

JAKKS PACIFIC INC  
Form DEF 14A  
October 28, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant  x

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, For Use of the Commission Only (as Permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**JAKKS Pacific, Inc.**

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

**JAKKS PACIFIC, INC.**

**22619 PACIFIC COAST HIGHWAY**

**MALIBU, CA 90265**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON DECEMBER 6, 2013**

The Annual Meeting of Stockholders of JAKKS Pacific, Inc. (the “Company”) will be held at the J.W. Marriott Le Merigot Hotel, 1740 Ocean Avenue, Santa Monica, California 90401, on December 6, 2013 at 8:00 a.m. local time, to consider and act upon the following matters:

- (1) To elect 6 directors to serve for the ensuing year.
- (2) To ratify the selection by the Board of Directors of the firm of BDO USA, LLP, as the Company’s independent auditors for the current fiscal year.
- (3) To ratify and approve the amendment to the Company’s 2002 Stock Award and Incentive Plan.
- (4) To conduct an advisory vote on executive compensation.
- (5) To consider a stockholder proposal.
- (6) To transact such other business as may properly come before the meeting or any adjournment thereof.

Stockholders of record as of the close of business on October 11, 2013 will be entitled to notice of and to vote at the meeting or any adjournment thereof. The stock transfer books of the Company will remain open.

By Order of the Board of Directors,

Stephen G. Berman,

*Secretary*

Malibu, California

October 25, 2013

WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY AND MAIL IT PROMPTLY IN THE ENCLOSED ENVELOPE IN ORDER TO ENSURE REPRESENTATION OF YOUR SHARES. YOU MAY REVOKE THE PROXY AT ANY TIME BEFORE THE AUTHORITY GRANTED THEREIN IS EXERCISED.

**JAKKS PACIFIC, INC.**

**22619 PACIFIC COAST HIGHWAY**

**MALIBU, CA 90265**

**PROXY STATEMENT FOR THE 2013 ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON DECEMBER 6, 2013**

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of JAKKS Pacific, Inc. (the “Company”) for use at the 2013 Annual Meeting of Stockholders to be held on December 6, 2013, and at any adjournment of that meeting (the “Annual Meeting”). Throughout this Proxy Statement, “we,” “us” and “our” are used to refer to the Company.

The shares of our common stock represented by each proxy will be voted in accordance with the stockholder’s instructions as to each matter specified thereon, unless no instruction is given, in which case, the proxy will be voted in favor of such matter. A proxy may be revoked by the stockholder at any time before it is exercised by delivery of written revocation or a subsequently dated proxy to our corporate Secretary or by voting in person at the Annual Meeting.

We are mailing this Proxy Statement to our stockholders on or about October 25, 2013, accompanied by our Annual Report to Stockholders for our fiscal year ended December 31, 2012.

### **Voting Securities and Votes Required**

At the close of business on October 11, 2013, the record date for the determination of stockholders entitled to vote at the Annual Meeting, there were outstanding and entitled to vote an aggregate of 22,308,574 shares of our common stock, par value \$.001 per share. All holders of our common stock are entitled to one vote per share.

The affirmative vote of the holders of a plurality of the shares of our common stock present or represented by proxy at the Annual Meeting is required for election of directors. The affirmative vote of the holders of a majority of the shares of our common stock present or represented by proxy at the Annual Meeting is required for the ratification of the appointment by the Board of Directors of BDO USA, LLP as our independent auditors for the current fiscal year, and to approve the amendment to our 2002 Stock Award and Incentive Plan and the stockholder proposal, all as hereinafter described.

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting is required for the approval of Proposal No. 4. While our Board and its Compensation Committee will carefully consider the outcome of the vote expressed by our stockholders when making future executive compensation decisions, the vote will not be binding upon them.

A majority of the outstanding shares of our common stock represented in person or by proxy at the Annual Meeting will constitute a quorum at the meeting. All shares of our common stock represented in person or by proxy (including shares which abstain or do not vote for any reason with respect to one or more of the matters presented for stockholder approval) will be counted for purposes of determining whether a quorum is present at the Annual Meeting. Abstentions will be treated as shares that are present and entitled to vote for purposes of determining the number of shares present and entitled to vote with respect to any particular matter, but will not be counted as a vote in favor of such matter. Accordingly, an abstention from voting on a matter has the same legal effect as a vote against the matter. If a broker or nominee holding stock in “street name” indicates on the proxy that it does not have discretionary authority to vote as to a particular matter (“broker non-votes”), those shares will not be considered as present and entitled to vote with respect to such matter. Accordingly, a broker non-vote on a matter has no effect on the voting on such matter.

## Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information as of October 11, 2013 with respect to the beneficial ownership of our common stock by (1) each person known by us to own beneficially more than 5% of the outstanding shares of our common stock, (2) each of our directors and nominees for director, (3) each of our executive officers named in the Summary Compensation Table set forth under the caption “Executive Compensation”, below, and (4) all our directors and executive officers as a group.

Name and Address of Beneficial Owner(1)(2)	Amount and Nature of Beneficial Ownership (3)	Percent of Outstanding Shares(4)
Black Rock, Inc.	1,673,664 (5)	7.5
Dimensional Fund Advisors LP	1,851,703 (6)	8.3
Invesco Ltd.	2,582,138 (7)	11.6
FMR LLC	1,300,000 (8)	5.8
The Vanguard Group, Inc.	1,252,276 (9)	5.6
Franklin Resources, Inc.	1,611,060 (10)	7.2
Dr. Patrick Soon-Shiong	5,927,467 (11)	24.9
Stephen G. Berman	421,582 (12)	1.9
John J. (Jack) McGrath	21,215 (13)	*
Joel M. Bennett	37,866	*
Marvin W. Ellin	21,589 (14)	*
Robert E. Glick	75,198 (15)	*
Michael G. Miller	75,198 (16)	*
Murray L. Skala	75,198 (17)	*
Peter F. Reilly	10,248 (18)	*
Leigh Anne Brodsky	9,832 (19)	*
Rex H. Poulsen	6,743 (20)	*
All directors and executive officers as a group (10 persons)	754,669 (21)	3.4 %

\*Less than 1% of our outstanding shares.

