

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

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 OR 15(d) of
The Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): **March 7, 2023**

JAKKS PACIFIC, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

0-28104
(Commission
File Number)

95-4527222
(IRS Employer
Identification No.)

2951 28th Street, Santa Monica, California
(Address of principal executive offices)

90405
(Zip Code)

Registrant's telephone number, including area code: **(424) 268-9444**

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$.001 par value	JAKK	NASDAQ Global Select Market

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

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.

Item 2.02. Results of Operations and Financial Condition.

On March 9, 2023, we issued a press release announcing our fourth quarter and full year results for 2022. Following the issuance of the press release, on March 9, 2023 at 5:00 p.m. ET / 2:00 p.m. PT, we will host a teleconference and webcast for analysts, investors, media and others to discuss the results and other business topics. Such financial information included in the Exhibit attached hereto, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On March 7, 2023, the Company amended the employment agreement between the Company and Mr. John (a/k/a Jack) McGrath, our Chief Operating Officer, and entered into (i) Amendment No. 8 to Mr. McGrath's Employment Agreement (the "Employment Agreement"), and (ii) an Assignment Agreement with Mr. McGrath (the "Assignment Agreement"). The two Agreements provide that effective January 1, 2024, Mr. McGrath will be assigned to our United Kingdom ("UK") office as President European Operations at an annual salary of US\$500,000. He will no longer be Executive Vice President & Chief Operating Officer of the Company. The term of the Employment Agreement is being extended to December 31, 2025. Mr. McGrath plans to move to the UK during the period of his assignment to JAKKS Pacific (UK) Ltd. Any bonus compensation will be discretionary, and all of his existing grants of restricted stock will continue to vest.

The foregoing descriptions of the eighth amendment to the Employment Agreement and to the Assignment Agreement are qualified in their entirety by reference to the full texts thereof, copies of which are filed as Exhibits to this Form 8-K and are incorporated by reference into this Item 5.02.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

<u>Exhibit</u>	<u>Description</u>
10.1	Amendment No. 8 to the Employment Agreement of John a/k/a Jack McGrath
10.2	Assignment Agreement dated March 7, 2023 with John a/k/a Jack McGrath
99.1	March 9, 2023 Fourth Quarter and Full Year 2022 Earnings Press Release
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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 hereunto duly authorized.

JAKKS PACIFIC, INC.

Dated: March 9, 2023

By: /s/ JOHN L. KIMBLE
John L. Kimble, CFO

EIGHTH AMENDMENT TO EMPLOYMENT AGREEMENT

THIS EIGHTH AMENDMENT (the “**Eighth Amendment**”) to Employment Agreement, is entered into as of March 7, 2023 by and between John a/k/a Jack McGrath, an individual (“**Executive**”) and JAKKS Pacific, Inc., a Delaware corporation (“**JAKKS**” or the “**Company**”) amends the Amended Employment Agreement (as defined below) between Executive and the Company, and is entered into pursuant to Section 20 of the Amended Employment Agreement.

WITNESSETH:

WHEREAS, Executive and the Company entered into an Employment Agreement on March 4, 2010 which was effective January 1, 2010 (the “**2010 Employment Agreement**”), which was amended by a First Amendment to Employment Agreement dated August 23, 2011, a Second Amendment to Employment Agreement dated May 15, 2013, a Third Amendment Extending Term of Employment Agreement dated June 11, 2015, a Fourth Amendment to Employment Agreement dated September 29, 2016, a Fifth Amendment dated February 28, 2018, and an Acknowledgment and Waiver Agreement dated as of August 9, 2019, a Sixth Amendment dated as of December 31, 2019, and a Seventh Amendment dated as of June 18, 2021 (the 2010 Employment Agreement, as heretofore amended is referred to as the “**Amended Employment Agreement**”); and

WHEREAS, the Company and Executive desire to further amend the terms of the Amended Employment Agreement subject to the terms and conditions set forth in this Amendment (the Amended Employment Agreement, as further amended by this Seventh Amendment, is referred to as the “**Amended Employment Agreement**”).

NOW, THEREFORE, in consideration of the mutual promises, representations and warranties set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Capitalized terms used and not defined herein have the respective meanings ascribed to them in the Amended Employment Agreement.
2. The Parties hereby agree that effective upon the execution of this Amendment, the Amended Employment Agreement shall be deemed amended as follows:
 - (a) Effective January 1, 2024, Section 1 of the Amended Employment Agreement is amended and replaced in its entirety by the following:

“Effective January 1, 2024 Executive will be assigned to the Company’s subsidiary JAKKS Pacific (UK) Ltd. During such assignment Executive’s title will be President of European Operations and Executive will be responsible for supervising the Company’s day-to-day European operations, including administrative services related to such position and as needed management of other personnel engaged in the Company’s European operations, and to perform such duties in connection therewith on behalf of JAKKS Pacific (UK) Ltd. and the Company as JAKKS Pacific (UK) Ltd.’s Director and the Company’s Board of Directors and Executive Officers may from time to time direct that are reasonably related to Executive’s responsibilities, but Executive will not, however, perform duties regarding the Company’s operations in the United States. During Executive’s assignment to JAKKS Pacific (UK) Ltd., Executive will continue to be employed by the Company, and, in addition to the Amended Employment Agreement such assignment will be subject to the terms of an Assignment Agreement in the form annexed to this Eighth Amendment (“Assignment Agreement”).”

