

JAKKS PACIFIC INC  
Form 10-Q  
May 06, 2011

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark one)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2011

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-28104

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JAKKS Pacific, Inc.  
(Exact Name of Registrant as Specified in Its Charter)

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Delaware  
(State or Other Jurisdiction of Incorporation or Organization)

95-4527222  
(I.R.S. Employer Identification No.)

22619 Pacific Coast Highway  
Malibu, California  
(Address of Principal Executive Offices)

90265  
(Zip Code)

Registrant's Telephone Number, Including Area Code: (310) 456-7799

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Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of the issuer’s common stock is 27,207,184 as of May 5, 2011.

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

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Quarter Ended March 31, 2011

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## DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. For example, statements included in this report regarding our financial position, business strategy and other plans and objectives for future operations, and assumptions and predictions about future product demand, supply, manufacturing, costs, marketing and pricing factors are all forward-looking statements. When we use words like "intend," "anticipate," "believe," "estimate," "plan", "expect" or words of similar import, we are making forward-looking statements. We believe that the assumptions and expectations reflected in such forward-looking statements are reasonable and are based on information available to us on the date hereof, but we cannot assure you that these assumptions and expectations will prove to have been correct or that we will take any action that we may presently be planning. We are not undertaking to publicly update or revise any forward-looking

statement if we obtain new information or upon the occurrence of future events or otherwise.

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## JAKKS PACIFIC, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands, except share amounts)

Assets	December 31, 2010 (* )	March 31, 2011 (Unaudited)
Current assets		
Cash and cash equivalents	\$ 278,346	\$ 274,467
Marketable securities	207	209
Accounts receivable, net of allowance for uncollectible accounts of \$2,778 and \$3,727, respectively	122,476	57,432
Inventory	43,230	45,158
Income tax receivable	19,052	19,043
Deferred income taxes	23,576	23,868
Prepaid expenses and other	25,275	31,243
Total current assets	512,162	451,420
Property and equipment		
Office furniture and equipment	12,127	12,681
Molds and tooling	57,103	57,784
Leasehold improvements	6,920	6,935
Total	76,150	77,400
Less accumulated depreciation and amortization	59,204	59,247
Property and equipment, net	16,946	18,153
Deferred income taxes	58,848	58,865
Intangibles	23,437	22,434
Other long term assets	12,643	12,689
Investment in joint venture	74	1,814
Goodwill, net	6,988	6,988
Trademarks, net	2,308	2,308
Total assets	\$ 633,406	\$ 574,671
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 35,886	\$ 22,031
Accrued expenses	54,476	33,056
Reserve for sales returns and allowances	28,378	17,982
Capital lease obligations	27	-
Income taxes payable	6,143	7,675
Total current liabilities	124,910	80,744
Convertible senior notes, net	89,458	90,140
Other liabilities	1,625	1,620
Income taxes payable	5,005	4,497
Total liabilities	220,998	177,001
Commitments and Contingencies		
Stockholders' equity		
Preferred shares, \$.001 par value; 5,000,000 shares authorized; nil outstanding	—	—
Common stock, \$.001 par value; 100,000,000 shares authorized 27,610,952 and 27,221,046 shares issued in 2010 and 2011, respectively; 27,319,624 and	28	27

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27,221,046 shares outstanding, respectively			
Additional paid-in capital	302,425		292,678
Treasury Stock at cost; 291,328 and nil shares in 2010 and 2011, respectively	(5,641)		—
Retained earnings	119,884		109,309
Accumulated other comprehensive loss	(4,288)		(4,344)
Total stockholders' equity	412,408		397,670
Total liabilities and stockholders' equity	\$ 633,406	\$	574,671

(\*) Derived from audited financial statements  
 See notes to condensed consolidated financial statements.

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended March 31, (Unaudited)	
	2010	2011
Net sales	\$ 77,345	\$ 72,323
Cost of sales	52,112	48,052
Gross profit	25,233	24,271
Selling, general and administrative expenses	38,861	39,061
Loss from operations	(13,628)	(14,790)
Equity in net income of joint venture	-	9
Interest Income	57	105
Interest Expense, net of benefit	(1,197)	(2,040)
Loss before benefit for income taxes	(14,768)	(16,716)
Benefit for income taxes	(9,611)	(6,141)
Net Loss	\$ (5,157)	\$ (10,575)
Loss per share – basic	\$ (0.19)	\$ (0.39)
Loss per share – diluted	\$ (0.19)	\$ (0.39)

See notes to condensed consolidated financial statements.

