JAKKS PACIFIC INC
Form 10-Q
November 09, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______

Commission file number: 0-28104

JAKKS Pacific, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	95-4527222
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

2951 28th Street Santa Monica, California	90405
(Address of Principal Executive Offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

The number of shares outstanding of the issuer’s common stock is 20,002,003 as of November 9, 2016.
1

JAKKS PACIFIC, INC. AND SUBSIDIARIES

INDEX TO QUARTERLY REPORT ON FORM 10-Q
Quarter Ended September 30, 2016
ITEMS IN FORM 10-Q

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. For example, statements included in this report regarding our financial position, business strategy and other plans and objectives for future operations, and assumptions and predictions about future product demand, supply, manufacturing, costs, marketing and pricing factors are all forward-looking statements. When we use words like “intend,” “anticipate,” “believe,” “estimate,” “plan,” “expect” or words o similar import, we are making forward-looking statements. We believe that the assumptions and expectations reflected in such forward-looking statements are reasonable and are based on information available to us on the date hereof, but we cannot assure you that these assumptions and expectations will prove to have been correct or that we will take any action that we may presently be planning. We are not undertaking to publicly update or revise any forward-looking statement if we obtain new information or upon the occurrence of future events or otherwise.

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

JAKKS PACIFIC, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

Assets	December 31, 2015 (*)	September 30, 2016 (Unaudited)
Current assets		
Cash and cash equivalents	$ 102,528	$ 45,475
Restricted cash	—	2,687
Accounts receivable, net of allowance for uncollectible accounts of $2,714 and $2,447 in 2015 and 2016, respectively	163,387	272,257
Inventory, net	60,544	75,064
Income taxes receivable	24,008	23,435
Prepaid expenses and other assets	31,901	27,761
Total current assets	382,368	446,679
Property and equipment		
Office furniture and equipment	15,141	14,567
Molds and tooling	86,307	99,905
Leasehold improvements	10,640	10,950
Total	112,088	125,422
Less accumulated depreciation and amortization	93,653	102,724
Property and equipment, net	18,435	22,698
Intangibles, net	42,185	35,553
Other long term assets	3,125	2,423
Investment in DreamPlay, LLC	7,000	7,000
Goodwill, net	44,199	43,462
Trademarks, net	2,308	2,308
Total assets	$ 499,620	$ 560,123
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 34,986	$ 102,577
Accrued expenses	54,081	57,358
Reserve for sales returns and allowances	17,267	16,379
Income taxes payable	21,067	22,791
Total current liabilities	127,401	199,105
Convertible senior notes, net of debt issuance costs of $5,834 and $4,372 in 2015 and 2016, respectively	209,166	207,933
Other liabilities	5,155	5,210
Income taxes payable	2,199	2,325
Deferred income taxes, net	2,293	2,265
Total liabilities	346,214	416,838
Commitments and contingencies		
Stockholders' equity		

Preferred stock, $.001 par value; 5,000,000 shares authorized; nil outstanding	—	—
Common stock, $.001 par value; 100,000,000 shares authorized; 21,701,239 and 19,999,540 shares issued and outstanding in 2015 and 2016, respectively	21	20
Treasury stock, at cost; 3,660,201 and 3,112,840 shares in 2015 and 2016, respectively	(28,322)	(24,000)
Additional paid-in capital	194,743	177,326
Retained earnings (accumulated deficit)	(3,391)	5,437
Accumulated other comprehensive loss	(10,051)	(16,077)
Total JAKKS Pacific, Inc. stockholders' equity	153,000	142,706
Non-controlling interests	406	579
Total stockholders' equity	153,406	143,285
Total liabilities and stockholders' equity	$ 499,620	$ 560,123

(*) Derived from audited financial statements

See accompanying notes to condensed consolidated financial statements.