(b) Section 2 of the Amended Employment Agreement is amended and replaced in its entirety by the following:

*“2. **Term.** The Employment of Executive hereunder shall commence on the Effective Date and continue until December 31, 2025, subject to earlier termination on the terms and conditions provided elsewhere in this Agreement (the “Term”). As used herein, “Termination Date” means the last day of the Term.”*

(c) Effective January 1, 2024, Paragraph 3(a) of the Amended Employment Agreement is amended and replaced in its entirety to provide as follows:

*“(a) **Base Salary.** As compensation for Executive's services hereunder, effective January 1, 2024, Company shall pay to Executive a base salary at the rate of US\$500,000.00 per annum (the "Base Salary") in substantially equal installments no less often than monthly, in accordance with Company's normal payroll practices, and subject to any required tax withholding. During the Executive's assignment to JAKKS Pacific (UK) Ltd. the Executive's base salary will be paid by JAKKS Pacific (UK) Ltd. in British Pounds Sterling at such rate of exchange of US Dollars for Pounds Sterling prevailing at the time of the calculation as the Company shall reasonably select. References to US Dollars or US\$ refer to lawful currency of the United States of America and references to Pounds Sterling or £ refer to lawful currency of the United Kingdom.”*

(d) Section 3 of the Amended Employment Agreement is amended to add the following new Section 3(g) as follows:

“(g) The Additional 2023 Performance Bonus to which the Executive may be entitled under Section 3(f) of the Amended Employment Agreement shall be paid not later than April 30, 2024 in accordance with Section 3(f) of the Amended Employment Agreement. Granted Restricted Stock Units issued pursuant to Section 3(f) of the Amended Employment Agreement will continue to vest as provided in the grant of the Restricted Stock Units during the Term, as amended. Any transactions by Executive involving securities of the Company will continue to be governed by the same laws and regulations and limitations applicable to a named executive officer of the Company, and such other policies contained in the Company's employee handbook in effect from time to time applicable to executive officers and other employees of the Company. Any bonus and other compensation or employee benefit plan to or for Executive as of January 1, 2024 will be governed by Paragraphs 3(b) and 3(c) of the Amended Employment Agreement.”

(e) Section 4 of the Amended Employment Agreement is amended to add the following new Section 4(c) as follows:

“(c) In connection with Executive's assignment to JAKKS Pacific (UK) Ltd., Executive will receive a Relocation Expense allowance of US\$50,000.00 to reimburse Executive to reimburse him for his actual out-of-pocket expenses of relocating Executive and his spouse and their possessions to the United Kingdom, including but not limited to airfare from the United States to the United Kingdom, hotel and meals prior to locating a residence in London or its vicinity, fees of estate agents.

(f) Section 5 of the Amended Employment Agreement is amended to add the following new Section 5(a) as follows:

“During Executive’s assignment to JAKKS Pacific (UK) Ltd., Executive will perform his duties in its offices in its principal office in the UK , currently located in Bracknell, Berkshire, England, except for travel and temporary accommodation required to perform Employee’s responsibilities hereunder.

(g) Section of 7 of the Amended Employment Agreement is amended to add the following new Section 7(a) as follows:

“During Executive’s assignment to JAKKS Pacific (UK) Ltd., Executive’s vacation will be as provided in the Assignment Agreement.’

3. **Miscellaneous.**

- 3.1 Except as expressly provided herein, this Amendment shall not, by implication or otherwise, alter, modify, amend or in any way affect any of the obligations, covenants or rights contained in the Amended Employment Agreement, all of which are ratified and confirmed in all respects by the Parties and shall continue in full force and effect. Each reference to the Employment Agreement or Amended Employment Agreement hereafter made in any document, agreement, instrument, notice or communication shall mean and be a reference to the Employment Agreement, as amended and modified hereby.
 - 3.2 This Amendment and the documents referenced herein, constitute the entire agreement among the Parties with respect to this amendment of the Amended Employment Agreement and supersede all prior agreements, negotiations, drafts, and understandings among the Parties with respect to such subject matter. This Amendment can only be changed or modified pursuant to a written instrument referring explicitly hereto, and duly executed by each of the Parties.
 - 3.3 This Amendment shall be governed and construed as to its validity, interpretation and effect by the laws of the State of California, without reference to its conflicts of laws provisions.
 - 3.4 Each party hereto acknowledges that it has had an opportunity to consult with counsel and has participated in the preparation of this Amendment. No party hereto is entitled to any presumption with respect to the interpretation of any provision hereof or the resolution of any alleged ambiguity herein based on any claim that the other party hereto drafted or controlled the drafting of this Amendment.
 - 3.5 This Amendment may be executed and delivered (by facsimile or PDF signature) in any number of counterparts, and each such counterpart shall be deemed to be an original instrument, but all such counterparts together shall constitute one and the same instrument.
4. The Amended Employment Agreement, as expressly amended by this Seventh Amendment, remains in full force and effect.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first written above, intending to be legally bound hereby.

[Signature page follows]

JAKKS PACIFIC, INC.

By: _____

Name: Stephen Berman

Title: President & CEO

John a/k/a Jack McGrath

[Signature Page to Eighth Amendment to Employment Agreement (McGrath)]

March 7, 2023

Mr. Jack McGrath
Email: jackm@jakks.net

Dear Jack:

Assignment to JAKKS Pacific (UK) Ltd.

I am writing to confirm the terms which will apply to you during your assignment to JAKKS Pacific (UK) Ltd. in the United Kingdom. During your assignment your title will be President of European Operations and you will be responsible for supervising day-to-day European operations of JAKKS Pacific, Inc. (the "Company"), including administrative services related to such position and as needed management of other personnel engaged in JAKKS Pacific (UK) Ltd.'s operations and the Company's European operations, and to perform such duties in connection therewith on behalf of JAKKS Pacific (UK) Ltd. and the Company perform such duties in connection therewith on behalf of JAKKS Pacific (UK) Ltd. and the Company as JAKKS Pacific (UK) Ltd.'s Director and the Company's Board of Directors and Executive Officers may from time to time direct that are reasonably related to your responsibilities. During your assignment to JAKKS Pacific (UK) Ltd. you will continue to be employed by the Company but will not, however, perform duties regarding the Company's operations in the United States.

