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, 2019

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.)
2951 28th Street **Santa Monica, California** (Address of Principal Executive Offices)	**90405** (Zip Code)

Registrant's Telephone Number, Including Area Code: **(424) 268-9444**

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "non-accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐
Non-accelerated filer ☒ Smaller reporting company ☒
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Securities registered pursuant to Section 12(g) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock $.001 Par Value	JAKK	The NASDAQ Global Select Market

The number of shares outstanding of the issuer's common stock is 35,210,371 as of November 12, 2019.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
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QUARTER ENDED SEPTEMBER 30, 2019
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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 condensed consolidated 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.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

JAKKS PACIFIC, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

Assets	September 30, 2019	December 31, 2018
	(Unaudited)	
Current assets		
Cash and cash equivalents	$ 71,028	$ 53,282
Restricted cash	4,862	4,923
Accounts receivable, net of allowance for doubtful accounts of $2,413 and $2,149 at September 30, 2019 and December 31, 2018, respectively	200,788	122,278
Inventory	65,298	53,880
Prepaid expenses and other assets	18,495	15,780
Total current assets	360,471	250,143
Property and equipment		
Office furniture and equipment	11,799	11,999
Molds and tooling	109,770	108,315
Leasehold improvements	7,215	7,735
Total	128,784	128,049
Less accumulated depreciation and amortization	111,859	107,147
Property and equipment, net	16,925	20,902
Operating lease right-of-use assets	34,142	—
Intangible assets, net	13,744	17,312
Other long term assets	18,976	19,101
Goodwill	35,083	35,083
Trademarks	300	300
Total assets	$ 479,641	$ 342,841
Liabilities, Preferred Stock and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 136,175	$ 57,574
Accrued expenses	60,257	29,914
Reserve for sales returns and allowances	38,109	29,403
Short term operating lease liabilities	9,368	—
Short term debt, net	6,905	27,211
Total current liabilities	250,814	144,102
Long term operating lease liabilities	27,864	—
Long term debt, net	170,812	139,792
Other liabilities	5,036	4,409
Income taxes payable	1,465	1,458
Deferred income taxes, net	1,431	1,431
Total liabilities	457,422	291,192
Preferred stock	180	—
Stockholders' Equity		
Common stock, $.001 par value; 100,000,000 shares authorized; 35,210,371 and 29,169,913 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	36	30
Treasury stock, at cost; nil and 3,112,840 shares outstanding as of September 30, 2019 and December 31, 2018, respectively	—	(24,000)
Additional paid-in capital	199,782	218,155
Accumulated deficit	(162,856)	(127,601)
Accumulated other comprehensive loss	(15,892)	(15,847)
Total JAKKS Pacific, Inc. stockholders' equity	21,070	50,737
Non-controlling interests	969	912
Total stockholders' equity	22,039	51,649
Total liabilities, preferred stock and stockholders' equity	$ 479,641	$ 342,841

See accompanying notes to condensed consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except per share data)

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2019	**2018**	**2019**	**2018**
Net sales	$ 280,130	$ 236,699	$ 446,138	$ 435,484
Cost of sales	199,271	172,369	333,193	320,254
Gross profit	80,859	64,330	112,945	115,230
Selling, general and administrative expenses	44,586	44,184	113,722	142,549
Restructuring charge	24	—	294	—
Acquisition related and other	587	103	5,957	436
Income (loss) from operations	35,662	20,043	(7,028)	(27,755)
Income from joint ventures	—	—	—	227
Other income (expense), net	36	223	(123)	304
Loss on extinguishment of debt	(13,205)	(453)	(13,205)	(453)
Change in fair value of convertible senior notes	(463)	917	(2,992)	(2,514)
Interest income	17	19	64	47
Interest expense	(4,617)	(3,097)	(10,554)	(7,230)
Income (loss) before provision for income taxes	17,430	17,652	(33,838)	(37,374)
Provision for income taxes	1,016	1,953	1,360	1,708
Net income (loss)	16,414	15,699	(35,198)	(39,082)
Net income (loss) attributable to non-controlling interests	(31)	17	57	39
Net income (loss) attributable to JAKKS Pacific, Inc.	$ 16,445	$ 15,682	$ (35,255)	$ (39,121)
Net income (loss) attributable to common stockholders	$ 16,265	$ 15,682	$ (35,435)	$ (39,121)
Income (loss) per share - basic	$ 0.60	$ 0.68	$ (1.43)	$ (1.69)
Shares used in income (loss) per share - basic	27,085	23,106	24,754	23,104
Income (loss) per share - diluted	$ 0.51	$ 0.38	$ (1.43)	$ (1.69)
Shares used in income (loss) per share - diluted	60,345	45,686	24,754	23,104
Comprehensive income (loss)	$ 15,516	$ 14,550	$ (35,243)	$ (40,571)
Comprehensive income (loss) attributable to JAKKS Pacific, Inc.	$ 15,547	$ 14,533	$ (35,300)	$ (40,610)

See accompanying notes to condensed consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

Three and Nine Months Ended September 30, 2019
(Unaudited)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	JAKKS Pacific, Inc. Stockholders' Equity	Non-Controlling Interests	Total Stockholders' Equity
Balance, December 31, 2018	$ 30	$ (24,000)	$ 218,155	$ (127,601)	$ (15,847)	$ 50,737	$ 912	$ 51,649
Stock-based compensation expense	—	—	618	—	—	618	—	618
Repurchase of common stock for employee tax withholding	—	—	(249)	—	—	(249)	—	(249)
Net income (loss)	—	—	—	(29,158)	—	(29,158)	31	(29,127)
Foreign currency translation adjustment	—	—	—	—	1,303	1,303	—	1,303
Balance, March 31, 2019	$ 30	$ (24,000)	$ 218,524	$ (156,759)	$ (14,544)	$ 23,251	$ 943	$ 24,194
Stock-based compensation expense	—	—	397	—	—	397	—	397
Repurchase of common stock for employee tax withholding	—	—	(24)	—	—	(24)	—	(24)
Net income (loss)	—	—	—	(22,542)	—	(22,542)	57	(22,485)
Foreign currency translation adjustment	—	—	—	—	(450)	(450)	—	(450)
Balance, June 30, 2019	$ 30	$ (24,000)	$ 218,897	$ (179,301)	$ (14,994)	$ 632	$ 1,000	$ 1,632
Stock-based compensation expense	3	—	857	—	—	860	—	860
Adjustment to additional paid-in capital	—	—	(3)	—	—	(3)	—	(3)
Common stock issuance	6	—	4,208	—	—	4,214	—	4,214
Treasury shares retirement	(3)	24,000	(23,997)	—	—	—	—	—
Preferred stock accrued dividends	—	—	(180)	—	—	(180)	—	(180)
Net income (loss)	—	—	—	16,445	—	16,445	(31)	16,414
Foreign currency translation adjustment	—	—	—	—	(898)	(898)	—	(898)
Balance, September 30, 2019	$ 36	$ —	$ 199,782	$ (162,856)	$ (15,892)	$ 21,070	$ 969	$ 22,039

Three and Nine Months Ended September 30, 2018
(Unaudited)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	JAKKS Pacific, Inc. Stockholders' Equity	Non-Controlling Interests	Total Stockholders' Equity
Balance, December 31, 2017	$ 27	$ (24,000)	$ 215,809	$ (85,233)	$ (13,059)	$ 93,544	$ 969	$ 94,513
Restricted stock grants	3	—	—	—	—	3	—	3
Stock-based compensation expense	—	—	674	—	—	674	—	674
Repurchase of common stock for employee tax withholding	—	—	(85)	—	—	(85)	—	(85)
Net income (loss)	—	—	—	(36,244)	—	(36,244)	51	(36,193)
Foreign currency translation adjustment	—	—	—	—	1,050	1,050	—	1,050
Balance, March 31, 2018	$ 30	$ (24,000)	$ 216,398	$ (121,477)	$ (12,009)	$ 58,942	$ 1,020	$ 59,962
Stock-based compensation expense	—	—	313	—	—	313	—	313
Adjustment to additional paid-in capital	—	—	(2)	—	—	(2)	—	(2)
Net loss	—	—	—	(18,559)	—	(18,559)	(29)	(18,588)
Foreign currency translation adjustment	—	—	—	—	(1,390)	(1,390)	—	(1,390)
Balance, June 30, 2018	$ 30	$ (24,000)	$ 216,709	$ (140,036)	$ (13,399)	$ 39,304	$ 991	$ 40,295
Stock-based compensation expense	—	—	760	—	—	760	—	760
Adjustment to additional paid-in capital	—	—	(1)	—	—	(1)	—	(1)
Net Income	—	—	—	15,682	—	15,682	17	15,699
Foreign currency translation adjustment	—	—	—	—	(1,149)	(1,149)	—	(1,149)
Balance, September 30, 2018	$ 30	$ (24,000)	$ 217,468	$ (124,354)	$ (14,548)	$ 54,596	$ 1,008	$ 55,604

See accompanying 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)	
	2019	**2018**
Cash flows from operating activities		
Net loss	$ (35,198)	$ (39,082)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for doubtful accounts	601	11,530
Depreciation and amortization	14,471	13,991
Payment-in-kind interest	624	—
Amortization of debt discount	393	—
Write-off and amortization of debt issuance costs	1,103	1,234
Share-based compensation expense	1,872	1,747
Gain on disposal of property and equipment	(72)	(108)
Loss on extinguishment of debt	13,205	453
Change in fair value of convertible senior notes	2,992	2,514
Deferred income taxes	—	4
Changes in operating assets and liabilities:		
Accounts receivable	(79,111)	(74,485)
Inventory	(11,418)	(6,019)
Prepaid expenses and other assets	(2,731)	(21,767)
Accounts payable	79,360	94,011
Accrued expenses	30,343	6,394
Reserve for sales returns and allowances	8,706	12,648
Income taxes payable	7	(267)
Other liabilities	962	(173)
Total adjustments	61,307	41,707
Net cash provided by operating activities	26,109	2,625
Cash flows from investing activities		
Purchases of property and equipment	(7,624)	(9,552)
Proceeds from sale of property and equipment	12	108
Net cash used in investing activities	(7,612)	(9,444)
Cash flows from financing activities		
Retirement of convertible senior notes	—	(13,178)
Repayment of credit facility borrowings	(7,500)	(5,000)
Debt issuance costs	(4,957)	(1,449)
Term loan prepayment penalty	(393)	—
Proceeds from term loan facility	—	20,000
Net proceeds from credit facility borrowings	5,000	—
Net proceeds from issuance of long term debt	27,356	—
Repayment of term loan facility	(20,000)	—
Repurchase of common stock for employee tax withholding	(273)	(85)
Net cash provided by (used in) financing activities	(767)	288
Net increase (decrease) in cash, cash equivalents and restricted cash	17,730	(6,531)
Effect of foreign currency translation	(45)	(1,302)
Cash, cash equivalents and restricted cash, beginning of period	58,205	64,977
Cash, cash equivalents and restricted cash, end of period	$ 75,890	$ 57,144
Cash paid during the period for:		
Income taxes	$ 152	$ 1,009
Interest	$ 5,956	$ 5,161

As of September 30, 2019, there was $2.6 million of property and equipment included in accounts payable. As of September 30, 2018, there was $3.9 million of property and equipment included in accounts payable.

See Notes 1, 5, 6 and 9 for additional supplemental information to the condensed consolidated statements of cash flows.

See accompanying notes to condensed consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
September 30, 2019

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, 2018.

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, especially given seasonality, indicative of results to be expected for a full year.

The condensed consolidated financial statements include the accounts of JAKKS Pacific, Inc. and its wholly-owned subsidiaries (collectively, “the Company”). The condensed consolidated financial statements also include the accounts of DreamPlay Toys, LLC, a joint venture with NantWorks LLC, JAKKS Meisheng Trading (Shanghai) Limited, a joint venture with Meisheng Cultural & Creative Corp., Ltd., and JAKKS Meisheng Animation (HK) Limited, a joint venture with Hong Kong Meisheng Cultural Company Limited.

Certain prior period amounts have been reclassified for consistency with the current period presentation.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updates ("ASU") 2014-09, “Revenue from Contracts with Customers (Topic 606),” which supersedes the revenue recognition requirements in ASC 605, (Topic 605), and most industry-specific guidance. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers – Deferral of the Effective Date,” which defers the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017, and interim periods therein. In 2016, the FASB issued ASU 2016-08, “Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” ASU 2016-10, “Identifying Performance Obligations and Licensing,” and ASU 2016-12, “Revenue from Contracts with Customers - Narrow-Scope Improvements and Practical Expedients.” Entities have the choice to adopt these updates using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a modified retrospective approach with the cumulative effect of these standards recognized at the date of the adoption.

On January 1, 2018, the Company adopted the new accounting standard ASC 606, (Topic 606), Revenue from Contracts with Customers and all the related amendments (“new revenue standard”) using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company’s historic accounting under ASC 605, (Topic 605).

There is no impact to the Company’s condensed consolidated financial statements resulting from the adoption of Topic 606 as the timing and measurement of revenue remained consistent with Topic 605, although the Company’s approach to revenue recognition is now based on the transfer of control. Further, there is no difference in the amounts of the revenue and cost of sales reported in the Company’s condensed consolidated statements of operations and comprehensive income (loss) for the three and nine months ended September 30, 2019 and 2018 that were recognized pursuant to Topic 606 and those that would have been reported pursuant to Topic 605.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
September 30, 2019

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities," (“ASU 2016-01”). The new guidance is intended to improve the recognition and measurement of financial instruments. The ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2017. The adoption of this standard did not have an impact on the Company’s condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases.” ASU 2016-02 establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. If an entity chooses the second option, the transition requirements for existing leases also apply to leases entered into between the date of initial application and the effective date. The entity must also recast its comparative period financial statements and provide the disclosures required by the new standard for the comparative periods. On January 1, 2019, the Company adopted the new standard and uses the effective date as its date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019. The new standard provides a number of optional practical expedients in transition. The Company elected certain practical expedients, which permits the Company not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. The Company did not elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to the Company.

On adoption, the Company recognized operating lease liabilities of approximately $40.8 million with corresponding ROU assets of $37.6 million based on the present value of the remaining minimum rental payments for existing operating leases. The Company also derecognized deferred rent liabilities of $4.3 million and prepaid rent of $1.1 million upon the recognition of lease liabilities and ROU assets.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” which require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The new standard was initially effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. In July 2019, the FASB tentatively deferred the effective date of ASU 2016-13 by three years for Smaller Reporting Companies. The tentative decisions would change the effective date for the new standard to fiscal years beginning after December 15, 2022, and interim periods therein, and early adoption is permitted. The Company is currently evaluating the impact of the adoption of ASU 2016-13 on its consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory.” The amendments in this ASU reduce the complexity in the accounting standards by allowing the recognition of current and deferred income taxes for an intra-entity asset transfer, other than inventory, when the transfer occurs. Historically, recognition of the income tax consequence was not recognized until the asset was sold to an outside party. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The adoption of this standard did not have an impact on the Company’s condensed consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting,” which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of this standard did not have an impact on the Company’s condensed consolidated financial statements.

In January 2018, the FASB issued ASU 2018-02, “Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,” which gives entities the option to reclassify to retained earnings the tax effects resulting from the U.S. Tax Cuts and Jobs Act ("the Act") related to items in Accumulated Other Comprehensive Income (“AOCI”) that the FASB refers to as having been stranded in AOCI. The new guidance may be applied retrospectively to each period in which the effect of the Act is recognized in the period of adoption. The Company could adopt this guidance for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted for periods for which financial statements have not yet been issued or made available for issuance, including the period the Act was enacted. The guidance, when adopted, will require new disclosures regarding a company’s accounting policy for releasing the tax effects in AOCI and permit the company the option to reclassify to retained earnings the tax effects resulting from the Act that are stranded in AOCI. The Company adopted this guidance on January 1, 2019 and the impact was not material.

In March 2018, the FASB issued ASU 2018-03, “Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,” which made targeted improvements to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. The adoption of this standard did not have an impact on the Company’s condensed consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, “Improvements to Nonemployee Share-Based Payment Accounting,” which supersedes most of the prior accounting guidance on nonemployee share-based payments, and instead aligns it with existing guidance on employee share-based payments in Topic 718. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and early adoption is permitted. The adoption of this standard did not have an impact on the Company’s condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, “Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement,” which improves the effectiveness of the disclosures required under ASC 820 and modifies the disclosure requirements on fair value measurements, including the consideration of costs and benefits. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and early adoption is permitted. The Company is currently evaluating the impact of the pending adoption of this new standard on its condensed consolidated financial statements.

