

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, 2024
- or
- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number: 0-28104

JAKKS Pacific, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

95-4527222

(I.R.S. Employer Identification No.)

2951 28th Street

Santa Monica, California

(Address of Principal Executive Offices)

90405

(Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☐
Non-accelerated filer ☐
Emerging growth company ☐

Accelerated filer ☒
Smaller reporting 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 10,800,892 as of May 8, 2024.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
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QUARTER ENDED MARCH 31, 2024
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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, 2024 (Unaudited)	December 31, 2023
Current assets		
Cash and cash equivalents	\$ 35,290	\$ 72,350
Restricted cash	202	204
Accounts receivable, net of allowance for credit losses of \$4,880 and \$3,743 at March 31, 2024 and December 31, 2023, respectively	79,875	123,797
Inventory	46,341	52,647
Prepaid expenses and other assets	19,087	6,374
Total current assets	180,795	255,372
Property and equipment		
Office furniture and equipment	9,165	8,852
Molds and tooling	122,153	120,396
Leasehold improvements	6,748	6,708
Total	138,066	135,956
Less accumulated depreciation and amortization	122,694	121,357
Property and equipment, net	15,372	14,599
Operating lease right-of-use assets, net	22,965	23,592
Other long-term assets	2,063	2,162
Deferred income tax assets, net	68,142	68,143
Goodwill	34,997	35,083
Total assets	\$ 324,334	\$ 398,951
Liabilities, Preferred Stock and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 31,683	\$ 42,177
Accounts payable - Meisheng (related party)	8,689	12,259
Accrued expenses	37,201	45,102
Reserve for sales returns and allowances	27,859	38,531
Income taxes payable	—	3,785
Short-term operating lease liabilities	8,237	7,380
Total current liabilities	113,669	149,234
Long-term operating lease liabilities	15,961	16,666
Accrued expenses – long term	3,183	3,746
Preferred stock derivative liability	—	29,947
Income taxes payable	3,295	3,245
Total liabilities	136,108	202,838
Preferred stock accrued dividends, \$0.001 par value; 5,000,000 shares authorized; nil and 200,000 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively	—	5,992
Stockholders' Equity		
Common stock, \$0.001 par value; 100,000,000 shares authorized; 10,800,892 and 10,096,197 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively	11	10
Additional paid-in capital	292,024	278,642
Accumulated deficit	(88,117)	(73,612)
Accumulated other comprehensive loss	(16,192)	(15,627)
Total JAKKS Pacific, Inc. stockholders' equity	187,726	189,413
Non-controlling interests	500	708
Total stockholders' equity	188,226	190,121
Total liabilities, preferred stock and stockholders' equity	\$ 324,334	\$ 398,951

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	(Unaudited)	
	2024	2023
Net sales	\$ 90,076	\$ 107,484
Cost of sales:		
Cost of goods	53,821	58,304
Royalty expense	13,776	16,654
Amortization of tools and molds	1,427	1,089
Cost of sales	69,024	76,047
Gross profit	21,052	31,437
Direct selling expenses	8,097	7,741
General and administrative expenses	34,192	27,994
Depreciation and amortization	87	102
Selling, general and administrative expenses	42,376	35,837
Loss from operations	(21,324)	(4,400)
Other income (expense), net	138	438
Change in fair value of preferred stock derivative liability	—	147
Interest income	376	117
Interest expense	(143)	(3,003)
Loss before benefit from income taxes	(20,953)	(6,701)
Benefit from income taxes	(6,728)	(1,383)
Net loss	(14,225)	(5,318)
Net income (loss) attributable to non-controlling interests	280	(5)
Net loss attributable to JAKKS Pacific, Inc.	\$ (14,505)	\$ (5,313)
Net loss attributable to common stockholders	\$ (13,175)	\$ (5,680)
Loss per share - basic and diluted	\$ (1.27)	\$ (0.58)
Shares used in loss per share - basic and diluted	10,354	9,871
Comprehensive loss	\$ (14,790)	\$ (4,986)
Comprehensive loss attributable to JAKKS Pacific, Inc.	\$ (15,070)	\$ (4,981)