Except as provided in this letter, your employment will continue to be governed by the employment agreement between you and the Company entered into on March 4, 2010, which was effective January 1, 2010 (the "2010 Employment Agreement"), and which was amended by a First Amendment to Employment Agreement dated August 23, 2011, a Second Amendment to Employment Agreement dated May 15, 2013, a Third Amendment Extending Term of Employment Agreement dated June 11, 2015, a Fourth Amendment to Employment Agreement dated September 29, 2016, a Fifth Amendment dated February 28, 2018, and an Acknowledgment and Waiver Agreement dated as of August 9, 2019, a Sixth Amendment dated as of December 31, 2019, a Seventh Amendment dated as of June 18, 2021, and an Eighth Amendment dated as of March 7, 2023 (as amended, the 2010 Employment Agreement is referred to as the "Amended Employment Agreement").

Your assignment is conditional upon your having a valid visa/work permit allowing you to work legally in the United Kingdom.

Your assignment will begin on, and the terms set out below will apply to you from, January 1, 2024 and is expected to continue until December 31, 2025, subject to earlier termination (see below). Your assignment to JAKKS Pacific (UK) Ltd. may be terminated by the Company giving you not less than forty-five (45) days' notice in writing (or otherwise in accordance with this letter). At the end of your assignment to JAKKS Pacific (UK) Ltd. the terms set out in this letter regarding your employment by JAKKS Pacific (UK) Ltd. will cease to apply and your continued employment by the Company will be governed by your Amended Employment Agreement.

Place of Work During Assignment - Your normal place of work during your assignment will be at the principal offices of JAKKS Pacific (UK) Ltd. currently located in Bracknell, Berkshire, England, or such other place in England as the Company may reasonably determine. You may work outside the UK for extended periods during your employment in connection with the performance of your responsibilities for supervising day-to-day European operations of the Company as President of European Operations.

Hours of Work - Your normal hours of work during your assignment will be those worked at JAKKS Pacific (UK) Ltd. which are between 8:30 am and 5:30 pm, Mondays to Fridays inclusive, with a lunch break of 45 minutes per day to be taken between the hours of 12.00pm and 2.00pm. You may be required to work such additional hours as are necessary for the proper performance of your duties without extra remuneration.

You may be required to work more than 48 hours in a week (including your hours spent in other employment (if applicable)). By signing this letter, you agree that the limit of working 48 hours in any 7 day period as specified in the Working Time Regulations 1998 (the "Regulations") shall not apply to you. If you wish to withdraw your consent you may do so by giving the Company not less than three months' written notice.

In the paragraph above "working time" means any time during which you are carrying out work on behalf of JAKKS Pacific (UK) Ltd. whether or not this takes place on JAKKS Pacific (UK) Ltd.'s premises. This could, for example, include travelling to and attending meetings off-premises and relevant training (as defined in the Regulations). However, "working time" does not include rest breaks, time taken for medical appointments or your lunch break.

Health Benefits – You will be eligible for National Health insurance in the United Kingdom if an immigration health surcharge fee is paid at the time of your visa application. In addition, the Company has agreed to provide private medical and dental insurance to you which will be effective upon the start of your assignment in the United Kingdom and cease on the termination of your assignment. Your eligibility for benefits and/or cover under any health benefit scheme is subject always to the terms and conditions of such scheme from time to time in force. The Company may change insurer, alter the level of cover, and/or replace or remove any scheme at any time at its sole discretion at any time.

Vacation – During your assignment to JAKKS Pacific (UK) Ltd., you will be entitled to the United Kingdom’s statutory minimum vacation entitlement. For a full-time employee this is 28 days per year and is inclusive of United Kingdom public holidays (of which there are normally 8). You will follow the United Kingdom public holiday schedule in its entirety during your assignment unless agreed otherwise. You must agree the dates of your vacation in advance with the CEO of the Company.

Tax returns and Record Keeping - You are required to maintain accurate records of time spent in the United Kingdom and the United States and any other country you may travel to during the assignment in such manner as the Company may direct from time to time. You must provide such records to the Company immediately on demand, whether before, on or within 2 years of the termination of your assignment, whether or not your employment also ends. It is your responsibility to comply with the United Kingdom’s and the US’ tax requirements and to ensure that your tax returns are properly submitted within the appropriate deadlines.

You are eligible to receive tax advice at the Company’s expense (not to exceed US\$5,000.00), from tax advisers nominated by the Company from time to time (and subject to such financial and/or other conditions as the Company may from time to time impose), in respect of both the United States and the United Kingdom’s tax returns relating to your period of assignment. Such advice will be provided in relation to remuneration from your employment only. The Company will not pay for additional tax planning advice, for example in relation to personal investments or inheritance. The Company shall take no responsibility for any advice given at its expense and may impose financial limits on its contribution, at its absolute discretion from time to time.

It is your responsibility to promptly recover any overpayment of tax or social security contributions made to any relevant authority for the benefit of the Company and to pay over any such sums recovered to the Company promptly. If you fail to do so the Company reserves the right to recover all or part of any sum(s) from you by making deductions from any sums due to you, and without prejudice to the Company’s other rights and remedies.

Any penalties or interest charges incurred because you fail to provide information or documentation requested by the nominated tax adviser promptly will be your responsibility. The Company will not reimburse you in respect of any such costs.

Repatriation Reimbursement - Subject to the circumstances in which your assignment and/or your employment ends, you are entitled to travel reimbursement to cover the cost of your departing flight from the United Kingdom to the United States, business class, and a contribution towards the reasonable costs of transporting your personal belongings, provided these expenses are incurred within one month of the end of your assignment and provided you provide satisfactory evidence that you have incurred them. No costs shall be borne by the Company in respect of transporting either you or any of your belongings in connection with the termination of your assignment if you are dismissed by reason of your gross misconduct or other material breach of the terms of the Amended Employment Agreement and this letter agreement or in the event you resign from your employment.

