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, 2023

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 9,870,927 as of May 10, 2023.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
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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, 2023	December 31, 2022
	(Unaudited)	
Current assets		
Cash and cash equivalents	$ 38,103	$ 85,297
Restricted cash	198	193
Accounts receivable, net of allowances for credit losses of $3,226 and $2,865 at March 31, 2023 and December 31, 2022, respectively	85,171	102,771
Inventory	63,988	80,619
Prepaid expenses and other assets	12,849	6,331
Total current assets	200,309	275,211
Property and equipment		
Office furniture and equipment	10,077	10,064
Molds and tooling	114,098	113,714
Leasehold improvements	6,493	6,659
Total	130,668	130,437
Less accumulated depreciation and amortization	114,499	115,575
Property and equipment, net	16,169	14,862
Operating lease right-of-use assets, net	17,634	19,913
Other long-term assets	2,387	2,469
Deferred income tax assets, net	57,804	57,804
Goodwill	35,083	35,083
Total assets	$ 329,386	$ 405,342
Liabilities, Preferred Stock and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 27,714	$ 33,687
Accounts payable – Meisheng (related party)	8,024	9,820
Accrued expenses	27,006	37,998
Reserve for sales returns and allowances	41,064	51,877
Income taxes payable	6,241	8,165
Short term operating lease liabilities	10,009	10,746
Short term debt, net	2,475	25,529
Total current liabilities	122,533	177,822
Long term operating lease liabilities	8,095	9,863
Debt, non-current portion, net of issuance costs and debt discounts	26,969	41,622
Preferred stock derivative liability	21,771	21,918
Income taxes payable	2,941	2,929
Total liabilities	182,309	254,154
Preferred stock accrued dividends, $0.001 par value; 5,000,000 shares authorized; 200,000 shares issued and outstanding at March 31, 2023 and December 31, 2022	4,857	4,490
Stockholders' Equity		
Common stock, $0.001 par value; 100,000,000 shares authorized; 9,870,927 and 9,742,236 shares issued and outstanding at March 31, 2023 and December 31, 2022, respectively	10	10
Additional paid-in capital	275,695	275,187
Accumulated deficit	(117,331)	(112,018)
Accumulated other comprehensive loss	(17,150)	(17,482)
Total JAKKS Pacific, Inc. stockholders' equity	141,224	145,697
Non-controlling interests	996	1,001
Total stockholders' equity	142,220	146,698
Total liabilities, preferred stock and stockholders' equity	$ 329,386	$ 405,342

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)	
	2023	**2022**
Net sales	$ 107,484	$ 120,881
Cost of sales:		
Cost of goods	58,304	72,058
Royalty expense	16,654	17,690
Amortization of tools and molds	1,089	1,216
Cost of sales	76,047	90,964
Gross profit	31,437	29,917
Direct selling expenses	7,741	4,902
General and administrative expenses	27,994	25,153
Depreciation and amortization	102	596
Selling, general and administrative expenses	35,837	30,651
Loss from operations	(4,400)	(734)
Other income (expense), net	438	86
Change in fair value of preferred stock derivative liability	147	(645)
Interest income	117	3
Interest expense	(3,003)	(2,202)
Loss before provision for (benefit from) income taxes	(6,701)	(3,492)
Provision for (benefit from) income taxes	(1,383)	417
Net loss	(5,318)	(3,909)
Net loss attributable to non-controlling interests	(5)	(100)
Net loss attributable to JAKKS Pacific, Inc.	$ (5,313)	$ (3,809)
Net loss attributable to common stockholders	$ (5,680)	$ (4,155)
Loss per share - basic and diluted	$ (0.58)	$ (0.43)
Shares used in loss per share - basic and diluted	9,871	9,588
Comprehensive loss	$ (4,986)	$ (4,571)
Comprehensive loss attributable to JAKKS Pacific, Inc.	$ (4,981)	$ (4,471)

See accompanying notes to condensed consolidated financial statements.

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

Three Months Ended March 31, 2023
(Unaudited)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	JAKKS Pacific, Inc. Stockholders' Equity (Deficit)	Non-Controlling Interests	Total Stockholders' Equity
Balance, December 31, 2022	$ 10	$ 275,187	$ (112,018)	$ (17,482)	$ 145,697	$ 1,001	$ 146,698
Share-based compensation expense	—	2,089	—	—	2,089	—	2,089
Repurchase of common stock for employee tax withholding	—	(1,214)	—	—	(1,214)	—	(1,214)
Preferred stock accrued dividends	—	(367)	—	—	(367)	—	(367)
Net loss	—	—	(5,313)	—	(5,313)	(5)	(5,318)
Foreign currency translation adjustment	—	—	—	332	332	—	332
Balance, March 31, 2023	$ 10	$ 275,695	$ (117,331)	$ (17,150)	$ 141,224	$ 996	$ 142,220

Three Months Ended March 31, 2022
(Unaudited)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	JAKKS Pacific, Inc. Stockholders' Equity (Deficit)	Non-Controlling Interests	Total Stockholders' Equity
Balance, December 31, 2021	$ 10	$ 272,941	$ (203,431)	$ (12,952)	$ 56,568	$ 1,331	$ 57,899
Share-based compensation expense	—	870	—	—	870	—	870
Repurchase of common stock for employee tax withholding	—	(644)	—	—	(644)	—	(644)
Preferred stock accrued dividends	—	(346)	—	—	(346)	—	(346)
Net loss	—	—	(3,809)	—	(3,809)	(100)	(3,909)
Foreign currency translation adjustment	—	—	—	(662)	(662)	—	(662)
Balance, March 31, 2022	$ 10	$ 272,821	$ (207,240)	$ (13,614)	$ 51,977	$ 1,231	$ 53,208

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)	
	2023	**2022**
Cash flows from operating activities		
Net loss	$ (5,318)	$ (3,909)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for (recovery of) credit losses	380	(39)
Depreciation and amortization	1,191	1,812
Write-off and amortization of debt discount	692	94
Write-off and amortization of debt issuance costs	399	123
Share-based compensation expense	2,089	870
Gain on disposal of property and equipment	(18)	—
Change in fair value of preferred stock derivative liability	(147)	645
Changes in operating assets and liabilities:		
Accounts receivable	17,220	43,703
Inventory	16,631	(1,352)
Prepaid expenses and other assets	(6,515)	(6,540)
Accounts payable	(4,704)	(14,328)
Accounts payable - Meisheng (related party)	(2,073)	(389)
Accrued expenses	(10,992)	(16,475)
Reserve for sales returns and allowances	(10,813)	(6,910)
Income taxes payable	(1,912)	201
Other liabilities	(226)	(242)
Total adjustments	1,202	1,173
Net cash used in operating activities	(4,116)	(2,736)
Cash flows from investing activities		
Purchases of property and equipment	(3,490)	(1,817)
Proceeds from sale of property and equipment	18	—
Net cash used in investing activities	(3,472)	(1,817)
Cash flows from financing activities		
Repurchase of common stock for employee tax withholding	(1,214)	(644)
Repayment of credit facility borrowings	—	(13,000)
Proceeds from credit facility borrowings	—	13,000
Repayment of 2021 BSP Term Loan	(38,719)	(248)
Net cash used in financing activities	(39,933)	(892)
Net decrease in cash, cash equivalents and restricted cash	(47,521)	(5,445)
Effect of foreign currency translation	332	(662)
Cash, cash equivalents and restricted cash, beginning of period	85,490	45,332
Cash, cash equivalents and restricted cash, end of period	$ 38,301	$ 39,225
Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net	$ 550	$ 220
Cash paid for interest	$ 1,906	$ 1,967

As of March 31, 2023 and 2022, there was $2.6 million and $3.3 million, respectively, of property and equipment purchases 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, 2023

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 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, 2022.

