expanded 12% with key new products driving top-line growth. While apparently down Y/Y, Hannah Montana, Pokémon, and WWE continued to be strong contributors to top-line growth. Due to challenging comps and an uncertain economy, we are forecasting 4Q sales to decline 5%, but recent trends may indicate upside potential exists.
- **Cost pressures reduce gross margins - operating costs in check.** Gross margins declined 290 bps Y/Y but included approximately \$5mm in license write-downs. Excluding those costs, gross margins would have been roughly 37.5%, down roughly 100 bps from our estimate. Despite higher legal and product development costs, operating expenses declined, as a percentage of sales, by roughly 100 bps.
- **Solid balance sheet positions company for further acquisitions.** JAKKS' balance sheet remained strong with \$193mm in cash (\$98mm in debt). Recently, JAKKS' completed two acquisitions for a cost of roughly \$27mm with combined 2007 sales of approximately \$60mm. We continue to expect JAKKS' to aggressively pursue acquisitions that could offset potential economic weakness and the pending 2010 end to the WWE toy license. We are increasing our 2009 sales estimate to account for the recently announced acquisitions, adjusted for potential acquired product discontinuations.
- **2008 EPS guidance maintained at \$2.80, suggesting potential material upside to our estimate.** Management reiterated its 2008 EPS guidance, excluding one-time charges/benefits, which reflects \$0.20 upside to our current EPS estimate.
- **Maintain Buy rating and \$28 price target.** Despite strong top-line growth and positive momentum going into the holiday season, JAKKS' continues to trade at a material discount to its peer group. With two acquisitions already under its belt, roughly \$170mm, ex-acquisition costs, in cash, and a traditionally strong free cash flow quarter upcoming, we believe current and potential future acquisitions should more than offset expected economic weakness, while providing upside potential to current estimates. We maintain our Buy rating and \$28 price target on the shares.

EQUITY RESEARCH

JAKKS Pacific reported 3Q08 earnings per share, excluding tax benefits relating to the reversal of prior tax accruals in the amount of \$13.3mm a \$9.1mm pre-tax charge relating to the write-down of trademarks, and a \$3.1mm interest expense benefit, \$1.41, which came in \$0.08 below our estimate. Despite apparently weakening consumer spending patterns, sales exceeded our expectations by \$28.7mm and expanded Y/Y 12.4% with new product offerings apparently well received at retail. Offsetting the better than expected top-line results was weaker than projected gross margins, which were negatively impacted by roughly \$5mm in license write-offs.

Sales up 12.4% Y/Y - well above expectations with new product lines apparently leading the way

Despite some apparent slowdown in Hannah Montana, Pokémon, and WWE (WWE-\$14.81-NYSE) Y/Y sales, revenues expanded an impressive 12.4% Y/Y. By category breakdown, traditional toys expanded Y/Y 11%, craft activity/writing products grew 69%, or roughly \$8mm, and pet products declined 24%, or roughly \$1.5mm. Key products that performed well were EyeClops Night Vision Googles, Girl Gourmet CupCake Maker, CDI roll-play, Spa Factory, and Ultimotion. While apparently down Y/Y, Hannah Montana, Pokémon, and WWE continue to be strong contributors. While we are currently forecasting a 5% Y/Y sales decline in 4Q08, current sales trends certainly indicate potential upside to those projections; however, with very strong 20% Y/Y growth in 4Q07 and an uncertain economic background, we continue to attempt to fall on the side of conservatism. While the two acquisitions generated a combined \$60mm in 2007 sales, we are increasing our 2009 revenue estimate by \$30mm to account for potential discontinued sales of unprofitable acquired lines.

Gross margins weaker than expected - operating costs appear under control

Excluding one-time benefits/charges, EBIT margins declined 180 bps Y/Y with lower gross margins accounting for the Y/Y decline. Gross margins declined 290 bps Y/Y due to product mix, higher costs, and the write-off of non-performing licenses. Excluding the write-off, gross margins apparently came in at roughly 37%, which was roughly 100 bps below our estimate. Operating costs declined, as a percentage of sales, 100 bps Y/Y despite higher legal costs and \$3.1mm in increased product development costs. Following the positive WWE verdict, legal costs should begin to decline in 2009, along with amortization associated with past acquisitions. Lower oil price trends could also be beneficial to 2009 gross margins with commodity and labor costs potentially expanding further. We are modeling for slight Y/Y gross margin improvement with ongoing operating leverage expectations.