Other Employment Terms – Please see the attached appendix for details of certain other terms that will apply to you during your assignment.

Except as specifically set forth in this letter, all other terms of your employment with the Company remain the same.

[Signature page follows]

Please sign, date and return the duplicate copy of this letter to me to confirm that you have read, understand and agree to its contents. The additional copy of this letter is for you to keep.

Regards,
JAKKS Pacific, Inc.

Name: _____

Title: _____

I confirm that I have read, understand and agree to be bound by the contents of this letter.

Date: _____, 2023

*[Signature page to letter to Jack McGrath from JAKKS Pacific, Inc.
regarding his assignment to JAKKS Pacific (UK) Ltd.]*

Appendix

1. **Probationary period** – No probationary period applies to your employment.
2. **Disciplinary and grievance procedures** - The Company will apply JAKKS Pacific (UK) Ltd.'s disciplinary and grievance procedures during your assignment, copies of which are available on request. These procedures do not form part of the terms of your assignment. If, during your assignment, you wish to appeal against a disciplinary decision or raise a grievance you should write to the Company's Chief Executive Officer.
3. **Sickness absence and sick pay** -If you are ill or unable to work for any reason during your assignment you will notify the Company's Chief Executive Officer as soon as possible on the first day of absence of the reasons for your absence and how long it is likely to last. You will be required to complete self-certification forms in respect of any period of absence lasting less than 7 days and to provide a medical Fit Note for any period of incapacity of more than seven days (including weekends). Further Fit Notes must be provided to cover any further periods of incapacity. Provided you comply with these sickness absence procedures you will be entitled to receive the United Kingdom statutory sick pay (currently £99.35 per week) provided you meet the other qualifying requirements for this pay. You will not be entitled to any additional payment during sickness absence.
4. **Pension Scheme** - As you will be in the United Kingdom on a temporary assignment from the Company the obligations in the United Kingdom relating to pension auto-enrolment do not apply to you.
5. **Other Paid Leave** - You may be eligible for other paid leave during your assignment, including adoption leave, paternity leave, parental leave, shared parental leave and parental bereavement leave, subject to your complying with the relevant statutory and other conditions and requirements in order to be entitled to the leave and pay.
6. **Training** - The Company and JAKKS Pacific (UK) Ltd. may offer training during your assignment (subject to certain eligibility requirements and other conditions). Details of this training will be provided by the Company's Chief Executive Officer as and when relevant. All training is voluntary unless you are otherwise notified. The Company will ordinarily bear the cost of the training offered.
7. **Collective Agreement** - There is no collective agreement which directly affects your employment during your assignment.



JAKKS PACIFIC REPORTS FOURTH QUARTER AND FULL-YEAR 2022 FINANCIAL RESULTS

**SECOND CONSECUTIVE YEAR OF 20+% SALES GROWTH
LONG-TERM DEBT REDUCED 55% YEAR-OVER-YEAR**

SANTA MONICA, California, March 9, 2023 – JAKKS Pacific, Inc. [NASDAQ: JAKK] today reported financial results for the fourth quarter ended December 31, 2022.

Fourth Quarter 2022

- Net sales were \$131.9 million compared to \$188.0 million last year; a 30% decrease
- Gross margin of 21.7%, negatively impacted by lower capitalization of warehouse costs, higher tooling amortization, obsolete inventory and royalty expense, offset by lower inbound freight expenses
- A valuation allowance release against a deferred tax asset generated a \$52.6 million non-cash gain
- Net income attributable to common stockholders of \$38.9 million, up from a net loss attributable to common stockholders of \$3.5 million in Q4 2021
- Adjusted net loss attributable to common stockholders of \$14.0 million, down from adjusted net income attributable to common stockholders of \$1.3 million in Q4 2021
- Adjusted EBITDA of \$(12.1) million, down from \$5.0 million in Q4 2021.

Full-Year 2022

- Net sales were \$796.2 million compared to \$621.1 million last year; a 28% increase
- Gross margin of 26.5% compared to 29.5% last year
- Operating income of \$61.0 million compared to \$38.8 million last year; a 57% increase
- Net income attributable to common stockholders of \$91.3 million, up from a net loss attributable to common stockholders of \$7.3 million in 2021
- Adjusted EBITDA of \$76.4 million up 55% versus \$49.2 million in 2021
- Adjusted net income attributable to common stockholders of \$43.4 million (\$4.28 per diluted share), up from adjusted net income attributable to common stockholders of \$23.6 million (\$2.59 per diluted share) in 2021
- Cash flows provided by operating activities of \$86.1 million, compared to cash flows used in operating activities of \$5.9 million in 2021
 - Cash flow sweep loan provision will reduce debt by \$23.1 million in Q1 2023

Management Commentary

“2022 exceeded our expectations with a second consecutive year of 20+% sales growth and, more importantly, strong retail sell-through for our customers” said Stephen Berman, JAKKS Pacific’s Chairman and CEO. “In addition to a couple of strong successes, we saw solid results from the majority of our product lines. We shipped an exceptional amount of product in a compressed time-window resulting in higher-than-average costs in our domestic fulfillment operations in the back half of the year, suppressing our full-year margins. In Q4, and in the new year, we focused on resetting our inventory position and warehouse capacity and feel well-positioned for the new year. Our North American business grew 27% on a full-year basis, and our International business grew by 38%.

“We have a great line-up of new introductions in 2023. We’re launching and extending some of our own brands, in addition to introducing new product lines in association with film and TV releases throughout the year. Although we anticipate the business reverting to its more traditional second-half seasonality, our focus on prioritizing FOB sales continues, which results in shipments earlier in the year as compared with other companies. We are also working diligently to capture year-over-year margin improvement opportunities both on product and in the supply-chain.”

