

SPIN MASTER CORP.

FORM 51-102F4

BUSINESS ACQUISITION REPORT

Item 1 Identity of Company

1.1 Name and Address of Company

Spin Master Corp. (the “**Company**”)
225 King Street West
Suite 200
Toronto, Ontario M5V 3M2

1.2 Executive Officer

An executive officer of the Company who is knowledgeable about the significant acquisition and this Business Acquisition Report is:

Mark Segal
Executive Vice President and Chief Financial Officer
(416) 364-6002

Item 2 Details of Acquisition

2.1 Nature of Business Acquired

On January 2, 2024, the Company, through its subsidiaries, completed the acquisition (the “Acquisition”) of all of the issued and outstanding capital stock of MND Holdings I Corp (d/b/a Melissa & Doug) (“Melissa & Doug” or “M&D”) pursuant to a definitive merger agreement (the “Definitive Agreement”) among Spin Master US Holdings, Inc., Playtime Merger Sub Co., Melissa & Doug, AEA Fund VI Stockholder Representative Corp. and the Company.

Melissa & Doug is a brand in early childhood play with offerings of open-ended, creative, and developmental toys.

2.2 Acquisition Date

January 2, 2024 (the “Acquisition Date”).

2.3 Consideration

On January 2, 2024, as preliminary consideration for the Acquisition, the Company paid US\$991.7 million, which includes \$36.2 million in estimated cash acquired, and resulted in net consideration of \$955.5 million. The consideration is comprised of US\$950.0 million of base consideration adjusted for estimated net working capital and liabilities assumed (the "Purchase Price"). The estimated cash and working capital reflect amounts as of the date of the Business Acquisition Report, which are subject to finalization over a period of 120 days from the date of acquisition, pursuant to the terms of the Definitive Agreement. The Purchase Price was funded from US\$466.7 million of cash on hand and US\$525.0 million in debt sourced through US\$300.0 million on the Company's revolving credit facility bearing interest at a base rate plus an applicable margin maturing on September 28, 2026 (the "Facility") and US\$225.0 million from a term loan facility bearing interest at a base rate plus an applicable margin maturing on November 19, 2024 (the "Acquisition Facility").

2.4 Effect on Financial Position

Upon completion of the Acquisition, Melissa & Doug became an indirect wholly-owned subsidiary of the Company. The business and operations of Melissa & Doug have combined with those of the Company.

The Company does not currently have any plans or proposals for material changes in the Company's business or the business of Melissa & Doug which may have a significant impact on the financial performance and financial position of the Company.

2.5 Prior Valuations

To the knowledge of the Company, there have not been any valuation opinions obtained within the last twelve months by either Melissa & Doug or the Company required by securities legislation or a Canadian exchange or market to support the consideration paid by the Company in connection with the Acquisition.

2.6 Parties to Transaction

The Acquisition was not conducted with an "informed person", "associate" or "affiliate" (each as defined under applicable Canadian securities laws) of the Company.

2.7 Date of Report

March 21, 2024.

Item 3 Financial Statements and Other Information

The following financial statements required by Part 8 of National Instrument 51-102 – Continuous Disclosure Obligations are attached as schedules to this Business Acquisition Report (the “Report”):

Schedule A – unaudited pro forma consolidated financial statements of the Company that give effect to the Acquisition, comprising the unaudited pro forma consolidated statement of financial position as at December 31, 2023 and the unaudited pro forma consolidated statement of earnings for the year ended December 31, 2023, together with notes thereto.

Schedule B – audited annual consolidated financial statements of Melissa & Doug for the years ended December 29, 2023 and December 30, 2022, together with notes thereto. The Company has not requested the consent of MND Holdings I Corp’s auditor to incorporate the auditor’s report for the above financial statements of MND Holdings I Corp into this Report, and therefore such consent has not been provided.

SCHEDULE "A"

**UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS OF THE
COMPANY**

(see attached)

Unaudited Pro Forma Consolidated Financial Statements
(In U.S. dollars)

SPIN MASTER CORP.

Year ended December 31, 2023

SPIN MASTER CORP.

Unaudited Pro Forma Consolidated Statement of Financial Position
(In millions of U.S. dollars)

	Historical				Transaction accounting adjustments		Pro forma consolidated (IFRS)
	Spin Master (IFRS) as at Dec 31, 2023	M&D (US GAAP) as at Dec 29, 2023	Presentation conforming adjustments	Notes	Pro forma adjustments	Notes	
Assets							
Current assets:							
Cash and cash equivalents	\$ 705.7	\$ 36.2	\$ -		\$ (469.3)	5(a)	\$ 272.6
Restricted cash	-	3.1	-		-		3.1
Trade receivables, net	414.4	146.7	(42.0)	4(a)	-		519.1
Other receivables	60.0	-	-		-		60.0
Inventories, net	98.0	113.3	-		66.3	5(b)	277.6
Prepaid expenses and other assets	40.9	8.8	(1.2)	4(b)	(4.6)	5(c)	43.9
	1,319.0	308.1	(43.2)		(407.6)		1,176.3
Non-current assets:							
Intangible assets	281.3	297.9	-		238.3	5(d)	817.5
Goodwill	165.9	217.2	-		(1.7)	5(g)	381.4
Deferred income tax assets	110.8	-	-		53.1	5(n)	163.9
Right-of-use assets	53.6	53.4	-		32.0	5(f)	139.0
Property, plant and equipment	32.6	24.8	-		12.3	5(e)	69.7
Other assets	26.5	18.7	1.2	4(b)	(18.7)	5(c)(i)	27.7
	670.7	612.0	1.2		315.3		1,599.2
Total assets	\$ 1,989.7	\$ 920.1	\$ (42.0)		\$ (92.3)		\$ 2,775.5

See the accompanying notes to the unaudited pro forma consolidated financial statements, which are an integral part of these statements.

SPIN MASTER CORP.

Unaudited Pro Forma Consolidated Statement of Financial Position (continued)
(In millions of U.S. dollars)

	Historical				Transaction accounting adjustments		Pro forma consolidated (IFRS)	
	Spin Master (IFRS) as at Dec 31, 2023	M&D (US GAAP) as at Dec 29, 2023	Presentation conforming adjustments	Notes	Pro forma adjustments	Notes		
Liabilities and Shareholders' Equity								
Current liabilities:								
Trade payables and accrued liabilities	\$ 385.4	\$ 91.3	\$ (50.5)	4(a)(c)	\$ 10.3	5(h)	\$ 436.5	
Provisions	32.1	-	-		-		32.1	
Lease liabilities	11.4	10.9	-		3.6	5(j)	25.9	
Income tax payable	6.6	-	0.7	4(d)	-		7.3	
Deferred revenue	11.0	-	-		-		11.0	
Loans and Borrowings	-	8.4	8.5	4(c)	207.3	5(i)	224.2	
	446.5	110.6	(41.3)		221.2		737.0	
Non-current liabilities:								
Deferred income tax liabilities	59.1	30.8	-		130.8	5(n)	220.7	
Lease liabilities	50.7	47.4	-		(1.2)	5(j)	96.9	
Provisions	14.3	0.7	(0.7)	4(d)	0.8	5(k)	15.1	
Loans and Borrowings	-	289.7	-		8.5	5(i)	298.2	
	124.1	368.6	(0.7)		138.9		630.9	
Total liabilities	570.6	479.2	(42.0)		360.1		1,367.9	
Shareholders' equity:								
Share capital	783.4	-	-		-		783.4	
Retained earnings	604.5	22.1	-		(33.6)	5(l)	593.0	
Contributed surplus	27.4	418.8	-		(418.8)	5(l)	27.4	
Accumulated other comprehensive income	3.8	-	-		-		3.8	
Total shareholders' equity	1,419.1	440.9	-		(452.4)		1,407.6	
Total liabilities and shareholders' equity	\$ 1,989.7	\$ 920.1	\$ (42.0)		\$ (92.3)		\$ 2,775.5	

See the accompanying notes to the unaudited pro forma consolidated financial statements, which are an integral part of these statements.

SPIN MASTER CORP.

Unaudited Pro Forma Consolidated Statement of Earnings
(In millions of U.S. dollars, except earnings per share)

	Historical				Transaction accounting adjustments		Pro forma consolidated (IFRS)
	Spin Master (IFRS) year ended Dec 31, 2023	M&D (US GAAP) year ended Dec 29, 2023	Presentation conforming adjustments	Notes	Pro forma adjustments	Notes	
Revenue	\$ 1,904.9	\$ 363.7	\$ (0.8)	4(e)(f)	\$ -		\$ 2,267.8
Cost of sales	866.5	182.6	(9.6)	4(e)(f)(h)(i)	67.0	5(b)(e)	1,106.5
Gross profit	1,038.4	181.1	8.8		(67.0)		1,161.3
Expenses:							
Selling, general and administrative	775.7	169.2	7.1	4(f)(g)(h)(j)(k)	14.0	5(c)(f)(l)(m)	966.0
Depreciation and amortization	25.4	14.2	0.5	4(g)(i)	23.9	5(c)(d)(e)(f)	64.0
Other expense (income), net	33.7	(0.5)	(0.4)	4(k)	-		32.8
Foreign exchange loss (gain), net	14.7	-	-		-		14.7
	849.5	182.9	7.2		37.9		1,077.5
Operating income (loss)	188.9	(1.8)	1.6		(104.9)		83.8
Interest income	(27.4)	-	-		-		(27.4)
Interest expense	15.1	36.4	1.6	4(j)	(2.8)	5(i)(j)(k)	50.3
Income (loss) before income tax expense	201.2	(38.2)	-		(102.1)		60.9
Income tax expense (recovery)	49.8	(6.5)	-		(25.2)	5(n)	18.1
Net income	\$ 151.4	\$ (31.7)	\$ -		\$ (76.9)		\$ 42.8
Earnings per share:							
Basic	\$ 1.46						\$ 0.41
Diluted	1.43						0.40
Weighted average number of shares (in millions)							
Basic	103.5						103.5
Diluted	105.7						105.7

See the accompanying notes to the unaudited pro forma consolidated financial statements, which are an integral part of these statements.