(1) Unless otherwise indicated, such person’s address is c/o JAKKS Pacific, Inc., 22619 Pacific Coast Highway, Malibu, California 90265.

(2) The number of shares of common stock beneficially owned by each person or entity is determined under the rules promulgated by the Securities and Exchange Commission. Under such rules, beneficial ownership includes any shares as to which the person or entity has sole or shared voting power or investment power. The percentage of our

outstanding shares is calculated by including among the shares owned by such person any shares which such person or entity has the right to acquire within 60 days after October 11, 2013. The inclusion herein of any shares deemed beneficially owned does not constitute an admission of beneficial ownership of such shares.

(3) Except as otherwise indicated, exercises sole voting power and sole investment power with respect to such shares.

(4) Does not include any shares of common stock issuable upon the conversion of \$39.0 million of our 4.50% convertible senior notes due 2014, initially convertible at the rate of 63.2091 shares of common stock per \$1,000 principal amount at issuance of the notes (but subject to adjustment under certain circumstances as described in the notes) nor any shares of common stock issuable upon the conversion of \$100.0 million of our 4.25% convertible senior notes due 2018, initially convertible at the rate of 114.3674 shares of common stock per \$1,000 principal amount at issuance of the notes (but subject to adjustment under certain circumstances as described in the notes).

(5) The address of BlackRock, Inc. is 40 East 52nd Street, New York, NY 10022. All the information presented in this Item with respect to this beneficial owner was extracted solely from the Schedule 13G/A filed on February 8, 2013.

(6) The address of Dimensional Fund Advisors LP (formerly known as Dimensional Fund Advisors, Inc.) is Palisades West, Building One, 6300 Bee Cove Road, Austin, TX 78746. Possesses sole voting power over 1,825,267 shares. All the information presented in this Item with respect to this beneficial owner was extracted solely from the Schedule 13G/A filed on February 11, 2013.

(7) The address of Invesco Ltd. is 1555 Peachtree Street NE; Atlanta, GA 30309. All the information presented in this Item with respect to this beneficial owner was extracted solely from the Schedule 13G filed on August 9, 2013.

- (8) The address of FMR LLC is 245 Summer Street, Boston, MA 02210. All the information presented in this Item with respect to this beneficial owner was extracted solely from the Schedule 13G/A filed on August 12, 2013.

- (9) The address of The Vanguard Group, Inc. is 100 Vanguard Blvd., Malvern, PA 19355. Possesses sole voting power with respect to 33,738 of such shares, sole dispositive power to 1,219,638 shares and shared dispositive power with respect to 32,638 of such shares. All the information presented in this Item with respect to this beneficial owner was extracted solely from the Schedule 13G filed on February 11, 2013.

- (10) The address of Franklin Resources, Inc. is One Franklin Parkway, San Mateo, CA 94403. Sole voting and dispositive power is held by Franklin Templeton Investments Corp. All the information presented in this Item with respect to this beneficial owner was extracted solely from the Schedule 13G filed on February 5, 2013.

- (11) The address of Dr. Patrick Soon-Shiong is 10182 Culver Blvd., Culver City, CA 90232. Includes 1,500,000 shares underlying a warrant owned by an affiliate. Except for 239,622 shares, and the shares underlying the warrant, all of the shares are owned jointly with California Capital Z, LLC. All the information presented in this Item with respect to this beneficial owner was extracted solely from the Schedule 13D/A filed on July 22, 2013.

- (12) Includes 279,553 shares of common stock issued on January 1, 2013 pursuant to the terms of Mr. Berman's January 1, 2003 Employment Agreement (as last amended on September 21, 2012), which shares are further subject to the terms of our January 1, 2013 Restricted Stock Award Agreement with Mr. Berman (the "Berman Agreement"). The Berman Agreement provides that Mr. Berman will forfeit his rights to all 279,553 shares unless certain conditions precedent are met prior to January 1, 2014, as described in the Berman Agreement, whereupon the forfeited shares will become authorized but unissued shares of our common stock. Also includes 18,238 shares granted on February 11, 2011 representing the stock component of his 2010 performance bonus which vest in seven tranches over six years, with each of the first six tranches equal to 14.5% of the total grant, and a seventh tranche equal to 13% of the total grant. The initial tranche vested on February 11, 2011 with each succeeding tranche vesting on January 1 of each year commencing with January 1, 2012 with the final tranche vesting on January 1, 2017. Also includes 2,726 shares remaining of the 4,089 shares granted on February 11, 2011 for his 2010 discretionary bonus, which shares vest on December 31, 2013.

- (13) Includes 5,990 shares of common stock issued on January 1, 2013 pursuant to the terms of Mr. McGrath's March 4, 2010 Employment Agreement (as amended on August 23, 2011), which shares are further subject to the terms of our January 1, 2013 Restricted Stock Award Agreement with Mr. McGrath (the "McGrath Agreement"). The McGrath Agreement provides that Mr. McGrath will forfeit his rights to all 5,990 shares unless certain conditions precedent are met prior to January 1, 2014, as described in the McGrath Agreement, whereupon the forfeited shares will become authorized but unissued shares of our common stock. Also includes 11,192 shares of common stock issued pursuant to our 2002 Stock Award and Incentive Plan, pursuant to which 5,909 of such shares may not be sold, mortgaged, transferred or otherwise encumbered prior to December 31, 2013.

- (14) Consists of 21,589 shares of common stock issued pursuant to our 2002 Stock Award and Incentive Plan, pursuant to which 7,914 of such shares may not be sold, mortgaged, transferred or otherwise encumbered prior to January 1, 2014.

Includes 22,500 shares which Mr. Glick may purchase upon the exercise of certain stock options and 52,698 (15) shares of Common Stock issued pursuant to our 2002 Stock Award and Incentive Plan, pursuant to which 7,914 of such shares may not be sold, mortgaged, transferred or otherwise encumbered prior to January 1, 2014.