Fourth Quarter and Full-Year Results

Net sales for the fourth quarter 2022 were \$131.9 million, down 30% versus \$188.0 million last year. The decrease was anticipated given customers ordering product earlier than the traditional seasonality, in addition to a late shipment in Q3 2021 creating an atypically high Q4 2021 sales level. Net sales in the Toys/Consumer Products segment were down 34% globally, 34% in North America and 35% in International. For the full year, North America Toys/Consumer Products was up 26% and International was up 28%. Net sales in the Costumes segment increased 61% compared to Q4 2021 and were up 38% for the full year. Our Top 10 markets all achieved sales growth year-over-year.

A release of a deferred tax asset valuation allowance created a non-cash gain of \$52.6 million in the quarter. Net income attributable to common stockholders increased to \$38.9 million, or \$3.79 per diluted share, compared to a net loss attributable to common stockholders of \$3.5 million, or \$0.37 per diluted share for the fourth quarter of 2021. Adjusting out the gain on the valuation allowance and other customary adjustments led to an adjusted net loss attributable to common stockholders (a non-GAAP measure) of \$14.0 million, or \$1.44 per diluted share in the fourth quarter of 2022 versus adjusted net income attributable to common stockholders of \$1.3 million or \$0.14 per diluted share in the fourth quarter of 2021. On a full-year basis, net income attributable to common stockholders improved to \$91.3 million versus a net loss attributable to common stockholders of \$7.3 million in 2021. Full-year adjusted net income attributable to common stockholders was \$43.4 million, or \$4.28 per diluted share, compared to a 2021 adjusted net income attributable to common stockholders of \$23.6 million, or \$2.59 per diluted share. See note below on “Use of Non-GAAP Financial Information.”

Adjusted EBITDA (a non-GAAP measure) for full-year 2022 grew to \$76.4 million (9.6% of net sales), the highest full-year level of Adjusted EBITDA dollars and margin since 2010.

Cash and Cash Equivalents; Debt

The Company’s cash and cash equivalents (including restricted cash) totaled \$85.5 million as of December 31, 2022, compared to \$45.3 million as of December 31, 2021. The cash flow sweep provision of the Company’s Term Loan triggers a mandatory paydown of \$23.1 million based on full-year results. That amount is now reclassified to short-term debt on the 12/31/2022 balance sheet, in addition to this year’s scheduled principal amortization. Separately, in January 2023, the company used a portion of its cash-on-hand to make an optional pay-down of its long-term debt of \$15 million, incurring \$150K in pre-payment penalties. As we have made the sweep payment upon finalizing our financials, the current payoff balance of our Term Loan is \$30.8 million. Cash and cash equivalents (including restricted cash) total \$40.2 million as of March 3, 2023. The company currently has no draw on its asset-based loan.

Use of Non-GAAP Financial Information

In addition to the preliminary results reported in accordance with U.S. GAAP included in this release, the Company has provided certain non-GAAP financial information including Adjusted earnings per share and Adjusted EBITDA which are non-GAAP metrics that exclude various items that are detailed in the financial tables and accompanying footnotes reconciling GAAP to non-GAAP results contained in this release. Management believes that the presentation of these non-GAAP financial measures provides useful information to investors because the information may allow investors to better evaluate ongoing business performance and certain components of the Company’s results. In addition, the Company believes that the presentation of these financial measures enhances an investor’s ability to make period-to-period comparisons of the Company’s operating results. This information should be considered in addition to the results presented in accordance with GAAP and should not be considered a substitute for the GAAP results. The Company has reconciled the non-GAAP financial information included in this release to the nearest GAAP measures. See the attached “Reconciliation of Non-GAAP Financial Information.” “Liquidity” is calculated as cash and cash equivalents, including restricted cash, plus availability under the Company’s \$67.5 million revolving credit facility.

Conference Call Live Webcast

JAKKS Pacific, Inc. invites analysts, investors and media to listen to the teleconference scheduled for 5:00 p.m. ET / 2:00 p.m. PT on March 9, 2023. A live webcast of the call will be available on the “Investor Relations” page of the Company’s website at www.jakks.com/investors. To access the call by phone, please go to this link (Registration Link), and you will be provided with dial in details. To avoid delays, we encourage participants to dial into the conference call fifteen minutes ahead of the scheduled start time. A replay of the webcast will also be available for a limited time at (www.jakks.com/investors).

About JAKKS Pacific, Inc.

JAKKS Pacific, Inc. is a leading designer, manufacturer and marketer of toys and consumer products sold throughout the world, with its headquarters in Santa Monica, California. JAKKS Pacific’s popular proprietary brands include Perfectly Cute™, Ami-Amis™, ReDo™ Skateboard Co, AirTitans®, Disguise®, JAKKS Wild Games™, Moose Mountain®, Maui®, SportsZone™, Fly Wheels™, Kids Only!®; a wide range of entertainment-inspired products featuring premier licensed properties; and C’est Moi™, a new generation of clean beauty. Through JAKKS Cares, the company’s commitment to philanthropy, JAKKS is helping to make a positive impact on the lives of children. Visit us at www.jakks.com and follow us on Instagram (@jakkstoys), Twitter (@jakkstoys) and Facebook (JAKKS Pacific).

Forward Looking Statements

This press release may contain “forward-looking statements” (within the meaning of the Private Securities Litigation Reform Act of 1995) that are based on current expectations, estimates and projections about JAKKS Pacific's business based partly on assumptions made by its management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such statements due to numerous factors, including, but not limited to, those described above, changes in demand for JAKKS Pacific's products, product mix, the timing of customer orders and deliveries, the impact of competitive products and pricing, or that any future transactions will result in future growth or success of JAKKS. The “forward-looking statements” contained herein speak only as of the date on which they are made, and JAKKS undertakes no obligation to update any of them to reflect events or circumstances after the date of this release.

