# 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 March 31, 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** | **95-4527222** |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| **2951 28th Street** | |
| **Santa Monica, California** | **90405** |
| (Address of Principal Executive Offices) | (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 29,463,689 as of May 9, 2019.

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**
**INDEX TO QUARTERLY REPORT ON FORM 10-Q**
**QUARTER ENDED MARCH 31, 2019**
**ITEMS IN FORM 10-Q**



**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.

Table of Contents

# PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

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

| Assets | March 31, 2019 | December 31, 2018 |
|---|---|---|
| | (Unaudited) | |
| **Current assets** | | |
| Cash and cash equivalents | $ 42,431 | $ 53,282 |
| Restricted cash | 4,974 | 4,923 |
| Accounts receivable, net of allowance for doubtful accounts of $1,807 and $2,149 at March 31, 2019 and December 31, 2018, respectively | 67,793 | 122,278 |
| Inventory | 44,685 | 53,880 |
| Prepaid expenses and other assets | 28,030 | 15,780 |
| Total current assets | 187,913 | 250,143 |
| **Property and equipment** | | |
| Office furniture and equipment | 11,953 | 11,999 |
| Molds and tooling | 104,415 | 108,315 |
| Leasehold improvements | 7,473 | 7,735 |
| Total | 123,841 | 128,049 |
| Less accumulated depreciation and amortization | 103,685 | 107,147 |
| Property and equipment, net | 20,156 | 20,902 |
| Operating lease right-of-use assets | 35,132 | — |
| Intangible assets, net | 16,122 | 17,312 |
| Other long term assets | 17,269 | 19,101 |
| Goodwill | 35,083 | 35,083 |
| Trademarks | 300 | 300 |
| Total assets | $ 311,975 | $ 342,841 |
| **Liabilities and Stockholders' Equity** | | |
| **Current liabilities** | | |
| Accounts payable | $ 27,914 | $ 57,574 |
| Accrued expenses | 29,983 | 29,914 |
| Reserve for sales returns and allowances | 26,009 | 29,403 |
| Short term operating lease liabilities | 8,817 | — |
| Short term debt, net | 20,000 | 27,211 |
| Total current liabilities | 112,723 | 144,102 |
| Long term operating lease liabilities | 29,628 | — |
| Convertible senior notes, net | 142,411 | 139,792 |
| Other liabilities | 128 | 4,409 |
| Income taxes payable | 1,461 | 1,458 |
| Deferred income taxes, net | 1,430 | 1,431 |
| Total liabilities | 287,781 | 291,192 |
| **Stockholders' equity** | | |
| Preferred stock, $.001 par value; 5,000,000 shares authorized; nil outstanding | — | — |
| Common stock, $.001 par value; 100,000,000 shares authorized; 29,416,541 and 29,169,913 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively | 30 | 30 |
| Treasury stock, at cost; 3,112,840 shares | (24,000) | (24,000) |
| Additional paid-in capital | 218,524 | 218,155 |
| Accumulated deficit | (156,759) | (127,601) |
| Accumulated other comprehensive loss | (14,544) | (15,847) |
| Total JAKKS Pacific, Inc. stockholders' equity | 23,251 | 50,737 |
| Non-controlling interests | 943 | 912 |
| Total stockholders' equity | 24,194 | 51,649 |
| Total liabilities and stockholders' equity | $ 311,975 | $ 342,841 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months Ended March 31, (Unaudited) | |
|---|---|---|
| | **2019** | **2018** |
| Net sales | $ 70,826 | $ 93,004 |
| Cost of sales | 56,486 | 70,045 |
| Gross profit | 14,340 | 22,959 |
| Selling, general and administrative expenses | 35,266 | 58,617 |
| Restructuring charge | 248 | — |
| Acquisition related and other | 2,867 | — |
| Loss from operations | (24,041) | (35,658) |
| Income from joint ventures | — | 22 |
| Other income (expense), net | 83 | 50 |
| Change in fair value of convertible senior notes | (2,423) | (1,021) |
| Interest income | 27 | 14 |
| Interest expense | (3,018) | (1,936) |
| Loss before benefit from income taxes | (29,372) | (38,529) |
| Benefit from income taxes | (245) | (2,336) |
| Net loss | (29,127) | (36,193) |
| Net income attributable to non-controlling interests | 31 | 51 |
| Net loss attributable to JAKKS Pacific, Inc. | $ (29,158) | $ (36,244) |
| Loss per share - basic and diluted | $ (1.24) | $ (1.57) |
| Shares used in loss per share - basic and diluted | 23,557 | 23,100 |
| Comprehensive loss | $ (27,824) | $ (35,143) |
| Comprehensive loss attributable to JAKKS Pacific, Inc. | $ (27,855) | $ (35,194) |

See accompanying notes to condensed consolidated financial statements.

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**March 31, 2019**

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

**Three Months Ended March 31, 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 |
| Restricted stock grants | — | — | — | — | — | — | — | — |
| 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 |

**Three Months Ended March 31, 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 |

See accompanying notes to condensed consolidated financial statements.