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 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.

In June 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” which require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The new standard was initially effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. In November 2019, the FASB issued ASU 2019-10 which deferred the effective date of ASU 2016-13 by three years for Smaller Reporting Companies. As a result, the effective date for the standard is fiscal years beginning after December 15, 2022, and interim periods therein, and early adoption is permitted. The Company adopted ASU 2016-13 and its related amendments on January 1, 2023. The adoption of this new accounting standard did not have a material impact on the Company’s condensed consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” In January 2021, the FASB issued ASU 2021-01, “Reference Rate Reform (Topic 848): Scope.” The ASUs provide temporary optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions, for a limited period of time, to ease the potential burden of recognizing the effects of reference rate reform on financial reporting. The amendments in ASU 2020-04 apply to contracts, hedging relationships and other transactions that reference the London Inter-Bank Offered Rate ("LIBOR") or another reference rate expected to be discontinued due to the global transition away from LIBOR and certain other interbank offered rates. In December 2022, the FASB issued ASU 2022-06 which extended the effective date of the new standard to fiscal years beginning after December 15, 2024, including interim periods within those fiscal years, with early adoption permitted. In Q1 2023, the Company entered into amendments to its 2021 BSP Term Loan Agreement and its JPMorgan ABL Credit Agreement, which transitioned the interest reference rate on its term loan and revolving line of credit from LIBOR to the Secured Overnight Financing Rate (“SOFR”) (See Note 5 – Debt and Note 6 – Credit Facilities). The Company is currently evaluating the impact that the adoption of this new guidance will have on its condensed consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, “Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity.” The new guidance eliminates two of the three models in ASC 470-20, which required entities to account for beneficial conversion features and cash conversion features in equity, separately from the host convertible debt or preferred stock. As a result, only conversion features accounted for under the substantial premium model in ASC 470-20 and those that require bifurcation in accordance with ASC 815-15 will be accounted for separately. In addition, the amendments in ASU 2020-06 eliminate some of the requirements in ASC 815-40 related to equity classification. The amendments in ASU 2020-06 further revised the guidance in ASC 260, Earnings Per Share (“EPS”), to address how convertible instruments are accounted for in calculating diluted EPS, and require enhanced disclosures about the terms of convertible instruments and contracts in an entity’s own equity. The new standard is effective for the Company for fiscal years beginning after December 15, 2023, including interim periods within these fiscal years, with early adoption permitted. The Company is currently evaluating the impact that the adoption of this new guidance will have on its condensed consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
March 31, 2023

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's segments are (i) Toys/Consumer Products and (ii) Costumes.

The Toys/Consumer Products segment includes action figures, vehicles, play sets, plush products, dolls, electronic products, construction toys, infant and pre-school toys, child-sized and hand-held role play toys 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.

The Costumes segment, under its Disguise branding, designs, develops, markets and sells a wide range of every-day and special occasion dress-up costumes and related accessories in support of Halloween, Carnival, Children's Day, Book Day/Week, and every-day/any-day costume play.

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 segments based upon relative sales volumes. Segment assets are primarily comprised of accounts receivable and inventories, net of applicable reserves and allowances, goodwill and other assets. Certain assets which are not tracked by operating segment and/or that benefit multiple operating segments have been allocated on the same basis.

Results are not necessarily those which would be achieved if each segment was an unaffiliated business enterprise. Information by segment and a reconciliation to reported amounts for the three months ended March 31, 2023 and 2022 and as of March 31, 2023 and December 31, 2022 are as follows (in thousands):

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	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Net Sales		
Toys/Consumer Products	$ 97,893	$ 111,123
Costumes	9,591	9,758
	$ 107,484	$ 120,881

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Income (Loss) from Operations		
Toys/Consumer Products	$ (1,161)	$ 2,007
Costumes	(3,239)	(2,741)
	$ (4,400)	$ (734)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Depreciation and Amortization Expense		
Toys/Consumer Products	$ 1,160	$ 1,725
Costumes	31	87
	$ 1,191	$ 1,812

	March 31, 2023	December 31, 2022
Assets		
Toys/Consumer Products	$ 298,215	$ 377,605
Costumes	31,171	27,737
	$ 329,386	$ 405,342

Net revenues are categorized based upon location of the customer, while long-lived assets are categorized based upon the location of the Company’s assets. The following tables present information about the Company by geographic area as of March 31, 2023 and December 31, 2022 and for the three months ended March 31, 2023 and 2022 (in thousands):

	March 31, 2023	December 31, 2022
Long-lived Assets		
China	$ 15,608	$ 14,161
United States	15,224	17,383
Hong Kong	1,931	2,142
United Kingdom	936	974
Mexico	64	69
Canada	40	46
	$ 33,803	$ 34,775

	Three Months Ended March 31,	
	2023	2022
Net Sales by Customer Area		
United States	$ 80,443	$ 97,050
Europe	10,162	13,389
Latin America	9,204	2,385
Canada	4,054	3,379
Australia & New Zealand	1,608	1,491
Asia	1,380	2,076
Middle East & Africa	633	1,111
	$ 107,484	$ 120,881

Major Customers

Net sales to major customers for the three months ended March 31, 2023 and 2022 were as follows (in thousands, except for percentages):

	Three Months Ended March 31,			
	2023		2022	
	Amount	Percentage of Net Sales	Amount	Percentage of Net Sales
Target	$ 29,404	27.4%	$ 35,670	29.5%
Wal-Mart	23,283	21.7	23,020	19.0
Amazon	6,601	6.1	14,016	11.6
	$ 59,288	55.2%	$ 72,706	60.1%

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

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.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
March 31, 2023

Note 3 — Inventory

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

	March 31, 2023	December 31, 2022
Raw materials	$ 55	$ 69
Finished goods	63,933	80,550
	$ 63,988	$ 80,619

As of March 31, 2023 and December 31, 2022, the inventory obsolescence reserve was $9.8 million and $9.0 million, respectively.

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: Toys/Consumer Products and Costumes. The Company further disaggregates revenues by major geographic regions (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. 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. To the extent these cooperative advertising arrangements provide a distinct benefit at fair value, they are accounted for as direct selling expenses, otherwise they are recorded as a reduction to revenue. 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.