In October 2018, the FASB issued ASU 2018-17, "Consolidation: Targeted Improvements to Related Party Guidance for Variable Interest Entities," which improves the accounting for variable interest entities by considering indirect interests held through related parties under common control for determining whether fees paid to decision makers and service providers are variable interests. This new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The amendments are required to be applied retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. Early adoption is permitted. The Company is currently evaluating the impact of the pending adoption of this new standard on its condensed consolidated financial statements.

Note 2 — Business Segments, Geographic Data, and Sales by 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 of products. The Company has aligned its operating segments into three reporting segments that reflect the management and operation of the business. The Company’s segments are (i) U.S. and Canada, (ii) International, and (iii) Halloween.

The U.S. and Canada segment includes action figures, vehicles, play sets, plush products, dolls, electronic products, construction toys, infant and pre-school toys, role play and everyday costume play, foot to floor ride-on vehicles, wagons, novelty toys, seasonal and outdoor products, kids’ indoor and outdoor furniture, and related products.

Within the International segment, the Company markets and sells its toy products in markets outside of the U.S. and Canada, primarily in the European, Asia Pacific, and Latin American regions.

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Within the Halloween segment, the Company markets and sells Halloween costumes and accessories and everyday costume play products, primarily in the U.S. and Canada.

Segment performance is measured at the operating income (loss) level. All sales are made to external customers and general corporate expenses have been attributed to the various segments based upon relative sales volumes. Segment assets are primarily comprised of accounts receivable and inventories, net of applicable reserves and allowances, goodwill and other assets. Certain assets which are not tracked by operating segment and/or that benefit multiple operating segments have been allocated on the same basis.

Results are not necessarily those which would be achieved if each segment was an unaffiliated business enterprise. Information by segment and a reconciliation to reported amounts for the three and nine months ended September 30, 2019 and 2018 and as of September 30, 2019 and December 31, 2018 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Net Sales				
U.S. and Canada	$ 165,087	$ 133,481	$ 271,022	$ 263,397
International	39,251	37,902	59,297	77,245
Halloween	75,792	65,316	115,819	94,842
	$ 280,130	$ 236,699	$ 446,138	$ 435,484

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Income (Loss) from Operations				
U.S. and Canada	$ 26,557	$ 12,029	$ 193	$ (17,373)
International	5,958	2,919	(1,159)	(6,764)
Halloween	3,147	5,095	(6,062)	(3,618)
	$ 35,662	$ 20,043	$ (7,028)	$ (27,755)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Depreciation and Amortization Expense				
U.S. and Canada	$ 4,405	$ 4,823	$ 9,717	$ 10,125
International	1,094	1,312	2,110	2,886
Halloween	1,499	428	2,644	980
	$ 6,998	$ 6,563	$ 14,471	$ 13,991

	September 30, 2019	December 31, 2018
Assets		
U.S. and Canada	$ 296,349	$ 223,877
International	112,892	108,669
Halloween	70,400	10,295
	$ 479,641	$ 342,841

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The following tables present information about the Company by geographic area as of September 30, 2019 and December 31, 2018 and for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	September 30, 2019	December 31, 2018
Long-lived Assets		
China	$ 12,889	$ 15,825
United States	3,766	4,920
Hong Kong	270	157
	$ 16,925	$ 20,902

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net Sales by Customer Area				
United States	$ 229,975	$ 186,497	$ 369,942	$ 337,543
Europe	25,740	25,606	39,477	49,542
Canada	10,218	11,091	14,960	18,663
Hong Kong	616	1,182	1,808	1,709
Other	13,581	12,323	19,951	28,027
	$ 280,130	$ 236,699	$ 446,138	$ 435,484

Major Customers

Net sales to major customers for the three and nine months ended September 30, 2019 and 2018 were as follows (in thousands, except for percentages):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
	Amount	Percentage of Net Sales	Amount	Percentage of Net Sales	Amount	Percentage of Net Sales	Amount	Percentage of Net Sales
Wal-Mart	$ 78,347	28.0%	$ 64,133	27.1%	$ 130,165	29.2%	$ 107,344	24.6%
Target	64,172	22.9	50,797	21.5	90,367	20.2	87,641	20.1
	$ 142,519	50.9%	$ 114,930	48.6%	$ 220,532	49.4%	$ 194,985	44.7%

No other customer accounted for more than 10% of the Company's total net sales.

As of September 30, 2019 and December 31, 2018, the Company’s three largest customers accounted for approximately 43.0% and 61.4%, respectively, of the Company’s gross accounts receivable. The concentration of the Company’s business with a relatively small number of customers may expose the Company to material adverse effects if one or more of its large customers were to experience financial difficulty. The Company performs ongoing credit evaluations of its top customers and maintains an allowance for potential credit losses. For the nine months ended September 30, 2018, the Company recorded bad debt expense of $12.0 million primarily due to the bankruptcy and liquidation of Toys “R” Us.

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Note 3 — Inventory

Inventory, which includes the ex-factory cost of goods, in-bound freight, duty and capitalized warehouse costs, is valued at the lower of cost (first-in, first-out) or net realizable value, net of inventory obsolescence reserve, and consists of the following (in thousands):

	September 30, 2019	December 31, 2018
Raw materials	$ 79	$ 311
Finished goods	65,219	53,569
	$ 65,298	$ 53,880

Note 4 — Revenue Recognition and Reserve for Sales Returns and Allowances

The Company’s contracts with customers only include one performance obligation (i.e., sale of the Company’s products). Revenue is recognized in the gross amount at a point in time when delivery is completed and control of the promised goods is transferred to the customers. Revenue is measured as the amount of consideration the Company expects to be entitled to in exchange for those goods. The Company’s contracts do not involve financing elements as payment terms with customers are less than one year. Further, because revenue is recognized at the point in time goods are sold to customers, there are no contract assets or contract liability balances.

The Company disaggregates its revenues from contracts with customers by reporting segment: U.S. and Canada, International, and Halloween. The Company further disaggregates revenues by major geographic region. See Note 2 - Business Segments, Geographic Data, and Sales by Major Customers, for further information.

The Company offers various discounts, pricing concessions, and other allowances to customers, all of which are considered in determining the transaction price. Certain discounts and allowances are fixed and determinable at the time of sale and are recorded at the time of sale as a reduction to revenue. Other discounts and allowances can vary and are determined at management’s discretion (variable consideration). Specifically, the Company occasionally grants discretionary credits to facilitate markdowns and sales of slow moving merchandise, and consequently accrues an allowance based on historic credits and management estimates. Further, while the Company generally does not allow product returns, the Company does make occasional exceptions to this policy, and consequently records a sales return allowance based upon historic return amounts and management estimates. These allowances (variable consideration) are estimated using the expected value method and are recorded at the time of sale as a reduction to revenue. The Company adjusts its estimate of variable consideration at least quarterly or when facts and circumstances used in the estimation process may change. The variable consideration is not constrained as the Company has sufficient history on the related estimates and does not believe there is a risk of significant revenue reversal.

The Company also participates in cooperative advertising arrangements with some customers, whereby it allows a discount from invoiced product amounts in exchange for customer purchased advertising that features the Company’s products. Generally, these allowances range from 1% to 20% of gross sales, and are generally based upon product purchases or specific advertising campaigns. Such allowances are accrued when the related revenue is recognized. These cooperative advertising arrangements provide a distinct benefit at fair value, and are accounted for as direct selling expenses.

Sales commissions are expensed when incurred as the related revenue is recognized at a point in time and therefore the amortization period is less than one year. As a result, these costs are recorded as direct selling expenses, as incurred.

Shipping and handling activities are considered part of the Company’s obligation to transfer the products and therefore are recorded as direct selling expenses, as incurred.

The Company’s reserve for sales returns and allowances amounted to $38.1 million as of September 30, 2019, compared to $29.4 million as of December 31, 2018.

Note 5 — Debt

Convertible senior notes

Convertible senior notes consist of the following (in thousands):

	September 30, 2019			December 31, 2018		
	Principal/ Fair Value Amount	Debt Issuance Costs	Net Amount	Principal/ Fair Value Amount	Debt Issuance Costs	Net Amount
4.875% convertible senior notes due 2020	$ 1,905	$ —	$ 1,905	$ 113,000	$ 1,182	$ 111,818
3.25% convertible senior notes due 2020 *	—	—	—	27,974	—	27,974
3.25% convertible senior notes due 2023 **	48,635	—	48,635	—	—	—
Total convertible senior notes	$ 50,540	$ —	$ 50,540	$ 140,974	$ 1,182	$ 139,792

* The amount presented for the 3.25% convertible senior notes due 2020 within the table represents the fair value as of September 30, 2019 and December 31, 2018 (see Note 16 - Fair Value Measurements). The notes were extinguished on August 9, 2019 in connection with the Recapitalization transaction (defined below). The principal amount of these notes was nil as of September 30, 2019 and $29.6 million as of December 31, 2018.

** The amount presented for the 3.25% convertible senior notes due 2023 within the table represents the fair value as of September 30, 2019 and December 31, 2018 (see Note 16 - Fair Value Measurements). The principal amount of these notes totaled $37.6 million as of September 30, 2019 and nil as of December 31, 2018. Also, the amount presented excludes accrued, but unpaid, payment-in-kind interest of $0.1 million.

In July 2013, the Company sold an aggregate of $100.0 million principal amount of 4.25% convertible senior notes due 2018 (the “2018 Notes”). The 2018 Notes, which were senior unsecured obligations of the Company, paid interest semi-annually in arrears on August 1 and February 1 of each year at a rate of 4.25% per annum and matured on August 1, 2018. The initial conversion rate for the 2018 Notes was 114.3674 shares of the Company’s common stock per $1,000 principal amount of notes, equivalent to an initial conversion price of approximately $8.74 per share of common stock, subject to adjustment in certain events. In 2016, the Company repurchased and retired an aggregate of approximately $6.1 million principal amount of the 2018 Notes. In addition, approximately $0.1 million of the unamortized debt issuance costs were written off and a nominal gain was recognized in conjunction with the retirement of the 2018 Notes. During the first quarter of 2017, the Company exchanged and retired $39.1 million principal amount of the 2018 Notes at par for $24.1 million in cash and approximately 2.9 million shares of its common stock. During the second quarter of 2017, the Company exchanged and retired $12.0 million principal amount of the 2018 Notes at par for $11.6 million in cash and 112,400 shares of its common stock, and approximately $0.1 million of the unamortized debt issuance costs were written off and a $0.1 million gain was recognized in conjunction with the exchange and retirement of the 2018 Notes.

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In August 2017, the Company agreed with Oasis Management and Oasis Investments II Master Fund Ltd., (collectively, “Oasis”) the holder of approximately $21.6 million face amount of its 4.25% convertible senior notes due in 2018, to extend the maturity date of these notes to November 1, 2020. In addition, the interest rate was reduced to 3.25% per annum and the conversion rate was increased to 328.0302 shares of the Company’s common stock per $1,000 principal amount of notes, among other things. After execution of a definitive agreement for the modification and final approval by the other members of the Company’s Board of Directors and Oasis’ Investment Committee the transaction closed on November 7, 2017. In connection with this transaction, the Company recognized a loss on extinguishment of the debt of approximately $0.6 million. On July 26, 2018, the Company closed a transaction with Oasis to exchange $8.0 million face amount of the 4.25% convertible senior notes due in August 2018 with convertible senior notes similar to those issued to Oasis in November 2017. The new notes mature on November 1, 2020, accrue interest at an annual rate of 3.25% and are convertible into shares of the Company’s common stock at an initial rate of 322.2688 shares per $1,000 principal amount of the new notes. In connection with this transaction, the Company recognized a loss on extinguishment of the debt of approximately $0.5 million. The conversion price for the 3.25% convertible senior notes was reset on November 1, 2018 and will be reset on November 1, 2019 (each, a “reset date”) to a price equal to 105% above the 5-day Volume Weighted Average Price ("VWAP") preceding the reset date; provided, however, among other reset restrictions, that if the conversion price resulting from such reset is lower than 90 percent of the average VWAP during the 90 calendar days preceding the reset date, then the reset price shall be the 30-day VWAP preceding the reset date. The conversion price of the 3.25% 2020 Notes reset on November 1, 2018 to $2.54 per share and the conversion rate was increased to 393.7008 shares of the Company's common stock per $1,000 principal amount of notes.

The remaining $13.2 million of 2018 Notes were redeemed at par at maturity on August 1, 2018.

In August 2019, the Company entered into and consummated multiple, binding definitive agreements (collectively, the “Recapitalization”) among Wells Fargo Bank, National Association, Oasis Investments II Master Fund Ltd. and an ad hoc group of holders of the 4.875% convertible senior notes due 2020 (the "Investor Parties") to recapitalize the Company’s balance sheet, including the extension to the Company of incremental liquidity and at least three-year extensions of substantially all of the Company’s outstanding convertible debt obligations and revolving credit facility. The Company’s term loan agreement entered into with Great American Capital Partners was paid in full and terminated in connection with the Recapitalization transaction.

In connection with the Recapitalization transaction, the Company issued (i) amended and restated notes with respect to the $21.6 million Oasis Note issued on November 7, 2017, and the $8.0 million Oasis Note issued on July 26, 2018 (together, the “Existing Oasis Notes”), and (ii) a new $8.0 million convertible senior note having the same terms as such amended and restated notes (the "New $8.0 million Oasis Note" and collectively, the “New Oasis Notes” or the "3.25% convertible senior notes due 2023"). Interest on the New Oasis Notes is payable on each May 1 and November 1 until maturity and accrues at an annual rate of (i) 3.25% if paid in cash or 5.00% if paid in stock plus (ii) 2.75% payable in kind. The New Oasis Notes mature 91 days after the amounts outstanding under the New Term Loan are paid in full, and in no event later than July 3, 2023.

The New Oasis Notes provide, among other things, that the initial conversion price is $1.00. The conversion price will be reset on each February 9 and August 9, starting on February 9, 2020 (each, a “reset date”) to a price equal to 105% of the 5-day VWAP preceding the applicable reset date. Under no circumstances shall the reset result in a conversion price be below the greater of (i) the closing price on the trading day immediately preceding the applicable reset date and (ii) 30% of the stock price as of the Transaction Agreement Date, or August 7, 2019, and will not be greater than the conversion price in effect immediately before such reset. The Company may trigger a mandatory conversion of the New Oasis Notes if the market price exceeds 150% of the conversion price under certain circumstances. The Company may redeem the New Oasis Notes in cash if a person, entity or group acquires shares of the Company’s Common Stock, par value $0.001 per share (the “Common Stock”), and as a result owns at least 49% of the Company’s issued and outstanding Common Stock. In connection with the issuance of the New Oasis Notes, the Company recognized a loss on extinguishment of the Existing Oasis Notes of approximately $10.4 million.

A director of the Company is a portfolio manager at Oasis Management.

The Company has elected to measure and present the debt held by Oasis at fair value using Level 3 inputs and as a result, recognized a loss of $0.5 million for the three and nine months ended September 30, 2019 related to changes in the fair value of the New Oasis Notes. The Company recognized a gain of $0.9 million for the three months ended September 30, 2018 and a loss of $2.5 million for the nine months ended September 30, 2018 related to changes in the fair value of the Existing Oasis Notes. At September 30, 2019 and December 31, 2018, the debt held by Oasis had a fair value of approximately $48.6 million and $28.0 million, respectively. The Company evaluated its credit risk as of September 30, 2019, and determined that there was no change from December 31, 2018.

In June 2014, the Company sold an aggregate of $115.0 million principal amount of 4.875% convertible senior notes due 2020 (the “2020 Notes”). The 2020 Notes are senior unsecured obligations of the Company paying interest semi-annually in arrears on June 1 and December 1 of each year at a rate of 4.875% per annum and will mature on June 1, 2020. The initial and still current conversion rate for the 2020 Notes is 103.7613 shares of the Company’s common stock per $1,000 principal amount of notes, equivalent to an initial conversion price of approximately $9.64 per share of common stock, subject to adjustment in certain events. Upon conversion, the 2020 Notes will be settled in shares of the Company’s common stock. Holders of the 2020 Notes may require that the Company repurchase for cash all or some of their notes upon the occurrence of a fundamental change (as defined in the 2020 Notes). In January 2016, the Company repurchased and retired an aggregate of $2.0 million principal amount of the 2020 Notes. In addition, approximately $0.1 million of the unamortized debt issuance costs were written off and a $0.1 million gain was recognized in conjunction with the retirement of the 2020 Notes.