SPIN MASTER CORP.

Notes to Unaudited Pro Forma Consolidated Financial Statements
(In millions of U.S. dollars, except earnings per share)

Year ended December 31, 2023

1. Description of Transaction:

On January 2, 2024, Spin Master Corp. ("Spin Master"), through its subsidiaries completed the acquisition (the "Acquisition") of all of the issued and outstanding capital stock of MND Holdings I Corp (d/b/a Melissa & Doug) ("Melissa & Doug" or "M&D") pursuant to a definitive merger agreement (the "Definitive Agreement") among Spin Master US Holdings, Inc., Playtime Merger Sub Co., Melissa & Doug, AEA Fund VI Stockholder Representative Corp., and Spin Master. Upon closing of the Acquisition, M&D became an indirect, wholly owned subsidiary of Spin Master. As consideration for the Acquisition, the Company paid US\$991.7 million, which includes \$36.2 million in estimated cash acquired, and resulted in net consideration of US\$955.5 million. The consideration is comprised of \$950.0 million of base consideration adjusted for estimated net working capital and liabilities assumed (the "Purchase Price"). The estimated cash and working capital reflects amounts as of the date of the Business Acquisition Report, which are subject to finalization over a period of 120 days pursuant to the terms of the Definitive Agreement.

The preliminary consideration was funded from US\$466.7 million of cash on hand and US\$525.0 million in debt sourced through US\$300.0 million from the Company's Facility bearing interest at a base rate plus an applicable margin maturing on September 28, 2026 and US\$225.0 million from the Acquisition Facility bearing interest at a base rate plus an applicable margin maturing on November 19, 2024.

2. Basis of Presentation:

The accompanying unaudited Pro Forma Consolidated Financial Statements of Spin Master have been prepared to give effect to the Transaction under the acquisition method of accounting in accordance with IFRS3 – Business Combinations ("IFRS3"). The unaudited Pro Forma Consolidated Statement of Financial Position gives effect to the Transaction as if it had occurred on December 31, 2023. The unaudited Pro Forma Consolidated Statement of Earnings for the year ended December 31, 2023, gives effect to the Transaction as if it had occurred on January 1, 2023. The unaudited Pro Forma Statement of Financial Position combines the audited Consolidated Statement of Financial Position of Spin Master as at December 31, 2023 with the audited Consolidated Statement of Financial Position of M&D as at December 29, 2023. As the ending date of the fiscal period for M&D differs from that of Spin Master by less than 93 days, the unaudited Pro Forma Statement of Consolidated Earnings has not been adjusted.

SPIN MASTER CORP.

Notes to Unaudited Pro Forma Consolidated Financial Statements (continued)

(In millions of U.S. dollars, except earnings per share)

Year ended December 31, 2023

2. Basis of Presentation (continued):

The unaudited Pro Forma Financial Statements are based on, and should be read in conjunction with the:

- audited consolidated financial statements of Spin Master as at and for the years ended December 31, 2023 and 2022 (“Spin Master’s 2023 Annual Consolidated Financial Statements”); and
- audited consolidated financial statements of M&D as at and for the years ended December 29, 2023 and December 30, 2022 (“M&D’s 2023 Annual Consolidated Financial Statements”).

Certain historical amounts of M&D were reclassified to conform to Spin Master’s financial statement presentation.

Spin Master’s 2023 Annual Consolidated Financial Statements were prepared in accordance with International Financial Reporting Standards (“IFRS”). M&D’s 2023 Annual Consolidated Financial Statements were prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). For the purposes of preparing the unaudited Pro Forma Consolidated Financial Statements, adjustments have been made to M&D’s historical financial statements to align the financial information to IFRS.

The unaudited Pro Forma Financial Statements have been presented for illustrative purposes only. The pro forma information is not necessarily indicative of what the combined company’s financial position or financial performance would have been had the Transaction been completed as at the dates indicated above and does not purport to project the future financial position or operating results of the combined company. The unaudited Pro Forma Consolidated Financial Statements do not give effect to potential cost savings, operating synergies, and revenue enhancements, if any, that may result from the Transaction. The actual financial position and results of operations of Spin Master for any period following the closing of the Transaction will vary from the amounts set forth in the unaudited Pro Forma Consolidated Financial Statements and such variation may be material.

SPIN MASTER CORP.

Notes to Unaudited Pro Forma Consolidated Financial Statements (continued)

(In millions of U.S. dollars, except earnings per share)

Year ended December 31, 2023

2. Basis of Presentation (continued):

The pro forma adjustments are based upon available information and certain assumptions believed to be reasonable under the circumstances. The purchase price allocation in accordance with the acquisition method of accounting under IFRS3 will depend upon fair value estimates and assumptions made as at the acquisition date and therefore, certain valuations are provisional and are subject to change. Spin Master will finalize all amounts as it obtains the information necessary to complete the measurement process, which will be no later than one year from the closing of the Transaction. Accordingly, the pro forma adjustments are preliminary and have been made solely for the purpose of providing the unaudited Pro Forma Consolidated Financial Statements. Differences between preliminary estimates and final amounts may occur and these differences could be material to the accompanying unaudited Pro Forma Consolidated Financial Statements and Spin Master's future financial performance and financial position.

SPIN MASTER CORP.

Notes to Unaudited Pro Forma Consolidated Financial Statements (continued)

(In millions of U.S. dollars, except earnings per share)

Year ended December 31, 2023

3. Preliminary Purchase Price Allocation:

The following is a preliminary fair value estimate of the assets acquired and liabilities assumed by Spin Master in connection with the Transaction, reconciled to the purchase price. For any items without a corresponding reference below, book value is assumed to reasonably approximate fair value based on currently available information.

	Notes	Pro forma purchase price allocation
Assets acquired		
Cash		36.2
Restricted cash		3.1
Inventories, net		179.6
Prepaid expenses and other assets		3.0
Trade receivables, net		104.7
Deferred income tax assets	(d)	53.1
Intangible assets	(a)	536.2
Other assets		1.2
Property, plant and equipment	(b)	37.1
Right-of-use assets	(c)	85.4
		1,039.6
Liabilities assumed		
Trade payables and accrued liabilities		39.6
Deferred income tax liabilities	(d)	161.6
Lease liabilities	(c)	60.7
Income tax payable		0.7
Provision	(e)	0.8
		263.4
Fair value of identifiable net assets acquired		\$ 776.2
<i>Goodwill arising on acquisition</i>		
Cash consideration		991.7
Less: fair value of identifiable net assets acquired		776.2
Goodwill arising from transaction	(f)	\$ 215.5
<i>Net cash outflow on acquisition</i>		
Cash consideration		991.7
Less: cash balance acquired		36.2
Net cash outflow on acquisition		\$ 955.5

SPIN MASTER CORP.

Notes to Unaudited Pro Forma Consolidated Financial Statements (continued)

(In millions of U.S. dollars, except earnings per share)

Year ended December 31, 2023

3. Preliminary Purchase Price Allocation (continued):

- (a) A preliminary fair value estimate of \$536.2 million has been allocated to identifiable intangible assets acquired. Intangible assets acquired include brand name and customer relationships. The preliminary fair value of customer relationships and brand name are \$105.2 million and \$431.0 million, respectively, with a 15 year and indefinite useful life, respectively.
- (b) A preliminary fair value estimate of \$37.1 million has been allocated to property, plant and equipment. Property, plant and equipment includes leasehold improvements, moulds, dies and tools, office equipment, computer hardware, machinery and equipment, automotive equipment and construction in progress. For the purposes of these unaudited Pro Forma Financial Statements, the preliminary estimates of fair value and weighted-average useful lives have been determined. These preliminary fair value estimates and weighted-average useful lives could be different from the final valuation results and the difference could be material.
- (c) A preliminary fair value estimate of \$60.7 million has been allocated to lease liabilities representing the present value of future lease payments at Spin Master's incremental borrowing rate as of January 2, 2024. A preliminary fair value estimate of \$85.4 million has been allocated to right-of-use assets representing the lease liability adjusted for lease terms that are favorable when compared to market terms as at January 2, 2024.
- (d) A preliminary estimate of \$53.1 million and \$161.6 million has been recognized representing the deferred income tax asset and deferred income tax liability, respectively, relating to the estimated fair values of assets acquired and liabilities assumed. This estimate is based on the statutory tax rates currently enacted or substantively enacted at 27%.
- (e) A preliminary fair value estimate of \$0.8 million has been allocated to provisions representing the present value of asset retirement obligations for leased properties at discount rates as of January 2, 2024.
- (f) A preliminary estimate of \$215.5 million has been allocated to goodwill. Goodwill is calculated as the excess of the preliminary estimate of the acquisition-date fair value of the consideration transferred, over the preliminary estimate of the fair values assigned to the identifiable assets acquired and liabilities assumed.

SPIN MASTER CORP.

Notes to Unaudited Pro Forma Consolidated Financial Statements (continued)

(In millions of U.S. dollars, except earnings per share)

Year ended December 31, 2023

4. Presentation Conforming Adjustments:

The adjustments made to M&D's 2023 Annual Consolidated Financial Statements are described below including conforming adjustments to align with Spin Master's presentation.