Includes 22,500 shares which Mr. Miller may purchase upon the exercise of certain stock options and 52,698 (16) shares of Common Stock issued pursuant to our 2002 Stock Award and Incentive Plan, pursuant to which 7,914 of such shares may not be sold, mortgaged, transferred or otherwise encumbered prior to January 1, 2014.

Includes 22,500 shares which Mr. Skala may purchase upon the exercise of certain stock options and 52,698 (17) shares of Common Stock issued pursuant to our 2002 Stock Award and Incentive Plan, pursuant to which 7,914 of such shares may not be sold, mortgaged, transferred or otherwise encumbered prior to January 1, 2014.

Consists of 10,248 shares of common stock issued pursuant to our 2002 Stock Award and Incentive Plan, (18) pursuant to which 7,914 of such shares may not be sold, mortgaged, transferred or otherwise encumbered prior to January 1, 2014.

Consists of 9,832 shares of common stock issued pursuant to our 2002 Stock Award and Incentive Plan, pursuant (19) to which 7,914 of such shares may not be sold, mortgaged, transferred or otherwise encumbered prior to January 1, 2014.

Consists of 6,743 shares of common stock issued pursuant to our 2002 Stock Award and Incentive Plan, pursuant (20) to which 6,743 of such shares may not be sold, mortgaged, transferred or otherwise encumbered prior to January 1, 2014.

(21) Includes an aggregate of 67,500 shares which the directors and executive officers may purchase upon the exercise of certain stock options.

**ELECTION OF DIRECTORS****(Proposal No. 1)**

The persons named in the enclosed proxy will vote to elect as directors the six nominees named below, unless authority to vote for the election of any or all of the nominees is withheld by marking the proxy to that effect. All of the nominees have indicated their willingness to serve, if elected, but if any nominee should be unable to serve or for good cause will not serve, the proxies may be voted for a substitute nominee designated by management. Each director will be elected to hold office until the next annual meeting of stockholders or until his successor is elected and qualified. There are no family relationships between or among any of our executive officers or directors.

**Nominees**

Set forth below for each nominee as a director is his name, age, and position with us, the Committee of the Board upon which he currently sits, his principal occupation and business experience during at least the past five years and the date of the commencement of his term as a director.

<b>Name</b>	<b>Age</b>	<b>Position with the Company</b>	<b>Board Committee Membership</b>
Stephen G. Berman	49	Chief Executive Officer, President, Secretary and Director	-
Robert E. Glick	68	Director	Compensation (Chairman), Nominating and Corporate Governance (Chairman)
Michael G. Miller	66	Director	Compensation and Audit
Murray L. Skala	66	Director	-
Peter F. Reilly	49	Director	Audit
Rex H. Poulsen	62	Director	Audit (Chairman)

*Stephen G. Berman* has been our Chief Operating Officer (until August 23, 2011) and Secretary and one of our directors since co-founding JAKKS in January 1995. From February 17, 2009 through March 31, 2010 he was also our Co-Chief Executive Officer and has been our Chief Executive Officer since April 1, 2010. Since January 1, 1999, he has also served as our President. From our inception until December 31, 1998, Mr. Berman was also our Executive Vice President. From October 1991 to August 1995, Mr. Berman was a Vice President and Managing Director of THQ International, Inc., a subsidiary of THQ. From 1988 to 1991, he was President and an owner of Balanced Approach, Inc., a distributor of personal fitness products and services.

*Robert E. Glick* has been one of our directors since October 1996. For more than 20 years and until May, 2007, Mr. Glick was an officer, director and principal stockholder in a number of privately-held companies which manufacture and market women's apparel. Since May 2007, Mr. Glick has been a consultant to various apparel companies, including a publicly-held company that manufactures and markets women's apparel.

*Michael G. Miller* has been one of our directors since February 1996. From 1979 until May 1998, Mr. Miller was President and a director of a group of privately-held companies, including a list brokerage and list management consulting firm, a database management consulting firm, and a direct mail graphic and creative design firm. Mr. Miller's interests in such companies were sold in May 1998. Mr. Miller is currently President of Zenith Technologies, LLC, a private home appliance manufacturer.

*Murray L. Skala* has been one of our directors since October 1995. Since 1976, Mr. Skala has been a partner of the law firm Feder Kaszovitz LLP, our general counsel.

*Peter F. Reilly* has been one of our directors since April 21, 2012. Mr. Reilly has been the president and chief operating officer of Strategic Industries, LLC ("Strategic") since 2007 and prior thereto was its chief financial officer from 2000 to 2007. Strategic is a diversified holding and management company operating in the automotive products and consumer product segments. Prior to joining Strategic, from 1991 to 2000, Mr. Reilly served in various senior financial positions of various entities affiliated with U.S. Industries, Inc. and Hanson Industries, PLC. Mr. Reilly began his career at Ernst & Young LLP as an auditor from 1986 to 1991. Mr. Reilly also serves on the boards of directors of several private companies and has previously served on the board of directors of Dura Automotive Systems, Inc. and Jackson Hewitt Tax Service Inc. Mr. Reilly is a Certified Public Accountant (Inactive). He received his Bachelor of Arts degree in Accounting from Rutgers University in 1986.

*Rex H. Poulsen* has been a director since December 26, 2012. Mr. Poulsen is currently a partner in the Glendale, California office of Hutchinson and Bloodgood LLP, a regional certified public accounting and consulting firm registered with the PCAOB. Mr. Poulsen has been continuously licensed as a Certified Public Accountant since 1974, and has spent most of his career with public accounting firms as an independent auditor of both private and publicly-held companies. Mr. Poulsen also has extensive experience in assisting companies in the areas of due diligence, valuation, and other services related to the purchase and sale of businesses, as well as providing services in connection with litigation matters including forensic accounting assignments and expert witness testimony. Mr. Poulsen received a Bachelor of Science degree in Accounting from Weber State University in 1973, and is a member of the American Institute of Certified Public Accountants.

