

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to the JAKKS Pacific teleconference with management to discuss the results for the second quarter and first six months of 2009. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session. Please note that this conference is being recorded.

I will now turn the call over to Ms. Genna Rosenberg. Ms. Rosenberg, you may begin.

Genna Rosenberg, Senior Vice President, Communications & Investor Relations

Thank you, operator. Good afternoon, ladies and gentlemen. This is Genna Rosenberg, Senior Vice President of Communications & Investor Relations for JAKKS Pacific. Thank you for joining our teleconference with management of JAKKS Pacific to review the results for the second quarter and first six months ended June 30, 2009.

On the call today are Jack Friedman, Chairman and co-CEO of JAKKS Pacific; Stephen Berman, President and co-CEO; and Joel Bennett, Executive Vice President and CFO. Mr. Friedman will first provide an overview of the quarter and our operational results, and then Mr. Bennett will provide detailed comments regarding our financial results. Mr. Friedman will then conclude the prepared portion of the call with highlights of our product lines and current business trends, prior to opening up the call for your one-on-one questions.

Before I begin, I'd like to point out that any comments made about our future performance, events or circumstances, including estimates of sales and earnings per share for 2009, as well as any other forward-looking statements, are subject to the Safe Harbor protection under federal security laws. These statements reflect our best judgment based on current market trends and conditions today, and are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected in our forward-looking statements. For details concerning these and other such risks and uncertainties, you should consult our most recent 10-K and 10-Q filings with the SEC, as well as our company's other reports subsequently filed with the SEC from time to time.

With that, I will turn the call over to Mr. Friedman.

Jack Friedman, Chairman and Chief Executive Officer

Good afternoon, ladies and gentlemen. This is Jack Friedman. Thank you for joining us today to discuss the results for the second quarter and the first six months of 2009 for JAKKS Pacific. As we announced earlier today, we are in the midst of one of the most difficult economic environment in JAKKS' history. These challenges are affecting our top and bottom lines, as well as our outlook for this year.

We announced goodwill impairment and other write-down charges, as well as lower preferred return rate in our THQ joint venture, most of which are non-cash and total 497.8 million. The goodwill impairment charge, which we were required to take in the quarter as a result of the sustained decline in our market capitalization, was the bulk of it at 407 million. But this goodwill impairment charge does not affect our liquidity or business operations and does not limit or change our ability to continue to generate positive future cash flows from the intangible assets written off as goodwill.

In addition, we are seeing continued softness at retail this year, with lower than expected sales on some core JAKKS products in the current portfolio and greater competition for close-out sales affecting gross margins, particularly on the close-out sales. On a non-GAAP basis, second quarter

2009 net sales were 145.4 million, compared with sales of 145.3 million for the second quarter of 2008, and sales for the first six months of 2009 on a non-GAAP basis were 254.1 million, compared with 276.2 million for the first six months of 2008.

These non-GAAP net sales figures exclude a one-time charge related to the recall of one of our products. On a non-GAAP basis, we incurred a net loss for the quarter of 0.09 million, or \$0.03 per share, and a net loss on a non-GAAP basis of 11.7 million, or \$0.43 a share for the first six months. As is typical, we began shipping some new items slated for the second half of the year in the second quarter. However, the bulk of our fall toy drive is in Halloween products from our Disguise division will ship in the third and fourth quarters.

We do have many value driven items in the portfolio with potential that have a good placement at retail, including a myriad of products based on Disney princess, fairies, our new Girl Gourmet products, new Plug It & Play TV games products and other lines. But we're anticipating underperformance of several of our lines that have been strong contributors in the past, such as Hannah Montana toys and particularly, WWE, and along with Pokémon action figures.

Although 2009 is shaping up to be an extremely tough year for JAKKS and others in the U.S. toy market, we are committed to focusing our efforts to retain and enhance overall profitability and are taking very serious measures to reduce spending companywide. We have evaluated business operations, and have or nearly completed developing a restructuring plan to streamline operations, reduce costs and lower capital expenditures to position JAKKS for future good profitability and growth.