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In thousands)**

| | Three Months Ended March 31, (Unaudited) | |
|---|---|---|
| | **2019** | **2018** |
| **Cash flows from operating activities** | | |
| Net loss | (29,127) | (36,193) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Provision for doubtful accounts | (93) | 13,794 |
| Depreciation and amortization | 3,234 | 3,096 |
| Write-off and amortization of debt issuance costs | 606 | 242 |
| Share-based compensation expense | 618 | 674 |
| Gain on disposal of property and equipment | (62) | — |
| Change in fair value of convertible senior notes | 2,423 | 1,021 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 54,578 | 34,735 |
| Inventory | 9,195 | 4,435 |
| Prepaid expenses and other assets | (11,592) | (15,934) |
| Accounts payable | (28,436) | (9,934) |
| Accrued expenses | 69 | (5,000) |
| Reserve for sales returns and allowances | (3,394) | (2,279) |
| Income taxes payable | 3 | 66 |
| Other liabilities | 83 | (111) |
| Total adjustments | 27,232 | 24,805 |
| Net cash used in operating activities | (1,895) | (11,388) |
| **Cash flows from investing activities** | | |
| Purchases of property and equipment | (2,459) | (2,568) |
| Net cash used in investing activities | (2,459) | (2,568) |
| **Cash flows from financing activities** | | |
| Repayment of credit facility borrowings | (7,500) | (5,000) |
| Repurchase of common stock for employee tax withholding | (249) | (85) |
| Net cash used in financing activities | (7,749) | (5,085) |
| Net decrease in cash, cash equivalents and restricted cash | (12,103) | (19,041) |
| Effect of foreign currency translation | 1,303 | 843 |
| Cash, cash equivalents and restricted cash, beginning of period | 58,205 | 64,977 |
| Cash, cash equivalents and restricted cash, end of period | $ 47,405 | $ 46,779 |
| Cash paid during the period for: | | |
| Income taxes | $ (61) | $ 331 |
| Interest | $ 838 | $ 485 |

As of March 31, 2019, there was $2.1 million of property and equipment included in accounts payable. As of March 31, 2018, there was $4.3 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)**
**March 31, 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 months ended March 31, 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)**
**March 31, 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 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.

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**March 31, 2019**

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.

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.

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**March 31, 2019**

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 months ended March 31, 2019 and 2018 and as of March 31, 2019 and December 31, 2018 are as follows (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| **Net Sales** | | |
| U.S. and Canada | $ 57,433 | $ 70,535 |
| International | 9,753 | 17,299 |
| Halloween | 3,640 | 5,170 |
| | $ 70,826 | $ 93,004 |

| | Three Months Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| **Loss from Operations** | | |
| U.S. and Canada | $ (15,454) | $ (22,979) |
| International | (4,423) | (6,939) |
| Halloween | (4,164) | (5,740) |
| | $ (24,041) | $ (35,658) |

| | Three Months Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| **Depreciation and Amortization Expense** | | |
| U.S. and Canada | $ 2,687 | $ 2,416 |
| International | 450 | 581 |
| Halloween | 97 | 99 |
| | $ 3,234 | $ 3,096 |

| | **March 31, 2019** | **December 31, 2018** |
|---|---|---|
| **Assets** | | |
| U.S. and Canada | $ 211,483 | $ 223,877 |
| International | 92,282 | 108,669 |
| Halloween | 8,210 | 10,295 |
| | $ 311,975 | $ 342,841 |

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**March 31, 2019**

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

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| **Long-lived Assets** | | |
| China | $ 15,489 | $ 15,825 |
| United States | 4,526 | 4,920 |
| Hong Kong | 141 | 157 |
| | $ 20,156 | $ 20,902 |

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| **Net Sales by Customer Area** | | |
| United States | $ 57,558 | $ 71,373 |
| Europe | 7,191 | 8,629 |
| Canada | 2,560 | 3,761 |
| Hong Kong | 255 | 227 |
| Other | 3,262 | 9,014 |
| | $ 70,826 | $ 93,004 |

**Major Customers**

Net sales to major customers for the three months ended March 31, 2019 and 2018 were as follows (in thousands, except for percentages):

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Amount | Percentage of Net Sales | Amount | Percentage of Net Sales |
| Wal-Mart | $ 22,109 | 31.2% | $ 24,758 | 26.6% |
| Target | 12,179 | 17.2 | 15,312 | 16.5 |
| Toys "R" Us | * | * | 10,625 | 11.4 |
| | $ 34,288 | 48.4% | $ 50,695 | 54.5% |

* Sales to Toys "R" Us in the applicable periods were less than 10% of total net sales

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

As of March 31, 2019 and December 31, 2018, the Company’s three largest customers accounted for approximately 48.2% 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 three months ended March 31, 2018, the Company recorded bad debt expense of $13.8 million primarily due to the bankruptcy and liquidation of Toys "R" Us.

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**March 31, 2019**

**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):

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Raw materials | $ 239 | $ 311 |
| Finished goods | 44,446 | 53,569 |
| | $ 44,685 | $ 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 $26.0 million as of March 31, 2019, compared to $29.4 million as of December 31, 2018.

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**March 31, 2019**

**Note 5 — 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 March 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. On February 25, 2019, the Credit Facility was amended to extend the maturity date to September 27, 2019.

The Credit Facility is secured by a security interest in favor of Wells Fargo covering a substantial amount of the consolidated assets and a pledge of the majority of the capital stock of various of the Company's subsidiaries. As of March 31, 2019, there were no outstanding borrowings and the amount of outstanding stand-by letters of credit totaled $12.8 million; the total excess borrowing capacity was $26.4 million. As of December 31, 2018, the amount of outstanding borrowings was $7.5 million and outstanding stand-by letters of credit totaled $12.8 million; the total excess borrowing capacity was $40.7 million.

The Company's ability to borrow under the Credit Facility is also subject to its 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 Credit Facility is not maintained. As of March 31, 2019 and December 31, 2018, the Company was in compliance with the financial covenants under the Credit Facility.

The Company may borrow funds at LIBOR or at a Base Rate, plus applicable margins of 225 basis point spread over LIBOR and 125 basis point spread on Base Rate loans. The Base Rate is the highest of (i) the Federal Funds Rate plus a margin of 0.50%, (ii) the rate last quoted by The Wall Street Journal as the "Prime Rate," or (iii) the sum of a LIBOR rate plus 1.00%. In addition to standard fees, the Credit Facility has an unused credit line fee, which ranges from 25 to 50 basis points. As of March 31, 2019 and 2018, the weighted average interest rate on the Credit Facility was approximately 4.79% and 3.79%, respectively.