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JAKKS Pacific, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets (Unaudited)

	December 31,	
	2022	2021
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 85,297	\$ 44,521
Restricted cash	193	811
Accounts receivable, net	102,771	147,394
Inventory	80,619	83,954
Prepaid expenses and other assets	6,331	10,877
Total current assets	275,211	287,557
Property and equipment	130,437	121,945
Less accumulated depreciation and amortization	115,575	108,796
Property and equipment, net	14,862	13,149
Operating lease right-of-use assets, net	19,913	16,950
Deferred income tax assets, net	51,762	-
Goodwill	35,083	35,083
Intangibles and other assets, net	2,469	4,308
Total assets	\$ 399,300	\$ 357,047
Liabilities, Preferred Stock and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 33,687	\$ 50,237
Accounts payable - Meisheng (related party)	9,820	15,894
Accrued expenses	37,999	47,071
Reserve for sales returns and allowances	51,877	46,285
Income taxes payable	3,648	1,004
Short term operating lease liabilities	10,746	10,477
Short term debt, net	25,529	2,104
Total current liabilities	173,306	173,072
Long term operating lease liabilities	9,863	8,039
Debt, non-current portion, net	41,622	93,415
Preferred stock derivative liability	21,918	21,282
Income taxes payable	114	215
Deferred income tax liabilities, net	-	51
Total liabilities	246,823	296,074
Preferred stock accrued dividends	4,490	3,074
Stockholders' equity:		
Common stock, \$.001 par value	10	10
Additional paid-in capital	275,187	272,941
Accumulated deficit	(110,729)	(203,431)
Accumulated other comprehensive loss	(17,482)	(12,952)
Total JAKKS Pacific, Inc. stockholders' equity	146,986	56,568
Non-controlling interests	1,001	1,331
Total stockholders' equity	147,987	57,899
Total liabilities, preferred stock and stockholders' equity	\$ 399,300	\$ 357,047

Supplemental Balance Sheet and Cash Flow Data (Unaudited)

	December 31,	
	2022	2021
<u>Key Balance Sheet Data:</u>		
Accounts receivable days sales outstanding (DSO)	72	72
Inventory turnover (DSI)	72	56
<u>Twelve Months Ended December 31,</u>		
	2022	2021
	(In thousands)	
Cash flows provided by (used in) operating activities	\$ 86,098	\$ (5,879)
Cash flows used in investing activities	(10,387)	(8,189)
Cash flows used in financing activities and other	(35,554)	(33,293)
Increase/(decrease) in cash, cash equivalents and restricted cash	<u>\$ 40,157</u>	<u>\$ (47,361)</u>
Capital expenditures	<u>\$ (10,389)</u>	<u>\$ (8,221)</u>

JAKKS Pacific, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended			Twelve Months Ended		
	December 31,		Δ (%)	December 31,		Δ (%)
	2022	2021		2022	2021	
	(In thousands, except per share data)			(In thousands, except per share data)		
Net sales	\$ 131,886	\$ 187,964	(30)%	\$ 796,187	\$ 621,116	28%
Less: Cost of sales						
Cost of goods	81,355	111,497	(27)	449,597	343,130	31
Royalty expense	20,371	25,641	(21)	126,633	87,187	45
Amortization of tools and molds	1,592	784	103	8,671	7,842	11
Cost of sales	103,318	137,922	(25)	584,901	438,159	33
Gross profit	28,568	50,042	(43)	211,286	182,957	15
Direct selling expenses	13,153	19,252	(32)	33,290	43,069	(23)
General and administrative expenses	30,752	27,262	13	114,819	98,712	16
Depreciation and amortization	360	602	(40)	1,907	2,409	(21)
Selling, general and administrative expenses	44,265	47,116	(6)	150,016	144,190	4
Intangibles impairment	-	-	-	300	-	nm
Income (loss) from operations	(15,697)	2,926	nm	60,970	38,767	57
Other income (expense):						
Other income (expense), net	277	190	46	797	446	79
Change in fair value of convertible senior notes	-	76	nm	-	(16,419)	nm
Change in fair value of preferred stock derivative liability	1,429	(4,207)	nm	(636)	(13,220)	(95)
Gain on loan forgiveness	-	-	-	-	6,206	nm
Loss on debt extinguishment	-	-	-	-	(7,351)	nm
Interest income	63	3	nm	127	13	nm
Interest expense	(2,294)	(2,201)	4	(11,183)	(14,104)	(21)
Income (loss) before provision for (benefit from) income taxes	(16,222)	(3,213)	405	50,075	(5,662)	nm
Provision for (benefit from) income taxes	(55,620)	(60)	nm	(42,297)	226	nm
Net income (loss)	39,398	(3,153)	nm	92,372	(5,888)	nm
Net income (loss) attributable to non-controlling interests	140	19	nm	(330)	120	nm
Net income (loss) attributable to JAKKS Pacific, Inc.	\$ 39,258	\$ (3,172)	nm%	\$ 92,702	\$ (6,008)	nm%
Net income (loss) attributable to common stockholders	\$ 38,896	\$ (3,513)	nm%	\$ 91,286	\$ (7,342)	nm%
Earnings (loss) per share - basic	\$ 4.00	\$ (0.37)		\$ 9.46	\$ (0.98)	
Shares used in earnings (loss) per share - basic	9,732	9,511		9,651	7,498	
Earnings (loss) per share - diluted	\$ 3.79	\$ (0.37)		\$ 8.99	\$ (0.98)	
Shares used in earnings (loss) per share - diluted	10,263	9,511		10,155	7,498	