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. For the three months ended March 31, 2023 and 2022, shipping and handling costs were $1.9 million and $1.5 million, respectively.

The Company's reserve for sales returns and allowances amounted to $41.1 million as of March 31, 2023, compared to $51.9 million as of December 31, 2022.

Note 5 — Debt

Term Loan

Term loan consists of the following (in thousands):

	March 31, 2023			December 31, 2022		
	Principal Amount	Debt Discount/ Issuance Costs*	Net Amount	Principal Amount	Debt Discount/ Issuance Costs*	Net Amount
2021 BSP Term Loan	$ 30,183	$ (739)	$ 29,444	$ 68,901	$ (1,750)	$ 67,151

* The term loan was valued using the discounted cash flow method to determine the implied debt discount. The debt discount and issuance costs are amortized over the life of the term loan on a straight-line basis which approximates the effective interest method.

On June 2, 2021, the Company and certain of its subsidiaries, as borrowers, entered into a First Lien Term Loan Facility Credit Agreement (the "2021 BSP Term Loan Agreement") with Benefit Street Partners L.L.C., as Sole Lead Arranger, and BSP Agency, LLC, as agent, for a $99.0 million first-lien secured term loan (the "Initial Term Loan") and a $19.0 million delayed draw term loan (the "Delayed Draw Term Loan" and collectively, the "2021 BSP Term Loan"). Net proceeds from the issuance of the 2021 BSP Term Loan, after deduction of $2.2 million in closing fees and $0.5 million of other administrative fees paid directly to the lenders, totaled $96.3 million. These fees are amortized over the life of the 2021 BSP Term Loan on a straight-line basis which approximates the effective interest method. Proceeds from the Initial Term Loan, together with available cash from the Company, were used to repay the Company's former term loan (the "2019 Recap Term Loan" formerly known as the "New Term Loan" in prior filings) under the agreement dated as of August 9, 2019 with Cortland Capital Market Services LLC, as agent for certain investor parties. The Delayed Draw Term Loan provision was designed to provide necessary capital to redeem any of the Company's outstanding 3.25% convertible senior notes due 2023, upon their maturity, which, upon repayment of the 2019 Recap Term Loan, accelerated to no later than 91 days from the repayment of the 2019 Recap Term Loan, or September 1, 2021. On July 29, 2021, the Company terminated its Delayed Draw Term Loan option as it determined it had sufficient liquidity to fund any outstanding convertible senior notes that remained upon maturity.

Amounts outstanding under the 2021 BSP Term Loan bear interest at either (i) LIBOR plus 6.50% - 7.00% (determined by reference to a net leverage pricing grid), subject to a 1.00% LIBOR floor, or (ii) base rate plus 5.50% - 6.00% (determined by reference to a net leverage pricing grid), subject to a 2.00% base rate floor. The 2021 BSP Term Loan matures in June 2027.

In January 2023, the Company entered into a second amendment for its 2021 BSP Term Loan Agreement, which transitioned the interest reference rate on its 2021 BSP Term Loan from LIBOR to the Secured Overnight Financing Rate ("SOFR"). The new interest reference rate for the 2021 BSP Term Loan will be effective on April 1, 2023. In addition to the transition to SOFR, the amendment also includes a constant 0.10% spread adjustment until the maturity of the 2021 BSP Term Loan.

The 2021 BSP Term Loan Agreement contains negative covenants that, subject to certain exceptions, limit the ability of the Company and its subsidiaries to, among other things, incur additional indebtedness, make restricted payments, pledge its assets as security, make investments, loans, advances, guarantees and acquisitions, undergo fundamental changes and enter into transactions with affiliates. Commencing with the fiscal quarter ending June 30, 2021, the Company is required to maintain a Net Leverage Ratio of 4:00x, with step-downs occurring each fiscal year starting with the quarter ending March 31, 2022 through the quarter ending September 30, 2024 in which the Company is required to maintain a Net Leverage Ratio of 3:00x. On April 26, 2022, the Company entered into a First Amendment to the 2021 BSP Term Loan Agreement, to provide, among other things, that the Company must maintain Qualified Cash of at least: (a) at all times after the Closing Date and prior to the First Amendment Effective Date, April 26, 2022, $20.0 million; (b) at all times during the period commencing on the First Amendment Effective Date through and including June 30, 2022, $15.0 million; and (c) at all times on and after July 1, 2022, through September 30, 2022, $17.5 million; provided, however, that if the Total Net Leverage Ratio exceeded 1.75:1.00 as of the last day of the most recently ended month for which financial statements were required to have been delivered, then the amount set forth in this clause shall be increased to $20.0 million. Notwithstanding the foregoing, the Applicable Minimum Cash Amount shall be reduced by $1.0 million for every $5.0 million principal prepayment or repayment of the Term Loans following the First Amendment Effective Date; provided however, that, the Applicable Minimum Cash Amount shall in no event be reduced below $15.0 million.

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On June 27, 2022, as permitted by the terms within the 2021 BSP Term Loan Agreement, the Company made a voluntary fee-free $10.0 million prepayment towards the outstanding principal amount of the 2021 BSP Term Loan.

On September 28, 2022, as permitted by the terms within the 2021 BSP Term Loan Agreement, the Company made a voluntary $17.5 million prepayment towards the outstanding principal amount of the 2021 BSP Term Loan and incurred a $0.5 million prepayment penalty.

On January 3, 2023, as permitted by the terms within the 2021 BSP Term Loan Agreement, the Company made a voluntary $15.0 million prepayment towards the outstanding principal amount of the 2021 BSP Term Loan and incurred a $0.2 million prepayment penalty.

On March 3, 2023, as required by the terms within the 2021 BSP Term Loan Agreement under the Excess Cash Flow (“ECF”) Sweep provision, the Company made a mandatory $23.1 million payment towards the outstanding principal amount of the 2021 BSP Term Loan.

The 2021 BSP Term Loan Agreement contains events of default that are customary for a facility of this nature, including (subject in certain cases to grace periods and thresholds) nonpayment of principal, nonpayment of interest, fees or other amounts, material inaccuracy of representations and warranties, violation of covenants, cross-default to certain other existing indebtedness, bankruptcy or insolvency events, certain judgment defaults and a change of control as specified in the 2021 BSP Term Loan Agreement. If an event of default occurs, the maturity of the amounts owed under the 2021 BSP Term Loan Agreement may be accelerated.

The obligations under the 2021 BSP Term Loan Agreement are guaranteed by the Company, the subsidiary borrowers thereunder and certain of the other existing and future direct and indirect subsidiaries of the Company and are secured by substantially all of the assets of the Company, the subsidiary borrowers thereunder and such other subsidiary guarantors, in each case, subject to certain exceptions and permitted liens and subject to the priority lien granted under the JPMorgan ABL Credit Agreement (see Note 6 – Credit Facility).

The agent and Sole Lead Arranger under the 2021 BSP Term Loan are affiliates of an affiliate of the Company, which affiliate, at the time of refinancing, owned common stock, and the 3.25% convertible senior notes due 2023 of the Company as well as the Company’s outstanding Series A Preferred Stock.