Our financial position remains extremely strong with working capital of approximately 239.6 million, including cash and equivalents and marketable securities of 122.6 million as of June 30, '09, enabling us to continue to execute our acquisition strategy, and internal product development without interruption.

I would now like to turn the call over to Joel Bennett for a review of our financial performance for the second quarter of 2009.

Joel M. Bennett, Executive Vice President and Chief Financial Officer

Thank you, Jack, and good afternoon, everyone. Net sales for the second quarter were 144.8 million, compared to 145.3 million reported in the comparable period last year, and net sales for the six months were \$253.5 million, compared to 276.2 million during the same period in 2008.

On a non-GAAP basis, net sales for the second quarter of 2009 were 154.4 million, and 254.1 million for the six-month period. This compares to \$145.3 million, and 276.2 million for the second quarter and first six months of 2008 on a non-GAAP basis.

JAKKS reported a net loss for the second quarter of \$405 million, or \$14.94 per share, compared to net income of \$4.2 million, or \$0.15 per diluted share, reported in the second quarter of 2008. The net loss for the six-month period was \$416.7 million, or \$15.33 per share, compared to earnings for the first six months of 2008 of \$5 million, or \$0.18 per diluted share.

On a non-GAAP basis, JAKKS reported a net loss for the second quarter of \$900,000, or \$0.03 per diluted share, compared to net income of \$4.8 million, or \$0.17 per diluted share, in the second quarter of 2008. The non-GAAP net loss for the six months of 2009 was \$11.7 million, or \$0.43 per share, compared to non-GAAP net income of \$6.8 million, or \$0.24 per diluted share, for the first six months of 2008.

The second quarter and six-month GAAP results include the following, which were excluded in the non-GAAP results. For 2009, a pre-tax non-cash goodwill impairment charge of \$407.1 million due to the sustained decline in the company's market cap. A pre-tax non-cash impairment charge of \$8.2 million related to certain of the company's underutilized trademarks. A pre-tax charge to royalty expense of \$33.2 million related to abandoned or underperforming licenses, 19.5 million of which is non-cash, and 13.7 million is expected to be paid out to third-party licensors through 2011.

A pre-tax charge to cost of goods of \$23.3 million related to the impairment of inventory, of which \$14.5 million is non-cash, and 8.8 million is expected to be paid out to third-party factories during the remainder of 2009. A pre-tax non-cash charge of \$2.2 million related to the write-off of obsolete tools and molds used in the production of our products, and a pre-tax charge of \$1.3 million related to the recall of one of our products. And lastly, a pre-tax non-cash charge of \$22.5 million related to the reduction to the receivable from our video game joint venture with THQ as a result of the recent arbitration decision, which reduced our preferred return payment from 10% to 6% of the joint venture's net sales.

Again, the goodwill impairment charge does not affect the company's liquidity or business operations, and is not expected to limit or change our ability to continue to generate positive future cash flows from these intangible assets.

Now, for sales by product category. Our worldwide sales of toy products, which include action figures, vehicles, electronics, plush, role-play, including Halloween costumes, dolls, kites, pool toys, outdoor promotional and pet products, were \$130 million for the second quarter of 2009, compared to 134.7 million in the second quarter of 2008.

Toy sales for the first six months of 2009 were \$253.6 million, compared to 259.5 million for the first six months of 2008. Sales in the quarter were driven by pretend play products, electronic toys, and action figures. However, we did see year-over-year declines in some of our products, particularly those based on the WWE wrestlers, Hannah Montana, Pokémon, Neopets, and several others.

Worldwide sales of craft, activities, and writing products, which consists primarily of our Flying Colors and Pentech product lines, had worldwide sales of approximately \$14.8 million in the second quarter of 2009, as compared to approximately 10.6 million in the comparable period of 2008. For the six-month period, we had sales of \$22.4 million, as compared to sales of \$16.7 million for the comparable period in 2008.