The Credit 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 Credit Facility may be declared immediately due and payable. For certain events of default relating to insolvency and receivership, all outstanding obligations become due and payable.

***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 6). 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. As of March 31, 2019 and December 31, 2018, the Company was in compliance with the financial covenants under the Term Loan.

The Term Loan is accelerated and becomes immediately due and payable (and the Term Loan terminates) in the event of a default under the Term Loan which includes, among other things, breach of certain covenants or representations contained in the Term Loan documents, defaults under other loans or obligations, involvement in bankruptcy proceedings or an occurrence of a change of control (as such terms are defined in the Term Loan). The Term Loan Documents also contain negative covenants which, during the life of the Term Loan, prohibit and/or limit the Company from, among other things, incurring certain types of other debt, acquiring other companies, making certain expenditures or investments and changing the character of its business.

As of March 31, 2019 and December 31, 2018, the amount outstanding under the Term Loan was $20.0 million. Borrowings under the Term Loan accrue interest at LIBOR plus 9.00% per annum. As of March 31, 2019, the weighted average interest rate on the Term Loan was approximately 11.5%.

Amortization expense classified as interest expense related to the $1.3 million 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) was $0.4 million for the three months ended March 31, 2019.

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**March 31, 2019**

**Note 6 — Convertible Senior Notes**

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

| | March 31, 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) | $ 113,000 | $ 986 | $ 112,014 | $ 113,000 | $ 1,182 | $ 111,818 |
| 3.25% convertible senior notes (due 2020) * | 30,397 | — | 30,397 | 27,974 | — | 27,974 |
| Total convertible senior notes, net of debt issuance costs | $ 143,397 | $ 986 | $ 142,411 | $ 140,974 | $ 1,182 | $ 139,792 |

* The amount presented for the 3.25% 2020 convertible senior notes within the table represents the fair value as of March 31, 2019 and December 31, 2018 (see Note 16). The principal amount of these notes totals $29.5 million as of March 31, 2019 and December 31, 2018.

Amortization expense classified as interest expense related to debt issuance costs was $0.2 million and $0.2 million for the three months ended March 31, 2019 and 2018, respectively.

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.

In August 2017, the Company agreed with Oasis Management and Oasis Investments II Master Fund Ltd., (collectively, “Oasis”) the holder of approximately $21.5 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.

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**March 31, 2019**

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

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 $2.4 million and $1.0 million for the three months ended March 31, 2019 and 2018, respectively, related to changes in the fair value of the 3.25% 2020 Notes. At March 31, 2019 and December 31, 2018, the 3.25% 2020 Notes had a fair value of approximately $30.4 million and $28.0 million, respectively. The Company evaluated its credit risk as of March 31, 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.

The fair value of the 4.875% convertible senior notes payable due 2020 as of March 31, 2019 and December 31, 2018 was $102.8 million and $93.2 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.

## Note 7 — Income Taxes

The Company's income tax benefit of $0.2 million for the three months ended March 31, 2019 reflects an effective tax rate of 0.8%. The Company's income tax benefit of $2.3 million for the three months ended March 31, 2018 reflects an effective tax rate of 6.1%. The majority of the tax benefit for the three months ended March 31, 2019 and three months ended March 31, 2018, relates to foreign income taxes partially offset by discrete items.

## Note 8 — Loss Per Share

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

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | Loss | Weighted Average Shares | Per-Share | Loss | Weighted Average Shares | Per-Share |
| Loss per share - basic and diluted | | | | | | |
| Net loss available to common stockholders | $ (29,158) | 23,557 | (1.24) | $ (36,244) | 23,100 | (1.57) |

Basic 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. 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 approximately 27,048,339 and 24,917,528 for the three months ended March 31, 2019 and 2018, respectively.

**Note 9 — Common Stock and Preferred 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 years 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. Such shares have not yet been issued due to insufficient shares available in the 2002 Stock Award and Incentive Plan. 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.

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.

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 months ended March 31, 2019 or 2018.

**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 months ended March 31, 2019 and 2018, the Company recognized income from the joint venture of nil and $22,000, respectively.

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

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.

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**March 31, 2019**

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 was $31,000 and $51,000 for the three months ended March 31, 2019 and 2018, respectively.

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 loss from the joint venture for the three months ended March 31, 2019 and 2018 was nil. As of March 31, 2019, Meisheng beneficially owns more than 10% of the Company’s outstanding common stock.

Meisheng also serves as a significant manufacturer of the Company. For the three months ended March 31, 2019 and 2018, the Company made inventory-related payments to Meisheng of approximately $2.2 million and $2.0 million, respectively. As of March 31, 2019 and 2018, amounts due Meisheng for inventory received by the Company, but not paid totaled $0.6 million and $2.0 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 several factors that occurred during the quarters ended March 31, 2019 and March 31, 2018, the Company determined the fair value of its reporting units should be retested for potential impairment. As a result of the retesting performed, no goodwill impairment was determined to have occurred for the three months ended March 31, 2019 and 2018.