In connection with the Recapitalization transaction, 2020 Notes outstanding with a face amount of $111.1 million of the total $113.0 million that were outstanding at the time of the transaction were refinanced and the maturity dates effectively extended. Of the refinanced amount, $103.8 million was refinanced with the Investor Parties through the issuance of the New Common Equity (as defined below), the New Preferred Equity (as defined below) (see Note 9 - Common Stock and Preferred Stock) and new secured term debt that matures in February 2023 (see Term Loan section below). Additionally, $1.0 million of accrued interest was refinanced with the Investor Parties. The remaining refinanced amount of $7.3 million was exchanged into the New $8.0 million Oasis Note discussed above. In connection with the issuance of the new secured term loan, as well as the New Common Equity and the New Preferred Equity, the Company recognized a loss on extinguishment of the 2020 Notes refinanced with the Investor Parties of approximately $2.4 million, and wrote off $0.7 million of unamortized debt issuance costs related to the 2020 Notes.

The Company classified the remaining $1.9 million of the 2020 Notes, which are due June 2020, as current liabilities on the Condensed Consolidated Balance Sheet.

The fair value of the 4.875% convertible senior notes due June 2020 as of September 30, 2019 and December 31, 2018 was $1.8 million (principal amount $1.9 million) and $93.2 million (principal amount $113.0 million), respectively, based upon the most recent quoted market prices.

Amortization expense classified as interest expense related to debt issuance costs of the Company's convertible senior notes was $0.1 million and $0.2 million for the three months ended September 30, 2019 and 2018, respectively, and $0.5 million and $0.7 million for the nine months ended September 30, 2019 and 2018, respectively.

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Term Loan

Term loan consists of the following (in thousands):

	September 30, 2019				December 31, 2018		
	Principal Amount	Debt Discount/ Issuance Costs*	Net Amount		Principal Amount	Debt Discount/ Issuance Costs*	Net Amount
Term Loan	$ 134,801	$ (13,248)	$ 121,553	**	$ —	$ —	$ —

* The term loan was valued using the discounted cash flow method to determine the implied debt discount. The debt discount and issuance costs are being amortized over the life of the term loan.

** The amount presented excludes accrued, but unpaid, payment-in-kind interest of $0.5 million.

On August 9, 2019, in connection with the Recapitalization transaction, the Company entered into a First Lien Term Loan Facility Credit Agreement, (the “New Term Loan Agreement”), with certain holders of the 2020 Notes, or the Investor Parties, and Cortland Capital Market Services LLC, as agent, for a $134.8 million first-lien secured term loan (the “New Term Loan”). The Company also issued common stock and preferred stock (see Note 9 - Common Stock and Preferred Stock) to the Investor Parties.

Amounts outstanding under the New Term Loan accrue interest at 10.50% per annum, payable semi-annually (with 8% per annum payable in cash and 2.5% per annum payable in kind). The New Term Loan matures on February 9, 2023.

The New Term Loan Agreement contains negative covenants that, subject to certain exceptions, limit the ability of the Company and its subsidiaries to, among other things, incur additional indebtedness, make restricted payments, pledge their assets as security, make investments, loans, advances, guarantees and acquisitions, undergo fundamental changes and enter into transactions with affiliates. Commencing with the fiscal quarter ending September 30, 2020, the Company is also required to maintain a minimum EBITDA of not less than $34.0 million and a minimum liquidity of not less than $10.0 million.

The New Term Loan Agreement contains events of default that are customary for a facility of this nature, including nonpayment of principal, nonpayment of interest, fees or other amounts, material inaccuracy of representations and warranties, violation of covenants, cross-default to other material indebtedness, bankruptcy or insolvency events, material judgment defaults and a change of control as specified in the New Term Loan Agreement. If an event of default occurs, the maturity of the amounts owed under the New Term Loan Agreement may be accelerated.

The obligations under the New Term Loan Agreement are guaranteed by the Company, the subsidiary borrowers thereunder and certain of the other existing and future direct and indirect subsidiaries of the Company and are secured by substantially all of the assets of the Company, the subsidiary borrowers thereunder and such other subsidiary guarantors, in each case, subject to certain exceptions and permitted liens.

Amortization expense classified as interest expense related to the $3.8 million of debt issuance costs associated with the issuance of the New Term Loan was $0.2 million for the three and nine months ended September 30, 2019 and nil for the three and nine months ended September 30, 2018.

Amortization expense classified as interest expense related to the $10.1 million debt discount associated with the transaction that closed on August 9, 2019 was $0.4 million for the three and nine months ended September 30, 2019 and nil for the three and nine months ended September 30, 2018.

Note 6 — Credit Facilities

Wells Fargo

In March 2014, the Company and its domestic subsidiaries entered into a secured credit facility with General Electric Capital Corporation (“GECC”). The credit facility, as amended and subsequently assigned to Wells Fargo Bank, N.A. (“Wells Fargo”) pursuant to its acquisition of GECC, provides for a $75.0 million revolving credit facility subject to availability based on prescribed advance rates on certain domestic accounts receivable and inventory amounts used to compute the borrowing base (the “Credit Facility”). The Credit Facility includes a sub-limit of up to $35.0 million for the issuance of letters of credit. The amounts outstanding under the Credit Facility, as amended, were payable in full upon maturity of the facility on September 27, 2019, except that the Credit Facility would mature on June 15, 2018 if the Company did not refinance or extend the maturity of the convertible senior notes that mature in 2018, provided that any such refinancing or extension shall have a maturity date that is no sooner than six months after the stated maturity of the Credit Facility (i.e., on or about September 27, 2019). On June 14, 2018, the Company entered into a Term Loan Agreement with Great American Capital Partners to provide the necessary capital to refinance the 2018 convertible senior notes (see additional details regarding the Term Loan Agreement below). In addition, on June 14, 2018, the Company revised certain of the Credit Facility documents (and entered into new ones) so that certain of its Hong Kong based subsidiaries became additional parties to the Credit Facility. As a result, the receivables of these subsidiaries can now be included in the borrowing base computation, subject to certain limitations, thereby effectively increasing the amount of funds the Company can borrow under the Credit Facility. Any additional borrowings under the Credit Facility will be used for general working capital purposes. In August 2019, in connection with the Recapitalization transaction (See Note 5 - Debt), the Company entered into an amended and extended revolving credit facility with Wells Fargo (the “Amended ABL Credit Agreement”). The Amended ABL Credit Agreement, or Amended ABL facility, amends and restates the Company’s existing Credit Facility, dated as of March 27, 2014, as amended, with GECC and subsequently assigned to Wells Fargo, to, among other things, decrease the borrowing capacity from $75.0 million to $60.0 million and extend the maturity to August 9, 2022.

The obligations under the Amended ABL Credit Agreement are guaranteed by the Company, the subsidiary borrowers thereunder and certain of the other existing and future direct and indirect subsidiaries of the Company and are secured by substantially all of the assets of the Company, the subsidiary borrowers thereunder and such other subsidiary guarantors, in each case, subject to certain exceptions and permitted liens. As of September 30, 2019, the amount of outstanding borrowings was $5.0 million, the amount of outstanding stand-by letters of credit totaled $10.5 million and the total excess borrowing capacity was $44.5 million. As of December 31, 2018, the amount of outstanding borrowings under the previous Credit Facility was $7.5 million, outstanding stand-by letters of credit totaled $12.8 million and the total excess borrowing capacity was $40.7 million.

The Amended ABL Credit Agreement contains negative covenants that, subject to certain exceptions, limit the ability of the Company and its subsidiaries to, among other things, incur additional indebtedness, make restricted payments, pledge their assets as security, make investments, loans, advances, guarantees and acquisitions, undergo fundamental changes and enter into transactions with affiliates. The Company is also required to maintain a fixed charge coverage ratio of not less than 1.1 to 1.0 under certain circumstances, and a minimum liquidity of $25.0 million and a minimum availability of at least $9.0 million. As of September 30, 2019 and December 31, 2018, the Company was in compliance with the financial covenants under the Amended ABL Facility and the previous Credit Facility, as applicable.

Any amounts borrowed under the Amended ABL Facility accrue interest, at either (i) LIBOR plus 1.50%-2.00% (determined by reference to a fixed charge coverage ratio-based pricing grid) or (ii) base rate plus 0.50%-1.00% (determined by reference to a fixed charge coverage ratio-based pricing grid). As of September 30, 2019 and December 31 2018, the weighted average interest rate on the credit facilities with Wells Fargo was approximately 4.59% and 5.53%, respectively.

The Amended ABL Facility also contains customary events of default, including a cross default provision and a change of control provision. In the event of a default, all of the obligations of the Company and its subsidiaries under the Amended ABL Facility may be declared immediately due and payable. For certain events of default relating to insolvency, all outstanding obligations become due and payable.

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Great American Capital Partners

On June 14, 2018, the Company entered into a Term Loan Agreement, Term Note, Guaranty and Security Agreement and other ancillary documents and agreements (the “Term Loan”) with Great American Capital Partners Finance Co., LLC (“GACP”), for itself as a Lender (as defined below) and as the Agent (in such capacity, “Agent”) for the Lenders from time to time party to the Term Loan (collectively, “Lenders”) and the other “Secured Parties” under and as defined therein, with respect to the issuance to the Company by Lenders of a $20.0 million term loan. To secure the Company’s obligations under the Term Loan, the Company granted to Agent, for the benefit of the Secured Parties, a security interest in a substantial amount of the Company’s consolidated assets and a pledge of the majority of the capital stock of various of its subsidiaries. The Term Loan is a secured obligation, second only to the Credit Facility with Wells Fargo, except with respect to certain of the Company’s inventory in which GACP has a priority secured position. The Company may use the funds from the Term Loan to repurchase or retire its outstanding convertible senior notes due August 2018, for working capital, capital expenditures and other general corporate purposes, subject to certain negative covenants set forth in the Term Loan.

The Term Loan requires the repayment of principal in the amount of 10% of the outstanding Term Loan per year (payable monthly) beginning after the first anniversary. All then-outstanding borrowings under the Term Loan are due, and the Term Loan terminates, no later than June 14, 2021, unless sooner terminated in accordance with its terms, which includes the date of termination of the Wells Fargo Credit Facility and the date that is 91 days prior to the maturity of the Company’s various convertible senior notes due in 2020 (see Note 5 - Debt). The Company is permitted, and may be required under certain circumstances as set forth in the Term Loan documents, to prepay the Term Loan, which would require a prepayment fee (i) in year one of up to any unearned and unpaid interest that would have become due and payable in year one had the prepayment not occurred plus 2% of the initial amount of the Term Loan (i.e., $20.0 million), (ii) in year two of 2% of the initial amount of the Term Loan and (iii) in year three of 1% of the initial amount of the Term Loan.

The Company’s ability to continue to borrow the initial Term Loan amount of $20.0 million is based on certain accounts receivable and inventory amounts used to compute the borrowing base. In the event the Term Loan balance exceeds the borrowing base computation, the shortfall would be (i) applied to any excess availability under the Wells Fargo Credit Facility or (ii) prepaid. Similar to the Wells Fargo Credit Facility, the Company is subject to ongoing compliance with certain financial covenants, including the maintenance by the Company of a fixed charge coverage ratio of at least 1.25:1.0 based on the trailing four fiscal quarters in the event minimum excess availability of $10.0 million under the Wells Fargo Credit Facility is not maintained. The Company must also maintain a minimum amount of liquidity, as defined in the Term Loan, of $10.0 million.

In August 2019, in connection with the Recapitalization transaction (See Note 5 - Debt), the Company repaid in full and terminated the Term Loan Agreement. As of September 30, 2019 and December 31, 2018, the amount outstanding under the Term Loan was nil and $20.0 million, respectively. Borrowings under the Term Loan accrue interest at LIBOR plus 9.00% per annum. As of September 30, 2019 and December 31, 2018, the weighted average interest rate on the Term Loan was approximately 11.4% and 11.1%, respectively. In connection with this transaction, the Company recognized a loss on extinguishment of the debt of approximately $0.4 million.

Amortization expense classified as interest expense related to the $1.3 million of debt issuance costs associated with the transactions that closed on June 14, 2018 (i.e., the amendment of the Wells Fargo Credit Facility and the GACP Term Loan) and $1.1 million of debt issuance cost associated with the transaction that closed on August 9, 2019 (i.e., Amended ABL Facility) was $0.1 million and $0.5 million for the three and nine months ended September 30, 2019, respectively. Amortization expense classified as interest expense was $0.4 million and $0.5 million for the three and nine months ended September 30, 2018, respectively.

Note 7 — Income Taxes

The Company's income tax expense of $1.0 million for the three months ended September 30, 2019 reflects an effective tax rate of 5.8%. The Company's income tax expense of $2.0 million for the three months ended September 30, 2018 reflects an effective tax rate of 11.1%. The majority of the tax expense for the three months ended September 30, 2019 relates to foreign income taxes and discrete items. The majority of the tax expense for the three months ended September 30, 2018 relates to foreign income taxes and discrete items.

The Company's income tax expense of $1.4 million for the nine months ended September 30, 2019 reflects an effective tax rate of (4.0%). The Company's income tax expense of $1.7 million for the nine months ended September 30, 2018 reflects an effective tax rate of (4.6%). The majority of the tax expense for the nine months ended September 30, 2019 relates to foreign income taxes and discrete items. The majority of the tax expense for the nine months ended September 30, 2018 primarily relates to foreign income taxes, partially offset by discrete items.

Note 8 — Income (Loss) Per Share

The following table is a reconciliation of the weighted average shares used in the computation of income (loss) per share for the periods presented (in thousands, except per share data):

	Three Months Ended September 30,					
	2019			2018		
	Income (Loss)	Weighted Average Shares	Per-Share	Income (Loss)	Weighted Average Shares	Per-Share
Income (loss) per share - basic						
Net income (loss) attributable to common stockholders	$ 16,265 *	27,085	$ 0.60	$ 15,682	23,106	$ 0.68
Effect of dilutive securities:						
Convertible senior notes	14,367	31,648	—	1,487	21,426	—
Unvested performance stock grants	—	72	—	—	832	—
Unvested restricted stock grants	—	1,540	—	—	322	—
Income (loss) per share - diluted						
Net income (loss) attributable to common stockholders plus assumed exercises and conversion	$ 30,632	60,345	$ 0.51	$ 17,169	45,686	$ 0.38

* Net income (loss) attributable to common shareholders was computed by deducting $180,000 of preferred dividends from net income (loss) attributable to JAKKS Pacific, Inc.

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	Nine Months Ended September 30,					
	2019			2018		
	Income (Loss)	Weighted Average Shares	Per-Share	Income (Loss)	Weighted Average Shares	Per-Share
Income (loss) per share - basic						
Net income (loss) attributable to common stockholders	$ (35,435) *	24,754	$ (1.43)	$ (39,121)	23,104	$ (1.69)
Effect of dilutive securities:						
Convertible senior notes	—	—	—	—	—	—
Unvested performance stock grants	—	—	—	—	—	—
Unvested restricted stock grants	—	—	—	—	—	—
Income (loss) per share - diluted						
Net income (loss) attributable to common stockholders plus assumed exercises and conversion	$ (35,435)	24,754	$ (1.43)	$ (39,121)	23,104	$ (1.69)

* Net income (loss) attributable to common shareholders was computed by deducting $180,000 of preferred dividends from net income (loss) attributable to JAKKS Pacific, Inc.

Basic income (loss) per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the weighted average number of common shares and common share equivalents outstanding during the period (which consist of warrants, options, restricted stock awards, restricted stock units and convertible debt to the extent they are dilutive). The weighted average number of common shares outstanding excludes 3,112,840 shares repurchased pursuant to a prepaid forward share repurchase agreement associated with the issuance of the convertible senior notes due 2020. These shares were retired on September 13, 2019. Common share equivalents that could potentially dilute basic earnings per share in the future, which were excluded from the computation of diluted earnings per share due to being anti-dilutive, totaled 5,460,873 and 31,341,392 for the three and nine months ended September 30, 2019, respectively. Common share equivalents that could potentially dilute basic earnings per share in the future, which were excluded from the computation of diluted earnings per share due to being anti-dilutive, totaled 2,894,029 and 25,332,390 for the three and nine months ended September 30, 2018, respectively.

Note 9 — Common Stock and Preferred Stock

Common Stock

In January 2018, the Company issued an aggregate of 1,914,894 shares of restricted stock at a value of approximately $4.5 million to two executive officers, which vest, subject to certain company financial performance criteria and market conditions, over a 3-year period. In addition, an aggregate of 249,480 shares of restricted stock at an aggregate value of approximately $0.6 million were issued to its six non-employee directors, which vested in January 2019.