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, 2024
(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, 2023	\$ 10	\$ 278,642	\$ (73,612)	\$ (15,627)	\$ 189,413	\$ 708	\$ 190,121
New stock issuance	1	—	—	—	1	—	1
Share-based compensation expense	—	2,575	—	—	2,575	—	2,575
Non-controlling interests – capital reduction	—	—	—	—	—	(488)	(488)
Repurchase of common stock for employee tax withholding	—	(5,132)	—	—	(5,132)	—	(5,132)
Preferred stock accrued dividends	—	(390)	—	—	(390)	—	(390)
Preferred stock redemption	—	16,329	—	—	16,329	—	16,329
Net income (loss)	—	—	(14,505)	—	(14,505)	280	(14,225)
Foreign currency translation adjustment	—	—	—	(565)	(565)	—	(565)
Balance, March 31, 2024	<u>\$ 11</u>	<u>\$ 292,024</u>	<u>\$ (88,117)</u>	<u>\$ (16,192)</u>	<u>\$ 187,726</u>	<u>\$ 500</u>	<u>\$ 188,226</u>

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	<u>\$ 10</u>	<u>\$ 275,695</u>	<u>\$ (117,331)</u>	<u>\$ (17,150)</u>	<u>\$ 141,224</u>	<u>\$ 996</u>	<u>\$ 142,220</u>

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)	
	2024	2023
Cash flows from operating activities		
Net loss	\$ (14,225)	\$ (5,318)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for credit losses	1,126	380
Depreciation and amortization	1,514	1,191
Write-off and amortization of debt discount	—	692
Write-off and amortization of debt issuance costs	79	399
Share-based compensation expense	2,575	2,089
Gain on disposal of property and equipment	2	(18)
Deferred income taxes	1	—
Change in fair value of preferred stock derivative liability	—	(147)
Changes in operating assets and liabilities:		
Accounts receivable	42,796	17,220
Inventory	6,306	16,631
Prepaid expenses and other assets	(11,199)	(6,515)
Accounts payable	(10,489)	(4,704)
Accounts payable - Meisheng (related party)	(3,637)	(2,073)
Accrued expenses	(13,521)	(10,992)
Reserve for sales returns and allowances	(10,672)	(10,813)
Income taxes payable	(3,735)	(1,912)
Other liabilities	216	(226)
Total adjustments	1,362	1,202
Net cash used in operating activities	(12,863)	(4,116)
Cash flows from investing activities		
Purchases of property and equipment	(2,228)	(3,490)
Investments in employee deferred compensation trusts	(1,407)	—
Proceeds from sale of property and equipment	1	18
Net cash used in investing activities	(3,634)	(3,472)
Cash flows from financing activities		
Repurchase of common stock for employee tax withholding	—	(1,214)
Redemption of preferred stock	(20,000)	—
Repayment of 2021 BSP Term Loan	—	(38,719)
Net cash used in financing activities	(20,000)	(39,933)
Net decrease in cash, cash equivalents and restricted cash	(36,497)	(47,521)
Effect of foreign currency translation	(565)	332
Cash, cash equivalents and restricted cash, beginning of period	72,554	85,490
Cash, cash equivalents and restricted cash, end of period	\$ 35,492	\$ 38,301
Supplemental disclosures of non-cash activities:		
Right-of-use assets exchanged for lease liabilities	\$ 3,532	\$ —
Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net	\$ 1,312	\$ 550
Cash paid for interest	\$ 36	\$ 1,906

As of March 31, 2024 and 2023, there was \$ 3.1 million and \$2.6 million, respectively, of property and equipment purchases included in accounts payable.