- (a) Reflects a presentation conforming adjustment to reclassify accrued trade allowance from trade payables and accrued liabilities to trade receivables, net as at December 29, 2023.
- (b) Reflects presentation conforming adjustments to reclassify and combine certain asset and liability balances to conform with Spin Master's presentation and accounting policies as at December 29, 2023.
- (c) Reflects a presentation conforming adjustment to reclassify accrued interest from trade payables and accrued liabilities to loans and borrowings as at December 29, 2023.
- (d) Reflects a presentation conforming adjustment to reclassify unknown tax positions from provisions to income tax payable as at December 29, 2023.
- (e) Reflects a presentation conforming adjustment to reclassify returns recorded in cost of sales in M&D's consolidated statement of operations for the year ended December 29, 2023 into revenue, consistent with Spin Master's consolidated statement of earnings for the year ended December 31, 2023.
- (f) Reflects a presentation conforming adjustment to reclassify distribution and selling costs recorded in cost of sales and recaptured freight recorded as revenue in M&D's consolidated statement of operations for the year ended December 29, 2023 into selling, general and administrative expense consistent with Spin Master's consolidated statement of earnings for the year ended December 31, 2023.
- (g) Reflects a presentation conforming adjustment to reclassify cloud computing depreciation recorded in selling, general and administrative expense in M&D's consolidated statement of operations for the year ended December 29, 2023 into depreciation and amortization expense consistent with Spin Master's consolidated statement of earnings for the year ended December 31, 2023.

SPIN MASTER CORP.

Notes to Unaudited Pro Forma Consolidated Financial Statements (continued)

(In millions of U.S. dollars, except earnings per share)

Year ended December 31, 2023

4. Presentation Conforming Adjustments (continued):

- (h) Reflects a presentation conforming adjustment to reclassify quality assurance expenses recorded in selling, general and administrative in M&D's consolidated statement of operations for the year ended December 29, 2023 into cost of sales consistent with Spin Master's consolidated statement of earnings for the year ended December 31, 2023.
- (i) Reflects a presentation conforming adjustment to reclassify moulds, dies and tools depreciation recorded in depreciation and amortization expense in M&D's consolidated statement of operations for the year ended December 29, 2023 into cost of sales consistent with Spin Master's consolidated statement of earnings for the year ended December 31, 2023.
- (j) Reflects a presentation conforming adjustment to reclassify bank charges recorded in selling, general and administrative expense in M&D's consolidated statement of operations for the year ended December 29, 2023 into interest expense consistent with Spin Master's consolidated statement of earnings for the year ended December 31, 2023.
- (k) Reflects a presentation conforming adjustment to reclassify sublease revenue recorded in selling, general and administrative expense in M&D's consolidated statement of operations for the year ended December 29, 2023 into other expense (income), net consistent with Spin Master's consolidated statement of earnings for the year ended December 31, 2023.

SPIN MASTER CORP.

Notes to Unaudited Pro Forma Consolidated Financial Statements (continued)

(In millions of U.S. dollars, except earnings per share)

Year ended December 31, 2023

5. Pro Forma Adjustments in Connection with the Transaction:

The following summarizes the pro forma adjustments in connection with the Transaction to (i) give effect to the Transaction as if it had occurred on January 1, 2023, for purposes of the unaudited Pro Forma Statement of Earnings and on December 31, 2023 for purposes of the unaudited Pro Forma Statement of Financial Position and (ii) conform the U.S. GAAP financial information to Spin Master's accounting policies in accordance with IFRS, to the extent known at this time. The pro forma adjustments are based on preliminary estimates and assumptions that are subject to change.

(a) Cash and cash equivalents:

Reflects the pro forma adjustment to cash representing the sources and uses of cash to close the Transaction as if the Transaction had occurred on December 31, 2023. Sources and uses of cash include \$991.7 million of the preliminary purchase price paid and proceeds of \$522.4 million from the Facility and Acquisition Facility, net of debt issuance costs.

(b) Inventories, net:

Reflects an increase of \$66.3 million to the carrying value of M&D inventory to adjust it to its preliminary estimated fair value. The fair value was determined based on the estimated selling price of inventory, less remaining selling costs and a normal profit margin on those selling efforts.

The unaudited Pro Forma Statement of Earnings is also adjusted to increase cost of sales by the same amount as the inventory that is expected to be sold within one year of the acquisition.

(c) Prepaid expenses and other assets

Reflects a write-off of \$4.6 million in prepaid expense and other assets and \$16.9 million in other assets of capitalized cloud computing implementation costs that are not capitalizable under IFRS.

The unaudited Pro Forma Statement of Earnings is also adjusted to increase selling, general and administrative expense by \$17.7 million of cloud computing implementation costs incurred by M&D during 2023 and decrease depreciation and amortization expense by \$1.9 million for capitalized cloud computing implementation cost depreciation.

SPIN MASTER CORP.

Notes to Unaudited Pro Forma Consolidated Financial Statements (continued)

(In millions of U.S. dollars, except earnings per share)

Year ended December 31, 2023

5. Pro Forma Adjustments in Connection with the Transaction (continued):

(d) Intangible Asset:

Reflects adjustments for the following:

- i. A reversal of \$297.9 million of M&D's pushed down acquired intangible assets recorded at fair value not permitted under IFRS; and
- ii. An increase of \$536.2 million to the carrying value of M&D intangible assets to adjust it to its preliminary estimated fair value. Intangible assets acquired include brand name and customer relationships.

The unaudited Proforma Statement of Earnings is also adjusted to (i) decrease depreciation and amortization expense by \$5.2 million for amortization of pushed down acquired intangible assets and (ii) increase depreciation and amortization expense by \$6.3 million for amortization of the intangible assets recorded at fair value.

(e) Property, plant and equipment:

Reflects an increase of \$12.3 million to the carrying value of M&D property, plant and equipment to adjust property, plant and equipment to its preliminary estimated fair value.

The unaudited Pro Forma Statement of Earnings is also adjusted to increase depreciation and amortization expense by \$4.9 million and increase depreciation presented within cost of sales of \$0.7 million for depreciation reflecting both the fair value increments on property, plant and equipment and the revised estimated useful lives.

(f) Right-of-use-asset:

Reflects adjustments for the following:

- i. An increase of \$1.9 million to the carrying amount of the right-of-use assets to reflect the carrying amount of right-of use assets in accordance with IFRS16 – Leases (“IFRS16”); and
- ii. An increase of \$30.1 million to the carrying amount of the right-of-use assets associated with recalculating the right-of-use assets on the date the Transaction closed in accordance with IFRS3.

SPIN MASTER CORP.

Notes to Unaudited Pro Forma Consolidated Financial Statements (continued)

(In millions of U.S. dollars, except earnings per share)

Year ended December 31, 2023

5. Pro Forma Adjustments in Connection with the Transaction (continued):

The unaudited Proforma Statement of Earnings is also adjusted to (i) increase depreciation and amortization expense by \$12 million and decrease selling, general and administrative expense by \$13.8 million to align M&D's lease accounting with IFRS16 and (ii) increase depreciation and amortization expense by \$7.8 million for amortization of the right-of-use assets in accordance with IFRS3.

(g) Goodwill:

Reflects a decrease of \$217.2 million of M&D's pushed down goodwill recorded at fair value not permitted under IFRS and an increase of \$215.5 million of goodwill as a result of the preliminary purchase price allocation. Goodwill is not amortized and is not currently assumed to be deductible for tax purposes. Goodwill could materially change based on changes in estimates in the fair value of the assets acquired, and liabilities assumed.

(h) Trade payables and accrued liabilities:

Reflects an increase of \$11.5 million for the estimated additional transaction costs incurred by Spin Master subsequent to closing the Transaction and a decrease of \$1.2 million to the carrying amount of trade payables and accrued liabilities to adjust trade payables and accrued liabilities for amounts excluded in the purchase equation.

(i) Loans and borrowings:

Reflects adjustments for the following:

- i. An increase in loans and borrowings to reflect Spin Master's debt of \$525.0 million to finance the acquisition through the Facility and Acquisition Facility, less \$2.6 million of debt issuance costs;
- ii. A decrease in loans and borrowings of \$313.5 million to reflect M&D's debt extinguished upon consummation of the Transaction, less \$6.9 million of debt issuance costs; and
- iii. A decrease of \$1.8 million from other assets to reflect the removal of M&D's deferred financing costs.

SPIN MASTER CORP.

Notes to Unaudited Pro Forma Consolidated Financial Statements (continued)

(In millions of U.S. dollars, except earnings per share)

Year ended December 31, 2023

5. Pro Forma Adjustments in Connection with the Transaction (continued):

The unaudited Proforma Statement of Earnings is also adjusted to (i) increase interest expense by \$0.2 million to adjust interest expense and amortization of debt issuance costs in accordance with IFRS, (ii) remove interest expense of \$36.7 million for M&D's interest expense and amortization of debt issuance costs, (ii) increase interest expense by \$30.4 million for Spin Master's interest expense and amortization of new debt issuance costs.

If the effective interest rate on the Facility and Acquisition Facility were to increase (or decrease) by 12.5 basis points relative to the amount assumed in the preparation of these unaudited Proforma Consolidated Financial Statements, annual pro forma interest expense would increase (or decrease) by approximately \$0.6 million.

(j) Lease Liability:

Reflects adjustments for the following:

- i. A increase of \$3.9 million to the carrying amount of the lease liabilities to reflect the carrying amount of lease liabilities in accordance with IFRS16; and
- ii. A decrease of \$1.5 million to the carrying amount of the lease liabilities associated with recalculating the lease liabilities on the date the Transaction closed in accordance with IFRS3.

The unaudited Proforma Statement of Earnings is also adjusted to (i) increase interest expense by \$3.7 million to align M&D's lease accounting with IFRS16 and (ii) decrease interest expense by \$0.4 million for the accretion of interest expense on lease liabilities in accordance with IFRS3.

(k) Provisions:

Reflects an increase of \$0.8 million to provisions related to asset retirement obligations to adjust it to its preliminary estimated fair value.

SPIN MASTER CORP.