Amortization expense classified as interest expense related to the $0.3 million of debt issuance costs associated with the issuance of the 2021 BSP Term Loan was $26,784 for the three months ended March 31, 2023, and $43,584 for the three months ended March 31, 2022.

Amortization expense classified as interest expense related to the $0.7 million debt discount associated with the issuance of the 2021 BSP Term Loan was $57,867 for the three months ended March 31, 2023, and $94,164 for the three months ended March 31, 2022.

The fair value of the Company’s 2021 BSP Term Loan is considered Level 3 fair value (see Note 15 – Fair Value Measurements for further discussion of the fair value hierarchy) and are measured using the discounted future cash flow method. In addition to the debt terms, the valuation methodology includes an assumption of a discount rate that approximates the current yield on a debt security with comparable risk. This assumption is considered an unobservable input in that it reflects the Company’s own assumptions about the inputs that market participants would use in pricing the asset or liability. The Company believes that this is the best information available for use in the fair value measurement. The estimated fair value of the 2021 BSP Term Loan was $31.0 million and $69.3 million as of March 31, 2023 and December 31, 2022, respectively, compared to a carrying value of $30.2 million and $68.9 million as of March 31, 2023 and December 31, 2022, respectively.

As of March 31, 2023, the Company was in compliance with the financial covenants under the 2021 BSP Term Loan Agreement.

Note 6 — Credit Facilities

JPMorgan Chase

On June 2, 2021, the Company and certain of its subsidiaries, as borrowers, entered into a Credit Agreement (the “JPMorgan ABL Credit Agreement”), with JPMorgan Chase Bank, N.A., as agent and lender for a $67,500,000 senior secured revolving credit facility (the “JPMorgan ABL Facility”). The JPMorgan ABL Credit Agreement replaced the Company’s existing asset-based revolving credit agreement, dated as of March 27, 2014 (the “Wells Fargo ABL Facility,” formerly known as the “Amended ABL Facility” in prior filings), with General Electric Capital Corporation, since assigned to Wells Fargo Bank, National Association. The Company pays a commitment fee (0.25% - 0.375%) based on the unused portion of the revolving credit facility. Any amounts borrowed under the JPMorgan ABL Facility will bear interest at either (i) LIBOR plus 1.50% - 2.00% (determined by reference to an excess availability pricing grid) or (ii) Alternate Base Rate plus 0.50% - 1.00% (determined by reference to an excess availability pricing grid and base rate subject to a 1.00% floor). The JPMorgan ABL Facility matures in June 2026. As of March 31, 2023, the weighted average interest rate on the credit facility with JPMorgan Chase Bank was nil.

In March 2023, the Company entered into a first amendment for its JPMorgan ABL Credit Agreement, which transitioned the interest reference rate on its JPMorgan ABL Facility from LIBOR to the Secured Overnight Financing Rate (“SOFR”). The new interest reference rate for the ABL Facility became effective on March 16, 2023. Any amounts borrowed under the JPMorgan ABL Facility will bear interest at either (i) SOFR plus 1.50% - 2.00% (determined by reference to an excess availability pricing grid) plus a constant 0.10% spread adjustment or (ii) Alternate Base Rate plus 0.50% - 1.00% (determined by reference to an excess availability pricing grid and base rate subject to a 1.00% floor).

The JPMorgan ABL Credit Agreement contains negative covenants that, subject to certain exceptions, limit the ability of the Company and its subsidiaries to, among other things, incur additional indebtedness, make restricted payments, pledge their assets as security, make investments, loans, advances, guarantees and acquisitions, undergo fundamental changes and enter into transactions with affiliates. Under certain circumstances the Company is also subject to a springing fixed charge coverage ratio covenant of not less than 1.1 to 1.0, as described in more detail in the JPMorgan ABL Credit Agreement.

The JPMorgan ABL Credit Agreement contains events of default that are customary for a facility of this nature, including (subject in certain cases to grace periods and thresholds) nonpayment of principal, interest, fees or other amounts, material inaccuracy of representations and warranties, violation of covenants, cross-default to certain other existing indebtedness, bankruptcy or insolvency events, certain judgment defaults, loss of liens or guarantees and a change of control as specified in the JPMorgan ABL Credit Agreement. If an event of default occurs, the commitments of the lenders to lend under the JPMorgan ABL Credit Agreement may be terminated and the maturity of the amounts owed may be accelerated.

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

As of March 31, 2023, the amount of outstanding borrowings was nil and the total excess borrowing availability was $41.4 million.

As of March 31, 2023, off-balance sheet arrangements include letters of credit issued by JPMorgan of $17.2 million.

Amortization expense classified as interest expense related to the $1.6 million of debt issuance costs associated with the transaction that closed on June 2, 2021 (i.e., JPMorgan ABL Credit Agreement) was $0.1 million for the three months ended March 31, 2023 and March 31, 2022.

As of March 31, 2023, the Company was in compliance with the financial covenants under the JPMorgan ABL Credit Agreement.

Note 7 — Income Taxes

The Company's income tax benefit of $1.4 million for the three months ended March 31, 2023, reflects an effective tax rate of 20.6%. The Company's income tax expense of $0.4 million for the three months ended March 31, 2022, reflects an effective tax rate of (11.9)%. The tax benefit for the three months ended March 31, 2023, primarily relates to discrete items and the tax benefit related to the overall worldwide loss (i.e. federal, state, and foreign). The tax expense for the three months ended March 31, 2022 primarily relates to foreign income taxes and 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,	
Loss per share - basic and diluted	**2023**	**2022**
Net loss	$ (5,318)	$ (3,909)
Net loss attributable to non-controlling interests	(5)	(100)
Net loss attributable to JAKKS Pacific, Inc.	(5,313)	(3,809)
Preferred stock dividend *	367	346
Net loss attributable to common stockholders **	$ (5,680)	$ (4,155)
Weighted average common shares outstanding - basic and diluted	9,871	9,588
Loss per share available to common stockholder - basic and diluted	$ (0.58)	$ (0.43)

* The 200,000 shares issued and outstanding are non-participating.

** Net loss attributable to common stockholders was computed by deducting preferred dividends of $0.4 million and $0.3 million for the three months ended March 31, 2023 and 2022, respectively.

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated using the weighted average number of common shares and common share equivalents outstanding during the period (which consist of restricted stock units to the extent they are dilutive). Potentially dilutive restricted stock units of 494,106 and 310,907 for the three months ended March 31, 2023 and 2022, respectively, were excluded from the computation of diluted loss per share since they would have been anti-dilutive.

Note 9 — Common Stock and Preferred Stock

Common Stock

All issuances of common stock, including those issued pursuant to restricted stock or unit grants, are issued from the Company's authorized but not issued and outstanding shares.

During 2022, certain employees, including two executive officers, surrendered an aggregate of 113,162 shares of restricted stock units for $1.4 million to cover income taxes due on the vesting of restricted shares. Additionally, an aggregate of 149,238 shares of restricted stock granted in 2019 with a value of approximately $2.2 million was forfeited during 2022.