As of March 31, 2024 and 2023, the Company had accrued \$ 5.1 million and nil, respectively, for repurchases of common stock for employee tax withholding.

See Notes 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, 2024

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, 2023.

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 Pacific Trading 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 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 adoption of this new accounting standard did not have a material impact on the Company's 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 adopted ASU 2020-06 on January 1, 2024. The adoption of this new accounting standard did not have a material impact on the Company's condensed consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures." The amendments in this Update improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The new standard is effective for the Company for fiscal years beginning after December 15, 2023, and interim periods beginning after December 15, 2024. The Company will adopt ASU 2023-07 in its fourth quarter of 2024. The Company is currently evaluating the impact that the updated disclosure will have on its condensed consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
March 31, 2024

In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." This ASU provides standardization of tax disclosures, primarily related to the rate reconciliation and income taxes paid information. The new standard is effective for the Company for fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the impact that the updated disclosure will have on its condensed consolidated financial statements.

No new additional accounting pronouncements were issued or adopted for the three months ended March 31, 2024 that materially impacted the Company.

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, 2024 and 2023 and as of March 31, 2024 and December 31, 2023 are as follows (in thousands):

	Three Months Ended March 31,	
	2024	2023
Net Sales		
Toys/Consumer Products	\$ 82,910	\$ 97,893
Costumes	7,166	9,591
	<u>\$ 90,076</u>	<u>\$ 107,484</u>
	Three Months Ended March 31,	
	2024	2023
Loss from Operations		
Toys/Consumer Products	\$ (17,210)	\$ (1,161)
Costumes	(4,114)	(3,239)
	<u>\$ (21,324)</u>	<u>\$ (4,400)</u>
	Three Months Ended March 31,	
	2024	2023
Depreciation and Amortization Expense		
Toys/Consumer Products	\$ 1,499	\$ 1,160
Costumes	15	31
	<u>\$ 1,514</u>	<u>\$ 1,191</u>
	March 31, 2024	December 31, 2023
Assets		
Toys/Consumer Products	\$ 298,792	\$ 383,812
Costumes	25,542	15,139
	<u>\$ 324,334</u>	<u>\$ 398,951</u>

JAKKS PACIFIC, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
March 31, 2024

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, 2024 and December 31, 2023 and for the three months ended March 31, 2024 and 2023 (in thousands):

	March 31, 2024	December 31, 2023
Long-lived Assets		
United States	\$ 20,916	\$ 21,206
China	14,250	13,794
Hong Kong	1,198	1,410
United Kingdom	1,092	892
Italy	813	811
Mexico	52	55
Canada	16	23
	<u>\$ 38,337</u>	<u>\$ 38,191</u>

	Three Months Ended March 31,	
	2024	2023
Net Sales by Customer Area		
United States	\$ 70,430	\$ 80,443
Latin America	7,996	9,204
Europe	5,735	10,162
Canada	3,370	4,054
Australia & New Zealand	1,346	1,608
Asia	965	1,380
Middle East & Africa	234	633
	<u>\$ 90,076</u>	<u>\$ 107,484</u>

Major Customers

Net sales to major customers for the three months ended March 31, 2024 and 2023 were as follows (in thousands, except for percentages):

	Three Months Ended March 31,			
	2024		2023	
	Amount	Percentage of Net Sales	Amount	Percentage of Net Sales
Target	\$ 26,667	29.6%	\$ 29,404	27.4%
Walmart	21,294	23.6	23,283	21.7
	<u>\$ 47,961</u>	<u>53.2%</u>	<u>\$ 52,687</u>	<u>49.1%</u>

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, 2024

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, 2024	December 31, 2023
Raw materials	\$ 112	\$ 122
Finished goods	46,229	52,525
	<u>\$ 46,341</u>	<u>\$ 52,647</u>

The inventory obsolescence reserve was \$10.1 million and \$7.7 million as of March 31, 2024 and December 31, 2023, 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. For the three months ended March 31, 2024 and 2023, sales commissions were \$0.3 million and \$0.6 million, respectively.