Sales of our Girl Gourmet line and activity items drove sales in this category. Included in these numbers are international sales of \$24 million for the second quarter and \$42.6 million for the first six months of 2009, down from \$28.8 million, and \$52.2 million for the same periods, respectively, for 2008.

On a non-GAAP basis, gross margins for the second quarter of 2009 were 35.7%, as compared to 36.5% in the second quarter of last year. Gross margins for the first six months of 2009 was 35%, as compared to 36.9% for the first six months of last year. The 80 basis point decrease in gross margin for the quarter is due to change in our product mix, which included more lower margin sales, including closeouts, as we experienced lower-than-expected sales of our higher margin products.

SG&A expenses in the second quarter of 2009 were \$51.5 million, or 35.5% of net sales, as compared to \$46.5 million, or 32% of net sales, in the same period last year. SG&A expenses for the first six months of 2009 were \$106 million, or 41.8% of net sales, as compared to \$94.8 million, or 34.3% of net sales, for the six months of last year. This increase is due primarily to the addition of overhead related to our recent acquisitions and higher legal costs related to various litigation, which are now not being reimbursed by the insurance company, as well as increases in product testing.

We are taking serious measures to reduce spending companywide, and retain and enhance profitability of the company. These cost saving efforts are intended to reduce spending to appropriate levels given the lower than expected sales forecasts across a number of product lines in the portfolio and lower gross margins overall, and will include a consolidation of office spaces, head count reductions and other efficiencies that will be implemented during the remainder of 2009.

The company expects to incur significant charges in connection with the implementation of the restructuring plan, most of which will be recognized in the remainder of fiscal 2009 and will be excluded from the company's non-GAAP results. And we expect them to begin to benefit the company beginning in the second half of this year. We are hoping to achieve annual savings of up to \$40 million. Lastly, our operations will be focused on fewer SKUs for the basic everyday, every season product.

Depreciation and amortization, excluding the disposal of obsolete tools and molds in the amount of \$2.2 million, was approximately \$3 million in the second quarter and \$5.5 million for the first six months of 2009, compared to the 2.8 million and \$5.6 million for the comparable periods in 2008.

Stock-based compensation for the second quarter of both 2009 and 2008 was \$2 million and was \$4 million for the first half of both 2009 and 2008. For the quarter, we posted a loss of \$400,000 from the videogame joint venture with THQ as a result of increased legal fees, compared to profit of \$1.3 million for the comparable period last year. In addition, we took a charge of 22.5 million in the quarter to reduce our receivables from the joint venture as a result of the decision rendered late Friday in the arbitration regarding a dispute over the rate of JAKKS' preferred return payment based on net sales of the WWE videogames generated by the joint venture.

An independent arbitrator found that JAKKS is entitled to receive a preferred return payment at a rate of 6% of net sales versus the pre-existing rate of 10%, which we had been accruing for. The arbitration was also required THQ to pay JAKKS approximately \$34 million on account of the preferred return for the period from July 1, 2006 through March 31, 2009.

On a go-forward basis through December 31, 2009, our preferred return will be accrued at the new 6% of net sales. For the videogame license renewal period from January 2010 through December 2014, a new rate will be set based on negotiations between THQ and us. Operations used in the second quarter of 2009 approximately \$24.5 million, compared to used in cash of \$21.6 million in the second quarter of 2008. But our financial position remains very strong.

As of June 30, 2009, our working capital was approximately \$244.1 million, including cash and equivalents and marketable securities of 122.6 million. Working capital decreased by \$98 million in the quarter as a result of the reclassification of our convertible notes to current liabilities due to the noteholder put option on June 15, 2010. We continue to evaluate potential acquisition opportunities and do expect to continue to grow our business by actively pursuing additional accretive and complementary acquisitions and executing on internal growth initiatives, including creating new products and securing new licenses to provide opportunities for growth for JAKKS Pacific.