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**March 31, 2019**

### 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 March 31, 2019 and December 31, 2018 include the following (in thousands, except for weighted useful lives):

| | | March 31, 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 | $ (19,539) | $ 591 | $ 20,130 | $ (19,383) | $ 747 |
| Product lines | 10.36 | 33,858 | (18,327) | 15,531 | 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 | $ (44,218) | $ 16,122 | $ 60,340 | $ (43,028) | $ 17,312 |
| Unamortized Intangible Assets: | | | | | | | |
| Trademarks | | $ 300 | $ — | $ 300 | $ 300 | $ — | $ 300 |

### Note 13 — Comprehensive Loss

The table below presents the components of the Company's comprehensive loss for the three months ended March 31, 2019 and 2018 (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| **Net Loss** | $ (29,127) | $ (36,193) |
| Other comprehensive income: | | |
| Foreign currency translation adjustment | 1,303 | 1,050 |
| Comprehensive loss | (27,824) | (35,143) |
| Less: Comprehensive income attributable to non-controlling interests | 31 | 51 |
| Comprehensive loss attributable to JAKKS Pacific, Inc. | $ (27,855) | $ (35,194) |

### 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.

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**March 31, 2019**

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 months ended March 31, 2019 and 2018 (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| Share-based compensation expense | $ 618 | $ 674 |

*Restricted Stock Awards*

Restricted stock award activity (including those with performance-based vesting criteria) for the three months ended March 31, 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 | 328,230 | 1.47 |
| Released | (528,348) | 2.81 |
| Forfeited | — | — |
| Outstanding, March 31, 2019 | 2,750,664 | 2.22 |

As of March 31, 2019, there was $2.8 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 2.02 years.

*Restricted Stock Units*

Restricted stock unit activity (including those with performance-based vesting criteria) for the three months ended March 31, 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 | — | — |
| Released | (90,064) | 5.15 |
| Forfeited | (21,217) | 4.53 |
| Outstanding, March 31, 2019 | 940,885 | 3.56 |

As of March 31, 2019, there was $1.5 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 1.60 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.

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

| | Carrying Amount as of March 31, 2019 | Fair Value Measurements As of March 31, 2019 | | |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| 3.25% convertible senior notes due in 2020 | $ 30,397 | $ — | $ — | $ 30,397 |

| | 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 in 2020 | $ 27,974 | $ — | $ — | $ 27,974 |

The following table provides 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):

| | 2019 |
|---|---|
| Balance at January 1, 2019 | $ 27,974 |
| Change in fair value | 2,423 |
| Balance at March 31, 2019 | $ 30,397 |

**Note 17 — Liquidity**

As of March 31, 2019 and December 31, 2018, the Company held cash and cash equivalents, including restricted cash, of $47.4 million and $58.2 million, respectively. Cash, and cash equivalents, including restricted cash held outside of the United States in various foreign subsidiaries totaled $23.9 million and $33.9 million as of March 31, 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 March 31, 2019.The Company’s primary sources of working capital are cash flows from operations and borrowings under its credit facility (see Note 5 - 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 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 with certain mitigating plans described herein. In October 2018, the Company initiated a global restructuring program ("Corporate Restructuring") to adapt the Company's cost structure and overhead to the evolving retail landscape. During the 2019 first quarter, the Company executed two amendments related to its credit facility with Wells Fargo. The first amendment allows the Company to factor its Hong Kong receivables due from a significant customer providing the Company with additional flexibility. The second amendment extends the maturity date of the credit facility from March 27, 2019 to September 27, 2019, which also effectively extends the GACP term loan to September 27, 2019. The Company is currently in the initial phases of negotiations to amend and extend the Wells Fargo credit facility on a longer term basis. The Company is engaged in negotiations with Meisheng regarding its purchase of $50.0 million of sufficient newly issued shares of the Company's common stock such that Meisheng would own 51% of the Company's outstanding shares, and with an ad hoc group of holders (the "Ad Hoc Group") of the Company's June 2020 convertible senior notes (the "Notes") and with Oasis Investments II Master Fund Ltd. ("Oasis"), the holder of the Company's November 2020 convertible senior notes regarding the extension of maturities of the Company's convertible senior notes (together, the "Proposed Meisheng and Recapitalization Transactions"). The Company is currently awaiting the receipt by Meisheng of certain approvals to advance the Proposed Meisheng and Recapitalization Transactions, including approvals from Chinese regulatory bodies. The Company's advisors have also discussed with Wells Fargo, GACP, the Ad Hoc Group and Oasis as well as other third parties a variety of potential alternative transactions, and as of the date hereof, the Company has reached an agreement in principle with the Ad Hoc Group and Oasis with respect to a transaction that contemplates the exchange and extension of the convertible senior notes due 2020 (plus the issuance of significant preferred and common equity to holders of the Notes who participate in the exchange), extension or refinancing of the Company's credit facility, the retirement or refinancing of the Company's term loan, and the provision of incremental liquidity to the Company (the "Alternative Transactions"). No assurance can be given that the Company will be able to consummate an extension of the Company's credit facility on a longer term basis, or that the Company will consummate the Proposed Equity and Recapitalization Transactions or the Alternative Transactions, or that even if any of such transactions are consummated that their final terms will resemble the terms currently contemplated, or 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. In addition, 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. If the Company is unable to amend its credit facility to extend the term on a longer term basis and complete the Proposed Equity and Recapitalization Transactions or the Alternative Transactions, or secure another source of capital on commercially reasonable terms, the Company may be required to take additional measures, such as further reorganizations of the Company cost structure and adjusting inventory purchases and/or payment terms with suppliers, which could have a material adverse impact on the Company's business, results of operations and financial condition.

As of March 31, 2019, off-balance sheet arrangements include letters of credit issued by Wells Fargo of $12.8 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.

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 March 31, 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 5.35%. Rent expense under the Company's leases was approximately $3.4 million and $3.3 million for the three months ended March 31, 2019 and 2018, respectively.

