

JAKKS PACIFIC INC
Form 10-Q
November 09, 2011

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 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

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

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 25,980,731 as of November 8, 2011.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

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Quarter Ended September 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 (*)	September 30, 2011 (Unaudited)
Current assets		
Cash and cash equivalents	\$ 278,346	\$ 232,244
Marketable securities	207	212
Accounts receivable, net of allowance for uncollectible accounts of \$2,778 and \$3,323, respectively	122,476	239,680
Inventory	43,230	55,836
Income tax receivable	19,052	23,963
Deferred income taxes	23,576	16,475
Prepaid expenses and other	25,275	27,063
Total current assets	512,162	595,473
Property and equipment		
Office furniture and equipment	12,127	12,484
Molds and tooling	57,103	62,866
Leasehold improvements	6,920	6,773
Total	76,150	82,123
Less accumulated depreciation and amortization	59,204	64,543
Property and equipment, net	16,946	17,580
Deferred income taxes	58,848	58,839
Intangibles	23,437	16,364
Other long term assets	12,643	8,239
Investment in joint venture	74	1,820
Goodwill, net	6,988	6,988
Trademarks, net	2,308	2,308
Total assets	\$ 633,406	\$ 707,611
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 35,886	\$ 85,352
Accrued expenses	54,476	60,641
Reserve for sales returns and allowances	28,378	26,398
Capital lease obligations	27	—
Income taxes payable	6,143	21,716
Total current liabilities	124,910	194,107
Convertible senior notes, net	89,458	91,505
Other liabilities	1,625	1,571
Income taxes payable	5,005	4,712
Total liabilities	220,998	291,895
Commitments and Contingencies		
Stockholders' equity		
Preferred shares, \$.001 par value; 5,000,000 shares authorized; nil outstanding	—	—

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Common stock, \$.001 par value; 100,000,000 shares authorized; 27,610,952 and 25,969,274 shares issued, respectively; 27,319,624 and 25,969,274 shares outstanding, respectively	28	26
Additional paid-in capital	302,425	274,066
Treasury Stock at cost; 291,328 and nil shares, respectively	(5,641)	—
Retained earnings	119,884	145,783
Accumulated other comprehensive loss	(4,288)	(4,159)
Total stockholders' equity	412,408	415,716
Total liabilities and stockholders' equity	\$ 633,406	\$ 707,611

(*) 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 September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2010	2011	2010	2011
Net sales	\$ 348,677	\$ 332,419	\$ 549,277	\$ 536,672
Cost of sales	237,720	226,749	369,858	361,639
Gross profit	110,957	105,670	179,419	175,033
Selling, general and administrative expenses	59,378	55,602	140,194	137,757
Income from operations	51,579	50,068	39,225	37,276
Profit from video game joint venture	—	—	6,000	6,000
Equity in net loss of joint venture	—	(26)	—	(25)
Interest income	99	102	251	329
Interest expense, net	(1,547)	(2,063)	(5,751)	(6,128)
Income before provision for income taxes	50,131	48,081	39,725	37,452
Provision for income taxes	9,771	13,256	1,547	8,962
Net income	\$ 40,360	\$ 34,825	\$ 38,178	\$ 28,490
Income per share – basic	\$ 1.47	\$ 1.32	\$ 1.39	\$ 1.06
Income per share – diluted	\$ 1.23	\$ 1.10	\$ 1.22	\$ 0.97