Notes to Unaudited Pro Forma Consolidated Financial Statements (continued)

(In millions of U.S. dollars, except earnings per share)

Year ended December 31, 2023

5. Pro Forma Adjustments in Connection with the Transaction (continued):

(l) Total equity:

Reflects a decrease of \$452.4 million in equity to eliminate historical share capital, retained earnings and contributed surplus of M&D. Included in the elimination of \$418.8 million is a \$1.4 million of contributed surplus to align M&D's share-based compensation with IFRS2 – Share-Based Payment ("IFRS2"). Included in the elimination of \$33.6 million is the decrease of \$11.5 million to reflect the estimated additional transaction costs as described in Note 5(m).

The unaudited Pro Forma Statement of Earnings is also adjusted to decrease selling, general and administrative expense by \$1.4 million to align M&D's share-based compensation expense with IFRS2.

(m) Transaction Costs:

The unaudited Proforma Statement of Earnings is adjusted to increase selling, general and administrative expense by \$11.5 million to reflect estimated additional transaction costs incurred by Spin Master subsequent to closing the Transaction. The remaining transaction costs of \$10.1 million are included in Spin Master's 2023 Annual Consolidated Financial Statements. These costs will not affect Spin Master's Consolidated Statement of Earnings beyond 12 months after the Transaction date.

(n) Income Taxes:

Reflects an increase of \$53.1 million and \$130.8 million to the carrying amount of deferred income tax assets and deferred income tax liability respectively representing the net deferred income tax liability relating to the estimated fair values of assets acquired and liabilities assumed. This estimate is based on the statutory tax rates currently enacted or substantively enacted of 27%.

The unaudited Proforma Statement of Earnings is adjusted to decrease income tax expense by \$25.2 million to reflect the consequential Statement of Earnings tax impact.

SCHEDULE "B"

**MELISSA & DOUG AUDITED ANNUAL CONSOLIDATED FINANCIAL
STATEMENTS**

(see attached)

MND Holdings I Corp
Consolidated Financial Statements
December 29, 2023 and December 30, 2022

MND Holdings I Corp
Index
December 29, 2023 and December 30, 2022

	Page(s)
Report of Independent Auditors	1–2
Consolidated Financial Statements	
Balance Sheets	3
Statements of Operations	4
Statements of Changes in Stockholders' Equity	5
Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7–24



Report of Independent Auditors

To the Board of Directors and Management of MND Holdings I Corp

Opinion

We have audited the accompanying consolidated financial statements of MND Holdings I Corp and its subsidiaries (the “Company”), which comprise the consolidated balance sheets as of December 29, 2023 and December 30, 2022, and the related consolidated statements of operations, changes in stockholders’ equity and cash flows for the years then ended, including the related notes (collectively referred to as the “consolidated financial statements”).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 29, 2023 and December 30, 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for the present value of lease payments in 2023. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability



to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers LLP

February 21, 2024

MND Holdings I Corp
Consolidated Balance Sheets
December 29, 2023 and December 30, 2022

	December 29, 2023	December 30, 2022
Assets		
Current assets		
Cash and cash equivalents	\$ 36,178,724	\$ 12,812,067
Restricted cash	3,078,541	-
Accounts receivable, net of allowance for credit losses of \$4,927,949 and \$1,256,270 at December 29, 2023 and December 30, 2022, respectively	146,730,828	110,463,108
Inventories, net	110,704,962	160,170,884
Inventory in-transit	2,555,467	3,396,363
Prepaid expenses and other current assets	4,263,114	12,696,586
Prepaid cloud computing implementation	4,491,438	1,264,904
Total current assets	<u>308,003,074</u>	<u>300,803,912</u>
Property and equipment, net	24,842,961	31,260,402
Intangible assets, net	297,940,431	303,855,323
Goodwill	217,183,288	217,183,288
Operating right-of-use assets	53,420,545	64,468,667
Long-term portion of prepaid cloud computing implementation, net	16,837,820	4,234,933
Other assets	1,906,717	208,444
Total assets	<u>\$ 920,134,836</u>	<u>\$ 922,014,969</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 20,819,028	\$ 23,944,664
Accrued marketing expense	41,970,810	32,337,819
Accrued interest expense	8,470,942	49,072
Accrued expenses and other liabilities	20,121,053	25,156,662
Related party notes payable	5,265,000	5,265,000
Current portion of operating lease liabilities	10,875,321	10,125,000
Current portion of term loan	3,125,000	2,600,000
Total current liabilities	<u>110,647,154</u>	<u>99,478,217</u>
Long term portion of term loan	238,684,879	240,427,551
Revolving line of credit borrowings	51,000,000	10,000,000
Deferred taxes, net	30,857,676	40,736,296
Long-term portion of operating lease liabilities	47,427,451	59,403,839
Other liabilities	660,684	1,520,044
Total liabilities	<u>479,277,844</u>	<u>451,565,947</u>
Commitments and contingencies (Note 7)		
Stockholders' equity		
Common stock, par value \$.01 per share: 1,000,000 shares authorized; 398,259 and 398,149 shares issued and outstanding at December 29, 2023 and December 30, 2022, respectively	3,983	3,982
Additional paid-in capital	418,769,656	416,739,562
Retained earnings	22,083,353	53,705,478
Total stockholders' equity	<u>440,856,992</u>	<u>470,449,022</u>
Total liabilities and stockholders' equity	<u>\$ 920,134,836</u>	<u>\$ 922,014,969</u>

The accompanying notes are an integral part of these consolidated financial statements.

MND Holdings I Corp
Consolidated Statements of Operations
Years Ended December 29, 2023 and December 30, 2022

	December 29, 2023	December 30, 2022
Net sales	\$ 363,719,698	\$ 488,804,155
Cost of sales	<u>182,603,124</u>	<u>263,690,504</u>
Gross profit	181,116,574	225,113,651
Selling, general and administrative expenses	<u>183,297,468</u>	<u>199,748,552</u>
Operating (loss) income	(2,180,894)	25,365,099
Other (income) expense	(497,854)	149,494
Interest expense	<u>36,445,805</u>	<u>17,839,416</u>
(Loss) income before provision for income taxes	(38,128,845)	7,376,189
(Benefit from) provision for income taxes	<u>(6,506,720)</u>	<u>1,058,559</u>
Net (loss) income	<u>\$ (31,622,125)</u>	<u>\$ 6,317,630</u>

The accompanying notes are an integral part of these consolidated financial statements.

MND Holdings I Corp
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 29, 2023 and December 30, 2022

	<u>Common Stock</u>		<u>Additional Paid in Capital</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>			
Balances at December 31, 2021	397,551	\$ 3,976	\$ 412,463,429	\$ 47,387,848	\$ 459,855,253
Equity based compensation	-	-	3,943,402	-	3,943,402
Net income	-	-	-	6,317,630	6,317,630
Exercise of stock options	<u>598</u>	<u>6</u>	<u>332,731</u>	<u>-</u>	<u>332,737</u>
Balances at December 30, 2022	398,149	3,982	416,739,562	53,705,478	470,449,022
Equity based compensation	-	-	1,892,595	-	1,892,595
Net loss	-	-	-	(31,622,125)	(31,622,125)
Exercise of stock options	<u>110</u>	<u>1</u>	<u>137,499</u>	<u>-</u>	<u>137,500</u>
Balances at December 29, 2023	<u>398,259</u>	<u>\$ 3,983</u>	<u>\$ 418,769,656</u>	<u>\$ 22,083,353</u>	<u>\$ 440,856,992</u>

The accompanying notes are an integral part of these consolidated financial statements.

MND Holdings I Corp
Consolidated Statements of Cash Flows
Years Ended December 29, 2023 and December 30, 2022

	December 29, 2023	December 30, 2022
Cash flows from operating activities		
Net (loss) income	\$ (31,622,125)	\$ 6,317,630
Adjustments to reconcile net (loss) income to net cash used in operating activities		
Depreciation of property and equipment	8,317,179	6,716,165
Bad debt expense	5,120,793	1,983,624
Amortization of intangible assets	5,914,892	6,079,010
Amortization of deferred financing costs	2,169,149	1,933,961
Amortization of cloud-computing software	1,870,846	588,080
Loss on extinguishment of debt	3,624,438	-
Loss on disposal of property & equipment	567,039	274,926
Deferred taxes	(9,878,620)	(4,712,101)
Equity compensation expense	1,892,595	3,943,402
Other	-	(218,683)
Changes in operating assets and liabilities		
Accounts receivable	(41,388,513)	34,551,467
Inventories and inventory in-transit	50,306,818	(49,162,621)
Prepaid expenses and other current assets	8,433,472	(624,103)
Prepaid cloud computing implementation	(17,700,267)	(6,087,917)
Operating lease assets and liabilities, net	(177,945)	(700,740)
Accounts payable	(2,430,084)	(35,554,169)
Accrued marketing expense	9,632,991	3,666,472
Accrued interest expense	6,866,497	17,390
Accrued expenses and other current liabilities	(5,035,609)	(16,744,189)
Other assets and liabilities	(883,604)	1,181,532
Net cash used in operating activities	<u>(4,400,058)</u>	<u>(46,550,864)</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(3,162,329)</u>	<u>(14,315,105)</u>
Net cash used in investing activities	<u>(3,162,329)</u>	<u>(14,315,105)</u>
Cash flows from financing activities		
Borrowings on line of credit	92,000,000	61,000,000
Repayments of borrowings on line of credit	(51,000,000)	(51,000,000)
Borrowings under long-term obligations	250,000,000	-
Repayments of borrowings under long-term obligations	(246,950,000)	(2,600,000)
Proceeds from exercise of stock options	137,500	746,750
Cash paid for debt issuance costs	<u>(10,179,915)</u>	<u>(393,500)</u>
Net cash provided by financing activities	<u>34,007,585</u>	<u>7,753,250</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	26,445,198	(53,112,719)
Cash, cash equivalents and restricted cash		
Beginning of year	<u>12,812,067</u>	<u>65,924,786</u>
End of year	<u>\$ 39,257,265</u>	<u>\$ 12,812,067</u>
Supplemental disclosure of cash flows information		
Interest paid	\$ 20,556,599	\$ 15,800,786
Income taxes paid	\$ 6,594,748	\$ 8,279,500
Income tax refund	\$ 8,490,799	\$ 965
Supplemental disclosure of non-cash investing and financing activities		
Purchases of property and equipment in accounts payable	\$ 659,130	\$ 1,354,682
ROU assets obtained in exchange for operating lease liabilities, upon adoption of ASC 842	\$ -	\$ 75,336,736

The accompanying notes are an integral part of these consolidated financial statements.