**JAKKS PACIFIC, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**March 31, 2019**

The following table represents a reconciliation of the Company’s undiscounted future minimum lease payments under operating leases to the lease liability as of March 31, 2019 (in thousands):

| | |
|---|---|
| Year ending December 31, | |
| 2019 (excluding the 3 months ended March 31, 2019) | $ 8,029 |
| 2020 | 9,726 |
| 2021 | 9,456 |
| 2022 | 9,493 |
| 2023 | 5,503 |
| Thereafter | 783 |
| Total lease payments | 42,990 |
| Less imputed interest | (4,545) |
| Total | $ 38,445 |

## 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 Condensed 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 $26.0 million as of March 31, 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 March 31, 2019 and December 31, 2018 (in thousands):

| | Carrying Amount as of March 31, 2019 | Fair Value Measurements As of March 31, 2019 | | |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| 3.25% convertible senior notes due in 2020 | $ 30,397 | $ — | $ — | $ 30,397 |

| | 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 in 2020 | $ 27,974 | $ — | $ — | $ 27,974 |

The following table provides 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):

| | 2019 |
|---|---|
| Balance at January 1, 2019 | $ 27,974 |
| Change in fair value | 2,423 |
| Balance at March 31, 2019 | $ 30,397 |

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 approximately $21.5 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 connection with these transactions, we elected the fair value option of measurement for the 3.25% 2020 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 March 31, 2019, and determined that there was no change from December 31, 2018. At March 31, 2019, the 3.25% 2020 Notes had a fair value of $30.4 million.

The fair value of the 4.875% convertible senior notes payable due 2020 as of March 31, 2019 and December 31, 2018 was $102.8 million and $93.2 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 three months ended March 31, 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 several factors that occurred during the quarters ended March 31, 2019 and March 31, 2018, we determined the fair value of our reporting units should be retested for potential impairment. As a result of the retesting performed, no goodwill impairment was determined to have occurred for the three month period ended March 31, 2019 and 2018.Goodwill, Trademarks and Intangible assets (net) amounted to $51.5 million as of March 31, 2019 and $52.7 million as of December 31, 2018.

***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 three months ended March 31, 2019 is $28,000 which is primarily related to excess tax deficiencies fully offset by valuation allowance, foreign return to provision adjustments, state income taxes, and change in uncertain tax positions. For the comparable period in 2018, a discrete tax expense of $97,000 was recorded related to excess tax deficiencies fully offset by valuation allowance and change in uncertain tax positions.

***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 March 31, 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 benefit from income taxes on the Condensed Consolidated Statements of Operations and Comprehensive 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 months ended March 31, 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 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 March 31,** | |
|---|---|---|
| | **2019** | **2018** |
| Net sales | 100.0 % | 100.0 % |
| Cost of sales | 79.8 | 75.3 |
| Gross profit | 20.2 | 24.7 |
| Selling, general and administrative expenses | 49.8 | 63.0 |
| Restructuring charge | 0.3 | — |
| Acquisition related and other | 4.0 | — |
| Loss from operations | (33.9) | (38.3) |
| Income from joint ventures | — | — |
| Other income (expense), net | 0.1 | — |
| Change in fair value of convertible senior notes | (3.4) | (1.1) |
| Interest income | — | — |
| Interest expense | (4.3) | (2.0) |
| Loss before benefit from income taxes | (41.5) | (41.4) |
| Benefit from income taxes | (0.4) | (2.5) |
| Net loss | (41.1) | (38.9) |
| Net income attributable to non-controlling interests | 0.1 | 0.1 |
| Net loss attributable to JAKKS Pacific, Inc. | (41.2)% | (39.0)% |

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| **Net Sales** | | |
| U.S. and Canada | $ 57,433 | $ 70,535 |
| International | 9,753 | 17,299 |
| Halloween | 3,640 | 5,170 |
| | 70,826 | 93,004 |
| **Cost of Sales** | | |
| U.S. and Canada | 44,287 | 51,642 |
| International | 9,012 | 13,825 |
| Halloween | 3,187 | 4,578 |
| | 56,486 | 70,045 |
| **Gross Profit** | | |
| U.S. and Canada | 13,146 | 18,893 |
| International | 741 | 3,474 |
| Halloween | 453 | 592 |
| | $ 14,340 | $ 22,959 |

***Comparison of the Three Months Ended March 31, 2019 and 2018***

Net Sales

*U.S. and Canada.* Net sales of our U.S. and Canada segment were $57.4 million for the three months ended March 31, 2019 compared to $70.5 million for the prior year period, representing a decrease of $13.1 million, or 18.6%. The decrease in net sales was primarily driven by the liquidation of TRU in 2018 with sales declining by approximately $9.5 million in the 2019 first quarter. From a product perspective, the decrease in net sales in the 2019 first quarter compared to the prior year period was primarily due to lower sales of Incredibles 2, Squish-Dee-Lish, and our Maui products, partially offset by higher sales of Fancy Nancy, Godzilla and Harry Potter products, which were not sold in the prior year period.

*International.* Net sales of our International segment were $9.8 million for the three months ended March 31, 2019 compared to $17.3 million for the prior year period, representing a decrease of $7.5 million, or 43.4%. The decrease in net sales was primarily driven by declines in sales of Incredibles 2, Squish-Dee-Lish, and Moana products. These declines were partially offset by an increase in sales of Godzilla, Who's Your Llama, and Harry Potter products, which were not sold in the prior year period.

*Halloween.* Net sales of our Halloween segment were $3.6 million for the three months ended March 31, 2019 compared to $5.2 million for the prior year period, representing a decrease of $1.6 million, or 30.8%. The decrease in net sales was driven by decreases in a variety of products in 2019.