During 2018, an executive officer surrendered an aggregate of 42,346 shares of restricted stock for $98,000 to cover income taxes due on the vesting of restricted shares.

In January 2019, the Company was obligated to issue an aggregate of 3,061,224 shares of restricted stock at a value of approximately $4.5 million to two executive officers pursuant to the applicable employment contracts. The shares were not issued at that time due to insufficient shares available in the 2002 Stock Award and Incentive Plan. Such shares were subsequently approved by the Company's shareholders and issued in July 2019. In addition, an aggregate of 328,230 shares of restricted stock at an aggregate value of approximately $0.5 million were issued to its six non-employee directors, which will vest in January 2020.

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During the first quarter of 2019, two executive officers surrendered an aggregate of 143,913 shares of restricted stock for approximately $215,000 to cover income taxes due on the vesting of restricted shares.

During the second quarter of 2019, an executive officer surrendered an aggregate of 24,281 shares of restricted stock for approximately $25,000 to cover income taxes due on the vesting of restricted stock units.

On August 9, 2019, in connection with the Recapitalization transaction (see Note 5 - Debt), the Company issued to the Investor Parties, in the aggregate, 5,853,002 shares of Common Stock valued at $4.2 million on the date of issuance. (the "New Common Equity").

In August 2019, the Board resolved to accelerate and immediately vest upon closing of the Recapitalization transaction, 164,166 shares of the annual stock compensation granted to resigning members of the Board on January 1, 2019. Each resigning Board member forfeited the remaining balance of the annual stock compensation granted on January 1, 2019, or an aggregate of 54,704 shares.

The Company effectively repurchased 3,112,840 shares of its common stock at an average cost of $7.71 per share for an aggregate amount of $24.0 million pursuant to a prepaid forward share repurchase agreement entered into with Merrill Lynch International (“ML”) on June 9, 2014. These repurchased shares were treated as retired for basic and diluted income (loss) per share purposes although they remained legally outstanding. The Company reflected the aggregate purchase price of its common shares repurchased as a reduction to stockholders’ equity allocated to treasury stock. On September 13, 2019, ML returned the shares to the Company. The Company subsequently retired the shares which had no impact to the Company’s stockholder’s equity.

All issuances of common stock, including those issued pursuant to stock option and warrant exercises, restricted stock grants and acquisitions, are issued from the Company’s authorized but not issued and outstanding shares.

No dividend was declared or paid in the three and nine months ended September 30, 2019 or 2018.

Preferred Stock

On August 9, 2019, in connection with the Recapitalization transaction (see Note 5 - Debt), the Company issued 200,000 shares of Series A Senior Preferred Stock (the “Series A Preferred Stock”), $0.001 par value per share, to the Investor Parties (the “New Preferred Equity”) As of September 30, 2019, 200,000 shares of Series A Preferred Stock were outstanding.

Each share of Series A Preferred Stock has an initial value of $100 per share, which is automatically increased for any accrued and unpaid dividends (the “Accreted Value”).

The Series A Preferred Stock has the right to receive dividends on a quarterly basis equal to 6.0% per annum, payable in cash or, if not paid in cash, by an automatic accretion of the Series A Preferred Stock. No dividends have been declared or paid. For the three and nine months ended September 30, 2019, the Company recorded $180,000 of preferred stock dividends as an increase in the value of the Series A Preferred Stock.

The Series A Preferred Stock has no stated maturity, however, the Company has the right to redeem all or a portion of the Series A Preferred Stock at its Liquidation Preference (as defined below) at any time after payment in full of the New Term Loan. In addition, upon the occurrence of certain change of control type events, holders of the Series A Preferred Stock are entitled to receive an amount (the “Liquidation Preference”), in preference to holders of Common Stock or other junior stock, equal to (i) 20% of the Accreted Value in the case of a certain specified transaction, or (ii) otherwise, 150% of the Accreted value, plus any accrued and unpaid dividends.

The Company has the right, but is not required, to repurchase all or a portion of the Series A Preferred Stock at its Liquidation Preference at any time after payment in full of the New Term Loan (see Note 5 - Debt).

The Series A Preferred Stock does not have any voting rights, except to the extent required by the Delaware General Corporation Law, except for the exclusive right to elect the Series A Preferred Directors (as described below) and except for certain approval rights over certain transactions (as described below). These approval rights require the prior consent of specified percentages of holders (or in certain cases, all holders) of the Series A Preferred Stock in order for the Company to take certain actions, including the issuance of additional shares of Series A Preferred Stock or parity stock, the issuance of senior stock, certain amendments to the Amended and Restated Certificate of Incorporation, the Certificate of Designations of the Series A Preferred Stock (the “Certificate of Designations”), the Second Amended and Restated By-laws or the Amended and Restated Nominating and Corporate Governance Committee Charter, material changes in the Company’s line of business and certain change of control type transactions. In addition, the Certificate of Designations provides that the approval of at least six directors is required for any related person transaction within the meaning of Item 404 of Regulation S-K under the Securities Act of 1933, as amended, including, without limitation, the adoption of, or any amendment, modification or waiver of, any agreement or arrangement related to any such transaction. The Certificate of Designations also includes restrictions on the ability of the Company to pay dividends on or make distributions with respect to, or redeem or repurchase, shares of Common Stock or other junior stock. In addition, holders of the Series A Preferred Stock have preemptive rights regarding future issuance of Series A Preferred Stock or parity stock.

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In addition, the Certificate of Designations provides the holders of Series A Preferred Stock certain board representation rights. The Certificate of Designations provides, among other things, that, for so long as at least 50,000 shares of Series A Preferred Stock remain outstanding, (i) the holders of a majority of the outstanding shares of Series A Preferred Stock have the sole right to nominate candidates to serve as the Series A Preferred Directors and (ii) the holders of shares of Series A Preferred Stock, voting as a separate class, have the right to elect two individuals to serve as the Series A Preferred Directors. From and after (i) the first annual meeting of stockholders occurring after less than 50,000 shares of Series A Preferred Stock remain outstanding, the holders of Series A Preferred Stock will only have the right to nominate and elect one Series A Preferred Director, and (ii) the time no shares of Series A Preferred Stock remain outstanding, the holders of Series A Preferred Stock will no longer have the right to nominate or elect any Series A Preferred Directors. The Series A Preferred Directors will serve for terms ending at the annual meeting of stockholders in 2023 and for successive three-year terms thereafter (until no shares of Series A Preferred Stock remain outstanding), and as of such time as the proposal to amend the Certificate of Incorporation to classify the Board into three classes, designated Class I, Class II and Class III, with staggered three-year terms, the Series A Preferred Directors shall be deemed to serve in Class III. The number of directors elected by the holders of the Company's Common Stock and the number of Series A Preferred Directors is fixed and cannot be amended without the approval of holders of a majority of the outstanding Common Stock and holders of at least 80% of the outstanding shares of Series A Preferred Stock, each voting as a separate class.

The Series A Preferred Stock redemption amount is contingent upon certain events with no stated redemption date as of the reporting date, although may become redeemable in the future. In accordance with the SEC guidance within ASC Topic 480, *Distinguishing Liabilities from Equity: Classification and Measurement of Redeemable Securities*, the Company classified the Series A Preferred Stock as temporary equity as the Series A Preferred Stock contains a redemption feature which is contingent upon certain deemed liquidation events, the occurrence of which may not solely be within the control of the Company.

Under ASC 815, *"Derivatives and Hedging"*, certain contractual terms that meet the accounting definition of a derivative must be accounted for separately from the financial instrument in which they are embedded. The Company has concluded that the redemption upon a change of control and the repurchase option by the Company constitute embedded derivatives.

The embedded redemption upon a change of control must be accounted for separately from the Series A Preferred Stock. The redemption provision specifies if certain events that constitute a change of control occur; the Company may be required to settle the Series A Preferred Stock at 20% or 150% of its accreted amount. Accordingly, the redemption provision meets the definition of a derivative, and its economic characteristics are not considered clearly and closely related to the economic characteristics of the Series A Preferred Stock, which is considered more akin to a debt instrument than equity.

Accordingly, these two embedded derivatives are required to be bundled into a single derivative instrument and accounted for separately from the Series A Preferred Stock at fair value.

The Company considers the repurchase option to have no value as the likelihood is remote that this event, within the Company's control, would ever occur. The Company determined that the fair value of the redemption provision upon a change of control was $4.9 million and recorded as a long term liability. In subsequent periods, the liability is accounted for at fair value, with changes in fair value recognized as other income (expense) on the Company's condensed consolidated statements of operations. The value of the redemption provision explicitly considered the present value of the potential premium that would be paid related to, and the probability of, an event that would trigger its payment. The probability of a triggering event was based on management's estimates of the probability of a change of control event occurring.

As of September 30, 2019, the Series A Preferred Stock is recorded in temporary equity at the amount of accrued, but unpaid dividends of $180,000, and the redemption provision, as a bifurcated derivative, is recorded as a long term liability with an estimated value of $4.9 million.

Note 10 — Joint Ventures

The Company owns a fifty percent interest in a joint venture ("Pacific Animation Partners") with the U.S. entertainment subsidiary of a leading Japanese advertising and animation production company. The joint venture was created to develop and produce a boys' animated television show, which it licensed worldwide for television broadcast as well as consumer products. The Company produced toys based upon the television program under a license from the joint venture which also licensed certain other merchandising rights to third parties. The joint venture completed and delivered 65 episodes of the show, which began airing in February 2012, and has since ceased production of the television show. For the three and nine months ended September 30, 2019, the Company recognized income from the joint venture of nil. For the three and nine months ended September 30, 2018, the Company recognized income from the joint venture of nil and $22,000, respectively.

As of September 30, 2019 and December 31, 2018, the balance of the investment in the Pacific Animation Partners joint venture is nil.

For the three and nine months ended September 30, 2018, respectively, the Company recognized nil and $0.2 million of income for funds received related to a former video game joint venture in partial settlement of amounts owed to the Company when our joint venture partner was liquidated pursuant to their 2012 bankruptcy filing.

In September 2012, the Company entered into a joint venture ("DreamPlay Toys") with NantWorks LLC ("NantWorks") in which it owns a fifty percent interest. Pursuant to the operating agreement of DreamPlay Toys, the Company paid to NantWorks cash in the amount of $8.0 million and issued NantWorks a warrant to purchase 1.5 million shares of the Company's common stock at a value of $7.0 million in exchange for the exclusive right to arrange for the provision of the NantWorks recognition technology platform for toy products. The Company had classified these rights as an intangible asset, which was being amortized over the anticipated revenue stream from the exploitation of these rights. However, the Company has abandoned the use of the technology in connection with its toy products and no future sales are anticipated, and the Company recorded an impairment charge to income of $2.9 million to write off the remaining unamortized technology rights during the third quarter of 2017. The Company retains the financial risk of the joint venture and is responsible for the day-to-day operations, which are expected to be nominal in future periods. The results of operations of the joint venture are consolidated with the Company's results.

In addition, in 2012, the Company invested $7.0 million in cash in exchange for a five percent economic interest in a related entity, DreamPlay, LLC, that was expected to monetize the exploitation of the recognition technologies in non-toy consumer product categories. Adoption of the technology has been inadequate to establish a commercially viable market for the technology. NantWorks has the right to repurchase the Company's interest for $7.0 million, but the Company does not anticipate that NantWorks will do so. As of September 30, 2017, the Company determined the value of this investment will not be realized and that full impairment of the value had occurred. Accordingly, the Company recorded an impairment charge of $7.0 million during the quarter ended September 30, 2017.

In November 2014, the Company entered into a joint venture with Meisheng Culture & Creative Corp., for the purpose of providing certain JAKKS licensed and non-licensed toys and consumer products to agreed-upon territories of the People's Republic of China. The joint venture includes a subsidiary in the Shanghai Free Trade Zone that sells, distributes and markets these products, which include dolls, plush, role play products, action figures, costumes, seasonal items, technology and app-enhanced toys, based on entertainment licenses and JAKKS' own proprietary brands. The Company owns fifty-one percent of the joint venture and consolidates the joint venture since control rests with the Company. The non-controlling interest's share of the income (loss) was ($31,000) and $17,000 for the three months ended September 30, 2019 and 2018, respectively, and $57,000 and $39,000 for the nine months ended September 30, 2019 and 2018, respectively.

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In October 2016, the Company entered into a joint venture with Hong Kong Meisheng Cultural Company Limited ("Meisheng"), a Hong Kong-based subsidiary of Meisheng Culture & Creative Corp., for the purpose of creating and developing original, multiplatform content for children including new short-form series and original shows. JAKKS and Meisheng each own fifty percent of the joint venture and will jointly own the content. JAKKS will retain merchandising rights for kids' consumer products in all markets except China, which Meisheng Culture & Creative Corp. will oversee through the Company's existing distribution joint venture. The results of operations of the joint venture are consolidated with the Company's results. The non-controlling interest's share of the income from the joint venture for the three and nine months ended September 30, 2019 and 2018 was nil. As of September 30, 2019, Meisheng beneficially owns more than 10% of the Company's outstanding common stock.

A director of the Company is a representative of Meisheng Culture & Creative Corp.

Meisheng also serves as a significant manufacturer of the Company. For the three and nine months ended September 30, 2019, the Company made inventory-related payments to Meisheng of approximately $49.6 million and $74.8 million, respectively. For the three and nine months ended September 30, 2018, the Company made inventory-related payments to Meisheng of approximately $19.8 million and $33.9 million, respectively. As of September 30, 2019 and 2018, amounts due Meisheng for inventory received by the Company, but not paid totaled $40.9 million and $18.2 million, respectively.

Note 11 — Goodwill

The Company applies a fair value-based impairment test to the carrying value of goodwill and indefinite-lived intangible assets on an annual basis and, on an interim basis, if certain events or circumstances indicate that an impairment loss may have been incurred. Goodwill impairment exists when the estimated fair value of goodwill is less than its carrying value. Based on the Company's April 1 annual assessment, it determined that the fair values of its reporting units were not less than the carrying amounts. No goodwill impairment was determined to have occurred for the nine months ended September 30, 2019.

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Note 12 — Intangible Assets Other Than Goodwill

Intangible assets other than goodwill consist primarily of licenses, product lines, customer relationships and trademarks. Amortized intangible assets are included in intangibles in the accompanying condensed consolidated balance sheets. Trademarks are disclosed separately in the accompanying condensed consolidated balance sheets. Intangible assets as of September 30, 2019 and December 31, 2018 include the following (in thousands, except for weighted useful lives):

		September 30, 2019			December 31, 2018		
	Weighted Useful Lives	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
	(Years)						
Amortized Intangible Assets:							
Licenses	5.81	$ 20,130	$ (19,846)	$ 284	$ 20,130	$ (19,383)	$ 747
Product lines	10.36	33,858	(20,398)	13,460	33,858	(17,293)	16,565
Customer relationships	4.90	3,152	(3,152)	—	3,152	(3,152)	—
Trade names	5.00	3,000	(3,000)	—	3,000	(3,000)	—
Non-compete agreements	5.00	200	(200)	—	200	(200)	—
Total amortized intangible assets		$ 60,340	$ (46,596)	$ 13,744	$ 60,340	$ (43,028)	$ 17,312
Unamortized Intangible Assets:							
Trademarks		$ 300	$ —	$ 300	$ 300	$ —	$ 300

Note 13 — Comprehensive Income (Loss)

The table below presents the components of the Company's comprehensive income (loss) for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net Income (Loss)	$ 16,414	$ 15,699	$ (35,198)	$ (39,082)
Other comprehensive income (loss):				
Foreign currency translation adjustment	(898)	(1,149)	(45)	(1,489)
Comprehensive income (loss)	15,516	14,550	(35,243)	(40,571)
Less: Comprehensive income (loss) attributable to non-controlling interests	(31)	17	57	39
Comprehensive income (loss) attributable to JAKKS Pacific, Inc.	$ 15,547	$ 14,533	$ (35,300)	$ (40,610)

Note 14 — Litigation and Contingencies

The Company is a party to, and certain of its property is the subject of, various pending claims and legal proceedings that routinely arise in the ordinary course of its business. The Company accrues for losses when the loss is deemed probable and the liability can reasonably be estimated. Where a liability is probable and there is a range of estimated loss with no best estimate in the range, the Company records the minimum estimated liability related to the claim. As additional information becomes available, the Company assesses the potential liability related to its pending litigation and revises its estimates.