Marvin W. Ellin has been one of our directors since October 2010, but for personal reasons has declined to be nominated as a director at the 2013 annual meeting. Leigh Anne Brodsky has been one of our directors since May 8, 2012, but for personal reasons has declined to be nominated as a director at the 2013 annual meeting.

### **Qualifications for All Directors**

In considering potential candidates for election to the Board, the Nominating and Corporate Governance Committee observes the following guidelines, among other considerations: (i) the Board must include a majority of independent directors; (ii) each candidate shall be selected without regard to age, sex, race, religion or national origin; (iii) each candidate should have the highest level of personal and professional ethics and integrity and have the ability to work well with others; (iv) involvement only in activities or interests that do not conflict or interfere with the proper performance of the responsibilities of a director; (v) each candidate should possess substantial and significant experience that would be of particular importance to the Company in the performance of the duties of a director; and (vi) each candidate should have sufficient time available, and a willingness to devote the necessary time, to the affairs of the Company in order to carry out the responsibilities of a director, including, without limitation, consistent attendance at Board of Directors and committee meetings and advance review of Board of Directors and committee materials. The Chairman of the Board of Directors, if in office, and Chief Executive Officer will interview such candidate. The Nominating and Governance Committee then determines whether to recommend to the Board of Directors that a candidate be nominated for approval by the shareholders. The manner in which the Nominating and Governance Committee evaluates a potential candidate does not differ based on whether the candidate is recommended by a shareholder of the Company.

With respect to nominating existing directors, the Nominating and Governance Committee reviews relevant information available to it, including the most recent individual director evaluations for such candidates, the number of meetings attended, his or her level of participation, biographical information, professional qualifications, and overall contributions to the Company.

The Board of Directors does not have a specific diversity policy, but considers diversity of race, ethnicity, gender, age, cultural background and professional experiences in evaluating candidates for Board membership.

The Board of Directors has identified the following qualifications, attributes, experience, and skills that are important to be represented on the Board as a whole: (i) management, leadership and strategic vision; (ii) financial expertise; (iii) marketing and consumer experience; and (iv) capital management.

A majority of our directors are “independent,” as defined under the rules of the Nasdaq Stock Market. Such independent directors are currently Messrs. Glick, Miller, Ellin, Reilly and Poulsen and Ms. Brodsky. Our directors hold office

until the next annual meeting of stockholders and until their successors are elected and qualified. Our officers are elected annually by our Board of Directors and serve at its discretion. Except for Messrs. Ellin, Reilly and Poulsen and Ms. Brodsky, all of our current independent directors have served as such for more than the past five years. Our directors were initially selected for their experience as businessmen (Glick, Miller and Reilly) or financial expertise (Ellin, Reilly and Poulsen) or industry experience (Brodsky). We believe that our board is best served by benefiting from this blend of business and financial expertise and experience. Our remaining directors consist of our chief executive officer (Berman) who brings management's perspective to the board's deliberations and, our longest serving director (Skala), who, as an attorney with many years of experience advising businesses, is able to provide guidance to the board from a legal perspective.

### **The Board's Role in Risk Oversight**

The Board of Directors is responsible for oversight of the various risks facing the Company. Risks are considered in virtually every business decision and business strategy. While the Board recognizes that appropriate risk-taking is essential for the Company to remain competitive and achieve its long-term goals, it nonetheless strongly believes that risk taking must be closely monitored.

The Board has implemented the following risk oversight framework: (i) know the major risks inherent in the Company's business and strategy and compensation policies; (ii) evaluate risk management processes; (iii) encourage open and regular communication about risks between management and the Board; and (iv) cultivate a culture of integrity and risk awareness.

While the Board oversees risk, management is responsible for managing risk. We have developed internal processes to identify and manage risk and communicate appropriately with the Board. Management communicates routinely with the Board, Board Committees and individual Directors on the significant risks identified and how they are being managed and Directors are encouraged to communicate directly with senior management.

The Board implements its risk oversight function both as a whole and through its designated and established Committees, which play significant roles in carrying out the risk oversight function. At the initial meeting of the Board of Directors following this annual meeting, the elected directors will review the composition of its various committees in light of the reduced size of the Board of Directors. All of our Committees meet regularly and report back to the full Board. The risk oversight functions are allocated among our Committees as follows:

The Audit Committee is responsible for overseeing risks associated with the Company's financial statements, the financial reporting process, accounting and legal matters. The Audit Committee oversees the internal audit function and meets separately with representatives of the Company's independent accounting firm.

The Compensation Committee is responsible for overseeing risk associated with the Company's compensation philosophy and programs.

The Nominating and Governance Committee is responsible for overseeing risks related to evolving governance legislation and trends.

### **Board Leadership Structure; Executive Sessions**

Historically, our board structure featured (i) a combined Chairman of the Board and Chief Executive Officer, and (ii) non-management, active and effective directors of equal importance and with an equal vote. We believe the company and its shareholders were well served by having the company's founder, Jack Friedman, serve as both Chairman of the Board and Chief Executive Officer. Since Mr. Friedman's untimely passing in May 2010 we have not selected a Chairman to succeed him. The board is taking this opportunity to reevaluate its structure and may, following the election of the directors at the 2013 annual meeting, implement a new structure going forward. Regardless of the structure, the board intends to continue its current practice of having non-management Board members meet without management present at regularly scheduled executive sessions. Also, at least once a year, such meetings may include only the independent members of the Board.

### **Committees of the Board of Directors**

We have an Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee.