During 2023, certain employees, including two executive officers, surrendered an aggregate of 69,358 shares of restricted stock for $1.2 million to cover income taxes due on the vesting of restricted shares. Additionally, an aggregate of 2,206 shares of restricted stock granted in 2019 with the value of approximately $41,000 was forfeited during 2023.

No dividend was declared or paid in the three months ended March 31, 2023 and 2022.

At the Market Offering

On July 1, 2022, the Company entered into an At the Market Issuance Sales Agreement ("ATM Agreement") with B. Riley, as agent pursuant to which the Company may, from time to time, sell shares of its common stock, up to $75 million of common stock, in one or more offerings in amounts, prices and at terms that the Company will determine at the time of the offering.

As of March 31, 2023, the Company has not sold any shares of common stock under the ATM Agreement.

The Company has on file with the SEC an effective registration statement pursuant to which it may issue, from time to time, up to an additional $75 million of securities consisting of, or any combination of, common stock, preferred stock, debt securities, warrants, rights and/or units, in one or more offerings in amounts, prices and at terms that the Company will determine at the time of the offering.

As of March 31, 2023, the Company has not sold any securities pursuant to its shelf registration statement.

Redeemable Preferred Stock

On August 9, 2019, the Company entered into and consummated multiple, binding definitive agreements (collectively, the "Recapitalization Transaction") among various investor parties to recapitalize the Company's balance sheet. In connection with the Recapitalization Transaction, the Company issued 200,000 shares of Series A Senior Preferred Stock (the "Series A Preferred Stock"), $0.001 par value per share, to the Investor Parties (the "New Preferred Equity"). As of March 31, 2023 and December 31, 2022, 200,000 shares of Series A Preferred Stock were outstanding.

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

The Series A Preferred Stock has the right to receive dividends on a quarterly basis equal to 6.0% per annum, payable in cash or, if not paid in cash, by an automatic accretion of the Series A Preferred Stock. No cash dividends have been declared or paid. For the three months ended March 31, 2023 and 2022, the Company recorded $0.4 million and $0.3 million, respectively, of preferred stock dividends as an increase in the value of the Series A Preferred Stock.

The Series A Preferred Stock has no stated maturity, however, the Company has the right to redeem all or a portion of the Series A Preferred Stock at its Liquidation Preference (as defined below) at any time after payment in full of the 2019 Recap Term Loan. In addition, upon the occurrence of certain change of control type events, holders of the Series A Preferred Stock are entitled to receive an amount (the "Liquidation Preference"), in preference to holders of Common Stock or other junior stock, equal to (i) 20% of the Accreted Value in the case of a certain specified transaction, or (ii) otherwise, 150% of the Accreted value, plus any accrued and unpaid dividends.

The Company has the right, but is not required, to repurchase all or a portion of the Series A Preferred Stock at its Liquidation Preference at any time after payment in full of the 2019 Recap Term Loan. The Series A Preferred Stock does not have any voting rights, except to the extent required by the Delaware General Corporation Law, except for the exclusive right to elect the Series A Preferred Directors (as described below) and except for certain approval rights over certain transactions (as described below). These approval rights require the prior consent of specified percentages of holders (or in certain cases, all holders) of the Series A Preferred Stock in order for the Company to take certain actions, including the issuance of additional shares of Series A Preferred Stock or parity stock, the issuance of senior stock, certain amendments to the Amended and Restated Certificate of Incorporation, the Certificate of Designations of the Series A Preferred Stock (the "Certificate of Designations"), the Second Amended and Restated By-laws or the Amended and Restated Nominating and Corporate Governance Committee Charter, material changes in the Company's line of business and certain change of control type transactions. In addition, the Certificate of Designations provides that the approval of at least six directors is required for any related person transaction within the meaning of Item 404 of Regulation S-K under the Securities Act of 1933, as amended, including, without limitation, the adoption of, or any amendment, modification or waiver of, any agreement or arrangement related to any such transaction. The Certificate of Designations also includes restrictions on the ability of the Company to pay dividends on or make distributions with respect to, or redeem or repurchase, shares of Common Stock or other junior stock. In addition, holders of the Series A Preferred Stock have preemptive rights regarding future issuance of Series A Preferred Stock or parity stock. In 2022, an agreement was reached with the preferred shareholders to eliminate their ability to elect members to the Company's Board of Directors on a going-forward basis.

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

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

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

The Company considers the repurchase option to have no value as the likelihood is remote that this event, within the Company’s control, would ever occur. The liability is accounted for at fair value, with changes in fair value recognized as other income (expense) on the Company's condensed consolidated statements of operations (see Note 15 – Fair Value Measurement). The value of the redemption provision explicitly considered the present value of the potential premium that would be paid related to, and the probability of, an event that would trigger its payment. The probability of a triggering event was based on management’s estimates of the probability of a change of control event occurring.

Accordingly, these two embedded derivatives are accounted for separately from the Series A Preferred Stock at fair value.

As of March 31, 2023, the Series A Preferred Stock is recorded in temporary equity at the amount of accrued, but unpaid dividends of $4.9 million, and the redemption provision, as a bifurcated derivative, is recorded as a long-term liability with an estimated value of $21.8 million. As of December 31, 2022, the Series A Preferred Stock is recorded in temporary equity at the amount of accrued, but unpaid dividends of $4.5 million, and the redemption provision, as a bifurcated derivative, is recorded as a long-term liability with an estimated value of $21.9 million.

As of March 31, 2023, the Series A Preferred Stock had a carrying value of $24.9 million and a liquidation value of $37.3 million. As of December 31, 2022, the Series A Preferred Stock had a carrying value of $24.5 million and a liquidation value of $36.7 million.

The following table provides a reconciliation of the beginning and ending balances of the Series A Preferred Stock, which is recorded in temporary equity:

	2023	2022
Balance, January 1,	$ 4,490	$ 3,074
Preferred stock accrued dividends	367	346
Balance, March 31,	$ 4,857	$ 3,420

Note 10 — Joint Ventures

In November 2014, the Company entered into a joint venture with Meisheng Culture & Creative Corp., Ltd., (“MC&C”) 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 top 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 loss was $5,000 and $0.1 million for the three months ended March 31, 2023 and 2022, respectively.

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In October 2016, the Company entered into a joint venture with Hong Kong Meisheng Cultural Company Limited ("Meisheng"), a Hong Kong-based subsidiary of Meisheng Culture & Creative Corp., for the purpose of creating and developing original, multiplatform content for children including new short-form series and original shows. JAKKS and Meisheng each own fifty percent of the joint venture and will jointly own the content. JAKKS will retain merchandising rights for kids' consumer products in all markets except China, which Meisheng Culture & Creative Corp. will oversee through the Company's existing distribution joint venture. The results of operations of the joint venture are consolidated with the Company's results. The non-controlling interest's share of the income (loss) from the joint venture for the three months ended March 31, 2023 and 2022 was nil.