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In the normal course of business, the Company may provide certain indemnifications and/or other commitments of varying scope to a) its licensors, customers and certain other parties, including against third party claims of intellectual property infringement, and b) its officers, directors and employees, including against third party claims regarding the periods in which they serve in such capacities with the Company. The duration and amount of such obligations is, in certain cases, indefinite. The Company's director's and officer's liability insurance policy may, however, enable it to recover a portion of any future payments related to its officer, director or employee indemnifications. For the past five years, costs related to director and officer indemnifications have not been significant. Other than certain liabilities recorded in the normal course of business related to royalty payments due the Company's licensors, no liabilities have been recorded for indemnifications and/or other commitments.

Note 15 — Share-Based Payments

The Company's *2002 Stock Award and Incentive Plan* (the "Plan"), as amended, provides for the awarding of stock options, restricted stock and restricted stock units to certain key employees, executive officers and non-employee directors. Current awards under the Plan include grants to directors, executive officers and certain key employees of restricted stock awards and units, with vesting contingent upon (a) the completion of specified service periods ranging from one to five years and/or (b) meeting certain financial performance and/or market-based metrics. Unlike the restricted stock awards, the shares for the restricted stock units are not issued until they vest. The Plan is more fully described in Notes 15 and 17 to the Consolidated Financial Statements in the Company's 2018 Annual Report on Form 10-K.

The following table summarizes the total share-based compensation expense recognized for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Share-based compensation expense	$ 857	$ 760	$ 1,872	$ 1,747

Restricted Stock Awards

Restricted stock award activity (including those with performance-based vesting criteria) for the nine months ended September 30, 2019 is summarized as follows:

	Restricted Stock Awards	
	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding, December 31, 2018	2,950,782	$ 2.41
Awarded	3,389,455	1.07
Released	(692,464)	2.49
Forfeited	(54,704)	1.47
Outstanding, September 30, 2019	5,593,069	1.60

As of September 30, 2019, there was $3.5 million of total unrecognized compensation cost related to non-vested restricted stock awards, which is expected to be recognized over a weighted-average period of 2.39 years.

Restricted Stock Units

Restricted stock unit activity (including those with performance-based vesting criteria) for the nine months ended September 30, 2019 is summarized as follows:

	Restricted Stock Units	
	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding, December 31, 2018	1,052,166	$ 3.72
Awarded	742,574	0.81
Released	(161,486)	3.80
Forfeited	(159,456)	4.51
Outstanding, September 30, 2019	1,473,798	2.16

As of September 30, 2019, there was $1.2 million of total unrecognized compensation cost related to non-vested restricted stock units, which is expected to be recognized over a weighted-average period of 1.66 years.

Note 16 — Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. Based upon these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated, or unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based upon observable inputs used in the valuation techniques, the Company is required to provide information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values into three broad levels as follows:

Level 1: Valuations for assets and liabilities traded in active markets from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3: Valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

In instances where the determination of the fair value measurement is based upon inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based upon the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

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The following tables summarize the Company's financial liabilities measured at fair value on a recurring basis as of September 30, 2019 and December 31, 2018 (in thousands):

	Carrying Amount as of September 30, 2019	Fair Value Measurements As of September 30, 2019		
		Level 1	Level 2	Level 3
3.25% convertible senior notes due 2020	$ —	$ —	$ —	$ —
3.25% convertible senior notes due 2023*	48,635	—	—	48,635
Preferred stock	4,894	—	—	4,894

* The amount presented excludes accrued, but unpaid, payment-in-kind interest of $0.1 million as of September 30, 2019.

	Carrying Amount as of December 31, 2018	Fair Value Measurements As of December 31, 2018		
		Level 1	Level 2	Level 3
3.25% convertible senior notes due 2020	$ 27,974	$ —	$ —	$ 27,974

The following tables provide a reconciliation of the beginning and ending balances of liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

3.25% convertible senior notes due 2020	**2019**
Balance at January 1, 2019	$ 27,974
Change in fair value	2,529
Extinguishment of convertible senior notes ($29.6 million face value)	(30,503)
Balance at September 30, 2019	$ —

3.25% convertible senior notes due 2023	**2019**
Balance at January 1, 2019	$ —
New issuance ($29.6 million face value)	37,916
New issuance ($8.0 million face value)	10,254
Change in fair value	465
Balance at September 30, 2019	$ 48,635

The Company’s derivative liability is classified within Level 3 of the fair value hierarchy because unobservable inputs were used in estimating the fair value. The fair value of the redemption provision embedded in the Series A Preferred Stock is estimated based on a discounted cash flow model and probability assumptions based on management’s estimates of a change of control event occurring. In subsequent periods, the derivative liability is accounted for at fair value, with changes in fair value recognized as other income (expense) on the Company's condensed consolidated statements of operations.

The Company’s accounts receivable, accounts payable and accrued expenses represent financial instruments. The carrying value of these financial instruments is a reasonable approximation of fair value.

Note 17 — Liquidity

As of September 30, 2019 and December 31, 2018, the Company held cash and cash equivalents, including restricted cash, of $75.9 million and $58.2 million, respectively. Cash, and cash equivalents, including restricted cash held outside of the United States in various foreign subsidiaries totaled $62.1 million and $33.9 million as of September 30, 2019 and December 31, 2018, respectively. The cash and cash equivalents, including restricted cash balances in the Company's foreign subsidiaries have either been fully taxed in the U.S. or tax has been accounted for in connection with the Tax Cuts and Jobs Act, or may be eligible for a full foreign dividends received deduction under such Act, and thus would not be subject to additional U.S. tax should such amounts be repatriated in the form of dividends or deemed distributions. Any such repatriation may result in foreign withholding taxes, which the Company expects would not be significant as of September 30, 2019.

The Company’s primary sources of working capital are cash flows from operations and borrowings under its credit facility (see Note 6 - Credit Facilities). Typically, cash flows from operations are impacted by the effect on sales of (1) the appeal of the Company’s products, (2) the success of its licensed brands, (3) the highly competitive conditions existing in the toy industry, (4) dependency on a limited set of large customers, and (5) general economic conditions. A downturn in any single factor or a combination of factors could have a material adverse impact upon the Company’s ability to generate sufficient cash flows to operate the business. In addition, the Company’s business and liquidity are dependent to a significant degree on its vendors and their financial health, as well as the ability to accurately forecast the demand for products. The loss of a key vendor, or material changes in support by them, or a significant variance in actual demand compared to the forecast, can have a material adverse impact on the Company’s cash flows and business. Given the conditions in the toy industry environment in general, vendors, including licensors, may seek further assurances or take actions to protect against non-payment of amounts due to them. Changes in this area could have a material adverse impact on the Company’s liquidity.

Cash and cash equivalents, including restricted cash, projected cash flow from operations, and borrowings under the Company’s credit facility should be sufficient to meet working capital and capital expenditure requirements for the next 12 months. The Company’s ability to fund operations and retire debt when due is dependent on a number of factors, some of which are beyond the Company's control and/or inherently difficult to estimate, including the Company's future operating performance and the factors mentioned above, among other risks and uncertainties. To the extent we are unable to fund our operations or retire debt when due, no assurances can be given that the Company will have the financial resources required to obtain, or that the conditions of the capital markets will support, any future debt or equity financings, which could have a material adverse impact on the Company’s business, results of operations and financial condition.

As of September 30, 2019, off-balance sheet arrangements include letters of credit issued by Wells Fargo of $10.5 million.

Note 18 — Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (“ROU”) assets and operating lease liabilities in its condensed consolidated balance sheets. The Company does not have any finance leases.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company’s leases do not provide an implicit interest rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any prepaid lease amounts and excludes lease incentives. The Company’s lease terms may include options to extend or terminate the lease when it is reasonably certain that it will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company has lease agreements with lease and non-lease components, which are generally accounted for separately.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
September 30, 2019

The Company has operating leases for corporate offices, warehouses, and certain equipment. The Company’s leases have remaining lease terms of 1 to 8 years, some of which include options to extend the lease for up to 10 years, and some of which include options to terminate the lease within 1 year. As of September 30, 2019, the Company’s weighted average remaining lease term is approximately 4 years and the weighted average discount rate used to calculate the Company’s lease liability is approximately 5.31%. For the three and nine months ended September 30, 2019, rent expense under the Company's leases was approximately $2.9 million and $9.9 million, respectively. For the three and nine months ended September 30, 2018, rent expense under the Company's leases was approximately $3.7 million and $10.3 million, respectively.

The following table represents a reconciliation of the Company’s undiscounted future minimum lease payments under operating leases to the lease liability as of September 30, 2019 (in thousands):

Year ending December 31,		
2019 (excluding the 9 months ended September 30, 2019)	$	2,923
2020		11,027
2021		10,724
2022		10,096
2023		5,634
Thereafter		832
Total lease payments		41,236
Less imputed interest		(4,004)
Total	$	37,232

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of financial condition and results of operations should be read together with our Condensed Consolidated Financial Statements and Notes thereto, which appear elsewhere herein.

Critical Accounting Policies and Estimates

The accompanying condensed consolidated financial statements and supplementary information were prepared in accordance with accounting principles generally accepted in the United States of America. Significant accounting policies are discussed in Note 2 to the Consolidated Financial Statements set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. Inherent in the application of many of these accounting policies is the need for management to make estimates and judgments in the determination of certain revenues, expenses, assets and liabilities. As such, materially different financial results can occur as circumstances change and additional information becomes known. The policies with the greatest potential effect on our results of operations and financial position include:

Allowance for Doubtful Accounts. Our allowance for doubtful accounts is based upon management's assessment of the business environment, customers' financial condition, historical collection experience, accounts receivable aging, customer disputes and the collectability of specific customer accounts. If there were a deterioration of a major customer's creditworthiness, or actual defaults were higher than our historical experience, our estimates of the recoverability of amounts due to us could be overstated, which could have an adverse impact on our operating results. Our allowance for doubtful accounts is also affected by the time at which uncollectible accounts receivable balances are actually written off.

Major customers' accounts are monitored on an ongoing basis; more in-depth reviews are performed based upon changes in a customer's financial condition and/or the level of credit being extended. When a significant event occurs, such as a bankruptcy filing by a specific customer, and on a quarterly basis, the allowance is reviewed for adequacy and the balance or accrual rate is adjusted to reflect current risk prospects.

Revenue Recognition. Our contracts with customers only include one performance obligation (i.e., sale of our products). Revenue is recognized in the gross amount at a point in time when delivery is completed and control of the promised goods is transferred to the customers. Revenue is measured as the amount of consideration we expect to be entitled to in exchange for those goods. Our contracts do not involve financing elements as payment terms with customers are less than one year. Further, because revenue is recognized at the point in time goods are sold to customers, there are no contract assets or contract liability balances.

We disaggregate our revenues from contracts with customers by reporting segment: U.S. and Canada, International, and Halloween. We further disaggregate revenues by major geographic region.

We offer various discounts, pricing concessions, and other allowances to customers, all of which are considered in determining the transaction price. Certain discounts and allowances are fixed and determinable at the time of sale and are recorded at the time of sale as a reduction to revenue. Other discounts and allowances can vary and are determined at management's discretion (variable consideration). Specifically, we occasionally grant discretionary credits to facilitate markdowns and sales of slow moving merchandise, and consequently accrue an allowance based on historic credits and management estimates. Further, while we generally do not allow product returns, we do make occasional exceptions to this policy, and consequently record a sales return allowance based upon historic return amounts and management estimates. These allowances (variable consideration) are estimated using the expected value method and are recorded at the time of sale as a reduction to revenue. We adjust our estimate of variable consideration at least quarterly or when facts and circumstances used in the estimation process may change. The variable consideration is not constrained as we have sufficient history on the related estimates and do not believe there is a risk of significant revenue reversal.

We also participate in cooperative advertising arrangements with some customers, whereby we allow a discount from invoiced product amounts in exchange for customer purchased advertising that features our products. Generally, these allowances range from 1% to 20% of gross sales, and are generally based upon product purchases or specific advertising campaigns. Such allowances are accrued when the related revenue is recognized. These cooperative advertising arrangements provide a distinct benefit at fair value, and are accounted for as direct selling expenses.

Sales commissions are expensed when incurred as the related revenue is recognized at a point in time and therefore the amortization period is less than one year. As a result, these costs are recorded as direct selling expenses, as incurred.

Shipping and handling activities are considered part of our obligation to transfer the products and therefore are recorded as direct selling expenses, as incurred.

Our reserve for sales returns and allowances amounted to $38.1 million as of September 30, 2019 and $29.4 million as of December 31, 2018.

Fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, we use various methods including market, income and cost approaches. Based upon these approaches, we often utilize certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated, or unobservable inputs. We utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based upon observable inputs used in the valuation techniques, we are required to provide information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values into three broad levels as follows:

Level 1:	Valuations for assets and liabilities traded in active markets from readily available pricing sources for market transactions involving identical assets or liabilities.
Level 2:	Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.
Level 3:	Valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

In instances where the determination of the fair value measurement is based upon inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based upon the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The following tables summarize our financial liabilities measured at fair value on a recurring basis as of September 30, 2019 and December 31, 2018 (in thousands):

	Carrying Amount as of September 30, 2019	Fair Value Measurements As of September 30, 2019		
		Level 1	Level 2	Level 3
3.25% convertible senior notes due 2020	$ —	$ —	$ —	$ —
3.25% convertible senior notes due 2023*	48,635	—	—	48,635
Preferred stock	4,894	—	—	4,894

* The amount presented excludes accrued, but unpaid, payment-in-kind interest of $0.1 million as of September 30, 2019.

	Carrying Amount as of December 31, 2018	Fair Value Measurements As of December 31, 2018		
		Level 1	Level 2	Level 3
3.25% convertible senior notes due 2020	$ 27,974	$ —	$ —	$ 27,974

The following tables provide a reconciliation of the beginning and ending balances of liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

<u>**3.25% convertible senior notes due 2020**</u>	**2019**
Balance at January 1, 2019	$ 27,974
Change in fair value	2,529
Extinguishment of convertible senior notes ($29.6 million face value)	(30,503)
Balance at September 30, 2019	$ —

3.25% convertible senior notes due 2023	**2019**
Balance at January 1, 2019	$ —
New issuance ($29.6 million face value)	37,916
New issuance ($8.0 million face value)	10,254
Change in fair value	465
Balance at September 30, 2019	$ 48,635

Our derivative liability is classified within Level 3 of the fair value hierarchy because unobservable inputs were used in estimating the fair value. The fair value of the redemption provision embedded in the Series A Preferred Stock is estimated based on a discounted cash flow model and probability assumptions based on our estimates of a change of control event occurring. In subsequent periods, the derivative liability is accounted for at fair value, with changes in fair value recognized as other income (expense) on our condensed consolidated statements of operations.

Our accounts receivable, accounts payable and accrued expenses represent financial instruments. The carrying value of these financial instruments is a reasonable approximation of fair value.

In August 2017, we agreed with Oasis Management and Oasis Investments II Master Fund Ltd., (collectively "Oasis") the holder of $21.6 million face amount of our 4.25% convertible senior notes due in 2018 ("2018 Notes"), to exchange and extend the maturity date of these notes to November 1, 2020. In addition, the interest rate was reduced to 3.25% per annum and the conversion rate was increased to 328.0302 shares of our common stock per $1,000 principal amount of notes, among other things. These notes are hereafter referred to as the "3.25% convertible senior notes due in 2020" or "3.25% 2020 Notes." After execution of a definitive agreement and final approval by the other members of our Board of Directors and Oasis' Investment Committee, the transaction closed on November 7, 2017. On July 26, 2018, we closed a transaction with Oasis to exchange $8.0 million face amount of the 4.25% convertible senior notes due in August 2018 with convertible senior notes similar to those issued to Oasis in November 2017. The new notes mature on November 1, 2020, accrue interest at an annual rate of 3.25% and are convertible into shares of our common stock at a rate of 322.2688 shares per $1,000 principal amount of the new notes. The conversion price of the 3.25% 2020 notes reset on November 1, 2018 to $2.54 per share and the conversion rate was increased to 393.7008 of our common stock per $1,000 principal amount of notes.

In August 2019, we entered into and consummated multiple, binding definitive agreements (collectively, the "Recapitalization") among Wells Fargo Bank, National Association, Oasis Investments II Master Fund Ltd. and an ad hoc group of holders of the 4.875% convertible senior notes due 2020 to recapitalize our balance sheet. In connection with the Recapitalization, on August 9, 2019, we issued (i) amended and restated notes with respect to the $21.6 million Oasis Note issued on November 7, 2017, and the $8.0 million Oasis Note issued on July 26, 2018 (together, the "Existing Oasis Notes"), and (ii) a new $8.0 million convertible senior note having the same terms as such amended and restated notes (collectively, the "3.25% 2023 Notes"). The New Oasis Notes mature 91 days after the amounts outstanding under the New Term Loan are paid in full, and in no event later than July 3, 2023, accrue interest at an annual rate of (i) 3.25% if paid in cash or 5.00% if paid in stock plus (ii) 2.75% payable in kind. The conversion price will be reset on each February 9 and August 9, starting on February 9, 2020 (each, a "reset date") to a price equal to 105% of the 5-day VWAP preceding the applicable reset date.