MND Holdings I Corp

Notes to Consolidated Financial Statements

December 29, 2023 and December 30, 2022

1. Organization of Business and Summary of Significant Accounting Policies

Background and Nature of Operations

MND Holdings I Corp ("MND I") was incorporated pursuant to the laws of Delaware on May 25, 2017 (date of inception). The certification of incorporation was amended and restated in its entirety on June 15, 2017. MND I owns 100% of MND Holdings II Corp ("MND II"). MND Holdings II Corp ("MND II") owns 100% of MND Holdings III Corp ("MND III"). MND III owns 100% of MDBP Holdings I, LLC, ("MDBP") a wholly owned subsidiary. MDBP owns 100% of MD Investment Holdings, Inc., a wholly owned subsidiary, which owns 100% of Melissa & Doug, LLC ("M&D"), a wholly owned subsidiary.

M&D wholesales toys, designed for children primarily, to retailers in the United States, Canada, Europe and Mexico. Products are manufactured primarily outside of the United States under agreements with vendors. The consolidated financial statements include the results of MND I and its subsidiaries (collectively the "Company"). The Company's operations are located in Connecticut, New Jersey, California, China and the United Kingdom.

On January 2, 2024, Spin Master US Holdings, Inc. ("SMUSH"), a Delaware Corporation, acquired 100% of MND I for \$950,000,000 in cash (the "Acquisition"). SMUSH is a wholly owned subsidiary of Spin Master Corp ("Spin Master"), a multi-national leading children's toy and entertainment company headquartered in Toronto, Canada, and listed on the Toronto stock exchange. Spin Master is known for several award-winning brands and is the global toy licensee for other popular properties. Spin Master operates three creative center divisions including Toys, Entertainment, and Digital Games and employs over 2,000 team members globally with distribution in over 100 countries.

Basis of Accounting and Consolidation

The accompanying consolidated financial statements were prepared on the accrual basis of accounting with revenue recorded when earned and expenses when incurred. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany balances and transactions have been eliminated.

Basis of Presentation

The Company operates on a fiscal year basis ending on the Friday closest to December 31. Accounting Standards Codification ("ASC") 220 requires a separate statement of comprehensive income. However, as net (loss) income is the only material component of comprehensive income, the Company elected not to include a separate consolidated statement of comprehensive income because it would not be meaningful to the users of the financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Significant estimates include the Company's allowance for doubtful accounts, its reserves for marketing and promotion expense, merchandise returns and timely payment deductions from customers and in the valuation of stock options issued.

MND Holdings I Corp

Notes to Consolidated Financial Statements

December 29, 2023 and December 30, 2022

Cash and Cash Equivalents

The Company considers all short-term highly liquid investments with an original maturity of three months or less to be cash and cash equivalents. Cash balances, at times, exceed federally insured limits; however, the Company believes such banks to be high credit quality institutions.

Restricted Cash

Restricted cash consists of funds that are contractually or legally restricted as to usage or withdrawal and have been presented separately from cash and cash equivalents on the consolidated balance sheets. Restricted cash consists of a demand deposit account with Natixis which was established to act as cash collateral to back the Natixis Letter of Credit (Note 4).

Inventories

Inventories consist of finished goods available for resale. Inventories are stated at the lower of cost or net realizable value, with cost determined under the first-in, first-out method. The Company evaluates its inventories to identify excess and obsolete merchandise based on business trends and records valuation adjustments when necessary.

Acquired inventory which has not yet been received, but to which the title has passed to the Company, is recorded as inventory in-transit.

Accounts Receivable

Accounts receivable are recorded at the invoiced amounts and do not bear interest. Although the Company operates internationally, net sales are concentrated in the United States. The Company adopted Accounting Standards Update ("ASU") 2016-13, *Current Expected Credit Loss* ("CECL"), as of January 1, 2022. Under the standard, the Company records an allowance for credit losses for accounts receivable based on management's expected credit losses. Management's estimate of expected credit losses is based on its assessment of the business environment, customers' financial condition, historical collection experience, accounts receivable aging and customer disputes. Accounts receivable, net on the consolidated balance sheets represents amounts due from customers less the allowance for credit losses as well as allowances for discounts and returns. The adoption of this standard did not have a material impact on the allowance.

The Company had an allowance for credit losses for accounts receivable of \$4,927,949 and \$1,256,270 as of December 29, 2023 and December 30, 2022, respectively. In addition, the Company has recorded other reserves for discounts and returns of \$1,932,484 and \$1,192,931 at December 29, 2023 and December 30, 2022, respectively.

The Company had a Receivables Purchase Agreement ("RPA"), pursuant to which certain receivables are sold to a bank without recourse by the bank for any credit risk or financial inability to pay associated with any sold receivable. Transactions under the RPA are accounted for as sales under ASC Topic 860, *Transfers and Servicing of Financial Assets*, with the sold receivables removed from the Company's balance sheet. Under the RPA, the Company does not maintain any beneficial interest in the receivables sold. The bank's purchase of eligible receivables is subject to a maximum amount of uncollected receivables of \$150,000,000. The Company services the receivables on behalf of the banks, but otherwise maintains no significant continuing involvement with respect to the receivables. Sale proceeds are representative of the fair value of factored receivables, less a factoring fee, and are reflected in net cash provided by operating activities on the consolidated statements of cash flows. This agreement was terminated on December 27, 2023.

MND Holdings I Corp
Notes to Consolidated Financial Statements
December 29, 2023 and December 30, 2022

Revenue Recognition

The Company accounts for revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers* (“ASC 606”). Under ASC 606, the Company recognizes net revenue from product sales when control of the promised goods is transferred to customers upon delivery in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Revenues are recorded net of provisions for certain rebates, product returns, and discounts to customers, and are accounted for as a reduction in sales in the same period the related sales are recorded. Certain product discounts granted are based on promotional activities and historical experience. Typical payment terms for most customer are 30-60 days. A warranty promised to a customer offers only the assurance that the product will function as intended, the customer has no option to purchase the warranty separately. Such warranty should not be accounted for as a performance obligation. Sales are recorded net of returns, cash discounts, discounts for prompt payment, certain trade promotions, marketing allowances and other rebates.

Refer to below for net sales by product type for the years ending December 29, 2023 and December 30, 2022:

	December 29, 2023	% Of Net Sales	December 30, 2022	% Of Net Sales
Pretend Play	\$ 156,110,440	43%	\$ 204,048,078	42%
Developmental	78,099,848	21%	98,014,332	20%
Arts & Crafts	54,982,293	15%	86,172,128	18%
Puzzles	34,185,419	9%	35,333,872	7%
Plush	10,532,323	3%	17,428,571	4%
Books	7,408,328	2%	9,759,189	2%
Playspaces & Décor	6,962,044	2%	9,171,286	2%
Dollhouses	6,337,245	2%	10,073,170	2%
Active Play & Outdoor	6,337,245	2%	11,243,644	2%
Other	2,764,513	1%	7,559,885	1%
Total Net Sales	<u>\$ 363,719,698</u>		<u>\$ 488,804,155</u>	

Income Taxes

MND I files consolidated income tax returns in the U.S. federal jurisdiction, and in various state jurisdictions where the Company has nexus.

Deferred income taxes in these consolidated financial statements are based on the consolidated presentation on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss, and tax credit carryforward and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based on the level of historical taxable income and projections for future taxable income over the periods in which the

MND Holdings I Corp

Notes to Consolidated Financial Statements

December 29, 2023 and December 30, 2022

deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences at December 29, 2023 and December 30, 2022. The Company evaluates its tax contingencies and recognizes a liability when it believes it is more-likely-than-not that a liability exists.

Property and Equipment

Property and equipment are stated at cost and net of accumulated depreciation and amortization. Expenditures, which materially extend the useful lives of the assets, are capitalized. Routine maintenance and repairs that do not extend the useful lives of the assets are expensed as incurred. Depreciation and amortization for all classes of property has been computed using the straight-line method over the shorter of the estimated useful life of the asset or the term of the lease after assessing the likelihood of renewals.

Estimated useful lives for newly acquired assets are as follows:

	Years
Machinery, equipment, automobiles, software and furniture	3 to 10
Leasehold improvements	The shorter of useful life or term of lease

Upon sale or retirement of property and equipment, the cost and related accumulated depreciation is removed from the accounts and the resulting gain or loss, if any, is recognized in the consolidated statements of operations.

Amortizable Intangible Assets

The Company's amortizable intangible assets are comprised of customer lists, noncompetition agreements and patents. Intangible assets other than goodwill are recognized as an asset apart from goodwill if that asset acquired arises from contractual or legal rights. Customer lists are amortized on a straight-line basis of 4 to 20 years and patents are amortized using the straight-line basis over 5 years. Noncompetition agreements were amortized over 5 years and are fully amortized as of December 29, 2023.