Cost of Sales

*U.S. and Canada.* Cost of sales of our U.S. and Canada segment was $44.3 million, or 77.2% of related net sales for the three months ended March 31, 2019 compared to $51.6 million, or 73.2% of related net sales for the prior year period, representing a decrease of $7.3 million, or 14.1%. The decrease in dollars is due to lower overall sales in 2019. The increase as a percentage of net sales, year over year, is due to a higher average cost of goods sold rate resulting from a shift in product mix and higher excess and obsolescence charges. This increase is partially offset by a lower average royalty rate, due to minimum guarantee shortfalls in 2018.

*International.* Cost of sales of our International segment was $9.0 million, or 91.8% of related net sales for the three months ended March 31, 2019 compared to $13.8 million, or 79.8% of related net sales for the prior year period, representing a decrease of $4.8 million, or 34.8%. The decrease in dollars is due to lower overall sales in 2019. The increase as a percent of net sales is due to a higher average royalty rate due to minimum guarantee shortfalls, and a higher cost of goods sold rate in 2019 due to a change in product mix, as well as higher excess and obsolescence charges.

*Halloween.* Cost of sales of our Halloween segment was $3.2 million, or 88.9% of related net sales for the three months ended March 31, 2019 compared to $4.6 million, or 88.5% of related net sales for the prior year period, representing a decrease in dollars of $1.4 million, or 30.4%. The decrease in dollars is due to lower overall sales in 2019.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $35.3 million for the three months ended March 31, 2019 compared to $58.6 million for the prior year period constituting 49.8% and 63.0% of net sales, respectively. Selling, general and administrative expenses decreased by $23.3 million from the prior year period primarily driven by lower payroll expense due, in part, to a Company-wide restructuring initiative, lower marketing expense, and a bad debt charge of $13.8 million in 2018 due to the Toys "R" Us liquidation.

Restructuring Charge

During the three months ended March 31, 2019, we recognized $0.2 million of restructuring charges as a result of a Company-wide restructuring initiative. The restructuring charges primarily related to employee severance costs.

Acquisition Related and Other

During the three months ended March 31, 2019, we recognized $2.9 million in acquisition related and other charges as a result of our ongoing evaluation and negotiation of a strategic transaction, including Hong Kong Meisheng Cultural Company Limited's expression of interest in acquiring additional shares of our common stock and the refinancing of our convertible senior notes due in 2020.

Interest Expense

Interest expense was $3.0 million for the three months ended March 31, 2019, as compared to $1.9 million in the prior year period. During the three months ended March 31, 2019, we booked interest expense of $1.8 million related to our convertible senior notes due in 2020, and $1.2 million related to our revolving credit and term loan facility. During the three months ended March 31, 2018, we booked interest expense of $1.6 million related to our convertible senior notes payable due in 2018 and 2020 and an immaterial amount related to our revolving credit facility.

Benefit From Income Taxes

Our income tax benefit, which includes federal, state and foreign income taxes and discrete items, was $0.2 million, or an effective tax rate of 0.8%, for the three months ended March 31, 2019. During the comparable period in 2018, our income tax benefit was $2.3 million, or an effective tax rate of 6.1%.

**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 March 31, 2019, we had working capital of $75.2 million, compared to $106.0 million as of December 31, 2018. The decrease was primarily attributable to lower accounts receivable and inventory balances, and change in the accounting treatment for leases, partially offset by a lower accounts payable balance.

Operating activities used net cash of $1.9 million in the three months ended March 31, 2019, as compared to using net cash of $11.4 million in the prior year period. Net cash during the three months ended March 31, 2019 was primarily impacted by a decrease in accounts receivable and inventory, partially offset by a decrease in accounts payable. Net cash during the three months ended March 31, 2018 was primarily impacted by a decrease in accounts receivable, partially offset by an increase in prepaid expenses and other assets, and decreases in accounts payable and accrued expenses. 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 March 31, 2019, these agreements required future aggregate minimum royalty guarantees of $80.6 million, exclusive of $35.5 million in advances already paid. Of this $80.6 million future minimum royalty guarantee, $41.9 million is due over the next twelve months.

Our investing activities used net cash of $2.5 million in the three months ended March 31, 2019, as compared to using net cash of $2.6 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 $7.7 million in the three months ended March 31, 2019, as compared to using net cash $5.1 million in the prior year period primarily consisting of the repayment of credit facility borrowings.

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 March 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. On February 25, 2019, the credit facility was amended to extend the maturity date to September 27, 2019.

The Credit Facility is secured by a security interest in favor of Wells Fargo covering a substantial amount of the consolidated assets and a pledge of the majority of the capital stock of various of our subsidiaries. As of March 31, 2019, there were no outstanding borrowings and the amount of outstanding stand-by letters of credit totaled $12.8 million; the total excess borrowing capacity was $26.4 million. As of December 31, 2018, the amount of outstanding borrowings was $7.5 million and outstanding stand-by letters of credit totaled $12.8 million; the total excess borrowing capacity was $40.7 million.

Our ability to borrow under the Credit Facility is also subject to our 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 Credit Facility is not maintained. As of March 31, 2019, we were in compliance with the financial covenants under the Credit Facility.

We may borrow funds at LIBOR or at a Base Rate, plus applicable margins of 225 basis point spread over LIBOR and 125 basis point spread on Base Rate loans. The Base Rate is the highest of (i) the Federal Funds Rate plus a margin of 0.50%, (ii) the rate last quoted by The Wall Street Journal as the “Prime Rate,” or (iii) the sum of a LIBOR rate plus 1.00%. In addition to standard fees, the Credit Facility has an unused credit line fee, which ranges from 25 to 50 basis points. As of March 31, 2019 and 2018, the weighted average interest rate on the Credit Facility was approximately 4.79% and 3.79%, respectively.

The Credit 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 the obligations of our subsidiaries under the Credit Facility may be declared immediately due and payable. For certain events of default relating to insolvency and receivership, all outstanding obligations become due and payable.