In connection with the transactions above, we elected the fair value option of measurement for the 3.25% 2020 and the New Oasis Notes under ASC 815 *Derivatives and Hedging*. As a result, these notes are re-measured each reporting period using Level 3 inputs (Monte Carlo simulation model and inputs for stock price, risk-free rate and volatility), with changes in fair value reflected in current period earnings in our condensed consolidated statements of operations. We evaluated our credit risk as of September 30, 2019, and determined that there was no change from December 31, 2018. At September 30, 2019, the New Oasis Notes had a fair value of $48.6 million.

The fair value of the 4.875% convertible senior notes payable due 2020 as of September 30, 2019 and December 31, 2018 was $1.8 million (principal amount $1.9 million) and $93.2 million (principal amount $113.0 million), respectively, based upon the most recent quoted market prices. The fair values of the convertible senior notes are considered to be Level 3 measurements on the fair value hierarchy.

For the nine months ended September 30, 2019, there was no impairment to the value of the Company's non-financial assets.

Goodwill and other indefinite-lived intangible assets. Goodwill and indefinite-lived intangible assets are not amortized, but are tested for impairment at least annually at the reporting unit level.

Factors we consider important that could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and
- significant negative industry or economic trends.

Due to the subjective nature of the impairment analysis, significant changes in the assumptions used to develop the estimate could materially affect the conclusion regarding the future cash flows necessary to support the valuation of long-lived assets, including goodwill. The valuation of goodwill involves a high degree of judgment. Based upon the assumptions underlying the valuation, impairment is determined by estimating the fair value of a reporting unit and comparing that value to the reporting unit's book value. If the implied fair value is more than the book value of the reporting unit, an impairment loss is not indicated. If impairment exists, the fair value of the reporting unit is allocated to all of its assets and liabilities excluding goodwill, with the excess amount representing the fair value of goodwill. An impairment loss is measured as the amount by which the book value of the reporting unit's goodwill exceeds the estimated fair value of that goodwill. Based on our April 1 annual assessment, we determined the fair values of our reporting units were not less than the carrying amounts. No goodwill impairment was determined to have occurred for the nine months ended September 30, 2019.

Reserve for Inventory Obsolescence. We value our inventory at the lower of cost or net realizable value. Based upon a consideration of quantities on hand, actual and projected sales volume, anticipated product selling prices and product lines planned to be discontinued, slow-moving and obsolete inventory is written down to its net realizable value.

Failure to accurately predict and respond to consumer demand could result in us under-producing popular items or over-producing less popular items. Furthermore, significant changes in demand for our products would impact management's estimates in establishing our inventory provision.

Management's estimates are monitored on a quarterly basis, and a further adjustment to reduce inventory to its net realizable value is recorded as an increase to cost of sales when deemed necessary under the lower of cost or net realizable value standard.

Discrete Items for Income Taxes. The discrete tax expense recorded in the nine months ended September 30, 2019 is $0.1 million which is primarily related to excess tax deficiencies fully offset by valuation allowance, return to provision adjustments for foreign jurisdictions, state income taxes, and change in uncertain tax positions. For the comparable period in 2018, a discrete tax benefit was recorded for excess tax deficiencies fully offset by valuation allowance, return to provision adjustments for foreign jurisdictions, change in uncertain tax positions, and state income taxes.

Income taxes and interest and penalties related to income tax payable. We do not file a consolidated return for our foreign subsidiaries. We file federal and state returns and our foreign subsidiaries each file returns as required. Deferred taxes are provided on an asset and liability method, whereby deferred tax assets are recognized as deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Management employs a threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Tax benefits that are subject to challenge by tax authorities are analyzed and accounted for in the income tax provision.

We accrue a tax reserve for additional income taxes, which may become payable in future years as a result of audit adjustments by tax authorities. The reserve is based upon management's assessment of all relevant information and is periodically reviewed and adjusted as circumstances warrant. As of September 30, 2019 and December 31, 2018, our income tax reserves were approximately $1.5 million and $1.5 million, respectively. The $1.5 million balance primarily relates to the potential tax settlements in Hong Kong and adjustments in the area of withholding taxes. Our income tax reserves are included in income taxes payable on the Condensed Consolidated Balance Sheets and within provision for (benefit from) income taxes on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

Share-Based Compensation. We grant restricted stock units and awards to our employees (including officers) and to non-employee directors under our 2002 Stock Award and Incentive Plan (the "Plan"), as amended. The benefits provided under the Plan are share-based payments. We amortize over a requisite service period, the net total deferred restricted stock expense based upon the fair value of the underlying common stock on the date of the grants. In certain instances, the service period may differ from the period in which each award will vest. Additionally, certain groups of grants are subject to performance criteria and/or an expected forfeiture rate calculation.

New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which supersedes the revenue recognition requirements in ASC 605, (Topic 605), and most industry-specific guidance. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers - Deferral of the Effective Date," which defers the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017, and interim periods therein. In 2016, the FASB issued ASU 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," ASU 2016-10, "Identifying Performance Obligations and Licensing," and ASU 2016-12, "Revenue from Contracts with Customers - Narrow-Scope Improvements and Practical Expedients." Entities have the choice to adopt these updates using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a modified retrospective approach with the cumulative effect of these standards recognized at the date of the adoption.

On January 1, 2018, we adopted the new accounting standard ASC 606, (Topic 606), Revenue from Contracts with Customers and all the related amendments ("new revenue standard") using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC 605, (Topic 605).

There is no impact to our condensed consolidated financial statements resulting from the adoption of Topic 606 as the timing and measurement of revenue remained consistent with Topic 605, although our approach to revenue recognition is now based on the transfer of control. Further, there is no difference in the amounts of the revenue and cost of sales reported in our condensed consolidated statements of operations and comprehensive income (loss) for the three and nine months ended September 30, 2019 and 2018 that were recognized pursuant to Topic 606 and those that would have been reported pursuant to Topic 605.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities," ("ASU 2016-01"). The new guidance is intended to improve the recognition and measurement of financial instruments. The ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2017. The adoption of this standard did not have an impact on our condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases." ASU 2016-02 establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. If an entity chooses the second option, the transition requirements for existing leases also apply to leases entered into between the date of initial application and the effective date. The entity must also recast its comparative period financial statements and provide the disclosures required by the new standard for the comparative periods. On January 1, 2019, we adopted the new standard and use the effective date as our date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019. The new standard provides a number of optional practical expedients in transition. We elected certain practical expedients, which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. We did not elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to us.

On adoption, we recognized operating lease liabilities of approximately $40.8 million with corresponding ROU assets of $37.6 million based on the present value of the remaining minimum rental payments for existing operating leases. We also derecognized deferred rent liabilities of $4.3 million and prepaid rent of $1.1 million upon the recognition of lease liabilities and ROU assets.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” which require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The new standard was initially effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. In July 2019, the FASB tentatively deferred the effective date of ASU 2016-13 by three years for Smaller Reporting Companies. The tentative decisions would change the effective date for the new standard to fiscal years beginning after December 15, 2022, and interim periods therein, and early adoption is permitted. We are currently evaluating the impact of the adoption of ASU 2016-13 on our consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory.” The amendments in this ASU reduce the complexity in the accounting standards by allowing the recognition of current and deferred income taxes for an intra-entity asset transfer, other than inventory, when the transfer occurs. Historically, recognition of the income tax consequence was not recognized until the asset was sold to an outside party. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The adoption of this standard did not have an impact on our condensed consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting,” which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of this standard did not have an impact on our condensed consolidated financial statements.

In January 2018, the FASB issued ASU 2018-02, “Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,” which gives entities the option to reclassify to retained earnings the tax effects resulting from the U.S. Tax Cuts and Jobs Act ("The Act") related to items in Accumulated Other Comprehensive Income (“AOCI”) that the FASB refers to as having been stranded in AOCI. The new guidance may be applied retrospectively to each period in which the effect of the Act is recognized in the period of adoption. We could adopt this guidance for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted for periods for which financial statements have not yet been issued or made available for issuance, including the period the Act was enacted. The guidance, when adopted, will require new disclosures regarding a company’s accounting policy for releasing the tax effects in AOCI and permit the company the option to reclassify to retained earnings the tax effects resulting from the Act that are stranded in AOCI. We adopted this guidance on January 1, 2019 and the impact was not material.

In March 2018, the FASB issued ASU 2018-03, “Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,” which made targeted improvements to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. The adoption of this standard did not have an impact on our condensed consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, “Improvements to Nonemployee Share-Based Payment Accounting,” which supersedes most of the prior accounting guidance on nonemployee share-based payments, and instead aligns it with existing guidance on employee share-based payments in Topic 718. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and early adoption is permitted. The adoption of this standard did not have an impact on our condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement," which improves the effectiveness of the disclosures required under ASC 820 and modifies the disclosure requirements on fair value measurements, including the consideration of costs and benefits. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and early adoption is permitted. We are currently evaluating the impact of the pending adoption of this new standard on our condensed consolidated financial statements.

In October 2018, the FASB issued ASU 2018-17, "Consolidation: Targeted Improvements to Related Party Guidance for Variable Interest Entities," which improves the accounting for variable interest entities by considering indirect interests held through related parties under common control for determining whether fees paid to decision makers and service providers are variable interests. This new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The amendments are required to be applied retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. Early adoption is permitted. We are currently evaluating the impact of the pending adoption of this new standard on our condensed consolidated financial statements.

Results of Operations

The following unaudited table sets forth, for the periods indicated, certain statement of income data as a percentage of net sales.

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2019	**2018**	**2019**	**2018**
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	71.1	72.8	74.7	73.5
Gross profit	28.9	27.2	25.3	26.5
Selling, general and administrative expenses	16.0	18.7	25.5	32.8
Restructuring charge	—	—	0.1	—
Acquisition related and other	0.2	—	1.3	0.1
Income (loss) from operations	12.7	8.5	(1.6)	(6.4)
Income from joint ventures	—	—	—	0.1
Other income (expense), net	—	0.1	—	0.1
Loss on extinguishment of debt	(4.7)	(0.2)	(3.0)	(0.1)
Change in fair value of debt	(0.1)	0.4	(0.6)	(0.6)
Interest income	—	—	—	—
Interest expense	(1.6)	(1.3)	(2.4)	(1.7)
Income (loss) before provision for income taxes	6.3	7.5	(7.6)	(8.6)
Provision for income taxes	0.3	0.8	0.3	0.4
Net income (loss)	6.0	6.7	(7.9)	(9.0)
Net income (loss) attributable to non-controlling interests	—	—	—	—
Net income (loss) attributable to JAKKS Pacific, Inc.	6.0 %	6.7 %	(7.9)%	(9.0)%

The following unaudited table summarizes, for the periods indicated, certain statements of operations data by segment (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net Sales				
U.S. and Canada	$ 165,087	$ 133,481	$ 271,022	$ 263,397
International	39,251	37,902	59,297	77,245
Halloween	75,792	65,316	115,819	94,842
	280,130	236,699	446,138	435,484
Cost of Sales				
U.S. and Canada	112,071	96,509	196,629	190,098
International	26,646	25,176	44,205	54,712
Halloween	60,554	50,684	92,359	75,444
	199,271	172,369	333,193	320,254
Gross Profit				
U.S. and Canada	53,016	36,972	74,393	73,299
International	12,605	12,726	15,092	22,533
Halloween	15,238	14,632	23,460	19,398
	$ 80,859	$ 64,330	$ 112,945	$ 115,230

Comparison of the Three Months Ended September 30, 2019 and 2018

Net Sales

U.S. and Canada. Net sales of our U.S. and Canada segment were $165.1 million for the three months ended September 30, 2019 compared to $133.5 million for the prior year period, representing an increase of $31.6 million, or 23.7%. The increase in net sales was primarily due to sales of Frozen 2, which was not sold in the prior year period, partially offset by lower sales of Incredibles 2, Fancy Nancy, Moana and Harry Potter.

International. Net sales of our International segment were $39.3 million for the three months ended September 30, 2019 compared to $37.9 million for the prior year period, representing an increase of $1.4 million, or 3.7%. The increase in net sales was primarily driven by sales of Frozen 2, which was not sold in the prior year period, largely offset by lower sales of Incredibles 2, Moana, Squish-Dee-Lish, and Tsum Tsum.

Halloween. Net sales of our Halloween segment were $75.8 million for the three months ended September 30, 2019 compared to $65.3 million for the prior year period, representing an increase of $10.5 million, or 16.1%. The increase in net sales was primarily driven by sales of various brands, including Frozen 2, Toy Story 4, and Descendants 3, partially offset by lower sales of Incredibles 2.

Cost of Sales

U.S. and Canada. Cost of sales of our U.S. and Canada segment was $112.1 million, or 67.9% of related net sales, for the three months ended September 30, 2019 compared to $96.5 million, or 72.3% of related net sales, for the prior year period, representing an increase of $15.6 million, or 16.2%. The increase in dollars is due to higher overall sales in the 2019 period. The decrease as a percentage of net sales, year-over-year, is primarily due to higher product margins for certain brands, including Frozen 2. This was partially offset by higher royalties due to the mix of licensed products sold.

International. Cost of sales of our International segment was $26.6 million, or 67.7% of related net sales, for the three months ended September 30, 2019 compared to $25.2 million, or 66.5% of related net sales, for the prior year period, representing an increase of $1.4 million, or 5.6%. The increase in dollars is due to higher overall sales in the 2019 period. The increase as a percentage of net sales, year-over-year, is primarily due to a higher average royalty rate in 2019.

Halloween. Cost of sales of our Halloween segment was $60.6 million, or 79.9% of related net sales for the three months ended September 30, 2019 compared to $50.7 million, or 77.6% of related net sales for the prior year period, representing an increase of $9.9 million, or 19.5%. The increase in dollars is due to higher overall sales in the 2019 period. The increase as a percentage of net sales, year-over-year, is primarily due to a higher royalty rate on certain products in 2019.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $44.5 million for the three months ended September 30, 2019 compared to $44.2 million for the prior year period constituting 16.0% and 18.7% of net sales, respectively. Selling, general and administrative expenses increased by $0.3 million from the prior year period due to increased selling expenses in 2019, partially offset, by lower product development and compensation due, in part, to a Company-wide restructuring initiative in 2018.

Restructuring Charge

During the three months ended September 30, 2019, we recognized $24,000 of restructuring charges as a result of a Company-wide restructuring initiative announced in the 2018 fourth quarter. The restructuring charges are primarily related to employee severance costs.

Acquisition Related and Other

During the three months ended September 30, 2019, we recognized $0.6 million in acquisition related and other charges related to strategic and/or refinancing transactions, including the Recapitalization transaction closed in August 2019.

Interest Expense

Interest expense was $4.6 million for the three months ended September 30, 2019, as compared to $3.1 million in the prior year period. During the three months ended September 30, 2019, we booked interest expense of $1.1 million related to our convertible senior notes due in 2020, and $3.5 million related to our revolving credit and term loan facilities, which includes $0.6 million of payment-in-kind interest, and $0.7 million related to amortization of the debt discount and deferred financing fees. During the three months ended September 30, 2018, we booked interest expense of $1.9 million related to our convertible senior notes payable due in 2018 and 2020, and $1.2 million related to our revolving credit and term loan facilities.

Provision for Income Taxes

Our income tax expense, which includes federal, state and foreign income taxes and discrete items, was $1.0 million, or an effective tax rate of 5.8%, for the three months ended September 30, 2019. During the comparable period in 2018, our income tax expense was $2.0 million, or an effective tax rate of 11.1%. The decrease in tax expense and effective tax rate is due to lower pre-tax income in foreign jurisdictions when compared to the prior year period.

Comparison of the Nine Months Ended September 30, 2019 and 2018

Net Sales

U.S. and Canada. Net sales of our U.S. and Canada segment were $271.0 million for the nine months ended September 30, 2019 compared to $263.4 million for the prior year period, representing an increase of $7.6 million, or 2.9%. The increase in net sales was primarily due to sales of Frozen 2 and Godzilla, which were not sold in the prior year period as well as Nintendo, partially offset by lower sales of Incredibles 2, and the liquidation of Toys "R" Us in the U.S. at the end of the 2018 first quarter.