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2022	2021	Δ bps	2022	2021	Δ bps
			Fav/(Unfav)			Fav/(Unfav)
Net sales	100.0%	100.0%	-	100.0%	100.0%	-
Less: Cost of sales						
Cost of goods	61.7	59.3	(240)	56.5	55.2	(130)
Royalty expense	15.4	13.6	(180)	15.9	14.0	(190)
Amortization of tools and molds	1.2	0.5	(70)	1.1	1.3	20
Cost of sales	78.3	73.4	(490)	73.5	70.5	(300)
Gross profit	21.7	26.6	(490)	26.5	29.5	(300)
Direct selling expenses	10.0	10.2	20	4.2	6.9	270
General and administrative expenses	23.3	14.5	(880)	14.4	15.9	150
Depreciation and amortization	0.3	0.3	-	0.2	0.4	20
Selling, general and administrative expenses	33.6	25.0	(860)	18.8	23.2	440
Intangibles impairment	-	-	-	-	-	-
Income (loss) from operations	(11.9)	1.6	(1,350)	7.7	6.3	140
Other income (expense):						
Other income (expense), net	0.2	0.1		0.1	-	
Change in fair value of convertible senior notes	-	-		-	(2.6)	
Change in fair value of preferred stock derivative liability	1.1	(2.2)		(0.1)	(2.1)	
Gain on loan forgiveness	-	-		-	1.0	
Loss on debt extinguishment	-	-		-	(1.2)	
Interest income	-	-		-	-	
Interest expense	(1.7)	(1.2)		(1.4)	(2.3)	
Income (loss) before provision for (benefit from) income taxes	(12.3)	(1.7)		6.3	(0.9)	
Provision for (benefit from) income taxes	(42.2)	-		(5.3)	-	
Net income (loss)	29.9	(1.7)		11.6	(0.9)	
Net income (loss) attributable to non-controlling interests	0.1	-		-	-	
Net income (loss) attributable to JAKKS Pacific, Inc.	29.8%	(1.7)%		11.6%	(0.9)%	
Net income (loss) attributable to common stockholders	29.5%	(1.9)%		11.5%	(1.2)%	

JAKKS Pacific, Inc. and Subsidiaries
Reconciliation of Non-GAAP Financial Information (Unaudited)

Reconciliation of GAAP to Non-GAAP measures:

This press release and accompanying schedules provide certain information regarding Adjusted EBITDA and Adjusted Net Income (Loss), which may be considered non-GAAP financial measures under the rules of the Securities and Exchange Commission. The non-GAAP financial measures included in the press release are reconciled to the corresponding GAAP financial measures below, as required under the rules of the Securities and Exchange Commission regarding the use of non-GAAP financial measures. We define Adjusted EBITDA as income (loss) from operations before depreciation, amortization and adjusted for certain non-recurring and non-cash charges, such as reorganization expenses and restricted stock compensation expense. Net income (loss) is similarly adjusted and tax-effected to arrive at Adjusted Net Income (Loss). Adjusted EBITDA and Adjusted Net Income (Loss) are not recognized financial measures under GAAP, but we believe that they are useful in measuring our operating performance. We believe that the use of the non-GAAP financial measures enhances an overall understanding of the Company's past financial performance, and provides useful information to the investor by comparing our performance across reporting periods on a consistent basis.

Investors should not consider these measures in isolation or as a substitute for net income, operating income, or any other measure for determining the Company's operating performance that is calculated in accordance with GAAP. In addition, because these measures are not calculated in accordance with GAAP, they may not necessarily be comparable to similarly titled measures employed by other companies.

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2022	2021	Δ (\$)	2022	2021	Δ (\$)
	(In thousands)			(In thousands)		
EBITDA and Adjusted EBITDA						
Net income (loss)	\$ 39,398	\$ (3,153)	\$ 42,551	\$ 92,372	\$ (5,888)	\$ 98,260
Interest expense	2,294	2,201	93	11,183	14,104	(2,921)
Interest income	(63)	(3)	(60)	(127)	(13)	(114)
Provision for (benefit from) income taxes	(55,620)	(60)	(55,560)	(42,297)	226	(42,523)
Depreciation and amortization	1,952	1,386	566	10,578	10,251	327
EBITDA	(12,039)	371	(12,410)	71,709	18,680	53,029
Adjustments:						
Other (income) expense, net	(277)	(190)	(87)	(797)	(446)	(351)
Restricted stock compensation expense	1,646	713	933	5,082	2,093	2,989
Change in fair value of preferred stock derivative liability	(1,429)	4,207	(5,636)	636	13,220	(12,584)
Change in fair value of convertible senior notes	-	(76)	76	-	16,419	(16,419)
Employee Retention Credit/gov't employment support	-	-	-	(249)	(1,900)	1,651
Gain on loan forgiveness	-	-	-	-	(6,206)	6,206
Loss on debt extinguishment	-	-	-	-	7,351	(7,351)
Adjusted EBITDA	<u>\$ (12,099)</u>	<u>\$ 5,025</u>	<u>\$ (17,124)</u>	<u>\$ 76,381</u>	<u>\$ 49,211</u>	<u>\$ 27,170</u>
Adjusted EBITDA/Net sales %	<u>(9.2)%</u>	<u>2.7%</u>	-1190 bps	<u>9.6%</u>	<u>7.9%</u>	170 bps