Cloud Computing Implementation Costs

The Company capitalizes costs incurred in the application development stage of the implementation of a hosting arrangement that is a service contract. The gross carrying amount of cloud computing implementation costs was \$23,798,823 and \$6,098,555 as of December 29, 2023 and December 30, 2022, respectively. Accumulated amortization of cloud computing implementation costs was \$2,469,565 and \$598,719 as of December 29, 2023 and December 30, 2022, respectively. These costs are recorded on the consolidated balance sheets within prepaid cloud computing implementation, net. Capitalized cloud computing implementation costs are amortized using the straight-line method over the term of the contract. The portion expected to be amortized in the next 12 months is recorded as a current asset. Amortization expense is recognized within selling, general and administrative expenses on the consolidated statements of operations, consistent with the presentation of the costs associated with the hosting element of the arrangement.

MND Holdings I Corp

Notes to Consolidated Financial Statements

December 29, 2023 and December 30, 2022

Long-lived Assets

The Company's policy is to assess the values of its long-lived assets (property and equipment, cloud computing, right-of-use assets, and amortizable intangible assets) and to evaluate such assets for impairment whenever events or changes in circumstances ("triggering events") indicate that the carrying amount of such assets (or group of assets) may not be recoverable. The amount of any impairment recognized would be calculated as the difference between the estimated fair market value and the carrying value of the asset. The Company performs an impairment test should there be a triggering event. No impairments were recorded for the years ended December 29, 2023 and December 30, 2022.

Goodwill and Other Intangible Assets

Goodwill reflects the cost of an acquisition in excess of the fair values assigned to identifiable net assets acquired. Trademarks, which are included in intangible assets in the consolidated balance sheets, have been determined to have an indefinite life. The carrying value of trademarks totaled \$256,400,000 as of December 29, 2023 and December 30, 2022. Goodwill and trademarks are not amortized, rather they are tested for impairment annually, and more frequently if triggering events occur.

The Company first assesses qualitatively, step 0, whether it is necessary to perform step one of the annual impairment test. An entity is required to perform step one if the entity concludes that it is more likely than not that a reporting unit's fair value is below its carrying amount (that is, a likelihood of more than fifty percent). When step one indicates that the reporting unit's carrying value exceeds its fair value, an impairment will be recorded. At December 29, 2023 and December 30, 2022 the Company performed its annual impairment testing procedures and determined that there was no impairment.

Debt Issuance Costs

Debt issuance costs represent the cost of obtaining financing arrangements. Debt issuance costs related to the revolving credit facility are deferred and recorded as an asset and amortized over the term of the revolving credit arrangement using the straight-line method. Debt issuance costs relating to the term loan are recorded as a direct deduction from the carrying amount of the term loan and are amortized over the term of the related financing agreement using the straight-line method as these results are not materially different than those under the effective interest method.

As of December 29, 2023 and December 30, 2022, the amount of \$6,940,121 and \$2,672,449, respectively, is netted with the term loan on the accompanying balance sheet. As of December 29, 2023 and December 30, 2022, the amount of \$1,882,473 and \$208,443, respectively, is included in other assets on the accompanying balance sheets. Amortization of the debt issuance costs charged to interest expense was \$2,169,149 and \$1,933,961, respectively, for the years ended December 29, 2023 and December 30, 2022.

Equity Based Compensation

Equity based compensation cost for equity classified awards was measured at the grant date based on the fair value of the award. The Company estimated the fair value of equity classified awards on the date of grant using the Black-Scholes option valuation model, which required the input of subjective assumptions. These assumptions included estimating the length of time employees will retain their vested stock options before exercising them ("expected term"), the estimated volatility of the Company's common stock price over the expected term ("volatility"), the fair value of the Company's stock, the risk-free interest rate and the dividend yield. Changes in the subjective assumptions can materially affect the estimate of fair value of equity-based compensation. The value of the portion of the equity-based award that is ultimately expected to

MND Holdings I Corp

Notes to Consolidated Financial Statements

December 29, 2023 and December 30, 2022

vest is recognized as a component of compensation expense over the requisite service periods is included in selling, general and administrative expenses in the Company's consolidated statements of operations. The Company elected to use the straight-line method for all equity-based awards with graded vesting features. The Company recognizes forfeitures as they occur.

Leases

The Company adopted ASC Topic 842, *Leases* ("ASC 842"), on a modified retrospective basis on January 1, 2022, when it became effective for private companies. The Company elected the practical expedient available to companies that are not public business entities to use the risk-free rate to determine the present value of lease payments. As a result of the Acquisition (Note 1), the Company has adjusted the consolidated financial statements to reflect the adoption of ASC 842 as a public business entity, under which the use of this practical expedient is not available. The use of the implicit rate to determine the present value of lease payments is required, and as the rate implicit in the Company's leases is not readily determinable, the Company uses its incremental borrowing rate. The incremental borrowing rate is based on information available at the lease commencement date, including the Company's credit rating, credit spread and adjustments for the impact of collateral, lease tenors, economic environment, and currency.

All adjustments related to the adoption of ASC 842 as a public business entity are reflected within the consolidated financial statements, beginning with the earliest comparative period that is presented.

The Company has operating lease agreements for office and warehouse spaces. Operating lease right-of-use ("ROU") assets and lease liabilities are recognized on the commencement date based on the present value of lease payments over the lease term. Lease agreements with lease and non-lease components are generally accounted for separately.

The Company has elected not to record on the balance sheet leases whose term is 12 months or less and do not include a purchase option that the Company is reasonably certain to exercise. The Company elected the package of practical expedients to not reassess whether a contract is or contains a lease, lease classification or initial direct costs. This practical expedient has been applied for all asset classes. Within the provisions of certain leases, there are rent escalations in payments over the base lease term. The effects of the escalations were reflected in rent expense on a straight-line basis over the expected lease term. The lease term commences on the date when the Company has the right to control the use of the leased property, which is typically before rent payments are due under the terms of the lease.

Operating lease ROU assets are separately presented as a non-current asset and operating lease liabilities are separately presented within short-term and long-term liabilities on the Company's consolidated balance sheet. Operating lease expense is recognized on a straight-line basis over the lease term. The Company does not have any finance leases.

Advertising and Promotions

Promotions include funds used for printing and distribution of catalogs, distribution of consumer samples, promotional materials and related distribution and development of display units used for marketing, all of which have separable and identifiable benefits apart from the sales and for which the Company incurs costs. These costs are expensed as incurred. These amounts totaled \$27,402,946 and \$29,078,489 for the years ended December 29, 2023 and December 30, 2022, respectively.

MND Holdings I Corp

Notes to Consolidated Financial Statements

December 29, 2023 and December 30, 2022

Fair Value of Financial Instruments

As prescribed by U.S. GAAP, major categories of financial assets and liabilities, including short term investments, other assets and derivatives are measured at fair value on a recurring basis. Certain assets and liabilities including long-lived assets, goodwill and intangibles are measured at fair value on a periodic basis.

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and consider assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. U.S. GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Three levels of inputs that may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation.

Financial assets and liabilities subject to fair value measurements include cash and cash equivalents, accounts receivable, accounts payable and debt. Other than debt, the carrying values of the Company's financial assets and liabilities approximate their fair values due to their short maturities. The carrying values of outstanding long-term and short-term borrowings approximate their fair values and are classified as Level 3 in the fair value hierarchy.

The inputs used to measure the financial assets and liabilities fall within the different levels described above, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Functional Currency

The financial information of the Company's foreign subsidiaries is measured using the United States dollar as the functional currency. Transactions denominated in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities are recognized in the consolidated statements of operations.

MND Holdings I Corp
Notes to Consolidated Financial Statements
December 29, 2023 and December 30, 2022

Risks and Uncertainties

The Company's sales are concentrated with certain retailers. As of and for the year ended December 29, 2023, three customers accounted for approximately 76% of gross accounts receivable and approximately 66% of the Company's consolidated net sales. As of and for the year ended December 30, 2022, four customers accounted for approximately 81% of gross accounts receivable and three customers accounted for approximately 82% of the Company's consolidated net sales.

The Company is also exposed to foreign currency exchange rate fluctuations in the normal course of business. Foreign currency exposures relate primarily to certain foreign currency denominated assets, primarily non-U.S. dollar denominated cash and accounts receivable balances. The operating results of the Company can be impacted by changes in valuation of certain currencies, although the Company does not believe such changes would be significant to its trend of operating results, there can be no assurances. The Company is affected by changes in certain market conditions, which may adversely impact the Company's financial performance and are referred to as market risks. The Company, when deemed appropriate, uses derivatives as a tool to mitigate the potential impact of certain market risks.

Recent Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board issued Accounting Standards Update 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. The amendments in this update address investor requests for more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. The amendments in this update are effective for annual reporting periods beginning after December 15, 2024, with early adoption permitted. Management is currently evaluating the impact that the new guidance will have on its consolidated financial statements.

Reclassifications

Certain reclassifications were made to the prior year consolidated financial statements to conform to the current year presentation.

2. Property and Equipment, Net

Property and equipment consists of the following as of December 29, 2023 and December 30, 2022:

	December 29, 2023	December 30, 2022
Machinery, equipment, automobiles, software and furniture	\$ 43,310,773	\$ 43,135,121
Leasehold improvements	<u>13,342,179</u>	<u>12,694,924</u>
	56,652,952	55,830,045
Less: Accumulated depreciation	<u>(31,809,991)</u>	<u>(24,569,643)</u>
	<u>\$ 24,842,961</u>	<u>\$ 31,260,402</u>

Depreciation expense was \$8,317,179 and \$6,716,165 for the years ended December 29, 2023 and December 30, 2022, respectively.