#### ***Audit Committee***

In addition to the risk oversight function described above, the primary functions of the Audit Committee are to select or to recommend to our Board the selection of outside auditors; to monitor our relationships with our outside auditors and their interaction with our management in order to ensure their independence and objectivity; to review, and to assess the scope and quality of, our outside auditor's services, including the audit of our annual financial statements; to review our financial management and accounting procedures; to review our financial statements with our management and outside auditors; and to review the adequacy of our system of internal accounting controls. Messrs. Poulsen, Glick, Ellin and Reilly are the current members of the Audit Committee, are each "independent" (as that term is defined in NASD Rule 4200(a)(14)), and are each able to read and understand fundamental financial statements. Mr. Poulsen, our audit committee financial expert, is the Chairman of the Audit Committee and possesses the financial expertise required under Rule 401(h) of Regulation SK of the Act and NASD Rule 4350(d)(2). He is further "independent", as that term is defined under Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act. We will, in the future, continue to have (i) an Audit Committee of at least three members comprised solely of independent directors, each of whom will be able to read and understand fundamental financial statements (or will become able to do so within a reasonable period of time after his or her appointment); and (ii) at least one member of the Audit Committee that will possess the financial expertise required under NASD Rule 4350(d)(2). Our Board has adopted a written charter for the Audit Committee and the Audit Committee reviews and reassesses the adequacy of that charter on an annual basis. The full text of the charter is available on our website at [www.jakks.com](http://www.jakks.com).

### ***Compensation Committee***

In addition to the risk oversight function described above, the functions of the Compensation Committee are to make recommendations to the Board regarding compensation of management employees and to administer plans and programs relating to employee benefits, incentives, compensation and awards under our 2002 Stock Award and Incentive Plan (the "2002 Plan"). Messrs. Glick (Chairman), and Miller and Ms. Brodsky are the current members of the Compensation Committee. The Board has determined that each of them is "independent," as defined under the applicable rules of the Nasdaq Stock Market. A copy of the Compensation Committee's Charter is appended hereto. Executive officers that are members of our Board make recommendations to the Compensation Committee with respect to the compensation of other executive officers that are not on the Board. Except as otherwise prohibited, the Committee may delegate its responsibilities to subcommittees or individuals.

The Compensation Committee also annually reviews the overall compensation of our executive officers for the purpose of determining whether discretionary bonuses should be granted. In 2012, FWC presented a report to the Compensation Committee comparing our performance, size and executive compensation levels to those of peer group companies. FWC also reviewed with the Compensation Committee the base salaries, annual bonuses, total cash compensation, long-term compensation and total compensation of our senior executive officers relative to those companies. The performance comparison presented to the Compensation Committee each year includes a comparison of our total shareholder return, earnings per share growth, sales, net income (and one-year growth of both measures) to the peer group companies. The Compensation Committee reviews this information along with details about the components of each executive officer's compensation. FWC also provided guidance to the Compensation Committee with respect to the terms of Mr. Berman's amended and restated employment agreement (see "- Employment Agreements"). Inasmuch as Mr. Berman's salary and bonuses and/or bonus criteria for 2011 were contained within the new restated and amended employment agreement, the Compensation Committee did not consult with FWC in 2011 regarding Mr. Berman's bonus for 2011, but did do so in 2012 with respect to determination of a portion of his bonus criteria for 2012.

### *Nominating and Corporate Governance Committee*

In addition to the risk oversight function described above, the functions of the Nominating and Corporate Governance Committee are to develop our corporate governance system and to review proposed new members of our Board of Directors, including those recommended by our stockholders. Messrs. Glick (Chairman), Ellin and Ms. Brodsky are the current members of our Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee operates pursuant to a written charter adopted by the Board. The full text of the charter is available on our website at [www.jakks.com](http://www.jakks.com). The Board has determined that each member of this Committee is "independent," as defined under the applicable rules of the Nasdaq Stock Market. For instructions on how stockholders may submit recommendations for director nominees to our Nominating and Corporate Governance Committee, see "Stockholder Communications," below.

The Nominating and Corporate Governance Committee will review, on an annual basis, the composition of our Board of Directors and the ability of its current members to continue effectively as directors for the upcoming fiscal year. The Nominating and Corporate Governance Committee is also considering the need for the role of Chairman of the Board and if the position is reestablished, its relation to the Chief Executive Officer. In the ordinary course, absent special circumstances or a change in the criteria for Board membership, the Nominating and Corporate Governance Committee will renominate incumbent directors who continue to be qualified for Board service and are willing to continue as directors. If that Committee thinks it is in our best interests to nominate a new individual for director in connection with an annual meeting of stockholders, or if a vacancy on the Board occurs between annual stockholder meetings, the nominating committee will seek out potential candidates for Board appointment who meet the criteria for selection as a nominee and have the specific qualities or skills being sought. Director candidates will be selected based on input from members of the Board, our senior management and, if the Committee deems appropriate, a third-party search firm. The Nominating and Corporate Governance Committee will evaluate each candidate's qualifications and check relevant references and each candidate will be interviewed by at least one member of that Committee. Candidates meriting serious consideration will meet with all members of the Board. Based on this input, the Nominating and Corporate Governance Committee will evaluate whether a prospective candidate is qualified to

serve as a director and whether the Committee should recommend to the Board that this candidate be appointed to fill a current vacancy on the Board, or presented for the approval of the stockholders, as appropriate.

### **Meetings of the Board of Directors and Board Member Attendance at Annual Stockholder Meeting**

From January 1, 2012 through December 31, 2012, the Board of Directors, Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee each met or acted without a meeting pursuant to unanimous written consent twenty five times, seven times, fifteen times, and six times, respectively. All directors attended at least 75% of all board meetings and committee meetings of which they are members.

We do not have a formal written policy with respect to board members' attendance at annual stockholder meetings, although we do encourage each of them to attend. All of the directors then serving and nominated for re-election attended our 2012 Annual Stockholder Meeting.

### **Stockholder Communications**

Stockholders interested in communicating with our Board may do so by writing to any or all directors, care of our Chief Financial Officer, at our principal executive offices. Our Chief Financial Officer will log in all stockholder correspondence and forward to the director addressee(s) all communications that, in his judgment, are appropriate for consideration by the directors. Any director may review the correspondence log and request copies of any correspondence. Examples of communications that would be considered inappropriate for consideration by the directors include, but are not limited to, commercial solicitations, trivial, obscene, or profane items, administrative matters, ordinary business matters, or personal grievances. Correspondence that is not appropriate for Board review will be handled by our Chief Financial Officer. All appropriate matters pertaining to accounting or internal controls will be brought promptly to the attention of our Audit Committee Chair.