International. Net sales of our International segment were $59.3 million for the nine months ended September 30, 2019 compared to $77.2 million for the prior year period, representing a decrease of $17.9 million, or 23.2%. The decrease in net sales was primarily driven by lower sales of Incredibles 2, Disney Princess products, Squish-Dee-Lish and Tsum Tsum, partially offset by higher sales of Frozen 2, which was not sold in the prior year period.

*Hallo*ween. Net sales of our Halloween segment were $115.8 million for the nine months ended September 30, 2019 compared to $94.8 million for the prior year period, representing an increase of $21.0 million, or 22.2%. The increase in net sales was primarily driven by sales of various brands, including Frozen 2, Toy Story 4, and Descendants 3, partially offset by lower sales of Incredibles 2.

Cost of Sales

U.S. and Canada. Cost of sales of our U.S. and Canada segment was $196.6 million, or 72.5% of related net sales, for the nine months ended September 30, 2019 compared to $190.1 million, or 72.2% of related net sales, for the prior year period, representing an increase of $6.5 million, or 3.4%. The increase in dollars is due to higher overall sales in 2019. The increase as a percentage of net sales, year-over-year, is primarily due to a higher average royalty rate in 2019.

International. Cost of sales of our International segment was $44.2 million, or 74.5% of related net sales, for the nine months ended September 30, 2019 compared to $54.7 million, or 70.9% of related net sales, for the prior year period, representing a decrease of $10.5 million, or 19.2%. The decrease in dollars is primarily driven by lower overall sales in 2019. The increase as a percentage of net sales, year-over-year, is due to a higher average royalty rate in 2019. The increase as a percentage of net sales, year-over-year, is also due to lower average selling prices in 2019 on certain older products, such as Incredibles 2, partially offset by higher product margins for Frozen 2.

Halloween. Cost of sales of our Halloween segment was $92.4 million, or 79.8% of related net sales for the nine months ended September 30, 2019 compared to $75.4 million, or 79.5% of related net sales for the prior year period, representing an increase of $17.0 million, or 22.5%. The increase in dollars is due to higher overall unit sales in 2019. The increase as a percentage of net sales, year-over-year, is primarily due to a higher average royalty rate, partially offset by higher product margins on a variety of products.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $113.7 million for the nine months ended September 30, 2019 compared to $142.5 million for the prior year period representing 25.5% and 32.8% of net sales, respectively. Selling, general and administrative expenses decreased by $28.8 million from the prior year period primarily driven by lower compensation, in part, to a Company-wide restructuring initiative, lower advertising expenses, lower product development costs and a bad debt charge of $12.0 million primarily due to the Toys "R" Us liquidation in the U.S. in 2018.

Restructuring Charge

During the nine months ended September 30, 2019, we recognized $0.3 million of restructuring charges as a result of a Company-wide restructuring initiative in 2018 fourth quarter. The restructuring charges are primarily related to employee severance costs.

Acquisition Related and Other

During the nine months ended September 30, 2019 and 2018, we recognized $6.0 million and $0.4 million, respectively, in acquisition related and other charges related to strategic and/or refinancing transactions, including the Recapitalization transaction closed in August 2019.

Interest Expense

Interest expense was $10.6 million for the nine months ended September 30, 2019, as compared to $7.2 million in the prior year period. During the nine months ended September 30, 2019, we booked interest expense of $4.7 million related to our convertible senior notes, and $5.9 million related to our revolving credit and term loan facilities, which includes $0.6 million of payment-in-kind interest, and $0.7 million related to amortization of the debt discount and deferred financing fees. During the nine months ended September 30, 2018, we booked interest expense of $5.5 million related to our convertible senior notes payable due in 2018 and 2020, and $1.7 million related to our revolving credit and term loan facilities.

Provision for Income Taxes

Our income tax expense, which includes federal, state and foreign income taxes and discrete items, was $1.4 million, or an effective tax rate of (4.0%), for the nine months ended September 30, 2019. During the comparable period in 2018, our income tax expense was $1.7 million, or an effective tax rate of (4.6%).

Seasonality and Backlog

The retail toy industry is inherently seasonal. Generally, our sales have been highest during the third and fourth quarters, and collections for those sales have been highest during the succeeding fourth and first quarters. Our working capital needs have been highest during the second and third quarters.

While we have taken steps to level sales over the entire year, sales are expected to remain heavily influenced by the seasonality of our toy and Halloween products. The result of these seasonal patterns is that operating results and the demand for working capital may vary significantly by quarter. Orders placed with us are generally cancelable until the date of shipment. The combination of seasonal demand and the potential for order cancellation makes accurate forecasting of future sales difficult and causes us to believe that backlog may not be an accurate indicator of our future sales. Similarly, financial results for a particular quarter may not be indicative of results for the entire year.

Liquidity and Capital Resources

As of September 30, 2019, we had working capital of $109.7 million, compared to $106.0 million as of December 31, 2018. The increase was primarily attributable to the higher accounts receivable balance, partially offset by higher accounts payable and accrued expense balances.

Operating activities provided net cash of $26.1 million in the nine months ended September 30, 2019, as compared to $2.6 million in the prior year period. Net cash during the nine months ended September 30, 2019 was primarily impacted by an increase in accounts payable and accrued expenses, partially offset by an increase in accounts receivable and inventory. Net cash during the nine months ended September 30, 2018 was primarily impacted by an increase in accounts payable and sales reserves, partially offset by an increase in accounts receivable, prepaid expenses and other assets. Other than open purchase orders issued in the normal course of business related to shipped product, we have no obligations to purchase inventory from our manufacturers. However, we may incur costs or other losses as a result of not placing orders consistent with our forecasts for product manufactured by our suppliers or manufacturers for a variety of reasons including customer order cancellations or a decline in demand. As part of our strategy to develop and market new products, we have entered into various character and product licenses with royalties generally ranging from 1% to 21% payable on net sales of such products. As of September 30, 2019, these agreements required future aggregate minimum royalty guarantees of $65.0 million, exclusive of $30.3 million in advances already paid. Of this $65.0 million future minimum royalty guarantee, $39.7 million is due over the next twelve months.

Our investing activities used net cash of $7.6 million in the nine months ended September 30, 2019, as compared to using net cash of $9.4 million in the prior year period, and consisted primarily of cash paid for the purchase of molds and tooling used in the manufacture of our products.

Our financing activities used net cash of $0.8 million for the nine months ended September 30, 2019, primarily consisting of the repayment of our GACP term loan and net credit facility payments as well as debt issuance costs incurred in connection with the Recapitalization transaction (see Note 5 - Debt), partially offset by the net proceeds included as part of our New Term Loan Agreement. Our financing activities provided net cash of $0.3 million in the prior year period, primarily consisting of the net proceeds from our term loan facility of $18.5 million, partially offset by the retirement of $13.2 million of 2018 convertible senior notes and repayment of $5.0 million of credit facility borrowings.

As of September 30, 2019 and December 31, 2018, we held cash and cash equivalents, including restricted cash, of $75.9 million and $58.2 million, respectively. Cash, and cash equivalents, including restricted cash, held outside of the United States in various foreign subsidiaries totaled $62.1 million and $33.9 million as of September 30, 2019 and December 31, 2018, respectively. The cash and cash equivalents, including restricted cash balances, in our foreign subsidiaries have either been fully taxed in the U.S. or tax has been accounted for in connection with the Tax Cuts and Jobs Act, or may be eligible for a full foreign dividends received deduction under such Act, and thus would not be subject to additional U.S. tax should such amounts be repatriated in the form of dividends or deemed distributions. Any such repatriation may result in foreign withholding taxes, which we expect would not be significant as of September 30, 2019.

Our primary sources of working capital are cash flows from operations and borrowings under our credit facility (see Note 6 - Credit Facilities in the accompanying notes to the condensed consolidated financial statements for additional information).

Typically, cash flows from operations are impacted by the effect on sales of (1) the appeal of our products, (2) the success of our licensed brands, (3) the highly competitive conditions existing in the toy industry, (4) dependency on a limited set of large customers, and (5) general economic conditions. A downturn in any single factor or a combination of factors could have a material adverse impact upon our ability to generate sufficient cash flows to operate the business. In addition, our business and liquidity are dependent to a significant degree on our vendors and their financial health, as well as the ability to accurately forecast the demand for products. The loss of a key vendor, or material changes in support by them, or a significant variance in actual demand compared to the forecast, can have a material adverse impact on our cash flows and business. Given the conditions in the toy industry environment in general, vendors, including licensors, may seek further assurances or take actions to protect against non-payment of amounts due to them. Changes in this area could have a material adverse impact on our liquidity.

Cash and cash equivalents, including restricted cash, projected cash flow from operations, and borrowings under our credit facility, should be sufficient to meet working capital and capital expenditure requirements for the next 12 months. Our ability to fund operations and retire debt when due is dependent on a number of factors, some of which are beyond our control and/or inherently difficult to estimate, including our future operating performance and the factors mentioned above, among other risks and uncertainties. To the extent we are unable to fund our operations or retire debt when due, no assurances can be given that we will have the financial resources required to obtain, or that the conditions of the capital markets will support, any future debt or equity financings, which could have a material adverse impact on our business, results of operations and financial condition.

As of September 30, 2019, off-balance sheet arrangements include letters of credit issued by Wells Fargo of $10.5 million.

Debt and Credit Facilities

Convertible Senior Notes

In July 2013, we sold an aggregate of $100.0 million principal amount of 4.25% convertible senior notes due 2018 (the “2018 Notes”). The 2018 Notes, which were senior unsecured obligations, paid interest semi-annually in arrears on August 1 and February 1 of each year at a rate of 4.25% per annum and matured on August 1, 2018. The initial conversion rate for the 2018 Notes was 114.3674 shares of our common stock per $1,000 principal amount of notes, equivalent to an initial conversion price of approximately $8.74 per share of common stock, subject to adjustment in certain events. In 2016, we repurchased and retired an aggregate of approximately $6.1 million principal amount of the 2018 Notes. During the first quarter of 2017, we exchanged and retired $39.1 million principal amount of the 2018 Notes at par for $24.1 million in cash and approximately 2.9 million shares of our common stock. During the second quarter of 2017, we exchanged and retired $12.0 million principal amount of the 2018 Notes at par for $11.6 million in cash and 112,400 shares of our common stock.

In August 2017, we agreed with Oasis Management and Oasis Investments II Master Fund Ltd., (collectively, “Oasis”) the holder of approximately $21.6 million face amount of our 4.25% convertible senior notes due in 2018, to extend the maturity date of these notes to November 1, 2020. In addition, the interest rate was reduced to 3.25% per annum and the conversion rate was increased to 328.0302 shares of our common stock per $1,000 principal amount of notes, among other things. After execution of a definitive agreement for the modification and final approval by the other members of our Board of Directors and Oasis’ Investment Committee the transaction closed on November 7, 2017. On July 26, 2018, we closed a transaction with Oasis to exchange $8.0 million face amount of the 4.25% convertible senior notes due in August 2018 with convertible senior notes similar to those issued to Oasis in November 2017. The new notes mature on November 1, 2020, accrue interest at an annual rate of 3.25% and are convertible into shares of our common stock at an initial rate of 322.2688 shares per $1,000 principal amount of the new notes. The conversion price for the 3.25% convertible senior notes was reset on November 1, 2018 and will be reset on November 1, 2019 (each, a “reset date”) to a price equal to 105% above the 5-day Volume Weighted Average Price ("VWAP") preceding the reset date; provided, however, among other reset restrictions, that if the conversion price resulting from such reset is lower than 90 percent of the average VWAP during the 90 calendar days preceding the reset date, then the reset price shall be the 30-day VWAP preceding the reset date. The conversion price of the 3.25% 2020 Notes reset on November 1, 2018 to $2.54 per share and the conversion rate was increased to 393.7008 shares of our common stock per $1,000 principal amount of notes.

The remaining $13.2 million 2018 Notes were redeemed at par at maturity on August 1, 2018.

In August 2019, we entered into and consummated multiple, binding definitive agreements (collectively, the “Recapitalization”) among Wells Fargo Bank, National Association, Oasis Investments II Master Fund Ltd. and an ad hoc group of holders of the 4.875% convertible senior notes due 2020 (the "Investor Parties") to recapitalize our balance sheet, including the extension to us of incremental liquidity and at least three-year extensions of substantially all of our outstanding convertible debt obligations and revolving credit facility. Our term loan agreement entered into with Great American Capital Partners was paid in full and terminated in connection with the Recapitalization transaction.

In connection with the Recapitalization transaction, we issued (i) amended and restated notes with respect to the $21.6 million Oasis Note issued on November 7, 2017, and the $8.0 million Oasis Note issued on July 26, 2018 (together, the “Existing Oasis Notes”), and (ii) a new $8.0 million convertible senior note having the same terms as such amended and restated notes (the "New $8.0 million Oasis Note" and collectively, the “New Oasis Notes” or the "3.25% convertible senior notes due 2023"). Interest on the New Oasis Notes is payable on each May 1 and November 1 until maturity and accrues at an annual rate of (i)3.25% if paid in cash or 5.00% if paid in stock plus (ii) 2.75% payable in kind. The New Oasis Notes mature 91 days after the amounts outstanding under the New Term Loan are paid in full, and in no event later than July 3, 2023.

The New Oasis Notes provide, among other things, that the initial conversion price is $1.00. The conversion price will be reset on each February 9 and August 9, starting on February 9, 2020 (each, a "reset date") to a price equal to 105% of the 5-day VWAP preceding the applicable reset date. Under no circumstances shall the reset result in a conversion price be below the greater of (i) the closing price on the trading day immediately preceding the applicable reset date and (ii) 30% of the stock price as of the Transaction Agreement Date, or August 7, 2019, and will not be greater than the conversion price in effect immediately before such reset. We may trigger a mandatory conversion of the New Oasis Notes if the market price exceeds 150% of the conversion price under certain circumstances. We may redeem the New Oasis Notes in cash if a person, entity or group acquires shares of our Common Stock, par value $0.001 per share (the "Common Stock"), and as a result owns at least 49% of our issued and outstanding Common Stock.

In June 2014, we sold an aggregate of $115.0 million principal amount of 4.875% convertible senior notes due 2020 (the "2020 Notes"). The 2020 Notes are senior unsecured obligations paying interest semi-annually in arrears on June 1 and December 1 of each year at a rate of 4.875% per annum and will mature on June 1, 2020. The initial and still current conversion rate for the 2020 Notes is 103.7613 shares of our common stock per $1,000 principal amount of notes, equivalent to an initial conversion price of approximately $9.64 per share of common stock, subject to adjustment in certain events. Upon conversion, the 2020 Notes will be settled in shares of our common stock. Holders of the 2020 Notes may require that we repurchase for cash all or some of their notes upon the occurrence of a fundamental change (as defined in the 2020 Notes). In January 2016, we repurchased and retired an aggregate of $2.0 million principal amount of the 2020 Notes.

In connection with the Recapitalization transaction, 2020 Notes outstanding with a face amount of $111.1 million of the total $113.0 million that were outstanding at the time of the transaction were refinanced and the maturity dates effectively extended. Of the refinanced amount, $103.8 million was refinanced with the Investor Parties through the issuance of the New Common Equity, the New Preferred Equity (see Note 9 - Common Stock and Preferred Stock) and new secured term debt that matures in February 2023 (see Term Loan section below). Additionally, $1.0 million of accrued interest was refinanced with the Investor Parties. The remaining refinanced amount of $7.3 million was exchanged into the New $8.0 million Oasis Note discussed above.

Term Loan

On August 9, 2019, in connection with the Recapitalization transaction, we entered into a First Lien Term Loan Facility Credit Agreement, (the "New Term Loan Agreement"), with certain holders of the 2020 Notes, or the Investor Parties, and Cortland Capital Market Services LLC, as agent, for a $134.8 million first-lien secured term loan (the "New Term Loan"). We also issued common stock and preferred stock (see Note 9 - Common Stock and Preferred Stock) to the Investor Parties.

Amounts outstanding under the New Term Loan accrue interest at 10.50% per annum, payable semi-annually (with 8% per annum payable in cash and 2.5% per annum payable in kind). The New Term Loan matures on February 9, 2023.

The New Term Loan Agreement contains negative covenants that, subject to certain exceptions, limit our ability and the ability of our subsidiaries to, among other things, incur additional indebtedness, make restricted payments, pledge their assets as security, make investments, loans, advances, guarantees and acquisitions, undergo fundamental changes and enter into transactions with affiliates. Commencing with the fiscal quarter ending September 30, 2020, we are also required to maintain a minimum EBITDA of not less than $34.0 million and a minimum liquidity of not less than $10.0 million.