See notes to condensed consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended September 30, (Unaudited)	
	2010	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 38,178	\$ 28,490
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	22,809	20,614
Share-based compensation expense	3,616	1,547
Loss (gain) on disposal of property and equipment	(35)	18
Deferred income taxes	(25,651)	7,110
Write-down of deferred offering costs	495	—
Equity in net loss of joint venture	—	25
Changes in operating assets and liabilities:		
Accounts receivable	(157,440)	(117,204)
Inventory	(26,002)	(12,606)
Prepaid expenses and other current assets	7,302	1,934
Receivable from joint venture	6,727	—
Income tax receivable	35,015	(4,911)
Accounts payable	82,181	53,008
Accrued expenses	9,870	6,165
Income taxes payable	4,570	15,280
Reserve for sales returns and allowances	(3,961)	(1,980)
Other liabilities	478	(54)
Total adjustments	(40,026)	(31,054)
Net cash used in operating activities	(1,848)	(2,564)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(9,614)	(11,621)
Change in other assets	2,008	260
Proceeds from sale of property and equipment	67	26
Investment in joint venture	—	(1,771)
Cash paid for net assets of business acquired	(1,875)	(3,542)
Net purchase of marketable securities	(4)	(5)
Net cash used in investing activities	(9,418)	(16,653)
CASH FLOWS FROM FINANCING ACTIVITIES		
Retirement of convertible notes	(20,262)	—
Proceeds from stock options exercised	—	134
Proceeds from warrants exercised	—	1,135
Common stock surrendered	(40)	(1,177)
Common stock repurchased	(4,554)	(24,359)
Dividends paid	-	(2,591)
Decrease in capital lease obligations	(122)	(27)
Net cash used in financing activities	(24,978)	(26,885)
Net decrease in cash and cash equivalents	(36,244)	(46,102)

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Cash and cash equivalents, beginning of period		254,837		278,346
Cash and cash equivalents, end of period	\$	218,593	\$	232,244
Cash paid (received) during the period for:				
Income taxes	\$	3,542	\$	(8,471)
Interest	\$	2,630	\$	2,250

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)

September 30, 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 operation of 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 September 30, 2011 and for the three and nine months ended September 30, 2010 and 2011 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2011	2010	2011
Net Sales				
Traditional Toys and Electronics	\$ 149,016	\$ 163,199	\$ 251,179	\$ 269,096
Role Play, Novelty and Seasonal Toys	199,661	169,220	298,098	267,576
	\$ 348,677	\$ 332,419	\$ 549,277	\$ 536,672

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2011	2010	2011
Operating Income				
Traditional Toys and Electronics	\$ 19,196	\$ 28,012	\$ 11,961	\$ 19,796
Role Play, Novelty and Seasonal Toys	32,383	22,056	27,264	17,480
	\$ 51,579	\$ 50,068	\$ 39,225	\$ 37,276

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2011	2010	2011
Depreciation and Amortization Expense				
Traditional Toys and Electronics	\$ 6,613	\$ 6,314	\$ 13,967	\$ 13,218
Role Play, Novelty and Seasonal Toys	5,404	4,481	8,842	7,396
	\$ 12,017	\$ 10,795	\$ 22,809	\$ 20,614

	December 31, 2010	September 30, 2011
Assets		
Traditional Toys and Electronics	\$ 252,107	\$ 280,423
Role Play, Novelty and Seasonal Toys	381,299	427,188
	\$ 633,406	\$ 707,611

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)

The following tables present information about the Company by geographic area as of December 31, 2010 and September 30, 2011 and for the three and nine months ended September 30, 2010 and 2011 (in thousands):

	December 31, 2010	September 30, 2011
Long-lived Assets		
United States	\$ 16,023	\$ 16,726
Hong Kong	923	854
	\$ 16,946	\$ 17,580

Net Sales by Geographic Area	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2011	2010	2011
United States	\$ 288,754	\$ 276,955	\$ 457,674	\$ 444,188
Europe	29,644	23,132	41,697	37,944
Canada	18,593	17,603	25,782	24,450
Hong Kong	380	1,316	3,392	2,788
Other	11,306	13,413	20,732	27,302
	\$ 348,677	\$ 332,419	\$ 549,277	\$ 536,672

Major Customers

Net sales to major customers for the three and nine months ended September 30, 2010 and 2011 were as follows (in thousands, except for percentages):

	Three Months Ended September 30, 2010		2011		Nine Months Ended September 30, 2010		2011	
	Amount	Percentage of Net Sales	Amount	Percentage of Net Sales	Amount	Percentage of Net Sales	Amount	Percentage of Net Sales
Wal-Mart	\$ 81,943	23.5%	\$ 93,227	28.0%	\$ 127,181	23.2%	\$ 132,857	24.8%
Toys 'R'								
Us	45,958	13.2	38,877	11.7	66,977	12.2	59,923	11.2
Target	39,167	11.2						