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. For the three months ended March 31, 2023, there were no events or circumstances that indicated that an impairment loss may have been incurred.

Note 12 — Comprehensive Loss

The table below presents the components of the Company's comprehensive loss for the three months ended March 31, 2023 and 2022 (in thousands):

	Three Months Ended March 31,	
	2023	**2022**
Net loss	$ (5,318)	$ (3,909)
Other comprehensive income (loss):		
Foreign currency translation adjustment	332	(662)
Comprehensive loss	(4,986)	(4,571)
Less: Comprehensive loss attributable to non-controlling interests	(5)	(100)
Comprehensive loss attributable to JAKKS Pacific, Inc.	$ (4,981)	$ (4,471)

Note 13 — 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.

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 to the Company's licensors, no liabilities have been recorded for indemnifications and/or other commitments.

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Note 14 — 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 executive officers and certain key employees of restricted stock units, with vesting contingent upon (a) the completion of specified service periods ranging from one to four years and/or (b) meeting certain financial performance and/or market-based metrics. Shares for the restricted stock units are not issued until they vest.

The following table summarizes the total share-based compensation expense recognized for the three months ended March 31, 2023 and 2022 (in thousands)

	Three Months Ended March 31,	
	2023	2022
Share-based compensation expense	$ 2,089	$ 870

Restricted Stock Units

Restricted stock unit activity (including those with performance-based vesting criteria) for the three months ended March 31, 2023 is summarized as follows:

	Restricted Stock Units	
	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding, December 31, 2022	1,408,586	$ 12.82
Granted	278,081	17.49
Vested	(191,423)	8.44
Outstanding, March 31, 2023	1,495,244	14.25

As of March 31, 2023, there was $17.4 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 2.5 years.

Note 15 — 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.

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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, 2023 and December 31, 2022 (in thousands):

	Fair Value Measurements as of March 31, 2023		
	Level 1	Level 2	Level 3
Preferred stock derivative liability	$ —	$ —	$ 21,771

	Fair Value Measurements as of December 31, 2022		
	Level 1	Level 2	Level 3
Preferred stock derivative liability	$ —	$ —	$ 21,918

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

Preferred stock derivative liability	2023	2022
Balance, January 1,	$ 21,918	$ 21,282
Change in fair value	(147)	645
Balance, March 31,	$ 21,771	$ 21,927

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

The following table provides quantitative information of liabilities measured at fair value and the significant unobservable inputs (Level 3), the range of the significant unobservable inputs, and the valuation techniques.

	Fair Value As of March 31, 2023 (In thousands)	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Preferred Stock Derivative Liability	$ 21,771	Discounted Cash Flow	Change-in-control probability assumptions	Range: 10% to 40% (27.2%)
			Timing of change-in-control assumptions	Range: 1 to 10 years (4.16 years)
			Discount Rate	Range: 18.16% to 18.91% (18.59%)
			Implied yield*	11.41%*

	Fair Value As of December 31, 2022 (In thousands)	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Preferred Stock Derivative Liability	$ 21,918	Discounted Cash Flow	Change-in-control probability assumptions	Range: 10% to 40% (27.3%)
			Timing of change-in-control assumptions	Range: 1 to 10 years (4.19 years)
			Discount Rate	Range: 17.48% to 18.23% (17.70%)
			Implied yield*	11.23%*

*Represents the implied yield of the 2021 BSP Term Loan

The Company's cash and cash equivalents including restricted cash, accounts receivable, accounts payable, and accrued expenses represent financial instruments. The carrying value of these financial instruments is a reasonable approximation of fair value due to the short-term nature of the instruments.

Note 16 — Related Party Transactions

In November 2014, the Company entered into a joint venture with MC&C 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 (see Note 10 – Joint Ventures).

In October 2016, the Company entered into a joint venture with Hong Kong Meisheng Cultural Company Limited, 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 (see Note 10 – Joint Ventures).

In March 2017, the Company entered into an equity purchase agreement with Meisheng which provided, among other things, that as long as Meisheng and its affiliates hold 10% or more of the issued and outstanding shares of common stock of the Company, Meisheng shall have the right from time to time to designate a nominee (who currently is Mr. Xiaoqiang Zhao) for election to the Company's board of directors.

Meisheng also serves as a significant manufacturer of the Company. For the three months ended March 31, 2023 and 2022, the Company made inventory-related payments to Meisheng of approximately $9.3 million and $15.5 million, respectively. As of March 31, 2023 and December 31, 2022, amounts due to Meisheng for inventory received by the Company, but not paid totaled $8.0 million and $9.8 million, respectively.

A director of the Company is a director at Benefit Street Partners, who owns 145,788 shares of the Series A Preferred Stock (see Note 9 – Common Stock and Preferred Stock). As of March 31, 2023, a division of Benefit Street Partners held $30.2 million in principal amount of the 2021 BSP Term Loan (see Note 5 - Debt).

Note 17 — Prepaid Expenses and Other Assets

Prepaid expenses and other assets as of March 31,2023 and December 31, 2022 consist of the following (in thousands):

	March 31, 2023	December 31, 2022
Royalty advances	$ 5,767	$ 1,822
Prepaid expenses	4,482	994
Income tax receivable	2,220	2,217
Employee retention credit	265	1,179
Other assets	115	119
Prepaid expenses and other assets	$ 12,849	$ 6,331

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.

Disclosure Regarding Forward-Looking Statements

This Report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. For example, statements included in this Report regarding our financial position, business strategy and other plans and objectives for future operations, and assumptions and predictions about future product demand, supply, manufacturing, costs, marketing and pricing factors are all forward-looking statements. When we use words like "intend," "anticipate," "believe," "estimate," "plan" or "expect," or other words of a similar import, we are making forward-looking statements. We believe that the assumptions and expectations reflected in such forward-looking statements are reasonable, based upon 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 have disclosed certain important factors (e.g., see "Risk Factors") that could cause our actual results to differ materially from our current expectations elsewhere in this Report. You should understand that forward-looking statements made in this Report are necessarily qualified by these factors. 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.

Critical Accounting Estimates

Our critical accounting policies and estimates are included in the 2022 Annual Report on Form 10-K and did not materially change during the first three months of 2023.