Stockholder recommendations for director nominees are welcome and should be sent to our Chief Financial Officer, who will forward such recommendations to our Nominating and Corporate Governance Committee, and should include the following information: (a) all information relating to each nominee that is required to be disclosed pursuant to Regulation 14A under the Securities Exchange Act of 1934 (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) the names and addresses of the stockholders making the nomination and the number of shares of our common stock which are owned beneficially and of record by such stockholders; and (c) appropriate biographical information and a statement as to the qualification of each nominee, and must be submitted in the time frame described under the caption, "Stockholder Proposals for 2013 Annual Meeting," below. The Nominating and Corporate Governance Committee will evaluate candidates recommended by stockholders in the same manner as candidates recommended by other sources, using additional criteria, if any, approved by the Board from time to time. Our stockholder communication policy may be amended at any time with the consent of our Nominating and Corporate Governance Committee.



## Code of Ethics

We have a Code of Ethics (which we call a code of conduct) that applies to all our employees, officers and directors. This code was filed as an exhibit to our Annual Report on Form 10-K for the fiscal year ended December 31, 2003. This code is posted on our website, [www.jakks.com](http://www.jakks.com). We will disclose when there have been waivers of, or amendments to, such Code, as required by the rules and regulations promulgated by the Securities and Exchange Commission and/or Nasdaq.

## Executive Officers

Our executive officers are elected by our Board of Directors and serve pursuant to the terms of their respective employment agreements. One of our executive officers, Stephen G. Berman, is also a director of the Company. See the section above entitled “Nominees” for biographical information about this officer. The other current executive officers are Joel M. Bennett, our Executive Vice President and Chief Financial Officer and John (Jack) McGrath, our Executive Vice President and Chief Operating Officer.

**Joel M. Bennett**, 51, joined us in September 1995 as Chief Financial Officer and was given the additional title of Executive Vice President in May 2000. From August 1993 to September 1995, he served in several financial management capacities at Time Warner Entertainment Company, L.P., including as Controller of Warner Brothers Consumer Products Worldwide Merchandising and Interactive Entertainment. From June 1991 to August 1993, Mr. Bennett was Vice President and Chief Financial Officer of TTI Technologies, Inc., a direct-mail computer hardware and software distribution company. From August 1986 to June 1991, Mr. Bennett held various financial management positions at The Walt Disney Company, including Senior Manager of Finance for its international television syndication and production division. Mr. Bennett began his career at Ernst & Young LLP as an auditor from August 1983 to August 1986. Mr. Bennett holds a Bachelor of Science degree in Accounting and a Master of Business Administration degree in Finance and is a Certified Public Accountant (inactive).

**John J. (Jack) McGrath**, 48, became our Chief Operating Officer on August 23, 2011. Prior thereto he was our Executive Vice President of Operations, which position he has held since December 2007. Mr. McGrath was our Vice President of Marketing from 1999 to August 2003 and became a Senior Vice President of Operations in August 2003 and Executive Vice President of Operations in December 2007. From January 1992 to December 1998, Mr. McGrath was Director of Marketing at Mattel Inc. and prior thereto he was a PFC in the U.S Army. Mr. McGrath holds a Bachelor of Science degree in Marketing.

## Certain Relationships and Related Transactions

One of our directors, Murray L. Skala, is a partner in the law firm of Feder Kaszovitz LLP, which has performed, and is expected to continue to perform, legal services for us. In 2012, we incurred approximately \$2.9 million for legal fees and \$0.4 million in reimbursed expenses payable to that firm. As of December 31, 2011 and 2012, legal fees and reimbursed expenses of \$0.8 million and \$0.5 million, respectively, were payable to this law firm.

Pursuant to our Code of Conduct (a copy of which may be found on our website, [www.jakks.com](http://www.jakks.com)), all of our employees are required to disclose to our General Counsel, the Board of Directors or any committee established by the Board of Directors to receive such information, any material transaction or relationship that reasonably could be expected to give rise to actual or apparent conflicts of interest between any of them, personally, and us. In addition, our Code of Ethics also directs all employees to avoid any self-interested transactions without full disclosure. This policy, which applies to all of our employees, is reiterated in our Employee Handbook which states that a violation of this policy could be grounds for termination. In approving or rejecting a proposed transaction, our General Counsel, Board of Directors or designated committee will consider the facts and circumstances available and deemed relevant, including but not limited to, the risks, costs, and benefits to us, the terms of the transactions, the availability of other sources for comparable services or products, and, if applicable, the impact on director independence. Upon concluding their review, they will only approve those agreements that, in light of known circumstances, are in or are not inconsistent with, our best interests, as they determine in good faith.

### **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, but we do not believe that any of these claims or proceedings will have a material effect on our business, financial condition or results of operations.

## **Section 16(a) Beneficial Ownership Reporting Compliance**

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to us during 2012 and Forms 5 and amendments thereto furnished to us with respect to 2012, during 2012, each of our directors and executive officers untimely filed one report on Form 4 reporting one late transaction. Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to us during 2012 and Forms 5 and amendments thereto furnished to us with respect to 2012, all other Forms 3, 4 and 5 required to be filed during 2012 were done so on a timely basis

## **COMPENSATION DISCUSSION AND ANALYSIS**

### Compensation Philosophy and Objectives

We believe that a strong management team comprised of highly talented individuals in key positions is critical to our ability to deliver sustained growth and profitability, and our executive compensation program is an important tool for attracting and retaining such individuals. We also believe that our most important resource is our people. While some companies may enjoy an exclusive or limited franchise or are able to exploit unique assets or proprietary technology, we depend fundamentally on the skills, energy and dedication of our employees to drive our business. It is only through their constant efforts that we are able to innovate through the creation of new products and the continual rejuvenation of our product lines, to maintain superior operating efficiencies, and to develop and exploit marketing channels. With this in mind, we have consistently sought to employ the most talented, accomplished and energetic people available in the industry. Therefore, we believe it is vital that our named executive officers receive an aggregate compensation package that is both highly competitive with the compensation received by similarly-situated executive officers at peer group companies, and also reflective of each individual named executive officer's contributions to our success on both a long-term and short-term basis. As discussed in greater depth below, the objectives of our compensation program are designed to execute this philosophy by compensating our executives at the top quartile of their peers.