Accounts receivable at the end of the second quarter were \$115.8 million, compared to 102.4 million at the end of the second quarter of 2008. DSOs were 72 days, up from 64 days in the same period in 2008. Inventory was \$76.6 million at the end of the quarter, down from 83.6 million at the end of the comparable period in 2008. The decrease is due primarily to the previously mentioned write-down of inventory. DSIs decreased to 90 days from 102 days at the end of the second quarter of 2008. Capital expenditures for the quarter were \$7.1 million and we expect capital expenditures to be approximately \$16 million for the full year of 2009, down from 23 million in 2008.

With that, I will return the call to Jack Friedman.

Jack Friedman, Chairman and Chief Executive Officer

Hello, again, everyone. We are in full swing in production on many of the new fall items in our portfolio, and as is typical the majority of our key new items will ship in the third quarter. We also look to benefit from our newly acquired divisions, especially sales of our Disguise Halloween products. We expect to benefit from some strategic value pricing initiatives as consumers are increasingly cost conscious. We are trending higher on items like our line of novelty toys and are looking for items, such as our electronic products Girl Gourmet, and pretend play products to drive sales in our portfolio for the remainder of the year.

With the restructuring and cost savings initiatives we are implementing, we expect to begin to see benefits by the end of this year. These cost saving efforts are intended to reduce spending given the lower than expected sales forecast across a number of product lines in the portfolio and lower gross margins overall, and will include head count reductions, a consolidation of office spaces and other efficiencies that will be implemented during the remainder of 2009. The annual savings are expected to be upwards of 40 million on an ongoing basis.

As for our 2009 guidance, we are now planning on lower full year revenue, playing it safe and our retailers' buying less quantities at a time and JAKKS planning on carrying lower inventories than in the past. On a non-GAAP basis, our sales will be approximately \$810.7 million, with net income on a non-GAAP basis income of \$30 million, or \$1.01 per diluted shares.

Despite the uncertainties related to the U.S. recession, we remain committed to running a profitable JAKKS Pacific and are working hard to execute on our strategy on behalf of our shareholders for 2009 and beyond.

With that, I will open the call for questions. Thank you, all.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator instruction]. Our first question comes from Ed Woo from Wedbush. Please go ahead.

<Q – Edward Woo>: Yeah. I had a question. The non-GAAP guidance for \$1.01 earnings, does that include or exclude the charge for the WWE THQ royalty rate?

<A – Joel Bennett>: It includes the impact of that in terms of the lower amount that we'll receive in Q4, but it does exclude the \$22.5 million charge for the catch-up.

<Q – Edward Woo>: Okay. And then it seems like the retail environment is weak, but some of your other competitors is doing a little bit better in terms of the ones that have movie properties. Is that across the board with most of your products? And also, is there any differentiation between U.S. versus international?

<A – Jack Friedman>: I'll answer that one. This is Jack speaking. Some of the movie properties, particularly Hasbro, has been very hot with Transformers. It's, I guess, turning out to be one of the biggest movies of all time, along with the anticipation of G.I. Joe, some of the various animated movies. The areas which we did touch on early in the call that affected us mostly on the downside was WWE Toys, which are down in the vicinity of 50%. And Pokémon and Hannah Montana, those are down way more than we had anticipated earlier in the year and after the first quarter as well.

The rest comes from a general softness in the marketplace. We also said earlier in the report that there are a multitude of closeouts in the marketplace right now. So, what we thought we would get for distressed merchandise, and having more distressed merchandise due to softness, we're getting lower prices than we anticipated, and that is bringing margins down for the time being. And we don't look that to be in the future after this year going forward. And we expect to be clean on that type of products, and we expect to return more to normalcy on our margins. International is a bit less impact on us. One of those reasons is international is a lesser part of JAKKS business than some of our larger competitors like Mattel and Hasbro.

<Q – Edward Woo>: The cost-cutting, if I could ask a little bit of details on that. It's 40 million expected savings. Do you have a plan of when you think that's going to be fully implemented? Should we anticipate that the reorganization will take on the next couple of quarters and will it – it could be completed by the end of the year?