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, 2024 and 2023, shipping and handling costs were \$1.6 million and \$1.9 million, respectively.

The Company's reserve for sales returns and allowances amounted to \$27.9 million as of March 31, 2024, compared to \$38.5 million as of December 31, 2023.

The Company's net accounts receivable as of March 31, 2024, December 31, 2023 and December 31, 2022 were \$79.9 million, \$123.8 million and \$102.8 million, respectively.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
March 31, 2024

Note 5 — Debt

Term Loan

The Company and certain of its subsidiaries, as borrowers, had entered into a First Lien Term Loan Facility Credit Agreement on June 2, 2021, (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.

On June 5, 2023, the Company paid in full the 2021 BSP Term Loan and terminated the 2021 BSP Term Loan Agreement by making a \$ 30.2 million prepayment towards the outstanding principal amount. Additionally, the Company made a \$0.4 million payment towards the outstanding accrued interest, and a \$0.3 million payment for the prepayment penalty and other related fees. In connection with this transaction, the Company recognized a loss on debt extinguishment of \$1.0 million on its condensed consolidated statements of operations.

On January 3, 2023, as permitted by the terms within the 2021 BSP Term Loan Agreement, the Company had 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 and 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 had made a mandatory \$23.1 million payment towards the outstanding principal amount of the 2021 BSP Term Loan.

Amounts outstanding under the 2021 BSP Term Loan bore 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 was termed to mature 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 was effective on April 1, 2023. In addition to the transition to SOFR, the amendment also included a constant 0.10% spread adjustment until the maturity of the 2021 BSP Term Loan.

The 2021 BSP Term Loan Agreement contained negative covenants that, subject to certain exceptions, limited 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 was 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 was 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 was to be increased to \$20.0 million. Notwithstanding the foregoing, the Applicable Minimum Cash Amount was to 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 was in no event to be reduced below \$15.0 million.

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The 2021 BSP Term Loan Agreement contained 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 occurred, the maturity of the amounts owed under the 2021 BSP Term Loan Agreement might have been accelerated.

The obligations under the 2021 BSP Term Loan Agreement were guaranteed by the Company, the subsidiary borrowers thereunder and certain of the other existing and future direct and indirect subsidiaries of the Company and were 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 10 – Credit Facility).

The agent and Sole Lead Arranger under the 2021 BSP Term Loan were 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 (see Note 16 – Related Party Transactions).

The fair value of the Company's 2021 BSP Term Loan was considered Level 3 fair value (see Note 15 – Fair Value Measurements for further discussion of the fair value hierarchy) and was measured using the discounted future cash flow method. In addition to the debt terms, the valuation methodology included an assumption of a discount rate that approximated the current yield on a debt security with comparable risk. This assumption was considered an unobservable input in that it reflected the Company's own assumptions about the inputs that market participants would use in pricing the asset or liability. The Company believed that this was the best information available for use in the fair value measurement.

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 bore 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. of March 31, 2024 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.

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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, 2024, the amount of outstanding borrowings was nil and the total excess borrowing availability was \$ 57.8 million.

As of March 31, 2024, off-balance sheet arrangements include letters of credit issued by JPMorgan of \$ 9.4 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, 2024 and March 31, 2023.

As of March 31, 2024, 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 \$6.7 million for the three months ended March 31, 2024, reflects an effective tax (benefit) rate of 32.1%. The Company's income tax benefit of \$ 1.4 million for the three months ended March 31, 2023, reflects an effective tax (benefit) rate of 20.6%. The tax benefit for the three months ended March 31, 2024 and 2023 primarily relates to discrete items and the tax benefit related to the overall worldwide loss (i.e. federal, state, and foreign).