Our executive compensation program is designed with three main objectives:

to offer a competitive total compensation opportunity that will allow us to continue to retain and motivate highly talented individuals to fill key positions;

to align a significant portion of each executive's total compensation with our annual performance and the interests of our stockholders; and

reflect the qualifications, skills, experience and responsibilities of our executives

#### Administration and Process

Our executive compensation program is administered by the Compensation Committee. The Compensation Committee receives legal advice from our outside general counsel and has retained Frederick W. Cook & Co., Inc. (“FWC”), a compensation consulting firm, which provides advice directly to the Compensation Committee. Historically, the base salary, bonus structure and the long-term equity compensation of our executive officers are governed by the terms of their individual employment agreements (see “-Employment Agreements and Termination of Employment Arrangements”) and we expect that to continue in the future. With respect to our chief executive officer and president and our chief operating officer the Compensation Committee, with input from FWC, establishes target performance levels for incentive bonuses based on a number of factors that are designed to further our executive compensation objectives, including our performance, the compensation received by similarly-situated executive officers at peer group companies, the conditions of the markets in which we operate and the relative earnings performance of peer group companies.

Historically, a factor given considerable weight in establishing bonus performance criteria is Adjusted EPS which is the net income per share of our common stock calculated on a fully-diluted basis in accordance with GAAP, applied on a basis consistent with past periods, as adjusted in the sole discretion of the Compensation Committee to take account of extraordinary or special items.

As explained in greater detail below (see “*Employment Agreements and Termination of Employment Arrangements*”), pursuant to the terms of Mr. Berman’s amended and restated 2010 employment agreement, with respect to 2012, during the first quarter, the Compensation Committee established the targeted level of our Adjusted EPS (as defined below) growth, and the corresponding bonus levels, as a percentage of base salary, Mr. Berman earns if the target is met. Pursuant to the terms of his employment agreement as in effect on January 1, 2012, this bonus is capped at a maximum of 200% of base salary, although the Compensation Committee has the authority, in its discretion, to increase the maximum. The Compensation Committee also has wide discretion to set the target levels of Adjusted EPS and it works together with FWC to establish target levels that will accomplish the general objectives outlined above of also promoting growth and alignment with our shareholders’ interests. Mr. Berman’s agreement as in effect on January 1, 2012 also provides for an additional annual performance bonus capped at a maximum of 100% of base salary, payable solely in shares of restricted stock, which can be earned by Mr. Berman if the Company’s performance meets certain criteria established by the Compensation Committee during the first quarter. In addition, Mr. Berman’s agreement as in effect on January 1, 2012 provided for an annual grant of \$500,000 of restricted stock, the initial vesting of which depended solely on EPS targets established in the agreement; if initial vesting occurred, then the restricted stock vested over time.

Pursuant to a September 2012 amendment to Mr. Berman's employment agreement, commencing in 2013, his annual bonus has been restructured so that part of it is now capped at 300% of his base salary and the performance criteria and vesting are solely within the discretion of the Compensation Committee, which will establish all of the criteria during the first quarter of each fiscal year for that year's bonus, based upon financial and non-financial factors selected by the Compensation Committee, and another part of his annual performance bonus will be based upon the success of a joint venture entity we initiated in September 2012. The portion of the bonus equal to 200% of base salary is payable in cash and the balance in restricted stock vesting over three years. In addition, the annual grant of \$500,000 of restricted stock was changed to \$3,500,000 of restricted stock and the vesting criteria was also changed from being solely based upon established EPS targets to being based upon performance standards established by the Compensation Committee during the first quarter of each year.

On August 23, 2011 we entered into an amended employment agreement with John J. (Jack) McGrath whereby he became Chief Operating Officer. As disclosed in greater detail below, Mr. McGrath's employment agreement also provides for fixed and adjustable bonuses payable based upon adjusted EPS, which targets are set in the agreement, based upon input from FWC, with the adjustable bonus capped at a maximum of 125% of base salary.

While the Compensation Committee does not establish target performance levels for our chief financial officer, it does consider similar factors when determining such officer's bonus. The employment agreement for Mr. Bennett expires on December 31, 2013 and from January 1, 2010 through October 20, 2011 Mr. Bennett was an employee at will until his entry into a new employment agreement dated October 21, 2011. Prior to its expiration, the agreement authorized our Compensation Committee and Board of Directors to award an annual bonus to Mr. Bennett in an amount up to 50% of his salary as the Committee or Board determined in its discretion and also gave the Compensation Committee and the Board the discretionary authority to pay Mr. Bennett additional incentive compensation as it determined. Mr. Bennett's new employment agreement does not contain a limitation on the percentage of salary that can be granted as a bonus.

The current employment agreements with our named executive officers also gives the Compensation Committee the authority to award additional compensation to each of them as it determines in its sole discretion based upon criteria it establishes.

The Compensation Committee also annually reviews the overall compensation of our named executive officers for the purpose of determining whether discretionary bonuses should be granted. In 2012, FWC presented a report to the Compensation Committee comparing our performance, size and executive compensation levels to those of peer group companies. FWC also reviewed with the Compensation Committee the base salaries, annual bonuses, total cash compensation, long-term compensation and total compensation of our senior executive officers relative to those companies. The performance comparison presented to the Compensation Committee each year includes a comparison of our total shareholder return, earnings per share growth, sales, net income (and one-year growth of both measures) to the peer group companies. The Compensation Committee reviews this information along with details about the components of each named executive officer's compensation.