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)

	Three Months Ended March 31, (Unaudited)	
	2010	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Loss	\$ (5,157)	\$ (10,575)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,586	3,884
Share-based compensation expense	1,180	848
Gain on disposal of property and equipment	(9)	(26)
Deferred income taxes	(2,729)	(309)
Changes in operating assets and liabilities:		
Accounts receivable	70,694	65,044
Inventory	3,643	(1,928)
Prepaid expenses and other current assets	4,806	(6,228)
Investment in joint venture	6,727	(1,740)
Income tax receivable	(7,186)	9
Accounts payable	(16,497)	(10,313)
Accrued expenses	(21,324)	(21,420)
Income taxes payable	138	1,024
Reserve for sales returns and allowances	(14,930)	(10,396)
Other liabilities	117	(5)
Total adjustments	29,216	18,444
Net cash provided by operating activities	24,059	7,869
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(1,250)	(3,222)
Change in other assets	437	(26)
Proceeds from sale of property and equipment	—	26
Cash paid for net assets of business acquired	—	(3,542)
Net purchase of marketable securities	(2)	(2)
Net cash used in investing activities	(815)	(6,766)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from warrants exercised	—	1,135
Common stock surrendered	—	(1,041)
Common stock repurchased	—	(5,049)
Decrease in capital lease obligations	(82)	(27)
Net cash used in financing activities	(82)	(4,982)
Net increase (decrease) in cash and cash equivalents	23,162	(3,879)
Cash and cash equivalents, beginning of period	254,837	278,346
Cash and cash equivalents, end of period	\$ 277,999	\$ 274,467
Cash paid (received) during the period for:		
Income taxes	\$ 400	(7,043)
Interest	\$3	\$ —



Non cash investing and financing activity:

In January and February 2011, an executive officer surrendered an aggregate of 57,096 shares of restricted stock at a value of \$1.0 million to cover his income taxes due on the 2011 vesting of restricted shares granted to him in 2010 and 2011. This restricted stock was subsequently retired by the Company.

See Notes 8 and 9 for additional supplemental information to the condensed consolidated statements of cash flows.

See notes to condensed consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

March 31, 2011

Note 1 — Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to prevent the information presented from being misleading. These financial statements should be read in conjunction with Management’s Discussion and Analysis of financial condition and results of operations and the financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K, which contains audited financial information for the three years in the period ended December 31, 2010.

The information provided in this report reflects all adjustments (consisting solely of normal recurring items) that are, in the opinion of management, necessary to present fairly the financial position and the results of operations for the periods presented. Interim results are not necessarily indicative of results to be expected for a full year.

Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.

The condensed consolidated financial statements include the accounts of JAKKS Pacific, Inc. and its wholly-owned subsidiaries (collectively “the Company”).

Note 2 — Business Segments, Geographic Data, Sales by Product Group, and Major Customers

The Company is a worldwide producer and marketer of children’s toys and other consumer products, principally engaged in the design, development, production, marketing and distribution of its diverse portfolio. In the fourth quarter of 2010, the Company re-aligned its products into two new categories to better reflect the business. The Company’s reportable segments are Traditional Toys and Electronics, and Role Play, Novelty and Seasonal Toys, each of which includes worldwide sales.

The Traditional Toys and Electronics segment includes action figures, vehicles, playsets, plush products, dolls, accessories, electronic products, construction toys, infant and pre-school toys, pet products and related products.

Role Play, Novelty and Seasonal Toys includes role play and dress-up products, Halloween and everyday costume play, novelty toys, seasonal and outdoor products, and indoor and outdoor kid’s furniture.

Segment performance is measured at the operating income level. All sales are made to external customers, and general corporate expenses have been attributed to the various segments based on sales volumes. Segment assets are comprised of accounts receivable and inventories, net of applicable reserves and allowances, goodwill and other assets.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Note 2 — Business Segments, Geographic Data, Sales by Product Group, and Major Customers - (continued)

Results are not necessarily those that would be achieved were each segment an unaffiliated business enterprise. Information by segment and a reconciliation to reported amounts as of December 31, 2010 and March 31, 2011 and for the three months ended March 31, 2010 and 2011 are as follows (in thousands):

	Three Months Ended	
	2010	2011
Net Sales		
Traditional Toys and Electronics	\$ 38,650	\$ 38,164
Role Play, Novelty and Seasonal Toys	38,695	34,159
	\$ 77,345	