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,	
	2024	2023
Loss per share - basic and diluted		
Net loss	\$ (14,225)	\$ (5,318)
Net income (loss) attributable to non-controlling interests	280	(5)
Net loss attributable to JAKKS Pacific, Inc.	(14,505)	(5,313)
Preferred stock dividend *	—	367
Redemption of preferred stock	1,330	—
Net loss attributable to common stockholders **	\$ (13,175)	\$ (5,680)
Weighted average common shares outstanding - basic and diluted	10,354	9,871
Loss per share available to common stockholder - basic and diluted	\$ (1.27)	\$ (0.58)

* The 200,000 shares issued and outstanding as of March 31, 2023 are non-participating. A preferred dividend of \$ 0.4m was accrued for Q1 2024 and included in the preferred stock redemption.

** Net loss attributable to common stockholders was computed by deducting the difference between the fair value of the consideration transferred to the holders of the preferred stock and the carrying amount of the preferred stock and fair value of the related derivative liability of \$1.3 million for the three months ended March 31, 2024 and the preferred stock dividend of \$0.4 million for the three months ended March 31, 2023.

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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 545,145 and 494,106 for the three months ended March 31, 2024 and 2023, 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 2023, certain employees, including three executive officers, surrendered an aggregate of 157,019 shares of restricted stock units for \$3.1 million to cover income taxes due for the vesting of restricted shares. Additionally, an aggregate of 34,588 shares of restricted stock granted in 2021 and 2022 with a value of approximately \$0.6 million was forfeited during 2023.

During 2024, certain employees, including three executive officers, surrendered an aggregate of 147,612 shares of restricted stock units for \$5.1 million to cover income taxes due for the vesting of restricted shares. Additionally, an aggregate of 13,714 shares of restricted stock granted in 2022 and 2023 with a value of approximately \$0.2 million was forfeited during 2024.

No dividend was declared or paid in 2024 and 2023.

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, 2024, the Company did not sell 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 \$ 150 million of securities (which will be reduced by any amount of securities sold pursuant to the ATM Agreement) 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, 2024, 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").

On March 11, 2024, the Company redeemed all of the outstanding shares of Series A Senior Preferred Stock for an aggregate price of \$ 20.0 million cash and 571,295 of its common shares, representing a value of \$ 15.0 million based on a share price of \$26.26, settling the preferred stock derivative liability of \$29.9 million and the preferred stock accrued dividends of \$ 6.0 million as of December 31, 2023.

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").

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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 had been declared or paid. Prior to the redemption, for the three months ended March 31, 2024 and 2023, the Company recorded \$0.4 million and \$1.1 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.

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.

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

As of March 31, 2024, the Company had redeemed all of the outstanding shares of the Series A Preferred Stock.

As of December 31, 2023, the Series A Preferred Stock was recorded in temporary equity at the amount of accrued, but unpaid dividends of \$6.0 million, and the redemption provision, as a bifurcated derivative, was recorded as a long-term liability with an estimated value of \$ 29.9 million.

As of December 31, 2023, the Series A Preferred Stock had a carrying value of \$ 26.0 million and a liquidation value of \$ 39.0 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:

	2024	2023
Balance, January 1,	\$ 5,992	\$ 4,490
Preferred stock accrued dividends	390	367
Preferred stock redemption	(6,382)	—
Balance, March 31,	<u>\$ —</u>	<u>\$ 4,857</u>

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. On May 10, 2023, the Company dissolved the joint venture with MC&C. Prior to the dissolution, the Company owned fifty-one percent of the joint venture. The results of operations of the joint venture are consolidated with the Company's results. The non-controlling interests incurred a gain of \$280,000 and a loss \$5,000 for the three months ended March 31, 2024 and 2023, respectively.