New Accounting Pronouncements

See Note 1 to the 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, (Unaudited)	
	2023	**2022**
Net sales	100.0 %	100.0 %
Cost of sales:		
Cost of goods	54.3	59.6
Royalty expense	15.5	14.6
Amortization of tools and molds	1.0	1.1
Cost of sales	70.8	75.3
Gross profit	29.2	24.7
Direct selling expenses	7.2	4.1
General and administrative expenses	26.0	20.8
Depreciation and amortization	0.1	0.5
Selling, general and administrative expenses	33.3	25.4
Loss from operations	(4.1)	(0.7)
Other income (expense), net	0.4	0.1
Change in fair value of preferred stock derivative liability	0.1	(0.5)
Interest income	0.1	—
Interest expense	(2.8)	(1.8)
Loss before provision for (benefit from) income taxes	(6.3)	(2.9)
Provision for (benefit from) income taxes	(1.3)	0.3
Net loss	(5.0)	(3.2)
Net loss attributable to non-controlling interests	—	(0.1)
Net loss attributable to JAKKS Pacific, Inc.	(5.0)%	(3.1)%

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

	Three Months Ended March 31, (Unaudited)	
	2023	2022
Net Sales		
Toys/Consumer Products	$ 97,893	$ 111,123
Costumes	9,591	9,758
	107,484	120,881
Cost of Sales		
Toys/Consumer Products	68,671	82,966
Costumes	7,376	7,998
	76,047	90,964
Gross Profit		
Toys/Consumer Products	29,222	28,157
Costumes	2,215	1,760
	$ 31,437	$ 29,917

Comparison of the Three Months Ended March 31, 2023 and 2022

Net Sales

Toys/Consumer Products. Net sales of our Toys/Consumer Products segment were $97.9 million for the three months ended March 31, 2023 compared to $111.1 million for the prior year period, representing a decrease of $13.2 million, or 11.9%. The decrease was primarily driven by lower sales in North America, which was down $14.6 million, or 15.8%.

Costumes. Net sales of our Costumes segment were $9.6 million for the three months ended March 31, 2023 compared to $9.8 million for the prior year period, representing a decrease of $0.2 million, or 2.0%.

Cost of Sales

Toys/Consumer Products. Cost of sales of our Toys/Consumer Products segment was $68.7 million, or 70.2% of related net sales for the three months ended March 31, 2023 compared to $83.0 million, or 74.7% of related net sales for the prior year period, representing a decrease of $14.3 million, or 17.2%. The decrease in dollars is related to lower overall sales. The decrease as a percentage of net sales, year over year, is primarily due to lower freight costs.

Costumes. Cost of sales of our Costumes segment was $7.4 million, or 77.1% of related net sales for the three months ended March 31, 2023, compared to $8.0 million, or 81.6% of related net sales for the prior year period, representing a decrease in dollars of $0.6 million, or 7.5%. The decrease is related to lower product costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $35.8 million for the three months ended March 31, 2023 compared to $30.7 million for the prior year period constituting 33.3% and 25.4% of net sales, respectively. Selling, general and administrative expenses were primarily due to higher warehouse and storage costs.

Interest Expense

Interest expense was $3.0 million for the three months ended March 31, 2023, as compared to $2.2 million in the prior year period. During the three months ended March 31, 2023, we incurred interest expense of $2.5 million related to our 2021 BSP Term Loan, $0.1 million related to our revolving credit facility and $0.4 million related to other borrowing costs. During the three months ended March 31, 2022, we incurred interest expense of $2.0 million related to our 2021 BSP Term Loan and $0.2 million related to our revolving credit facility.

Provision For (Benefit From) Income Taxes

Our income tax benefit, which includes federal, state and foreign income taxes and discrete items, was $1.4 million, or an effective tax rate of 20.6%, for the three months ended March 31, 2023. During the comparable period in 2022, our income tax expense was $0.4 million, or an effective tax rate of (11.9)%.

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 as we make royalty advance payments for some of our licenses and buy and sell inventory subject to customer payment terms.

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 costume 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, 2023, we had working capital (inclusive of cash, cash equivalents and restricted cash) of $77.8 million, compared to $97.4 million as of December 31, 2022, representing a decrease in working capital of $19.6 million during the three-month period ended March 31, 2023. The decrease in working capital is primarily attributable to the $38.7 million of principal payments made during the quarter related to our 2021 BSP Term Loan. $23.1 million was related to the ECF Sweep provision and was classified as short-term debt and $15.6 million was related to the principal payments on the non-current portion of the 2021 BSP Term Loan.

Operating activities used net cash of $4.1 million during the three months ended March 31, 2023, as compared to net cash used of $2.7 million in the prior year period. The increase in net cash used in operating activities year-over-year is primarily due to a higher net loss. 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/obligations generally ranging from 1% to 21% payable on net sales of such products. As of March 31, 2023, these agreements required future aggregate minimum royalty guarantees of $67.8 million exclusive of $5.8 million in advances already paid. Of this $67.8 million future minimum royalty guarantee, $38.9 million is due over the next twelve months.

Investing activities used net cash of $3.5 million and $1.8 million for the three months ended March 31, 2023 and 2022, respectively, and consisted primarily of cash paid for the purchase of molds and tooling used in the manufacture of our products.

Financing activities used net cash of $39.9 million and $0.9 million for the three months ended March 31, 2023 and 2022, respectively. The cash used in financing activities during the three months ended March 31, 2023, primarily consists of the repayment of our 2021 BSP Term Loan of $38.7 million and the repurchase of common stock for employee tax withholding of $1.2 million. The cash used in financing activities during the three months ended March 31, 2022, primarily consists of the repayment of our 2021 BSP Term Loan of $0.2 million and the repurchase of common stock for employee tax withholding of $0.6 million.

As of March 31, 2023, we have $30.2 million of outstanding indebtedness under our first-lien secured term loan (the “2021 BSP Term Loan Agreement”) and we have no outstanding indebtedness under our senior secured revolving credit facility (the “JPMorgan ABL Facility”), aside from utilizing $17.2 million in letters of credit.

The First Lien Term Loan Facility Credit Agreement (the "2021 BSP Term Loan Agreement") and the Credit Agreement with JPMorgan Chase Bank, N.A., as agent and lender (the "JPMorgan ABL Credit Agreement") each contain negative covenants that, subject to certain exceptions, limit our ability and our subsidiaries ability to, among other things, incur additional indebtedness, make restricted payments, pledge our assets as security, make investments, loans, advances, guarantees and acquisitions, undergo fundamental changes and enter into transactions with affiliates. The terms of the 2021 BSP Term Loan Agreement also require us to maintain a Net Leverage Ratio of 4:00x, with step-downs occurring each fiscal year starting with the quarter ending March 31, 2022 through the quarter ending September 30, 2024 in which we are required to maintain a Net Leverage Ratio of 3:00x. On April 26, 2022, we entered into a First Amendment to the 2021 BSP Term Loan Agreement, to provide, among other things, that we must maintain Qualified Cash of at least: (a) at all times after the Closing Date and prior to the First Amendment Effective Date, $20.0 million; (b) at all times during the period commencing on the First Amendment Effective Date through and including June 30, 2022, $15.0 million; and (c) at all times on and after July 1, 2022, through September 30, 2022, $17.5 million; provided, however, that if the Total Net Leverage Ratio exceeded 1.75:1.00 as of the last day of the most recently ended month for which financial statements were required to have been delivered, then the amount set forth in this clause shall be increased to $20.0 million. Notwithstanding the foregoing, the Applicable Minimum Cash Amount shall be reduced by $1.0 million for every $5.0 million principal prepayment or repayment of the Term Loans following the First Amendment Effective Date; provided however, that, the Applicable Minimum Cash Amount shall in no event be reduced below $15.0 million.

