

JAKKS PACIFIC INC  
Form 10-Q  
August 01, 2011

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

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 June 30, 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 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 27,198,671 as of July 29, 2011.

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

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Quarter Ended June 30, 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 (* )	June 30, 2011 (Unaudited)
Current assets		
Cash and cash equivalents	\$278,346	\$ 246,846
Marketable securities	207	210
Accounts receivable, net of allowance for uncollectible accounts of \$2,778 and \$3,314, respectively	122,476	109,327
Inventory	43,230	55,257
Income tax receivable	19,052	18,871
Deferred income taxes	23,576	23,882
Prepaid expenses and other	25,275	34,109
Total current assets	512,162	488,502
Property and equipment		
Office furniture and equipment	12,127	12,306
Molds and tooling	57,103	60,373
Leasehold improvements	6,920	6,483
Total	76,150	79,162
Less accumulated depreciation and amortization	59,204	58,506
Property and equipment, net	16,946	20,656
Deferred income taxes	58,848	58,856
Intangibles	23,437	20,231
Other long term assets	12,643	15,505
Investment in joint venture	74	1,846
Goodwill, net	6,988	6,988
Trademarks, net	2,308	2,308
Total assets	\$633,406	\$ 614,892
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$35,886	\$ 51,537
Accrued expenses	54,476	37,853
Reserve for sales returns and allowances	28,378	16,888
Capital lease obligations	27	-
Income taxes payable	6,143	9,382
Total current liabilities	124,910	115,660
Convertible senior notes, net	89,458	90,823
Other liabilities	1,625	1,579
Income taxes payable	5,005	4,497
Total liabilities	220,998	212,559
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		

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and 27,198,671 shares issued respectively; 27,319,624 and 27,198,671 shares outstanding, respectively	28	27
Additional paid-in capital	302,425	293,082
Treasury Stock at cost; 291,328 and nil shares, respectively	(5,641 )	-
Retained earnings	119,884	113,549
Accumulated other comprehensive loss	(4,288 )	(4,325 )
Total stockholders' equity	412,408	402,333
Total liabilities and stockholders' equity	\$633,406	\$ 614,892

(\* ) 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 June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	2010	2011	2010	2011
Net sales	\$123,255	\$131,930	\$200,600	\$204,253
Cost of sales	80,026	86,838	132,138	134,890
Gross profit	43,229	45,092	68,462	69,363
Selling, general and administrative expenses	41,955	43,094	80,816	82,155
Income (Loss) from operations	1,274	1,998	(12,354 )	(12,792 )
Profit from video game joint venture	6,000	6,000	6,000	6,000
Equity in net income (loss) of joint venture		– (8 )		– 1
Interest income	95	122	152	227
Interest expense, net of benefit	(3,007 )	(2,025 )	(4,204 )	(4,065 )
Income (Loss) before provision (benefit) for income taxes	4,362	6,087	(10,406 )	(10,629 )
Provision (Benefit) for income taxes	1,387	1,847	(8,224 )	(4,294 )
Net income (loss)	2,975	4,240	(2,182 )	(6,335 )
Income (Loss) per share – basic	\$0.11	\$0.16	\$(0.08 )	\$(0.23 )
Income (Loss) per share – diluted	\$0.11	\$0.16	\$(0.08 )	\$(0.23 )

See notes to condensed consolidated financial statements.

## JAKKS PACIFIC, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended June 30, (Unaudited)	
	2010	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Loss	\$ (2,182)	\$ (6,335)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation and amortization	10,792	9,819
Share-based compensation expense	2,090	1,118
Loss (gain) on disposal of property and equipment	(35)	17
Deferred income taxes	(6,130)	(314)
Writedown of deferred offering cost	495	—
Changes in operating assets and liabilities:		
Accounts receivable	27,074	13,149
Inventory	(12,927)	(12,027)
Prepaid expenses and other current assets	(1,648)	(12,177)
Investment in joint venture	6,727	(1,772)
Income tax receivable	12,443	181
Accounts payable	16,271	19,193
Accrued expenses	(16,322)	(16,623)
Income taxes payable	502	2,731
Reserve for sales returns and allowances	(13,511)	(11,490)
Other liabilities	375	(46)
Total adjustments	26,196	(8,241)
Net cash provided (used) by operating activities	24,014	(14,576)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(6,570)	(8,633)
Change in other assets	(1,348)	76
Proceeds from sale of property and equipment	67	26
Cash paid for net assets of business acquired	(1,875)	(3,542)
Net purchase of marketable securities	(2)	(3)
Net cash used in investing activities	(9,728)	(12,076)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Retirement of convertible notes	(20,257)	—
Proceeds from stock options exercised	—	134
Proceeds from warrants exercised	—	1,135
Common stock surrendered	—	(1,041)
Common stock repurchased	—	(5,049)
Decrease in capital lease obligations	(114)	(27)
Net cash used in financing activities	(20,371)	(4,848)
Net decrease in cash and cash equivalents	(6,085)	(31,500)
Cash and cash equivalents, beginning of period	254,837	278,346
Cash and cash equivalents, end of period	\$ 248,752	\$ 246,846
Cash paid (received) during the period for:		



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Income taxes	\$	678	\$	(6,784)
Interest				