Note 11 — Goodwill

The Company applies a fair value-based impairment test to the carrying value of goodwill and indefinite-lived intangible assets on an annual basis and, on an interim basis, if certain events or circumstances indicate that an impairment loss may have been incurred. Goodwill impairment exists when the estimated fair value of goodwill is less than its carrying value. For the three months ended March 31, 2024, 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, 2024 and 2023 (in thousands):

	Three Months Ended March 31,	
	2024	2023
Net loss	\$ (14,225)	\$ (5,318)
Other comprehensive income (loss):		
Foreign currency translation adjustment	(565)	332
Comprehensive loss	(14,790)	(4,986)
Less: Comprehensive loss attributable to non-controlling interests	280	(5)
Comprehensive loss attributable to JAKKS Pacific, Inc.	<u>\$ (15,070)</u>	<u>\$ (4,981)</u>

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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.

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 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, 2024 and 2023 (in thousands)

	Three Months Ended March 31,	
	2024	2023
Share-based compensation expense	\$ 2,575	\$ 2,089

Restricted Stock Units

Restricted stock unit activity (including those with performance-based vesting criteria) for the three months ended March 31, 2024 is summarized as follows:

	Restricted Stock Units	
	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding, December 31, 2023	1,306,406	\$ 16.47
Granted	123,134	35.55
Vested	(280,996)	11.78
Forfeited	(13,714)	14.02
Outstanding, March 31, 2024	1,134,830	19.86

As of March 31, 2024, there was \$17.1 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 2.2 years.

As of March 31, 2024, the fair market value of non-vested restricted stock units was \$28.0 million.

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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.

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 assets and liabilities measured at fair value on a recurring basis as of March 31, 2024 and December 31, 2023 (in thousands):

	Carrying Amount as of March 31, 2024	Fair Value Measurements As of December 31, 2023		
		Level 1	Level 2	Level 3
Money market funds	\$ 7,101	\$ 7,101	\$ —	\$ —
Investments in employee deferred compensation trusts	1,407	1,407	—	—

	Carrying Amount as of December 31, 2023	Fair Value Measurements As of December 31, 2023		
		Level 1	Level 2	Level 3
Money market funds	\$ 45,130	\$ 45,130	\$ —	\$ —
Investments in employee deferred compensation trusts	41	41	—	—
Preferred stock derivative liability	29,947	—	—	29,947

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

<u>Preferred stock derivative liability</u>	2024	2023
Balance, January 1,	\$ 29,947	\$ 21,918
Change in fair value	—	(147)
Extinguishment through redemption of preferred stock	(29,947)	—
Balance, March 31,	\$ —	\$ 21,771

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The Company's Series A Preferred derivative liability was 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 was 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.

The preferred stock derivative liability was extinguished on March 11, 2024.

	Fair Value As of December 31, 2023 (In thousands)	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Preferred Stock Derivative Liability	\$ 29,947	Discounted Cash Flow	Change-in-control probability assumptions Timing of change-in-control assumptions Discount Rate Market yield*	Range: 0% to 100% Range: 1 to 10 years Range: 8% to 10% 6.3%*

*Represents the hypothetical market yield

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. On December 1, 2023, the Company dissolved the joint venture with Meisheng. Prior to the dissolution, JAKKS and Meisheng each owned fifty percent of the joint venture.

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, 2024 and 2023, the Company made inventory-related payments to Meisheng of approximately \$14.9 million and \$9.3 million, respectively. As of March 31, 2024 and December 31, 2023, amounts due to Meisheng for inventory received by the Company, but not paid totaled \$8.7 million and \$12.3 million, respectively.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
March 31, 2024

Note 17 — Prepaid Expenses and Other Assets

Prepaid expenses and other assets as of March 31, 2024 and December 31, 2023 consist of the following (in thousands):

	March 31, 2024	December 31, 2023
Royalty advances	\$ 6,964	\$ 1,450
Income tax receivable	6,533	2,672
Prepaid expenses	3,844	1,724
Other assets	1,461	243
Employee retention credit	285	285
Prepaid expenses and other assets	<u>\$ 19,087</u>	<u>\$ 6,374</u>

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 2023 Annual Report on Form 10-K and did not materially change during the first three months of 2024.