On June 27, 2022, as permitted by the terms within the 2021 BSP Term Loan Agreement, we made a voluntary fee-free $10.0 million prepayment towards the outstanding principal amount of the 2021 BSP Term Loan.

On September 28, 2022, as permitted by the terms within the 2021 BSP Term Loan Agreement, we made a voluntary $17.5 million prepayment towards the outstanding principal amount of the 2021 BSP Term Loan and incurred a $0.5 million prepayment penalty.

On January 3, 2023, as permitted by the terms within the 2021 BSP Term Loan Agreement, we made a voluntary $15.0 million prepayment towards the outstanding principal amount of the 2021 BSP Term Loan and incurred a $0.2 million prepayment penalty.

On March 3, 2023, as required by the terms within the 2021 BSP Term Loan Agreement under the Excess Cash Flow ("ECF") Sweep provision, we made a mandatory $23.1 million payment towards the outstanding principal amount of the 2021 BSP Term Loan.

The 2021 BSP Term Loan Agreement and the JPMorgan ABL Agreement contain events of default that are customary for a facility of this nature, including (subject in certain cases to grace periods and thresholds) nonpayment of principal, nonpayment of interest, fees or other amounts, material inaccuracy of representations and warranties, violation of covenants, cross-default to certain other existing indebtedness, bankruptcy or insolvency events, certain judgment defaults and a change of control as specified in each Agreement. If an event of default occurs under either Agreement, the maturity of the amounts owed under the 2021 BSP Term Loan Agreement and the JPMorgan ABL Agreement may be accelerated.

We were in compliance with the financial covenants under the 2021 BSP Term Loan Agreement and the JPMorgan ABL Agreement as of March 31, 2023.

See Note 5 – Debt and Note 6 – Credit Facilities for additional information pertaining to our Debt and Credit Facilities.

As of March 31, 2023 and December 31, 2022, we held cash and cash equivalents, including restricted cash, of $38.3 million and $85.5 million, respectively. Cash, and cash equivalents, including restricted cash held outside of the United States in various foreign subsidiaries totaled $33.9 million and $39.4 million as of March 31, 2023 and December 31, 2022, 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, 2023.

Our primary sources of working capital are cash flows from operations and borrowings under our JPMorgan ABL Facility (see Note 6 – Credit Facilities).

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 in motivating consumer purchase of related merchandise, (3) the highly competitive conditions existing in the toy industry and in securing commercially-attractive licenses, (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.

As of March 31, 2023 off-balance sheet arrangements include letters of credit issued by JPMorgan of $17.2 million.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our exposure to market risk includes interest rate fluctuations in connection with our 2021 BSP Term Loan (see Note 5 – Debt) and our JPMorgan ABL Facility (see Note 6 – Credit Facilities). As of March 31, 2023, we have $30.2 million of outstanding indebtedness under our BSP Term Loan which is due June 2027 with interest at either (i) LIBOR plus 6.50% - 7.00% (determined by reference to a net leverage pricing grid), subject to a 1.00% LIBOR floor, or (ii) base rate plus 5.50% - 6.00% (determined by reference to a net leverage pricing grid), subject to a 2.00% base rate floor. Borrowings under our JPMorgan ABL Facility bear interest at either (i) LIBOR plus 1.50% - 2.00% (determined by reference to an excess availability pricing grid) or (ii) Alternate Base Rate plus 0.50% - 1.00% (determined by reference to an excess availability pricing grid and base rate subject to a 1.00% floor). Borrowings under the 2021 BSP Term Loan and JPMorgan ABL 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. No borrowings were made under the revolving credit facility during the three-month period ended March 31, 2023.

London Interbank Offering Rate (“LIBOR”) is an interest rate benchmark used as a reference rate for our term loan. Borrowings under our term loan will bear interest at a variable rate, primarily based on LIBOR. In July 2017, the United Kingdom’s Financial Conduct Authority (the “FCA”), which regulates LIBOR, announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. It is unclear whether or not LIBOR will cease to exist at that time (and if so, what reference rate will replace it) or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. On November 30, 2020, ICE Benchmark Administration (“IBA”), the administrator of LIBOR, with the support of the United States Federal Reserve and the United Kingdom’s FCA, announced plans to consult on ceasing publication of USD LIBOR on December 31, 2021 for only the one-week and two-month USD LIBOR tenors, and on June 30, 2023 for all other USD LIBOR tenors. While this announcement extends the transition period to June 2023, the United States Federal Reserve concurrently issued a statement advising banks to stop new USD LIBOR issuances by the end of 2021. In light of these recent announcements, the future of LIBOR at this time is uncertain and any changes in the methods by which LIBOR is determined or regulatory activity related to LIBOR’s phase-out could cause LIBOR to perform differently than in the past or cease to exist.

The Alternative Reference Rates Committee (“ARRC”) has identified the Secured Overnight Financing Rate ("SOFR") as the recommended alternative for use in financial and other derivatives contracts that are currently indexed to U.S. dollar LIBOR.

In Q1 2023, we entered into amendments to our 2021 BSP Term Loan Agreement and our JPMorgan ABL Credit Agreement which changed the interest reference rate on our term loan and revolving line of credit from LIBOR to the Secured Overnight Financing Rate (“SOFR”).

Foreign Currency Risk

We have wholly-owned subsidiaries in Hong Kong, China, the United Kingdom, Germany, France, the Netherlands, 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, the Netherlands, 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 linked to the U.S. dollar by the Hong Kong Monetary Authority at HK$7.75 - HK$7.85 to US$1.00 since 2005 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 the 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 to 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, 2022. There have been no material changes from the risk factors previously disclosed in such filing. The disclosures made in this Quarterly Report should be reviewed together with the risk factors contained therein.

Item 6. Exhibits

Number	Description
10.1	Amendment No. 8 to the Employment Agreement of Stephen G. Berman (1)
10.2	Amendment No. 8 to the Employment Agreement of John a/k/a Jack McGrath (2)
10.3	Assignment Agreement dated March 7, 2023 with John a/k/a Jack McGrath (2)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer (3)
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer (3)
32.1	Section 1350 Certification of Chief Executive Officer (3)
32.2	Section 1350 Certification of Chief Financial Officer (3)
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

(1) Filed previously as an exhibit to the Company’s Current Report on Form 8-K filed March 31, 2023 and incorporated herein by reference.
(2) Filed previously as an exhibit to the Company’s Current Report on Form 8-K filed March 10, 2023 and incorporated herein by reference.
(3) Filed herewith.

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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 10, 2023	By:	/s/ John Kimble
		John Kimble Executive Vice President and Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)

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 10, 2023

Exhibit 31.2

CERTIFICATIONS

I, John Kimble, 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/ John Kimble

John Kimble

Chief Financial Officer

Date: May 10, 2023

Exhibit 32.1

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

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of JAKKS Pacific, Inc. (“Registrant”) hereby certifies that the Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 (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 10, 2023

Exhibit 32.2

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

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of JAKKS Pacific, Inc. (“Registrant”) hereby certifies that the Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 (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/ John Kimble

John Kimble
Chief Financial Officer

Date: May 10, 2023