<A – Joel Bennett>: Say, we're actually going to start that during 2009. And as indicated in the release, we'll have a restructuring charge that we'll take. As far as the \$40 million run rate, we would probably start achieving that by the end of Q1 2010.

<Q – Edward Woo>: And one last question. Will that be mainly out of operating costs, or do you think that that may be coming out of cost of goods as well?

<A – Joel Bennett>: The focus is primarily operating costs. It's been a very big challenge this year in terms of trying to achieve margin going back to the factories. But I guess further to that point, rather than getting lower prices on existing products from the factories, we're looking at reengineering products and also, taking a harder look on the new products that we develop with a higher margin criteria.

<Q – Edward Woo>: Okay. Well, thanks a lot. And good luck.

<A – Joel Bennett>: Thank you.

Operator: The next question comes from Sean George from HBK Capital Management. Please go ahead.

<Q – Sean George>: Hi. Good afternoon.

<A – Joel Bennett>: Good afternoon.

<Q – Sean George>: I had just a couple of questions. I'm just looking at the underperforming license fee and the inventory. I guess on the license side, there's that 13.7 million of cash that's going to be paid out through 2011, and on the inventory side, I guess 8.8 million will be paid out for the rest of this year. Can you just help me understand how this works on the third parties you're paying back and how the contracts are structured? And is this something that we could see some more of? Are they kind of one-time in nature?

<A – Joel Bennett>: They are one time in nature, which is why we chose to present non-GAAP numbers. But basically, license agreements have several components. You have a minimum guarantee over the license term that, if the earned royalties don't exceed, you wind up paying a shortfall. And in effect, the cash portion is the dollar amount of the shortfall that wasn't previously paid in advances. Does that make sense?

<Q – Sean George>: Okay. So, you pay something upfront and you have to -

<A – Joel Bennett>: Pay advances upfront, which is the non-cash portion, since they've already been paid. And then, there's a portion of the guarantee that's not covered by the advance that you have to settle at the end of the license agreement. So, through 2011, there's a number of different licenses that have different expiration dates, and as those expiration dates come up, we then have to settle the shortfall.

<Q – Sean George>: Okay. And you evaluate them on a quarterly basis?

<A – Joel Bennett>: Yes. We do.

<Q – Sean George>: Okay. So, could we – so if things continue to be weak, could we continue to see some more guarantee shortfalls?

<A – Joel Bennett>: It's always possible, but I think in terms of magnitude, there really isn't much there. We looked very hard at the licenses, and this has also impacted the inventory write-off. And I guess your other question was on the cash payout for the inventory. In Hong Kong, the factories accumulate components and finished goods based on expectations of orders from us, and sometimes we have order cancellations. So, ordinarily the inventory reserves are non-cash, but in these cases these are liabilities that we have incurred at the factory, that because we're not producing some of these goods any longer, we'll actually have to settle in cash posted through future orders of those products.

<Q – Sean George>: Okay. And this is also done on a quarterly basis?

<A – Joel Bennett>: Pardon?

<Q – Sean George>: These – the inventory, is this also evaluated on a quarterly basis?

<A – Joel Bennett>: Yes.

<Q – Sean George>: Okay. And is it mostly – so just sticking to the inventory here, is it mostly stuff that has – is kind of just falling out of a product line, or is it just coming from just lower than anticipated orders and then back – going back to the factory lower orders from JAKKS?

<A – Joel Bennett>: No. Actually, historically, we've been able to get north of costs plus royalties on our closeouts. The closeout channel is a very viable alternative for our products, and one of our primary goals is to not have closeouts cannibalize the sale of new products. But what we've seen is that, with more and more closeout goods by other manufacturers, the pricing that we get is lower, and now oftentimes or for the most part it's below cost, which has resulted in this rather large write-down.