3

JAKKS PACIFIC, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(In thousands, except per share data)

	Three Months Ended September 30, (Unaudited)		Nine Months Ended September 30, (Unaudited)	
	2015	2016	2015	2016
Net sales	$337,027	$302,791	$582,334	$539,577
Cost of sales	232,698	207,858	403,340	368,661
Gross profit	104,329	94,933	178,994	170,916
Selling, general and administrative expenses	59,701	60,520	141,573	151,419
Income from operations	44,628	34,413	37,421	19,497
Income from joint ventures	60	—	1,744	861
Other income	5,642	207	5,642	282
Interest income	16	12	51	46
Interest expense	(3,107)	(3,020)	(9,187)	(9,466)
Income before provision for income taxes	47,239	31,612	35,671	11,220
Provision for income taxes	1,375	1,083	3,115	2,219
Net income	45,864	30,529	32,556	9,001
Net income (loss) attributable to non-controlling interests	19	(83)	(28)	173
Net income attributable to JAKKS Pacific, Inc.	$45,845	$30,612	$32,584	$8,828
Earnings per share – basic	$2.47	$1.91	$1.72	$0.53
Earnings per share –diluted	$1.12	$0.82	$0.89	$0.36
Comprehensive income	$44,003	$28,161	$30,652	$2,975
Comprehensive income attributable to JAKKS Pacific, Inc.	$43,984	$28,244	$30,680	$2,802

4

JAKKS PACIFIC, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended September 30, (Unaudited)	
	2015	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$32,556	$9,001
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,220	16,898
Write-off and amortization of debt issuance costs	1,464	1,877
Share-based compensation expense	1,452	1,254
Gain on disposal of property and equipment	(28)	—
Gain on extinguishment of convertible notes	—	(69)
Deferred income taxes	—	(29)
Changes in operating assets and liabilities:		
Accounts receivable	(58,345)	(108,870)
Inventory	(2,577)	(14,520)
Income taxes receivable	—	573
Prepaid expenses and other assets	(6,294)	4,428
Accounts payable	38,472	61,832
Accrued expenses	(17,264)	5,946
Reserve for sales returns and allowances	2,139	(888)
Income taxes payable	715	1,850
Other liabilities	2,358	55
Total adjustments	(23,688)	(29,663)
Net cash provided by (used in) operating activities	8,868	(20,662)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(14,354)	(11,239)
Sale of marketable securities	220	—
Distribution from joint venture	60	—
Change in other assets	(3,080)	(6,227)
Net cash used in investing activities	(17,154)	(17,466)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of common stock for employee tax withholding	—	(844)
Repurchase of convertible senior notes	—	(2,626)
Proceeds from credit facility borrowings	25,000	—
Restricted cash	—	(2,687)
Credit facility costs	(188)	—
Repurchase of common stock	(6,988)	(13,505)
Net cash provided by (used in) financing activities	17,824	(19,662)
Effect of foreign currency translation	148	737
Net change in cash and cash equivalents	9,686	(57,053)
Cash and cash equivalents, beginning of period	71,525	102,528
Cash and cash equivalents, end of period	$81,211	$45,475
Cash paid during the period for:		
Income taxes	$3,625	$203
Interest	$4,390	$7,010

See Notes 5, 9 and 10 for additional supplemental information to the condensed consolidated statements of cash flows.

See accompanying notes to condensed consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
September 30, 2016

Note 1 — Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to prevent the information presented from being misleading. These financial statements should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K, which contains audited financial information for the three years in the period ended December 31, 2015.

The information provided in this report reflects all adjustments (consisting solely of normal recurring items) that are, in the opinion of management, necessary to present fairly the financial position and the results of operations for the periods presented. Interim results are not necessarily indicative of results to be expected for a full year.

The condensed consolidated financial statements include the accounts of JAKKS Pacific, Inc. and its wholly-owned subsidiaries (collectively, “the Company”). The condensed consolidated financial statements also include the accounts of DreamPlay Toys, LLC, a joint venture between JAKKS Pacific, Inc. and NantWorks LLC, and JAKKS Meisheng Trading (Shanghai) Limited, a joint venture between JAKKS Pacific, Inc. and Meisheng Culture & Creative Corp.

Certain prior period amounts have been reclassified for consistency with the current period presentation.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company is currently evaluating the impact of the pending adoption of ASU 2014-09 on the consolidated financial statements and has not yet determined the method by which it will adopt the standard in 2018.

In August 2014, the FASB amended the FASB Accounting Standards Codification and amended Subtopic 205-40, “Presentation of Financial Statements — Going Concern.” This amendment prescribes that an entity’s management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued. The amendments will become effective for the Company’s annual and interim reporting periods beginning January 1, 2017. Upon adoption, the Company will use this guidance to evaluate going concern.