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)	
	2024	2023
Net sales	100.0%	100.0%
Cost of sales:		
Cost of goods	59.7	54.3
Royalty expense	15.3	15.5
Amortization of tools and molds	1.6	1.0
Cost of sales	76.6	70.8
Gross profit	23.4	29.2
Direct selling expenses	9.0	7.2
General and administrative expenses	38.0	26.0
Depreciation and amortization	0.1	0.1
Selling, general and administrative expenses	47.1	33.3
Loss from operations	(23.7)	(4.1)
Other income (expense), net	0.2	0.4
Change in fair value of preferred stock derivative liability	—	0.1
Interest income	0.4	0.1
Interest expense	(0.2)	(2.8)
Loss before benefit from income taxes	(23.3)	(6.3)
Benefit from income taxes	(7.5)	(1.3)
Net loss	(15.8)	(5.0)
Net income (loss) attributable to non-controlling interests	0.3	—
Net loss attributable to JAKKS Pacific, Inc.	(16.1)%	(5.0)%

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

	Three Months Ended March 31, (Unaudited)	
	2024	2023
Net Sales		
Toys/Consumer Products	\$ 82,910	\$ 97,893
Costumes	7,166	9,591
	<u>90,076</u>	<u>107,484</u>
Cost of Sales		
Toys/Consumer Products	65,055	68,671
Costumes	3,969	7,376
	<u>69,024</u>	<u>76,047</u>
Gross Profit		
Toys/Consumer Products	17,855	29,222
Costumes	3,197	2,215
	<u>\$ 21,052</u>	<u>\$ 31,437</u>

Comparison of the Three Months Ended March 31, 2024 and 2023

Net Sales

Toys/Consumer Products. Net sales of our Toys/Consumer Products segment were \$82.9 million for the three months ended March 31, 2024 compared to \$97.9 million for the prior year period, representing a decrease of \$15.0 million, or 15.3%. The decrease was primarily driven by lower sales in North America, which was down \$9.3 million, or 12.0%. Our Dolls, Role-Play/Dress-up division products saw a decline of 15.2%, due to lower Disney sales versus a year ago. Net sales from the Action Play & Collectibles division were down 12.8% due to lower net sales from the Super Mario Movie™ which was released April 2023.

Costumes. Net sales of our Costumes segment were \$7.2 million for the three months ended March 31, 2024 compared to \$9.6 million for the prior year period, representing a decrease of \$2.4 million, or 25.0%. The decrease was primarily due to reduced orders from select recurring costumes.

Cost of Sales

Toys/Consumer Products. Cost of sales of our Toys/Consumer Products segment was \$65.1 million, or 78.5% of related net sales for the three months ended March 31, 2024 compared to \$68.7 million, or 70.1% of related net sales for the prior year period, representing a decrease of \$3.6 million, or 5.3%. The increase as a percentage of net sales was due to a lower mix of high margin movie-related product as well as increased inventory reserves on slower moving movie-related product.

Costumes. Cost of sales of our Costumes segment was \$4.0 million, or 55.6% of related net sales for the three months ended March 31, 2024, compared to \$7.4 million, or 77.1% of related net sales for the prior year period, representing a decrease in dollars of \$3.4 million, or 45.9%. The decrease as a percentage of net sales was due to lower inventory reserves as a result of higher sell thru of reserved product.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$42.4 million for the three months ended March 31, 2024 compared to \$35.8 million for the prior year period constituting 47.1% and 33.3% of net sales, respectively. The increase in selling, general and administrative expenses was primarily due to higher headcount and salaries as we expand our international presence and associated marketing and travel expenses, as well as additional costs related to IT infrastructure, process and internal control enhancements.

Interest Expense

Interest expense was \$0.1 million for the three months ended March 31, 2024, as compared to \$3.0 million in the prior year period. During the three months ended March 31, 2024, we incurred interest expense of \$0.1 million related to our revolving credit facility. 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.