MND Holdings I Corp
Notes to Consolidated Financial Statements
December 29, 2023 and December 30, 2022

3. Amortizable Intangible Assets, Net

Amortizable intangible assets consist of the following as of December 29, 2023:

	Estimated Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer lists	4–20	\$ 75,600,000	\$ (34,059,569)	\$ 41,540,431
Patents	5	4,250,000	(4,250,000)	-
		<u>\$ 79,850,000</u>	<u>\$ (38,309,569)</u>	<u>\$ 41,540,431</u>

Amortizable intangible assets consist of the following as of December 30, 2022:

	Estimated Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Noncompetition agreements	5	\$ 200,000	\$ (200,000)	\$ -
Customer lists	4–20	80,500,000	(33,753,010)	46,746,990
Patents	5	4,250,000	(3,541,667)	708,333
		<u>\$ 84,950,000</u>	<u>\$ (37,494,677)</u>	<u>\$ 47,455,323</u>

Amortization expense for the years ended December 29, 2023 and December 30, 2022 totaled \$5,914,892 and \$6,079,010, respectively. During the year ended December 29, 2023 the Company wrote off \$5,100,000 of gross carrying amounts and accumulated amortization for fully amortized intangible assets.

Estimated amortization expense for the five following fiscal years is as follows:

2024	\$ 4,440,487
2025	3,792,273
2026	3,792,273
2027	3,792,273
2028	3,181,667
Thereafter	<u>22,541,458</u>
Total	<u>\$ 41,540,431</u>

MND Holdings I Corp

Notes to Consolidated Financial Statements

December 29, 2023 and December 30, 2022

4. Debt

Credit Facilities

The Company entered into a credit agreement on June 19, 2017 with Credit Suisse AG, which provided for a term loan totaling \$260,000,000 and a revolving credit facility of \$65,000,000 ("CS Credit Agreement"). The revolving credit facility matures on March 20, 2024 and the term loan matures June 19, 2024 with quarterly principal payments of \$650,000 beginning September 30, 2017. The revolving credit facility accrues interest at a rate of the base rate, as defined in the CS Credit Agreement plus an applicable rate, which is between 2.50% and 4.25% depending on the net leverage ratio, as defined in the CS Credit Agreement, as well as an unutilized fee of 0.50%. The term loan, as amended on November 17, 2022, accrues interest at a rate of the base rate, as defined in the CS Credit Agreement plus an applicable rate, which is between 2.50% and 3.50% depending on the type of term loan. The interest rate on the term loan and the revolving credit facility as of December 30, 2022 was 8.23% and 7.92%, respectively. As of the date of this amendment, the Company elected certain optional practical expedients in ASC 848, *Reference Rate Reform*, which did not have a material effect on the Company's consolidated financial statements. Under the CS Credit Agreement, the Company is subject to certain financial and nonfinancial covenants, which among other things place restrictions on leverage ratios. As of December 30, 2022 the Company was in compliance with all financial covenants. In addition, commencing with the year ending December 28, 2018, the Credit Agreement requires mandatory prepayments of the consolidated excess cash flows, which is defined as EBITDA less certain customary deductions. The Company was not required to make an excess cash flow payments for the years ended December 29, 2023 and December 30, 2022.

Effective May 9, 2023, the Company extinguished the outstanding term loan and revolving line of credit balances under the CS Credit Agreement. As of the payoff date, the Company had \$2,069,065 in unamortized debt issuance costs, of which \$138,963 was related to the revolving line of credit and recorded as an asset, and \$1,930,102 was related to the term loan and recorded as a contra-liability, reducing the carrying value of the term loan. A loss on extinguishment of \$3,624,438 was recorded as a component of interest expense within the consolidated statements of operations for the year ended December 29, 2023.

On May 9, 2023, the Company, entered into a new credit agreement with Oaktree Fund Administration, LLC in the aggregate amount of \$271,000,000 ("OT Credit Agreement"). The OT Credit Agreement consists of a \$250,000,000 term Loan and a \$65,000,000 revolving credit facility. An additional \$2,988,875 letter of credit facility was also entered into with Natixis at this time ("Natixis Letter of Credit"). The utilization of this separate facility was backed by the revolving credit facility and reduced the borrowing availability under the revolver. Interest on both the term loan and the revolving credit facility under the OT Credit Agreement is based on SOFR + 7.50%, including a 1.00% paid-in-kind ("PIK") toggle. Mandatory principal payments are \$625,000 per quarter, beginning with the quarter ending June 30, 2023.

Under the OT Credit Agreement, the Company is subject to certain restrictive financial and nonfinancial covenants. Financial covenants include a maximum total net leverage ratio and a cash liquidity ratio. The financial covenants were effective for the fiscal quarter ended March 31, 2023 and are applicable for each quarter ending thereafter. As of December 29, 2023 and December 30, 2022, the Company was in compliance with all financial covenants.

MND Holdings I Corp

Notes to Consolidated Financial Statements

December 29, 2023 and December 30, 2022

The balance of the term loan under the OT Credit Agreement was \$248,750,000, net of deferred financing costs of \$6,940,121, as of December 29, 2023. The balance of the term loan under the CS Credit Agreement was \$245,700,000, net of deferred financing costs of \$2,672,449 as of December 30, 2022.

There was \$51,000,000 in outstanding borrowings under the revolving line of credit under the OT Credit Agreement as of December 29, 2023. There was \$10,000,000 in outstanding borrowings under the revolving line of credit under the CS Credit Agreement as of December 30, 2022.

The aggregate future minimum principal payments are as follows:

Fiscal Years Ended	
2024	\$ 3,125,000
2025	2,500,000
2026	2,500,000
2027	2,500,000
2028	<u>238,125,000</u>
Total	<u>\$ 248,750,000</u>

The OT Credit Agreement was originally set to mature on May 9, 2028, however, as a result of the Acquisition the entirety of the outstanding debt balances, plus accrued interest, were extinguished and paid in full on January 2, 2024.

The Natixis Letter of Credit remains in effect, however is no longer backed by the revolving credit facility. As a result, in December 2023 a demand deposit cash account was funded in the amount of \$3,078,541 to act as cash collateral to back the Natixis Letter of Credit. This was equal to the total letter of credit facility, plus 3%, and is included in restricted cash on the consolidated balance sheets.

Related Party Notes Payable

In February 2020, the Company entered into an Amended and Restated Employment Agreement with two employees. As part of these agreements, prior to March 15, 2021, the Company agreed to issue promissory notes in the amount of \$6,000,000 and \$3,750,000. These notes were issued on March 9, 2021 and bear interest at a rate of 0.62% per annum, compounded semi-annually.

Upon issuance of the notes, the Company recorded compensation expense of \$9,750,000. The total outstanding balance on the notes, including accrued interest, as of December 29, 2023 and December 30, 2022 was \$5,358,901 and \$5,314,072, respectively. The outstanding principal is presented as related party notes payable and the accrued interest is included within accrued interest expense on the consolidated balance sheets. As a result of the Acquisition, these promissory notes, including accrued interest, were paid in full to the two employees on January 2, 2024.

MND Holdings I Corp

Notes to Consolidated Financial Statements

December 29, 2023 and December 30, 2022

5. Financial Instruments

As discussed in Note 1, the Company is exposed to risk related to changes in foreign currency exchange rates, specifically the Euro, Canadian Dollar and British Pound. The Company uses forward contracts to economically hedge the impact of the variability in exchange rates on its forecasted sales, net of any expenses denominated in those same currencies. The Company does not designate any of the forward contracts as hedges and does not apply hedge accounting. All forward contracts are recorded at fair value on the consolidated balance sheet with changes in the fair value charged to other (income) expense. The Company was party to forward contracts throughout the year, all of which were settled on a quarterly basis. No forward contracts were outstanding as of December 29, 2023 and December 30, 2022. The Company recognized a realized (loss) gain on forward contracts of \$(99,853) and \$966,448 for the years ended December 29, 2023 and December 30, 2022, respectively, within other (income) expense on the consolidated statements of operations.

6. Leases

The Company leases office and warehouse spaces under operating lease agreements with terms ranging from three to ten years. The Company determines if an arrangement is a lease at inception. For all of the Company's operating leases, the fixed monthly rent payments are considered lease components. Non-lease components primarily include payments for maintenance and utilities and are accounted for separately. The Company's lease terms include periods under options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. As described in Note 1, the Company changed the manner in which it accounts for the present value of lease payments in 2023, beginning with the earliest comparative period in these consolidated financial statements. The amounts below are reflective of this change.

Operating lease cost is included in selling, general and administrative expenses and was \$14,068,607 and \$14,170,217 for the years ended December 29, 2023 and December 30, 2022, respectively.

Operating cash flows from operating leases for the years ended December 29, 2023 and December 30, 2022 were \$13,877,286 and \$14,225,094, respectively. Operating cash flows during 2023 are net of \$370,667 of sublease income. Operating cash flows during 2022 are net of tenant reimbursements of \$1,189,000.

MND Holdings I Corp
Notes to Consolidated Financial Statements
December 29, 2023 and December 30, 2022

As of December 29, 2023, the aggregate future minimum lease payments under non-cancellable leases presented in accordance with ASC 842 are as follows:

Years Ended	
2024	\$ 13,376,092
2025	14,907,357
2026	8,582,298
2027	7,706,043
2028	7,436,481
Thereafter	<u>15,344,123</u>
Total lease payments	67,352,394
Less: Imputed interest	<u>(9,049,622)</u>
Total operating liabilities	<u>\$ 58,302,772</u>

	December 29, 2023	December 30, 2022
Weighted average remaining lease term	5.72 years	6.56 years
Weighted average discount rate	4.7%	4.6%

7. Commitments and Contingencies

The Company is involved in matters that involve various claims which have arisen in the normal course of business. It is the opinion of management upon advice of legal counsel that any liabilities that may arise as a result of such claims will not have a material adverse effect, individually or in the aggregate, on the Company's financial position, results of operations or cash flows.