In July 2015, the FASB issued Accounting Standards Update 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory” (“ASU 2015-11”). ASU 2015-11 requires inventory accounted for under the FIFO or average cost method to be measured using the lower of cost and net realizable value. The amendments are effective prospectively for fiscal years and for interim periods beginning after December 15, 2016. The Company is currently evaluating the impact of the pending adoption of ASU 2015-11 on the consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update 2016-02, “Leases” (“ASU 2016-02”). ASU 2016-02 establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of the pending adoption of this new standard on its financial statements.

In March 2016, the FASB issued ASU No. 2016-09, “Improvements to Employee Share-Based Payment Accounting,” (“ASU 2016-09”) which simplifies several aspects of the accounting for share-based payments, including income tax consequences and classification on the statement of cash flows. Under the new standard, all excess tax benefits and tax deficiencies will be recognized as income tax expense or benefit in the income statement as discrete items in the reporting period in which they occur. Additionally, excess tax benefits will be classified as an operating activity on the statement of cash flows. In regards to forfeitures, the entity can make an accounting policy election to either recognize forfeitures as they occur or estimate the number of awards expected to be forfeited. The guidance in ASU 2016-09 is effective for the fiscal year, and interim periods within that fiscal year, beginning after December 15, 2016. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The new guidance is intended to reduce diversity in practice in how transactions are classified in the statement of cash flows. This ASU is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. The adoption of this standard is not expected to have a material impact on the Company’s financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory. The amendments in this ASU reduces the complexity in the accounting standards by allowing the recognition of current and deferred income taxes for an intra-entity asset transfer, other than inventory, when the transfer occurs. Historically, recognition of the income tax consequence was not recognized until the asset was sold to an outside party. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. The Company is currently evaluating the impact of this ASU on its financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 — Business Segments, Geographic Data, Sales by Product Group and Major Customers

The Company is a worldwide producer and marketer of children's toys and other consumer products, principally engaged in the design, development, production, marketing and distribution of its diverse portfolio of products. The Company recently re-aligned its products into three new segments to better reflect the management and operation of the business. The Company's segments are (i) U.S. and Canada, (ii) International, and (iii) Halloween. Prior year's segment reporting units have been restated to reflect this change.

The U.S. and Canada segment includes action figures, vehicles, play sets, plush products, dolls, electronic products, construction toys, infant and pre-school toys, role play and everyday costume play, foot to floor ride-on vehicles, wagons, novelty toys, seasonal and outdoor products, kids' indoor and outdoor furniture, and pet treats and related products, primarily within the United States and Canada.

Within the International segment, the Company markets and sells its toy products in markets outside of the U.S. and Canada, primarily in the European, Asia Pacific, and Latin and South American regions.

Within the Halloween segment, the Company markets and sells Halloween costumes and accessories and everyday costume play products, primarily in the U.S. and Canada.

Segment performance is measured at the operating income level. All sales are made to external customers and general corporate expenses have been attributed to the various segments based upon relative sales volumes. Segment assets are primarily comprised of accounts receivable and inventories, net of applicable reserves and allowances, goodwill and other assets. Certain assets which are not tracked by operating segment and/or that benefit multiple operating segments have been allocated on the same basis.

Results are not necessarily those which would be achieved if each segment was an unaffiliated business enterprise. Information by segment and a reconciliation to reported amounts for the three and nine months ended September 30, 2015 and 2016 and as of December 31, 2015 and September 30, 2016 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2016	2015	2016
Net Sales				
U.S. and Canada	$202,568	$188,381	$350,855	$350,320
International	77,701	57,333	137,523	97,454
Halloween	56,758	57,077	93,956	91,803
	$337,027	$302,791	$582,334	$539,577

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2016	2015	2016
Income (Loss) from Operations				

U.S. and Canada	$28,126	$24,865	$21,808	$ 16,966
International	12,724	6,876	15,530	4,371
Halloween	3,778	2,672	83	(1,840)
	$44,628	$34,413	$37,421	$ 19,497

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2016	2015	2016
Depreciation and Amortization Expense				
U.S. and Canada	$4,976	$5,787	$ 9,426	$12,097
International	1,847	1,800	3,531	3,354
Halloween	556	619	1,263	1,447
	$7,379	$8,206	$ 14,220	$16,898

	December 31, 2015	September 30, 2016
Assets		
U.S. and Canada	$320,528	$339,212
International	157,493	175,232
Halloween	21,599	45,679
	$499,620	$560,123