The New Term Loan Agreement contains events of default that are customary for a facility of this nature, including nonpayment of principal, nonpayment of interest, fees or other amounts, material inaccuracy of representations and warranties, violation of covenants, cross-default to other material indebtedness, bankruptcy or insolvency events, material judgment defaults and a change of control as specified in the New Term Loan Agreement. If an event of default occurs, the maturity of the amounts owed under the New Term Loan Agreement may be accelerated.

The obligations under the New Term Loan Agreement are guaranteed by us, the subsidiary borrowers thereunder and certain of the other existing and future direct and indirect subsidiaries and are secured by substantially all of our assets, the subsidiary borrowers thereunder and such other subsidiary guarantors, in each case, subject to certain exceptions and permitted liens.

Wells Fargo

In March 2014, we and our domestic subsidiaries entered into a secured credit facility with General Electric Capital Corporation (“GECC”). The credit facility, as amended and subsequently assigned to Wells Fargo Bank, N.A. (“Wells Fargo”) pursuant to its acquisition of GECC, provides for a $75.0 million revolving credit facility subject to availability based on prescribed advance rates on certain domestic accounts receivable and inventory amounts used to compute the borrowing base (the “Credit Facility”). The Credit Facility includes a sub-limit of up to $35.0 million for the issuance of letters of credit. The amounts outstanding under the Credit Facility, as amended, were payable in full upon maturity of the facility on September 27, 2019, except that the Credit Facility would mature on June 15, 2018 if we did not refinance or extend the maturity of the convertible senior notes that mature in 2018, provided that any such refinancing or extension shall have a maturity date that is no sooner than six months after the stated maturity of the Credit Facility (i.e., on or about September 27, 2019). On June 14, 2018, we entered into a Term Loan Agreement with Great American Capital Partners to provide the necessary capital to refinance the 2018 convertible senior notes (see additional details regarding the Term Loan Agreement below). In addition, on June 14, 2018, we revised certain of the Credit Facility documents (and entered into new ones) so that certain of our Hong Kong based subsidiaries became additional parties to the Credit Facility. As a result, the receivables of these subsidiaries can now be included in the borrowing base computation, subject to certain limitations, thereby effectively increasing the amount of funds we can borrow under the Credit Facility. Any additional borrowings under the Credit Facility will be used for general working capital purposes. In August 2019, in connection with the Recapitalization transaction (See Note 5 - Debt), we entered into an amended and extended revolving credit facility with Wells Fargo (the “Amended ABL Credit Agreement”). The Amended ABL Credit Agreement, or Amended ABL facility, amends and restates our existing Credit Facility, dated as of March 27, 2014, as amended, with GECC and subsequently assigned to Wells Fargo, to, among other things, decrease the borrowing capacity from $75.0 million to $60.0 million and extend the maturity to August 9, 2022.

The obligations under the Amended ABL Credit Agreement are guaranteed by us, the subsidiary borrowers thereunder and certain of the other existing and future direct and indirect subsidiaries and are secured by substantially all of our assets, the subsidiary borrowers thereunder and such other subsidiary guarantors, in each case, subject to certain exceptions and permitted liens. As of September 30, 2019, the amount of outstanding borrowings was $5.0 million, the amount of outstanding stand-by letters of credit totaled $10.5 million and the total excess borrowing capacity was $44.5 million. As of December 31, 2018, the amount of outstanding borrowings under the previous Credit Facility was $7.5 million, outstanding stand-by letters of credit totaled $12.8 million and the total excess borrowing capacity was $40.7 million.

The Amended ABL Credit Agreement contains negative covenants that, subject to certain exceptions, limit our ability to, among other things, incur additional indebtedness, make restricted payments, pledge our assets as security, make investments, loans, advances, guarantees and acquisitions, undergo fundamental changes and enter into transactions with affiliates. We are also required to maintain a fixed charge coverage ratio of not less than 1.1 to 1.0 under certain circumstances, and a minimum liquidity of $25.0 million and a minimum availability of at least $9.0 million. As of September 30, 2019 and December 31, 2018, we are in compliance with the financial covenants under the Amended ABL Facility and the previous Credit Facility, as applicable.

Any amounts borrowed under the Amended ABL Facility accrue interest, at either (i) LIBOR plus 1.50%-2.00% (determined by reference to a fixed charge coverage ratio-based pricing grid) or (ii) base rate plus 0.50%-1.00% (determined by reference to a fixed charge coverage ratio-based pricing grid). As of September 30, 2019 and December 31 2018, the weighted average interest rate on the credit facilities with Wells Fargo was approximately 4.59% and 5.53%, respectively.

The Amended ABL Facility also contains customary events of default, including a cross default provision and a change of control provision. In the event of a default, all of our obligations and our subsidiaries obligations under the Amended ABL Facility may be declared immediately due and payable. For certain events of default relating to insolvency, all outstanding obligations become due and payable.

Great American Capital Partners

On June 14, 2018, we entered into a Term Loan Agreement, Term Note, Guaranty and Security Agreement and other ancillary documents and agreements (the “Term Loan”) with Great American Capital Partners Finance Co., LLC (“GACP”), for itself as a Lender (as defined below) and as the agent (in such capacity, “Agent”) for the Lenders from time to time party to the Term Loan (collectively, “Lenders”) and the other “Secured Parties” under and as defined therein, with respect to the issuance to us by Lenders of a $20.0 million term loan. To secure our obligations under the Term Loan, we granted to Agent, for the benefit of the Secured Parties, a security interest in a substantial amount of our consolidated assets and a pledge of the majority of the capital stock of various of our subsidiaries. The Term Loan is a secured obligation, second only to the Credit Facility with Wells Fargo, except with respect to certain of our inventory in which GACP has a priority secured position. We may use the funds from the Term Loan to repurchase or retire our outstanding convertible senior notes due August 2018, for working capital, capital expenditures and other general corporate purposes, subject to certain negative covenants set forth in the Term Loan.

The Term Loan requires the repayment of principal in the amount of 10% of the outstanding Term Loan per year (payable monthly) beginning after the first anniversary. All then-outstanding borrowings under the Term Loan are due, and the Term Loan terminates, no later than June 14, 2021, unless sooner terminated in accordance with its terms, which includes the date of termination of the Wells Fargo Credit Facility and the date that is 91 days prior to the maturity of our various convertible senior notes due in 2020 (see Note 5 - Debt). We are permitted, and may be required under certain circumstances as set forth in the Term Loan documents, to prepay the Term Loan, which would require a prepayment fee (i) in year one of up to any unearned and unpaid interest that would have become due and payable in year one had the prepayment not occurred plus 2% of the initial amount of the Term Loan (i.e., $20.0 million), (ii) in year two of 2% of the initial amount of the Term Loan and (iii) in year three of 1% of the initial amount of the Term Loan.

Our ability to continue to borrow the initial Term Loan amount of $20.0 million is based on certain accounts receivable and inventory amounts used to compute the borrowing base. In the event the Term Loan balance exceeds the borrowing base computation, the shortfall would be (i) applied to any excess availability under the Wells Fargo Credit Facility or (ii) prepaid. Similar to the Wells Fargo Credit Facility, we are subject to ongoing compliance with certain financial covenants, including the maintenance of a fixed charge coverage ratio of at least 1.25:1.0 based on the trailing four fiscal quarters in the event minimum excess availability of $10.0 million under the Wells Fargo Credit Facility is not maintained. We must also maintain a minimum amount of liquidity, as defined in the Term Loan, of $10.0 million.

In August 2019, in connection with the Recapitalization transaction (See Note 5 - Debt), we repaid in full and terminated the Term Loan Agreement. As of September 30, 2019 and December 31, 2018, the amount outstanding under the Term Loan was nil and $20.0 million, respectively. Borrowings under the Term Loan accrue interest at LIBOR plus 9.00% per annum. As of September 30, 2019 and December 31, 2018, the weighted average interest rate on the Term Loan was approximately 11.4% and 11.1%, respectively.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

As of September 30, 2019, we have outstanding convertible senior notes payable of $1.9 million principal amount due June 2020 with a fixed interest rate of 4.875% per annum, $37.6 million principal amount due July 2023 with a fixed interest rate of (i) 3.25% per annum if paid in cash or 5.00% per annum if paid in stock plus (ii) 2.75% per annum payable in kind, as well as a $134.8 million term loan due February 2023 with a fixed interest rate of (i) 8.00% per annum plus (ii) 2.5% per annum payable in kind. As the interest rates on the notes and the term loan are at fixed rates, we are not generally subject to any direct risk of loss related to these notes arising from changes in interest rates.

Our exposure to market risk includes interest rate fluctuations in connection with our revolving credit facility (see Note 6 - Credit Facilities in the accompanying notes to the condensed consolidated financial statements for additional information). Borrowings under the revolving credit facility bear interest at either (i) LIBOR plus 1.50%-2.00% (determined by reference to a fixed charge coverage ratio-based pricing grid) or (ii) base rate plus 0.50%-1.00% (determined by reference to a fixed charge coverage ratio-based pricing grid). Borrowings under the revolving credit facility are therefore subject to risk based upon prevailing market interest rates. Interest rate risk may result from many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond our control. During the nine months ended September 30, 2019, the maximum amount borrowed under the revolving credit facility was $7.5 million and the average amount of borrowings outstanding was $2.4 million. As of September 30, 2019, the amount of total borrowings outstanding under the revolving credit facility was $5.0 million. If the prevailing market interest rates relative to these borrowings increased by 10%, our interest expense during the nine month period ended September 30, 2019 would have increased by approximately $0.1 million.

Foreign Currency Risk

We have wholly-owned subsidiaries in Hong Kong, China, the United Kingdom, Germany, France, Canada and Mexico. Sales are generally made by these operations on FOB China or Hong Kong terms and are denominated in U.S. dollars. However, purchases of inventory and Hong Kong operating expenses are typically denominated in Hong Kong dollars and local operating expenses in the United Kingdom, Germany, France, Canada, Mexico and China are denominated in local currency, thereby creating exposure to changes in exchange rates. Changes in the U.S. dollar exchange rates may positively or negatively affect our results of operations. The exchange rate of the Hong Kong dollar to the U.S. dollar has been fixed by the Hong Kong government since 1983 at HK$7.80 to US$1.00 and, accordingly, has not represented a currency exchange risk to the U.S. dollar. We do not believe that near-term changes in these exchange rates, if any, will result in a material effect on our future earnings, fair values or cash flows. Therefore, we have chosen not to enter into foreign currency hedging transactions. We cannot assure you that this approach will be successful, especially in the event of a significant and sudden change in the value of these foreign currencies.

Item 4. Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Report, have concluded that as of that date, our disclosure controls and procedures were effective. There has been no change in our internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rule 13a-15(d) that occurred during the period covered by this Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are a party to, and certain of our property is the subject of, various pending claims and legal proceedings that routinely arise in the ordinary course of our business. We accrue for losses when the loss is deemed probable and the liability can reasonably be estimated. Where a liability is probable and there is a range of estimated loss with no best estimate in the range, we record the minimum estimated liability related to the claim. As additional information becomes available, we assess the potential liability related to our pending litigation and revise our estimates.

In the normal course of business, we may provide certain indemnifications and/or other commitments of varying scope to a) our licensors, customers and certain other parties, including against third party claims of intellectual property infringement, and b) our officers, directors and employees, including against third party claims regarding the periods in which they serve in such capacities with us. The duration and amount of such obligations is, in certain cases, indefinite. Our director’s and officer’s liability insurance policy may, however, enable us to recover a portion of any future payments related to our officer, director or employee indemnifications. For the past five years, costs related to director and officer indemnifications have not been significant. Other than certain liabilities recorded in the normal course of business related to royalty payments due our licensors, no liabilities have been recorded for indemnifications and/or other commitments.

Item 1A. *Risk Factors*

Risk factors with respect to us and our business are contained in "Part I, Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018 and in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 in "Part II, Item 1A. Risk Factors.” There have been no material changes from the risk factors previously disclosed in such filings. The disclosures made in this Quarterly Report should be reviewed together with the risk factors contained therein.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

During the third quarter of 2019, the Company did not purchase any of its common stock.

Item 6. Exhibits

Number	Description
3.1	Amended and Restated Certificate of Incorporation of the Company (1)
3.1.1	Certificate of Designations of Series A Senior Preferred Stock (2)
3.2	Second Amended and Restated By-laws of the Company (2)
10.1*	Transaction Agreement, dated as of August 7, 2019, by and among JAKKS Pacific, Inc., certain of the Company's affiliates and subsidiaries, certain holders of the Company's 4.875% Convertible Senior Notes due 2020 and Oasis Investments II Master Fund Ltd. (2)
10.2*	Amended and Restated Credit Agreement, dated as of August 9, 2019, by and among JAKKS Pacific, Inc., Disguise, Inc., JAKKS Sales LLC, Maui, Inc., Moose Mountain Marketing, Inc. and Kids Only, Inc., as borrowers, the lenders party thereto and Wells Fargo Bank, National Association, as agent (2)
10.3*	First Lien Term Loan Facility Credit Agreement, dated as of August 9, 2019, by and among JAKKS Pacific, Inc., the financial institutions party thereto, as lenders, and Cortland Capital Market Services LLC, as agent (2)
10.4	Amended and Restated Convertible Senior Note due 2023 issued to Oasis Investments II Master Fund Ltd. in the face amount of $21,550,000 (2)
10.5	Amended and Restated Convertible Senior Note due 2023 issued to Oasis Investments II Master Fund Ltd. in the face amount of $8,000,000 (2)
10.6	Convertible Senior Note due 2023 issued to Oasis Investments II Master Fund Ltd. in the face amount of $8,000,000 (2)
10.7*	Amended and Restated Registration Rights Agreement, dated as of August 9, 2019, by and between JAKKS Pacific, Inc. and Oasis Investments II Master Fund Ltd. (2)
10.8*	Amendment No. 3 to the Second Amended and Restated Employment Agreement, dated as of August 9, 2019, by and between Stephen G. Berman and JAKKS Pacific, Inc. (2)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer (3)
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer (3)
32.1	Section 1350 Certification of Chief Executive Officer (3)
32.2	Section 1350 Certification of Chief Financial Officer (3)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
	* Certain schedules have been omitted pursuant to Item 601(a)(5) of Regulation S-K under the Securities Act. The Company agrees to furnish supplementally any omitted schedules to the Securities and Exchange Commission upon request.

(1) Filed previously as Appendix 2 to the Company's Schedule 14A Proxy Statement filed August 23, 2002 and incorporated herein by reference.

(2) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed August 9, 2019 and incorporated herein by reference.

(3) Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

JAKKS PACIFIC, INC.

Date: November 12, 2019	By:	/s/ Brent Novak
		Brent Novak
		Executive Vice President and Chief Financial Officer
		(Duly Authorized Officer and Principal Financial Officer)

Exhibit Index

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* Certain schedules have been omitted pursuant to Item 601(a)(5) of Regulation S-K under the Securities Act. The Company agrees to furnish supplementally any omitted schedules to the Securities and Exchange Commission upon request.

(1) Filed previously as Appendix 2 to the Company's Schedule 14A Proxy Statement filed August 23, 2002 and incorporated herein by reference.

(2) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed August 9, 2019 and incorporated herein by reference.

(3) Filed herewith.

Exhibit 31.1

CERTIFICATIONS

I, Stephen G. Berman, Chief Executive Officer, certify that:

I have reviewed this quarterly report on Form 10-Q of JAKKS Pacific, Inc. (“Company”);

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report;

The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

d) disclosed in this quarterly report any change in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter (the Company’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the Audit Committee of the Company’s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

By: /s/ Stephen G. Berman

Stephen G. Berman

Chief Executive Officer

Date: November 12, 2019

Exhibit 31.2

CERTIFICATIONS

I, Brent Novak, Chief Financial Officer, certify that:

I have reviewed this quarterly report on Form 10-Q of JAKKS Pacific, Inc. (“Company”);

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report;

The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

d) disclosed in this quarterly report any change in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter (the Company’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the Audit Committee of the Company’s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

By: /s/ Brent Novak

Brent Novak

Chief Financial Officer

Date: November 12, 2019

Exhibit 32.1

Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of JAKKS Pacific, Inc. ("Registrant") hereby certifies that the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Stephen G. Berman

Stephen G. Berman
Chief Executive Officer

Date: November 12, 2019

Exhibit 32.2

Written Statement of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of JAKKS Pacific, Inc. (“Registrant”) hereby certifies that the Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Brent Novak

Brent Novak
Chief Financial Officer

Date: November 12, 2019