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. 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. As of March 31, 2019, we were in compliance with the financial covenants under the Term Loan.

The Term Loan is accelerated and becomes immediately due and payable (and the Term Loan terminates) in the event of a default under the Term Loan which includes, among other things, breach of certain covenants or representations contained in the Term Loan documents, defaults under other loans or obligations, involvement in bankruptcy proceedings or an occurrence of a change of control (as such terms are defined in the Term Loan). The Term Loan Documents also contain negative covenants which, during the life of the Term Loan, prohibit and/or limit us from, among other things, incurring certain types of other debt, acquiring other companies, making certain expenditures or investments and changing the character of our business.

As of March 31, 2019, the amount outstanding under the Term Loan was $20.0 million. Borrowings under the Term Loan accrue interest at LIBOR plus 9.00% per annum. As of March 31, 2019, the weighted average interest rate on the Term Loan was approximately 11.5%.

Amortization expense classified as interest expense related to the $1.3 million 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) was $0.4 million for the three months ended March 31, 2019.

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. In 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 $21.5 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 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.

As previously announced in the Current Report on Form 8-K dated February 26, 2019, Hong Kong Meisheng Cultural Company Limited ("Meisheng") submitted to our Board of Directors an expression of interest which was subsequently reiterated by Meisheng, regarding a purchase by Meisheng of sufficient newly issued shares of our common stock such that Meisheng would own 51% of our outstanding shares, subject to certain conditions, including optimization of the post-transaction capital structure, the successful resolution of change in control provisions of key licensing agreements, and change in control and extension of maturities of our convertible senior notes and other indebtedness (the "Meisheng Proposal"). The Special Committee of our Board of Directors (the "Special Committee") authorized its advisors, including Bank of America Merrill Lynch ("BAML"), to engage in discussions and negotiations with Meisheng concerning its proposal, and with Oasis Investments II Master Fund Ltd. ("Oasis") and an ad hoc group of holders (the "Ad Hoc Group") of the 4.875% convertible senior notes due 2020 (the "Notes") issued by the us concerning, among other things, the Meisheng Proposal and extension of maturities of our convertible senior notes. Those discussions were summarized in the Current Report on Form 8-K dated February 26, 2019, and we are currently awaiting the receipt by Meisheng of certain approvals to advance the aforementioned transactions, including approvals from Chinese regulatory authorities. As a result, no executed and binding agreements related to these transactions (including any commitment letter, term sheet, or similar agreement) have been reached with Meisheng, any member of the Ad Hoc Group, and any other holders of the Notes or Oasis. No assurance can be given that the ongoing discussions will result in consummation of a transaction with Meisheng, the holders of the Notes or Oasis, or that even if a transaction is consummated that its final terms will resemble the terms described in the Current Report on Form 8-K dated February 26, 2019.

In addition to the evaluation and negotiation of the Meisheng Proposal, the Special Committee authorized its advisors to consider other potential strategic alternatives to the Meisheng Proposal, including the active solicitation of alternative transactions. In that regard, the Special Committee retained Jefferies LLC ("Jefferies"), as of April 8, 2019, and authorized Jefferies to supplement the work conducted by BAML last year, and Jefferies and our legal advisors have engaged in subsequent negotiations with members of the Ad Hoc Group, Oasis, GACP Finance Co., LLC ("GACP") and Wells Fargo Bank, National Association ("Wells Fargo") as well as other third parties regarding a variety of potential transactions. Specifically, through its advisors, we have solicited proposals from Wells Fargo, GACP and other third parties for amendments, extensions or refinancings of the Credit Agreement, Revolving Loan Note, Guaranty and Security Agreement and other ancillary documents and agreements with Wells Fargo (the "Credit Line") and the Term Loan Agreement, Term Note, Guaranty and Security Agreement and other ancillary documents and agreements with GACP (the "Term Loan," and, together with the Credit Line, the "Institutional Debt"), respectively. In addition, our advisors have discussed with the Ad Hoc Group and Oasis the amendment and extension of our convertible senior notes due 2020. Of the entirety of the Notes currently outstanding in the aggregate amount of $113,000,000, the Ad Hoc Group currently holds approximately $92,383,000 of the Notes, and Oasis currently holds $10,250,000 of the Notes.

As of the date hereof, we have reached an agreement in principle with the Ad Hoc Group and Oasis with respect to an alternative transaction, in lieu of the Meisheng Proposal, that contemplates the extension or refinancing of the Credit Line, the retirement or refinancing of the Term Loan, and the provision of incremental liquidity to us. In addition, the alternative transaction contemplates an investment by holders of the Notes to exchange into a new secured debt instrument with an extended maturity date, plus the issuance of significant preferred and common equity to holders of the Notes who participate in the exchange, including the Ad Hoc Group. The foregoing is only a summary of the latest discussions and is not intended to be a complete description of all of the terms and conditions thereof, including the potential significant dilution that could occur as a result of the issuance of new equity contemplated by the alternative transaction. Discussions are ongoing, and while we and the Ad Hoc Group are continuing to negotiate definitive documents, no executed and binding agreements (including any commitment letter, term sheet, or similar agreement) have been reached with Wells Fargo, GACP, any member of the Ad Hoc Group, any other holder of the Notes, or Oasis. No assurance can be given that the ongoing discussions will result in a consummation of a transaction with Wells Fargo, GACP, the Ad Hoc Group, any other holder of the Notes or Oasis, or that even if a transaction is consummated that its final terms will resemble the terms described above.

As of March 31, 2019 and December 31, 2018, we held cash and cash equivalents, including restricted cash, of $47.4 million and $58.2 million, respectively. Cash, and cash equivalents, including restricted cash held outside of the United States in various foreign subsidiaries totaled $23.9 million and $33.9 million as of March 31, 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 March 31, 2019.