MND Holdings I Corp
Notes to Consolidated Financial Statements
December 29, 2023 and December 30, 2022

8. Income Taxes

For the years ended December 29, 2023 and December 30, 2022, the provision for income taxes related to continuing operations is as follows:

	December 29, 2023	December 30, 2022
Income components		
United States	\$ (39,088,902)	\$ 5,805,811
Foreign	<u>960,057</u>	<u>1,570,378</u>
(Loss) income from continuing operations before tax	<u>(38,128,845)</u>	<u>7,376,189</u>
Income tax expense components		
United States - federal	1,737,511	4,111,684
United States - state and local	1,794,732	1,398,414
Foreign	<u>(160,343)</u>	<u>260,562</u>
Total current income tax expense	<u>3,371,900</u>	<u>5,770,660</u>
Deferred income tax benefit components		
United States - federal	(8,626,142)	(3,770,881)
United States - state and local	(1,165,042)	(941,220)
Foreign	<u>(87,436)</u>	<u>-</u>
Total deferred income tax benefit	<u>(9,878,620)</u>	<u>(4,712,101)</u>
Total (benefit from) provision for income taxes	<u>\$ (6,506,720)</u>	<u>\$ 1,058,559</u>

The reconciliation of the income tax provision from continuing operations from the U.S. statutory income tax rate to the effective income tax rate for the years ended December 29, 2023 and December 30, 2022 is as follows:

	December 29, 2023		
	Pre-Tax Book Loss	Tax Effect	Rate Effect
Tax provision at U.S. statutory rate	\$ (38,128,845)	\$ (8,008,493)	21.00%
State and local income taxes (net of federal benefit)	-	(1,074,626)	2.82%
Return to provision adjustment	-	1,706,524	-4.48%
Facilitative transaction fees	-	1,013,880	-2.66%
Other	<u>-</u>	<u>(144,005)</u>	<u>0.38%</u>
Total	<u>\$ (38,128,845)</u>	<u>\$ (6,506,720)</u>	<u>17.06%</u>

MND Holdings I Corp
Notes to Consolidated Financial Statements
December 29, 2023 and December 30, 2022

	December 30, 2022		
	Pre-Tax Book Income	Tax Effect	Rate Effect
Tax provision at U.S. statutory rate	\$ 7,376,189	\$ 1,549,000	21.00%
State and local income taxes (net of federal benefit)	-	256,378	3.48%
Return to provision adjustment	-	(614,019)	-8.32%
Foreign derived intangible income ("FDII")	-	(401,552)	-5.44%
Employee fringe benefits	-	123,546	1.67%
Foreign tax expense	-	325,850	4.42%
Other	-	(180,644)	-2.45%
Total	\$ 7,376,189	\$ 1,058,559	14.36%

Deferred tax assets and liabilities are determined based upon temporary differences between the financial reporting and tax bases of assets and liabilities applying enacted tax rates for the year in which we expect the differences will reverse as well as tax attribute carryforwards.

The following is a summary of the components of the deferred tax assets and liabilities recognized in the consolidated balance sheets as of December 29, 2023 and December 30, 2022:

	December 29, 2023	December 30, 2022
Bad debts	\$ 1,195,082	\$ 303,767
Tax attribute carryforwards	595,407	704,887
Inventory capitalization	4,443,552	6,114,790
Other reserves	3,266,789	3,037,349
Stock options	4,953,366	4,457,148
Interest expense limitation carryforward	8,703,287	2,270,228
Lease liability	13,870,603	18,683,391
Capitalized research & development	3,699,682	2,051,549
Other	1,570,569	1,909,983
Loss carryforwards	<u>1,707,683</u>	<u>1,540,456</u>
Gross deferred tax assets	44,006,020	41,073,548
Less: Valuation allowance	<u>(1,306,496)</u>	<u>(1,138,193)</u>
Net deferred tax assets	<u>42,699,524</u>	<u>39,935,355</u>
Intangible assets, net	(59,270,763)	(57,455,266)
Property and equipment, net	(1,266,015)	(5,227,307)
Right-of-use asset	(12,701,354)	(17,459,838)
Other	<u>(319,068)</u>	<u>(529,240)</u>
Total deferred tax liabilities	<u>(73,557,200)</u>	<u>(80,671,651)</u>
Net deferred tax liability	<u>\$ (30,857,676)</u>	<u>\$ (40,736,296)</u>

MND Holdings I Corp
Notes to Consolidated Financial Statements
December 29, 2023 and December 30, 2022

In assessing the realization of deferred tax assets, we considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company has recorded a valuation allowance for deferred tax assets of \$1,306,496 and \$1,138,193 as of December 29, 2023 and December 30, 2022, respectively, related to foreign net operating losses.

The Company recognizes income tax benefits from uncertain tax positions only if, based on the technical merits of the position, it is more likely than not that the tax position will be sustained on examination by the taxing authorities. The tax benefits recognized in the consolidated financial statements from such positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Unrecognized tax benefits - December 31, 2021	\$ 238,353
Reductions for	
Currency translation adjustment	(23,717)
Expiration of statute of limitations	<u>(24,460)</u>
Unrecognized tax benefits - December 30, 2022	190,176
Reductions for	
Currency translation adjustment	(3,401)
Expiration of statute of limitations	<u>(12,634)</u>
Unrecognized tax benefits - December 29, 2023	<u>\$ 174,141</u>

The calculation of our tax liability for unrecognized tax benefits includes dealing with uncertainties in the application of complex tax laws and regulations in various tax jurisdictions. Due to the complexity of some uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the unrecognized tax benefit.

9. Retirement Plan

The Company maintains a defined contribution 401(k) profit-sharing plan (the "401(k) Plan") for eligible employees. Participants may make voluntary contributions up to the maximum amount allowable by law. The Company may make contributions to the 401(k) Plan on a discretionary basis which become fully vested to participants after five years of employment. For the year ended December 29, 2023, the Company did not recognize any expense for discretionary 401(k) profit-sharing contributions. For the year ended December 30, 2022, the Company recognized \$1,432,930 in expense for discretionary 401(k) profit-sharing contributions. The Company incurs administrative expenses in connection with the Plan recorded within selling, general and administrative expenses within the consolidated statements of operations.

MND Holdings I Corp
Notes to Consolidated Financial Statements
December 29, 2023 and December 30, 2022

10. Capital Structure

The Company has authorized 1,000,000 shares of par value \$.01 per share common stock. There are 398,259 and 398,149 shares issued and outstanding as of December 29, 2023 and December 30, 2022, respectively.

Equity Based Compensation

Effective October 10, 2017, MND I approved a stock option plan. Under this plan, options to purchase stock were available to be granted to officers, employees, consultants and directors. The exercise price of the option shall not be less than the par value of a share or the fair value of share at the grant date. Options granted under this plan typically expire ten years after the grant date and vest over five years. There are 49,000 options authorized to be issued under the Plan. As of December 29, 2023 and December 30, 2022, there are 1,419 and 880 options available to be issued, respectively.

The options vest on each of the first five anniversaries of the grant date. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the employee share option plan). Equity based compensation expense for the options will be recognized over the five-year vesting period from the grant date.

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years
Balances outstanding, December 31, 2021	48,173	\$ 1,158	6.8
Granted	164	2,500	
Exercised	(598)	1,250	
Forfeited	<u>(268)</u>	<u>1,250</u>	
Balances outstanding, December 30, 2022	47,471	1,161	5.9
Granted	-	-	
Exercised	(110)	1,250	
Forfeited	<u>(539)</u>	<u>1,157</u>	
Balances outstanding, December 29, 2023	<u>46,822</u>	<u>\$ 1,161</u>	4.9

The weighted average grant date fair value of options granted during 2023 and 2022 was \$0 and \$825 per share, respectively. The total grant date fair value of options that vested during 2023 and 2022 was \$1,892,595 and \$2,997,583, respectively. The aggregate intrinsic value of options exercised during 2023 and 2022 was \$89,678 and \$487,525, respectively. The aggregate intrinsic value of options exercised is the difference between the fair value of the underlying common stock on the date of exercise and the exercise price for in-the-money stock options.

For all the options granted, the fair value of each award was estimated on the date of grant using the Black-Scholes option valuation model. Option valuation models incorporate ranges of assumptions for inputs, which are disclosed in the table below. Expected volatilities were based on implied volatilities from comparable publicly traded companies and other factors. The expected term of options granted was based on the amount of time that they were expected to be outstanding. The guaranteed dividend rate was based on the likely level of annualized dividend

MND Holdings I Corp
Notes to Consolidated Financial Statements
December 29, 2023 and December 30, 2022

payments during the expected term of the options. The risk-free rate for periods within the contractual life of the option was based on the U.S. Treasury yield curve in effect at the time of grant. The Company used a composite valuation approach (based on a combination of the discounted future income method, comparable public company multiples, and comparable private company transactions) to estimate the value of the Company's equity.

	December 29, 2023	December 30, 2022
Expected volatility	42.50 %	45.00 %
Expected dividends	-	-
Expected term	6.2 years	6.1 years
Risk-free rate	4.09 %	2.90 %

The Company recorded \$1,892,595 and \$3,943,402 of equity-based compensation expense for the years ended December 29, 2023 and December 30, 2022, respectively, within selling, general and administrative expenses on the consolidated statements of operations. As of December 29, 2023, there was \$2,171,422 of total unrecognized compensation costs related to 7,530 unvested options. These costs are expected to be recognized over a weighted-average period of approximately 1.3 years.

11. Subsequent Events

Management has evaluated subsequent events through February 21, 2024, the date the consolidated financial statements were available to be issued.

As described in Note 1, the Company was acquired by Spin Master on January 2, 2024. At closing, \$950,000,000 was paid in cash. As a result of the transaction, at closing, all outstanding principal and accrued interest related to the OT Credit Agreement term loan and revolving line of credit were repaid in full. Further, the related party notes payable and accrued interest were paid in full (Note 4) as well as the payout of employee stock options.