	Three Months Ended		Δ (\$)	Twelve Months Ended		Δ (\$)
	December 31,			December 31,		
	2022	2021		2022	2021	
	(In thousands, except per share data)			(In thousands, except per share data)		
<u>Adjusted net income (loss) attributable to common stockholders</u>						
Net income (loss) attributable to common stockholders	\$ 38,896	\$ (3,513)	\$ 42,409	\$ 91,286	\$ (7,342)	\$ 98,628
Restricted stock compensation expense	1,646	713	933	5,082	2,093	2,989
Change in fair value of preferred stock derivative liability	(1,429)	4,207	(5,636)	636	13,220	(12,584)
Change in fair value of convertible senior notes	-	(76)	76	-	16,419	(16,419)
Loss on debt extinguishment	-	-	-	-	7,351	(7,351)
Gain on loan forgiveness	-	-	-	-	(6,206)	6,206
Employee Retention Credit/gov't employment support	-	-	-	(249)	(1,900)	1,651
2021 BSP Term Loan prepayment penalty	-	-	-	525	-	525
Valuation allowance release	(52,644)	-	(52,644)	(52,644)	-	(52,644)
Tax impact of additional charges	(511)	-	(511)	(1,208)	-	(1,208)
Adjusted net income (loss) attributable to common stockholders	<u>\$ (14,042)</u>	<u>\$ 1,331</u>	<u>\$ (15,373)</u>	<u>\$ 43,428</u>	<u>\$ 23,635</u>	<u>\$ 19,793</u>
Adjusted earnings (loss) per share - basic	<u>\$ (1.44)</u>	<u>\$ 0.14</u>	<u>\$ (1.58)</u>	<u>\$ 4.50</u>	<u>\$ 3.15</u>	<u>\$ 1.35</u>
Shares used in adjusted earnings (loss) per share - basic	<u>9,732</u>	<u>9,511</u>	<u>221</u>	<u>9,651</u>	<u>7,498</u>	<u>2,153</u>
Adjusted earnings (loss) per share - diluted	<u>\$ (1.44)</u>	<u>\$ 0.14</u>	<u>\$ (1.58)</u>	<u>\$ 4.28</u>	<u>\$ 2.59</u>	<u>\$ 1.69</u>
Shares used in adjusted earnings (loss) per share - diluted	<u>9,732</u>	<u>9,762</u>	<u>(30)</u>	<u>10,155</u>	<u>9,365</u>	<u>790</u>

JAKKS Pacific, Inc. and Subsidiaries
Net Sales by Division and Geographic Region

(In thousands)		QTD Q4				
Divisions				%	%	
	2022	2021	2020	Change 2022 v 2021	Change 2021 v 2020	
Toys/Consumer Products	\$ 117,727	\$ 179,152	\$ 121,034	-34.3%	48.0%	
Dolls, Role-Play/Dress Up	68,937	116,877	72,970	-41.0%	60.2%	
Action Play & Collectibles	38,909	41,164	26,609	-5.5%	54.7%	
Outdoor/Seasonal						
Toys	9,881	21,111	21,455	-53.2%	-1.6%	
Costumes	14,159	8,812	7,233	60.7%	21.8%	
Total	\$ 131,886	\$ 187,964	\$ 128,267	-29.8%	46.5%	

(In thousands)		FY 2022				
Divisions				%	%	
	2022	2021	2020	Change 2022 v 2021	Change 2021 v 2020	
Toys/Consumer Products	\$ 647,317	\$ 513,517	\$ 427,122	26.1%	20.2%	
Dolls, Role-Play/Dress Up	423,581	323,360	275,154	31.0%	17.5%	
Action Play & Collectibles	173,529	114,778	80,560	51.2%	42.5%	
Outdoor/Seasonal						
Toys	50,207	75,379	71,408	-33.4%	5.6%	
Costumes	148,870	107,599	88,750	38.4%	21.2%	
Total	\$ 796,187	\$ 621,116	\$ 515,872	28.2%	20.4%	

(In thousands)		QTD Q4				
Regions				%	%	
	2022	2021	2020	Change 2022 v 2021	Change 2021 v 2020	
United States	\$ 100,907	\$ 148,876	\$ 100,224	-32.2%	48.5%	
Europe	19,437	22,322	17,461	-12.9%	27.8%	
Canada	4,795	5,596	3,931	-14.3%	42.4%	
Latin America	2,626	4,483	1,148	-41.4%	290.5%	
Asia	1,698	3,018	2,309	-43.7%	30.7%	
Australia & New Zealand	1,822	2,496	1,526	-27.0%	63.6%	
Middle East & Africa	601	1,173	1,668	-48.8%	-29.7%	
Total	\$ 131,886	\$ 187,964	\$ 128,267	-29.8%	46.5%	

(In thousands)		FY 2022				
Regions				%	%	
	2022	2021	2020	Change 2022 v 2021	Change 2021 v 2020	
United States	\$ 644,295	\$ 512,193	\$ 421,222	25.8%	21.6%	
Europe	85,348	60,425	51,885	41.2%	16.5%	
Canada	26,515	17,999	18,486	47.3%	-2.6%	
Latin America	18,338	12,606	7,734	45.5%	63.0%	
Asia	10,431	9,232	8,285	13.0%	11.4%	
Australia & New Zealand	8,836	6,423	5,795	37.6%	10.8%	
Middle East & Africa	2,424	2,238	2,465	8.3%	-9.2%	
Total	\$ 796,187	\$ 621,116	\$ 515,872	28.2%	20.4%	

(In thousands)		QTD Q4				
Regions				%	%	
	2022	2021	2020	Change 2022 v 2021	Change 2021 v 2020	
North America	\$ 105,702	\$ 154,472	\$ 104,155	-31.6%	48.3%	
International	26,184	33,492	24,112	-21.8%	38.9%	
Total	\$ 131,886	\$ 187,964	\$ 128,267	-29.8%	46.5%	

(In thousands)		FY 2022				
Regions				%	%	
	2022	2021	2020	Change 2022 v 2021	Change 2021 v 2020	
North America	\$ 670,810	\$ 530,192	\$ 439,708	26.5%	20.6%	
International	125,377	90,924	76,164	37.9%	19.4%	
Total	\$ 796,187	\$ 621,116	\$ 515,872	28.2%	20.4%	