Balance sheet remains strong - two new acquisitions contributed \$60mm to 2007 sales

JAKKS' balance sheet remains strong with \$192.8mm in cash and \$98mm in total debt. Cash from operations for the first nine months of the year was \$13.9mm, with the company's traditionally strongest cash generating fourth quarter in progress. Previously, the company announced the acquisition of Kids Only (children's indoor/outdoor furniture) and Tollytots Limited (baby doll accessories) for roughly \$27mm in cash. In 2007, the two combined companies generated sales of approximately \$60mm, and should be slightly accretive in 2009. We would expect JAKKS to continue to pursue accretive acquisitions going forward that could add upside to existing estimates.

Strong sales momentum, somewhat economically resistant industry, attractive valuation, maintain Buy

While not immune to prevailing economic conditions, we view the toy industry as relatively insulated from potential economic slowdowns as purchases for children likely skew closer to non-discretionary than discretionary. With strong top-line momentum carrying into the fourth quarter, JAKKS' 2008 product line appears to be well accepted at retailers; we believe current trends bode well for market share gains and top-line growth. Currently trading at a P/E multiple of 7.2x our FTM estimate and at an EV/EBITDA FTM multiple of 4.5x (3.8x if including its joint venture income), the shares currently trade at a material discount to the peer group. With a strong balance sheet and positive cash flow, the company appears in good position to expand its market presence through additional acquisitions that could add upside to our current sales and EPS projections, which for 2008 is \$0.20 below current company guidance. We maintain our Buy rating and \$28 price target on the shares.

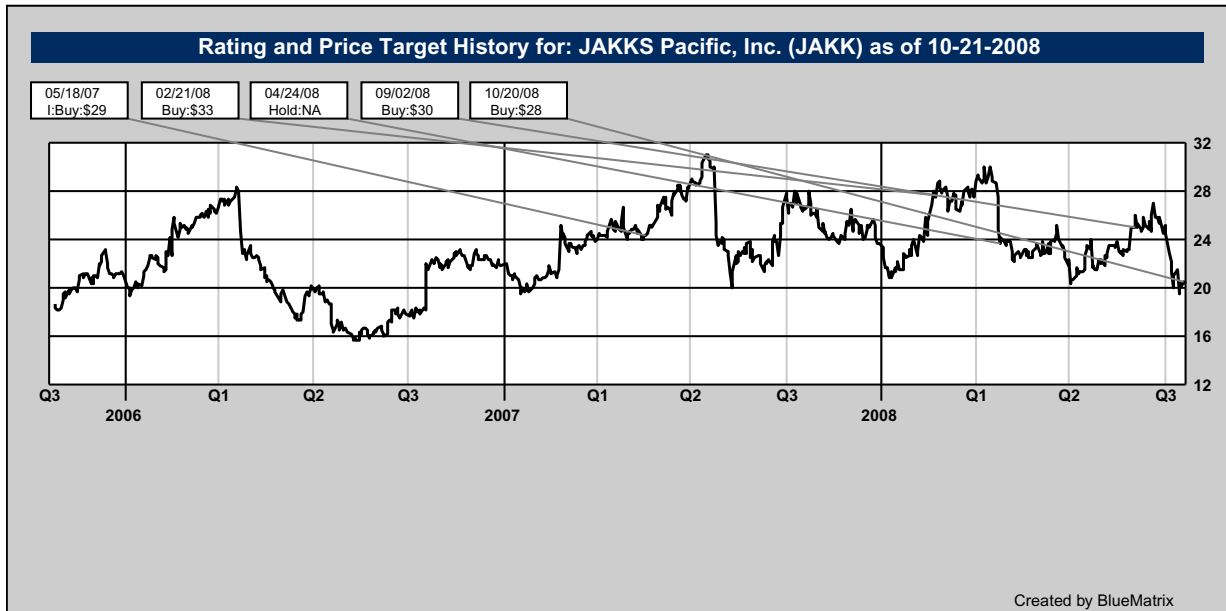
JAKKS Pacific, Inc. Quarterly Earnings Model