Provision For (Benefit From) Income Taxes

Our income tax benefit, which includes federal, state and foreign income taxes and discrete items, was \$6.7 million, or an effective tax (benefit) rate of 32.1%, for the three months ended March 31, 2024. During the comparable period in 2023, our income tax benefit was \$1.4 million, or an effective tax (benefit) rate of 20.6%. The effective tax rate increased primarily due to the expectation of taxes owed in higher tax jurisdictions.

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, 2024, we had working capital (inclusive of cash, cash equivalents and restricted cash) of \$67.1 million, compared to \$106.1 million as of December 31, 2023, representing a decrease in working capital of \$39.0 million during the three-month period ended March 31, 2024. The decrease in working capital is primarily attributable to the \$20.0 million cash payment made to holders for the redemption of our outstanding preferred stock. The remaining decrease is mainly attributable to cash used in operating activities and higher working capital usage.

Operating activities used net cash of \$12.9 million during the three months ended March 31, 2024, as compared to net cash used of \$4.1 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 22% payable on net sales of such products. As of March 31, 2024, these agreements required future aggregate minimum royalty guarantees of \$60.2 million exclusive of \$7.0 million in advances already paid. Of this \$60.2 million future minimum royalty guarantee, \$37.6 million is due over the next twelve months.

Investing activities used net cash of \$3.6 million and \$3.5 million for the three months ended March 31, 2024 and 2023, respectively, and consisted primarily of cash paid for the purchase of molds and tooling used in the manufacture of our products and purchases of investments to fund our obligation to our employees stemming from our non-qualified deferred compensation plan.

Financing activities used net cash of \$20.0 million and \$39.9 million for the three months ended March 31, 2024 and 2023, respectively. The cash used in financing activities during the three months ended March 31, 2023, consists of \$20.0 million used in the redemption of our outstanding preferred stock. 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.

As of March 31, 2024, we have no outstanding indebtedness under our senior secured revolving credit facility (the "JPMorgan ABL Facility"), aside from utilizing \$9.4 million in letters of credit.

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

As of March 31, 2024 and December 31, 2023, we held cash and cash equivalents, including restricted cash, of \$35.5 million and \$72.6 million, respectively. Cash, and cash equivalents, including restricted cash held outside of the United States in various foreign subsidiaries totaled \$26.9 million and \$21.5 million as of March 31, 2024 and December 31, 2023, 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. During the first quarter of 2024, the Company declared a one-time dividend from Canada to the U.S in the amount of \$5.9 million, in order to fund the preferred stock redemption that occurred during the quarter, resulting in a 5% withholding tax. This was a significant one-time event as there are no preferred stock outstanding as of March 31, 2024. Future cash remittances will come from Hong Kong, which does not impose withholding taxes. As such, foreign withholding taxes on future repatriations are not expected to be significant.

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, 2024 off-balance sheet arrangements include letters of credit issued by JPMorgan of \$9.4 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 JPMorgan ABL Facility (see Note 6 – Credit Facilities). 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 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.

In Q1 2023, we entered into an amendment to our JPMorgan ABL Credit Agreement which changed the interest reference rate on our 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, Italy 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, Italy, 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. 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, 2023. 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	Preferred Stock Redemption Agreement dated March 8, 2024 (2)
10.2	Registration Rights Agreement dated March 8, 2024 (2)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer (1)
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer (1)
32.1	Section 1350 Certification of Chief Executive Officer (1)
32.2	Section 1350 Certification of Chief Financial Officer (1)
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 herewith.

(2) Filed previously as an exhibit to the Company's Current Report on Form 8-K filed March 14, 2024, and incorporated herein by reference.

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 8, 2024

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

Date: May 8, 2024

By: /s/ John Kimble
John Kimble
Chief Financial Officer

Date: May 8, 2024

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, 2024 (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 8, 2024

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, 2024 (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 8, 2024