<A – Jack Friedman>: And this is Jack speaking. In addition to that, we were clearly caught by surprise, even recognizing that anyone would recognize we are in a recession. But some of the categories that we spoke about being down 50% or more was nowhere near where we – that we anticipated. So, there were parts and pieces banked. There were license guarantees in some of these areas that we know we won't be able to earn out. So, we were caught to a large degree, using the expression, with our pants down, if you will, in some of these areas. So we didn't foresee this would be a drop in some of these product categories.

<A – Joel Bennett>: And lastly, with the licensors, we do expect to go back to them and negotiate. We do have longstanding relationships with them, and these weren't one-off relationships. So, there are opportunities there as well.

<Q – Sean George>: Okay. Great. Thanks for the color.

<A – Joel Bennett>: Thank you.

Operator: Our next question comes from Sean McGowan from Needham. Please go ahead.

<Q – Sean McGowan>: Hi. Thank you. I also have a couple of questions. Joel, can you give us an idea on these various charges? Which of these would be – would you be able to recognize a tax benefit on the expense? I know goodwill back in the day when you expensed it on a regular basis was not tax deductible. Is the impairment charge tax deductible?

<A – Joel Bennett>: Yeah. The goodwill impairment charge is deductible to the extent that the acquisition was done on an asset basis. If it was a stock purchase, it's not. So, a good portion of it is tax deductible. Regarding the other reserves, typically, you can't deduct a reserve until it's realized. So, as we expect to actually sell the inventory that we've marked down, we do expect to realize that during 2009.

<Q – Sean McGowan>: Okay. So, in other words, the inventory impairment of \$23 million, you're not getting a tax benefit now from that?

<A – Joel Bennett>: No. It's not when you put up the reserve when you can actually realize it. But as I mentioned, the goal is to sell it, if not all always in the third quarter, certainly by the beginning of the fourth quarter.

<Q – Sean McGowan>: Okay. So, if we look at it on a full year basis and you got rid of all of it, it would be fully tax deductible?

<A – Joel Bennett>: Correct.

<Q – Sean McGowan>: Okay. So, when realized. And how about the abandonment of underperforming licenses? Same thing?

<A – Joel Bennett>: Yes.

<Q – Sean McGowan>: Okay. I assume the recalls, that's fully tax deductible?

<A – Joel Bennett>: That was only 1.3 million, but yes.

<Q – Sean McGowan>: Okay. Is there anything else then? The joint venture receivable is tax deductible, right?

<A – Joel Bennett>: Actually that we take into income on a cash basis. So -

<Q – Sean McGowan>: Okay. So, it's below the line?

<A – Joel Bennett>: It won't – will effect, be a benefit that will cross in the same period that we expect to get the 34 million.

<Q – Sean McGowan>: Okay. All right well, that takes care of those questions. Regarding the license now with – you guys, you said you have negotiations going forward, with THQ about what the rate will be after the end of '09. Fair to say that your relationship with THQ hasn't exactly suggested that agreements can be reached quickly, so what happens at the end of this year then, do you just stay at this rate until you do come to an agreement?

<A – Joel Bennett>: Well, if history repeats itself, we would accrue at the old rate until we settle it. But I think that certainly the process will have infused some reality to both sides, and the litigation aspect of it is costly. So, I think we're being – being reasonable people, we would expect that we hope to come to some conclusion a bit faster than we did before. But we're really not sure.

<Q – Sean McGowan>: Okay. But if you couldn't do, we should just expect this rate to go until we have – we know otherwise, right? Okay. Looking at the three companies acquired in second half of last year, how have they been performing relative to the rest of the business and relative to expectations?

<A – Jack Friedman>: This is Jack. Sean, how are you?

<Q – Sean McGowan>: Hi. Pretty good. How are you?

<A – Jack Friedman>: Better days, but the Disguise, the biggest of the acquisitions, seems to be performing very well. The booked orders, the production of the products, the great majority of it goes out into third quarter. Halloween being in the third quarter, that seems very, very much on target. The other two smaller acquisitions are largely late third quarter and fourth quarter business. They seem to be slightly soft, but not materially.