## Peer Group

One of the factors considered by the Compensation Committee is the relative performance and the compensation of executives of peer group companies. The peer group is comprised of a group of the companies selected in conjunction with FWC that we believe provides relevant comparative information, as these companies represent a cross-section of publicly-traded companies with product lines and businesses similar to our own throughout the comparison period. The composition of the peer group is reviewed annually and companies are added or removed from the group as circumstances warrant. For the last fiscal year, the peer group companies utilized for executive compensation analysis, which remained the same as in the previous year (except that THQ Inc. is no longer included since it filed for the protection of the bankruptcy laws), were:

Activision, Inc.  
Electronic Arts, Inc.  
Hasbro, Inc.  
Leapfrog Enterprises, Inc.  
Mattel, Inc.  
Kid Brands, Inc.  
Take-Two Interactive, Inc.

## Elements of Executive Compensation

The compensation packages for the Company's senior executives have both performance-based and non-performance based elements. Based on its review of each named executive officer's total compensation opportunities and performance, and our performance, the Compensation Committee determines each year's compensation in the manner that it considers to be most likely to achieve the objectives of our executive compensation program. The specific elements, which include base salary, annual cash incentive compensation and long-term equity compensation, are described below.

The Compensation Committee has negative discretion to adjust performance results used to determine annual incentive and the vesting schedule of long-term incentive payouts to the named executive officers. The Compensation Committee also has discretion to grant bonuses even if the performance targets were not met.

#### Base Salary

Mr. Berman received compensation in 2012 pursuant to the terms of his employment agreement; Mr. McGrath became an executive officer on August 23, 2011 pursuant to the terms of an amendment to his employment agreement and Mr. Bennett was an employee at will until entry into a new employment agreement on October 21, 2011. As discussed in greater detail below, the employment agreement for Mr. Berman was to expire on December 31, 2010 and Mr. Bennett's employment agreement expired on December 31, 2009. Effective November 11, 2010, Mr. Berman entered into an amended and restated employment agreement. Pursuant to the terms of their employment agreements as in effect on December 31, 2012, Messrs. Berman, McGrath, and Bennett each receive a base salary which is increased automatically each year by \$25,000 for Mr. Berman and \$15,000 for each of Messrs. McGrath and Bennett pursuant to the terms of their respective employment agreements. Mr. Bennett's prior employment agreement, which expired in 2009, did not provide for automatic annual increases in base salary. Any further increase in base salary, as the case may be, is determined by the Compensation Committee based on a combination of two factors. The first factor is the Compensation Committee's evaluation of the salaries paid in peer group companies to executives with similar responsibilities. The second factor is the Compensation Committee's evaluation of the executive's unique role, job performance and other circumstances. Evaluating both of these factors allows us to offer a competitive total compensation value to each individual named executive officer taking into account the unique attributes of, and circumstances relating to, each individual, as well as marketplace factors. This approach has allowed us to continue to meet our objective of offering a competitive total compensation value and attracting and retaining key personnel. Based on its review of these factors, the Compensation Committee determined not to increase the base salary of each of Messrs. Berman, McGrath and Bennett above the contractually required minimum increase in 2012 as unnecessary to maintain our competitive total compensation position in the marketplace.

#### Annual Cash Incentive Compensation

The function of the annual cash bonus is to establish a direct correlation between the annual incentives awarded to the participants and our financial performance. This purpose is in keeping with our compensation program's objective of aligning a significant portion of each executive's total compensation with our annual performance and the interests of our shareholders.

The employment agreements as in effect on January 1, 2012 for Messrs. Berman and McGrath provided for an incentive cash bonus award based on a percentage of each participant's base salary if the performance goals set by the Compensation Committee are met for that year. The employment agreements mandated that the specific criteria to be used is growth in earnings per share and the Compensation Committee sets the various target thresholds to be met to

earn increasing amounts of the bonus up to a maximum of 200% of base salary for Mr. Berman and 125% for Mr. McGrath, although the Compensation Committee has the ability to increase the maximum in its discretion. During 2011, Messrs. Berman and McGrath were not entitled to a bonus based upon the target thresholds incorporated into their respective employment agreements. Commencing in 2012, the Compensation Committee is required to meet to establish criteria for earning the annual performance bonus (and with respect to Mr. Berman, any additional annual performance bonus) during the first quarter of the year.

The employment agreements as in effect on January 1, 2012 for Messrs. Berman, McGrath and Bennett contemplate that the Compensation Committee may grant discretionary bonuses in situations where, in its sole judgment, it believes they are warranted. The Compensation Committee approaches this aspect of the particular executive's compensation package by looking at the other components of the executive's aggregate compensation and then evaluating if any additional compensation is appropriate to meet our compensation goals. As part of this review, the Compensation Committee, with significant input from FWC, collects information about the total compensation packages in our peer group and various indicia of performance by the peer group such as sales, one-year sales growth, net income, one-year net income growth, market capitalization, size of companies, one- and three-year stockholder returns, etc. and then compares such data to our corresponding performance data. The Compensation Committee did not approve any discretionary bonuses for 2012.

#### Long-Term Compensation

Long-term compensation is an area of particular emphasis in our executive compensation program, because we believe that these incentives foster the long-term perspective necessary for our continued success. Again, this emphasis is in keeping with our compensation program objective of aligning a significant portion of each executive's total compensation with our long-term performance and the interests of our shareholders.

Historically, our long-term compensation program has focused on the granting of stock options that vested over time. However, commencing in 2006 we began shifting the emphasis of this element of compensation and we currently favor the issuance of restricted stock awards. The Compensation Committee believes that the award of full-value shares that vest over time is consistent with our overall compensation philosophy and objectives as the value of the restricted stock varies based upon the performance of our common stock, thereby aligning the interests of our executives with our shareholders. The Compensation Committee has also determined that awards of restricted stock are anti-dilutive as compared to stock options inasmuch as it feels that less restricted shares have to be granted to match the compensation value of stock options.

Mr. Berman's 2010 amended and restated employment provides for annual grants of \$500,000 of restricted stock which vest in equal annual installments through January 1, 2017, which is one year following the life of the agreement, subject to meeting the 3% vesting condition, as defined in the agreement. (As described in greater detail below, pursuant to the 2012 amendment, commencing in 2013, this bonus will b