(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	Q3 Sep-08	Q4 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	\$357.8	\$270.0	\$904.1	\$135.0	\$150.0	\$358.0	\$285.0	\$928.0
<i>% Increase</i>	15.7%	15.7%	4.4%	7.6%	19.6%	12.0%	5.5%	12.2%	12.4%	-5.3%	5.5%	3.1%	3.2%	0.0%	5.6%	2.6%
Cost of Goods Sold	470.6	78.6	84.3	194.3	176.3	533.4	83.5	93.2	228.8	167.0	572.5	86.3	97.7	223.8	175.6	583.2
<i>As % of total sales</i>	61.5%	63.3%	65.0%	61.0%	61.8%	62.2%	63.8%	64.2%	63.9%	61.9%	63.3%	63.9%	65.1%	62.5%	61.6%	62.8%
Gross Profit	294.8	45.5	45.3	124.1	108.8	323.6	47.4	52.1	129.1	103.0	331.5	48.7	52.4	134.3	109.4	344.8
Margin	38.5%	36.7%	35.0%	39.0%	38.2%	37.8%	36.2%	35.8%	36.1%	38.1%	36.7%	36.1%	34.9%	37.5%	38.4%	37.2%
<i>% Increase</i>	10.5%	3.0%	-8.1%	9.9%	23.0%	9.8%	4.2%	14.9%	4.0%	-5.4%	2.4%	2.7%	0.6%	4.0%	6.3%	4.0%
Direct Expenses	79.0	11.8	9.0	20.1	30.4	71.3	12.1	12.3	21.4	31.0	76.8	12.7	12.8	22.6	32.8	80.8
<i>As % of total sales</i>	10.3%	9.5%	6.9%	6.3%	10.7%	8.3%	9.2%	8.5%	6.0%	11.5%	8.5%	9.4%	8.5%	6.3%	11.5%	8.7%
SG&A Expenses	105.5	26.4	25.8	34.8	41.4	128.5	33.5	31.3	38.4	41.0	144.3	34.7	32.3	38.3	42.8	148.0
<i>As % of total sales</i>	13.8%	21.3%	19.9%	10.9%	14.5%	15.0%	25.6%	21.6%	10.7%	15.2%	16.0%	25.7%	21.5%	10.7%	15.0%	15.9%
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%	1.3%	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	62.7	74.8	232.3	49.4	47.0	62.9	77.5	236.7
<i>As % of Total Sales</i>	26.5%	34.0%	30.0%	18.5%	26.5%	25.2%	36.9%	32.0%	17.5%	27.7%	25.7%	36.6%	31.3%	17.6%	27.2%	25.5%
Operating Profit	92.3	3.3	6.5	65.1	33.1	108.0	-0.9	5.6	66.4	28.2	99.3	-0.6	5.4	71.4	31.9	108.1
Margin	12.1%	2.7%	5.0%	20.4%	11.6%	12.6%	-0.7%	3.8%	18.6%	10.4%	11.0%	-0.5%	3.6%	19.9%	11.2%	11.6%
<i>% Increase</i>	4.9%	48.1%	-27.6%	11.8%	44.7%	17.0%	-126.9%	-14.2%	2.1%	-15.0%	-8.1%	-27.3%	-3.0%	7.5%	13.3%	8.9%
Interest Income	3.8	1.5	1.8	1.8	1.7	6.8	1.3	0.8	0.7	1.0	3.8	1.0	1.0	1.0	1.0	4.0
Interest Expense	-3.4	-1.6	-1.6	-0.7	-1.6	-5.5	-1.6	-1.6	-1.1	-1.6	-5.9	-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	0.7	17.0	21.5	2.3	1.3	1.0	16.3	20.9
Pretax Profit	105.9	4.8	7.4	67.1	51.3	130.5	1.3	6.0	66.8	44.6	118.7	1.1	6.1	71.8	47.6	126.6
Margin	13.8%	3.8%	5.7%	21.1%	18.0%	15.2%	1.0%	4.1%	18.7%	16.5%	13.1%	0.8%	4.1%	20.1%	16.7%	13.6%
<i>% Increase</i>	9.6%	45.1%	-19.0%	16.0%	43.8%	23.2%	-72.7%	-19.0%	-0.4%	-13.1%	-9.1%	-19.2%	2.4%	7.4%	6.8%	6.7%
Taxes/(benefit)	33.6	1.5	2.4	19.8	16.9	40.6	0.4	1.8	21.9	13.8	38.0	0.3	1.9	22.3	14.8	39.2
Rate	31.7%	32.0%	32.0%	29.5%	32.9%	31.1%	32.5%	30.7%	32.8%	31.0%	32.0%	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	44.9	30.8	80.7	0.7	4.2	49.5	32.9	87.4
Margin	9.5%	2.6%	3.9%	14.9%	12.1%	10.5%	0.7%	2.9%	12.5%	11.4%	8.9%	0.5%	2.8%	13.8%	11.5%	9.4%
<i>% Increase</i>	14.0%	38.9%	-20.9%	16.8%	48.4%	24.3%	-72.9%	-17.4%	-5.1%	-10.6%	-10.3%	-17.4%	1.9%	10.3%	6.8%	8.3%
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	\$1.41	\$0.98	\$2.60	\$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%	-2.4%	-6.9%	-7.4%	48.2%	3.5%	11.0%	6.7%	8.6%
Shares Outstanding	32.7	28.0	33.1	33.1	33.3	33.1	28.5	32.6	32.3	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 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. are 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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