<Q – Sean McGowan>: Okay. So, if I look at what I think you guys indicated last year was the revenue line in calendar 2008, I think it was somewhere in the vicinity of like \$150 million among the three of them. Just are we expecting somewhere around that same level in 2009?

<A – Jack Friedman>: Did you hear me, Sean, yes.

<Q – Sean McGowan>: Okay. No. I didn't hear you say yes. Okay. Now, that's helpful. Okay. A couple of others. Joel, what was the level of closeouts in this second quarter versus last year? Did you give that?

<A – Joel Bennett>: Closeouts this quarter were 4.8 million with cost of 5.7, so it generated a loss of 900,000. As I mentioned before, historically, we would get north of cost plus the royalties. So, wouldn't have – it would lower margin, but it wouldn't produce a loss – a gross profit or a loss at the gross profit level. And last year's I don't have off the top of my head.

<Q – Sean McGowan>: Okay. But it would not have produced a loss last year, right?

<A – Joel Bennett>: Correct.

<Q – Sean McGowan>: Circling back to a quick question, a follow-up question, on the inventory impairment charge. Are these related to relatively recent products or are there some kind of old products that are in that as well? I mean, by old, I mean, a couple of years old.

<A – Joel Bennett>: Yes. It's a combination -

<A – Jack Friedman>: Very little two years old.

<A – Joel Bennett>: Yeah. I mean, most of it's current. And again, more reflective of our not getting that we normally get.

<Q – Sean McGowan>: Okay. And then a final question. Can you care to give us a little bit of color on what the word significant means on charges? I mean, are we talking tens of millions, ones of millions? Hello?

<A – Joel Bennett>: We are thinking 10 to 15 million.

<Q – Sean McGowan>: Okay. All right. Thank you very much.

<A – Joel Bennett>: Thank you.

Operator: Our next question comes from Jeff Blaeser from Morgan Joseph. Please go ahead.

<Q – Jeff Blaeser>: Good evening. Thanks for taking my question. If we could just touch base on the cost savings going forward, if you look at 2010 and the expectations this year, you have annualized 40 million in savings, three acquisitions that you are integrating. Are we looking at operating costs down in the magnitude of 40 million plus next year give or take with the sales?

<A – Joel Bennett>: Yes. I mean, we'll hit the 40 million run rate by the end of the first quarter or there about. So, it would be no more than 40 next year and then we would expect 40 million – assuming everything else is the same, it would be 40 million for all of 2011.

<Q – Jeff Blaeser>: Okay. And then on the margin side, I think going into the quarter, we are looking at about 20% recent acquisitions; we are probably moving up to about 25% now. What do you think the impact is going to be on margins from the acquisitions sales during the year, and also, WWE is slowing down and going away next year, is that going to pressure margins in the back half in an attempt to get rid of some of the inventory?

<A – Jack Friedman>: I think the inventory write-down – this is Jack speaking – is already calculated. We hope and anticipate – not hope against hope – that margins will be up a bit in the second half, but in our current forecast, they are not calculated up. We are trying to be prudently cautious in forecasting. We are not accustomed to revising our forecast downwards twice and, of course, so dramatic. So, there might be some upside potential in margin. We don't think there is much chance at any downside revision of margin for the back half of the year.

<Q – Jeff Blaeser>: Okay. Thanks. And one final question, you've certainly done a good job in the past of identifying new properties, licenses, acquisitions. I guess if you could look in the crystal ball for 2010 and look at some sales growth, where would you expect that to come from? I know you – our biggest focus internally on internally driven products recently, but internally driven licenses, acquisitions for 2010?

<A – Jack Friedman>: Yes. We think we have some – I'm glad you are asking that question – we think we have some wonderful product categories for expansion and new categories for us. Some of the – particularly exciting ones is Hello, Kitty. We are basically the master toy licensee for it. We are extremely excited about it. We've already shipped a little bit of it. And right out of the box, it seems to be selling extremely well.