Our primary sources of working capital are cash flows from operations and borrowings under our credit facility (see Note 5 - 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 with certain mitigating plans described herein. In October 2018, we initiated a global restructuring program (“Corporate Restructuring”) to adapt our cost structure and overhead to the evolving retail landscape. We believe the Corporate Restructuring will generate savings of between $10.0 million and $15.0 million on an annualized basis. During the 2019 first quarter, we executed two amendments related to our credit facility with Wells Fargo. The first amendment allows us to factor our Hong Kong receivables due from a significant customer providing us with additional flexibility. The second amendment extends the maturity date of the credit facility from March 27, 2019 to September 27, 2019, which also effectively extends the GACP term loan to September 27, 2019. We are currently in the initial phases of negotiations to amend and extend the Wells Fargo credit facility on a longer term basis. As previously announced in the Current Report on Form 8-K dated February 26, 2019, we engaged in extensive negotiations with Meisheng regarding its purchase of $50.0 million of sufficient newly issued shares of our common stock such that Meisheng would own 51% of our outstanding shares, and with an ad hoc group of holders (the “Ad Hoc Group”) of our June 2020 convertible senior notes (the “Notes”) and with Oasis Investments II Master Fund Ltd. ("Oasis"), the holder of our November 2020 convertible senior notes regarding the extension of maturities of our convertible senior notes (together, the “Proposed Meisheng and Recapitalization Transactions”). We are currently awaiting the receipt by Meisheng of certain approvals to advance the Proposed Meisheng and Recapitalization Transactions, including approvals from Chinese regulatory bodies. As disclosed in the Current Report on Form 8-K dated May 9, 2019, our advisors have discussed with Wells Fargo, GACP, the Ad Hoc Group and Oasis as well as other third parties a variety of potential alternative transactions, and as of the date hereof, we have reached an agreement in principle with the Ad Hoc Group and Oasis with respect to a transaction that contemplates the exchange and extension of the convertible senior notes due 2020 (plus the issuance of significant preferred and common equity to holders of the Notes who participate in the exchange), extension or refinancing of our credit facility, the retirement or refinancing of our term loan, and the provision of incremental liquidity to the Company (the “Alternative Transactions”). No assurance can be given that we will be able to consummate an extension of our credit facility on a longer term basis, or that we will consummate the Proposed Equity and Recapitalization Transactions or the Alternative Transactions, or that even if any of such transactions are consummated that their final terms will resemble the terms described in the Current Report on Form 8-K dated February 26, 2019 and the Current Report on Form 8-K dated May 9, 2019, or 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. In addition, 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 and included in “Risk Factors” in Item 1A of this Form 10-K. If we are unable to amend our credit facility to extend the term on a longer term basis and complete the Proposed Equity and Recapitalization Transactions or the Alternative Transactions, or secure another source of capital on commercially reasonable terms, we may be required to take additional measures, such as further reorganizations of our cost structure and adjusting inventory purchases and/or payment terms with suppliers, which could have a material adverse impact on our business, results of operations and financial condition.

As of March 31, 2019, off-balance sheet arrangements include letters of credit issued by Wells Fargo of $12.8 million.

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

### Interest Rate Risk

As of March 31, 2019, we have outstanding convertible senior notes payable of $113.0 million principal amount due June 2020 with a fixed interest rate of 4.875% per annum, and $29.5 million principal amount due November 2020 with a fixed interest rate of 3.25% per annum if paid in cash. As the interest rates on the notes 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 and term loan facility (see Note 5 - Credit Facilities in the accompanying notes to the condensed consolidated financial statements for additional information). Borrowings under the revolving credit facility bear interest at a variable rate based on Base Rate or LIBOR Rate at the option of the Company. For Base Rate loans, the interest rate is equal to a margin of 1.25% plus the highest of (i) the Federal Funds Rate plus a margin of 0.50%, (ii) the rate last quoted by The Wall Street Journal as the “Prime Rate,” or (iii) the sum of a LIBOR rate plus 1.00%. For LIBOR rate loans, the interest rate is equal to a LIBOR rate plus a margin of 2.25%. Borrowings under the term loan facility bear interest at LIBOR plus 9% per annum. Borrowings under the revolving credit facility and term loan 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 three months ended March 31, 2019, the maximum amount borrowed under the revolving credit facility was $7.5 million and the average amount of borrowings outstanding was $3.3 million. As of March 31, 2019, the amount of total borrowings outstanding under the revolving credit facility and term loan was nil and $20.0 million. If the prevailing market interest rates relative to these borrowings increased by 10%, our interest expense during the period ended March 31, 2019 would have increased by less than $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. 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 first 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) |
| 3.2 | Amended and Restated By-Laws of the Company (2) |
| 10.1 | Correction Letter dated February 28, 2019 with respect to Mr. Novak’s Employment Agreement (3) |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer (4) |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer (4) |
| 32.1 | Section 1350 Certification of Chief Executive Officer (4) |
| 32.2 | Section 1350 Certification of Chief Financial Officer (4) |
| 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 |

(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 October 21, 2011 and incorporated herein by reference.

(3) Filed previously as an exhibit to the Company's Annual Report on Form 10-K filed March 18, 2019 and incorporated herein by reference.

(4) 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: May 9, 2019 | By: | /s/ Brent Novak |
| | | Brent Novak |
| | | Executive Vice President and Chief Financial Officer |
| | | (Duly Authorized Officer and Principal Financial Officer) |

Table of Contents

**Exhibit Index**

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(4) 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: May 9, 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: May 9, 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 three months ended March 31, 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: May 9, 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 three months ended March 31, 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: May 9, 2019