Under our broad Disney license, Disney is doing a major, major push on Disney Fairies, which we have a major proportion of those products that will be coming out. We hope that UFC and TNA combined with the down slot of WWE being down so significantly, significantly that those two categories could very well offset the entire impact of the WWE loss of revenue.

In Disguise, number one, Halloween falling on a Sunday next year is extremely good news, depending on the day of the week that Halloween falls, it affects the revenue considerably. It's falling on a Sunday is the best time for us. Toy Story we think will be terrific for us next year. Disney Princess/Fairies and a host of other things we are licensing for Transformers and G.I. Joe. We think our Disguise division has an excellent lineup. We are very – barring any greater fallout in the economy, we are very bullish about 2010, and with the cost savings, we look forward to bringing JAKKS back to a highly profitable company once again.

<Q – Jeff Blaeser>: Okay. Thank you very much.

<A – Jack Friedman>: Welcome.

Operator: Our next question comes from Arvind Bhatia from Sterne, Agee. Please go ahead.

<A – Joel Bennett>: Hi, Arvind.

<Q – Arvind Bhatia>: Hi. Thank you. A couple of questions, Joel, first of all, on the cash on the balance sheet, I am wondering if you can talk about, as you build some cash in the back half of the year, where do you see that ending number to be? And then, secondly, just to be clear on the restructuring charges, you are saying about 15 million. Is that all cash? Or is there a non-cash component of that? And I have a follow-up.

<A – Joel Bennett>: Yes. The range on the restructuring is expected to be 10 to 15 million that would be cash. As far as the cash at the end of the year, with the payment of the accrued preferred return, we are looking at north of 200 million. We have 122 now. We throw off a lot of cash in the back half, which we're thinking in the 50 to \$60 million range, plus the selloff of the inventory plus the THQ payments. So, we're very well-positioned to cover the notes that I mentioned in the call. The convert has a noteholder put option on June 15, 2010. We're looking at different alternatives for that. But we believe that we'll have enough cash on hand to do what we need to there, as well as continue to execute on our strategy.

<Q – Arvind Bhatia>: Great. Then I just had a quick modeling question on the seasonality for the year. Given Disguise is going to be in the third quarter, primarily understandably third quarter is going to be bigger than normal, can you give us some range of what it might represent third quarter as a percentage of the year this year?

<A – Joel Bennett>: Well, with the changing buying patterns of the retailers, the distinction between third and fourth becomes a little arbitrary. So, that's why we continue to give annual guidance as opposed to quarterly guidance.

<Q – Arvind Bhatia>: Okay. And then my last question is on Hannah Montana, I know you've mentioned World Wrestling is down almost 50%. Can you give us some color on Hannah Montana how that's doing relative to last year?

<A – Jack Friedman>: Joel is checking that. Arvind, I don't know – remember, it's down pretty well. But I don't think we are in a position to break it out on Hannah Montana. But it's certainly down significantly. The only reason I broke out WWE as example is to show the parallel is down. I mean, it's bad news that it's down. The good news is it doesn't impact us 2010 going forward, particularly with having UFC and TNA to at least make up a reasonable, sizable portion of it.

Jack Friedman, Chairman and Chief Executive Officer

And, kind of, in conclusion to this call, I'd like to say, we are extremely bullish about the future of JAKKS Pacific. We think we have an excellent lineup for 2010. We think we'll be a more focused company. We've been, in a way, forced into that. We have an excellent balance sheet to move forward. We did mention some of the product lines for next year. And we do look forward to a good second half of this year. Again, we don't want to enter a new forecast, and we don't want to have any kind of over-optimism. But we do hope to have margin increases in the back half, and hopefully, we'll beat the revenue forecast as well. We are not trying to hint to anybody that we think it is a slam dunk. It is a tough environment out there, but we feel secure. And we are sorry that we had to forecast down again. This caught us by surprise. And again, we think we'll be a focused company and have a great future for the balance of the year and into next year and beyond. And I thank you, all very much.

Operator: Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may all disconnect.

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