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 — Business Segments, Geographic Data, Sales by Product Group and Major Customers - (continued)

The following tables present information about the Company by geographic area as of December 31, 2015 and September 30, 2016 and for the three and nine months ended September 30, 2015 and 2016 (in thousands):

	December 31, 2015	September 30, 2016
Long-lived Assets		
China	$ 10,172	$ 15,253
United States	7,702	6,914
Hong Kong	561	531
	$ 18,435	$ 22,698

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2016	2015	2016
Net Sales by Customer Area				
United States	$242,467	$229,850	$416,690	$416,034
Europe	55,389	43,446	92,948	67,611
Canada	16,441	12,709	27,255	22,412
Hong Kong	414	1,184	1,210	1,861
Other	22,316	15,602	44,231	31,659
	$337,027	$302,791	$582,334	$539,577

Product Group

Net sales by product group for the three and nine months ended September 30, 2015 and 2016 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2016	2015	2016
Traditional Toys and Electronics	$204,332	$163,528	$332,737	$268,194
Role Play, Novelty and Seasonal Toys	132,695	139,263	249,597	271,383
	$337,027	$302,791	$582,334	$539,577

Major Customers

Net sales to major customers for the three and nine months ended September 30, 2015 and 2016 were as follows (in thousands, except for percentages):

Three Months Ended September 30,				Nine Months Ended September 30,			
2015		2016		2015		2016	
Amount	Percentage of	Amount	Percentage of	Amount	Percentage of	Amount	Percentage of

	Net Sales			Net Sales			Net Sales			Net Sales		
Wal-Mart	$77,240	22.9	%	$72,996	24.1	%	$126,743	21.7	%	$139,806	25.9	%
Target	40,647	12.1		50,008	16.5		66,292	11.4		76,948	14.3	
Toys ‘R’ Us	27,292	8.1		19,624	6.5		50,620	8.7		38,088	7.0	
	$145,179	43.1	%	$142,628	47.1	%	$243,655	41.8	%	$254,842	47.2	%

At December 31, 2015 and September 30, 2016, the Company’s three largest customers accounted for approximately 56.2% and 46.7%, respectively, of net accounts receivable. The concentration of the Company’s business with a relatively small number of customers may expose the Company to material adverse effects if one or more of its large customers were to experience financial difficulty. The Company performs ongoing credit evaluations of its top customers and maintains an allowance for potential credit losses.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 3 — Inventory

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

	December 31, 2015	September 30, 2016
Raw materials	$ 3,717	$ 4,344
Finished goods	56,827	70,720
	$ 60,544	$ 75,064

Note 4 — Revenue Recognition and Reserve for Sales Returns and Allowances

Revenue is recognized upon the shipment of goods to customers or their agents, depending upon terms, provided there are no uncertainties regarding customer acceptance, the sales price is fixed or determinable and collectability is reasonably assured and not contingent upon resale.

Generally, the Company does not allow product returns. It provides its customers a negotiated allowance for breakage or defects, which is recorded when the related revenue is recognized. However, the Company does make occasional exceptions to this policy and consequently accrues a return allowance based upon historic return amounts and management estimates. The Company occasionally grants credits to facilitate markdowns and sales of slow moving merchandise. These credits are recorded as a reduction of gross sales at the time of occurrence.

The Company also participates in cooperative advertising arrangements with some customers, whereby it allows a discount from invoiced product amounts in exchange for customer purchased advertising that features the Company's products. Generally, these discounts range from 1% to 10% of gross sales, and are generally based upon product purchases or specific advertising campaigns. Such amounts are accrued when the related revenue is recognized or when the advertising campaign is initiated. These cooperative advertising arrangements are accounted for as direct selling expenses.

The Company's reserve for sales returns and allowances amounted to $17.3 million as of December 31, 2015, compared to $16.4 million as of September 30, 2016. This decrease is primarily due to certain customers taking their annual allowances related to 2015 sales as well as allowances related to 2016 during 2016.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 5 — Credit Facility

In March 2014, the Company and its domestic subsidiaries entered into a secured credit facility with General Electric Capital Corporation (“GECC”). The loan agreement, as amended and subsequently assigned to Wells Fargo Bank, N.A. pursuant to its acquisition of GECC, provides for a $75.0 million revolving credit facility subject to availability based on prescribed advance rates on certain accounts receivable and inventory (the “WF Loan Agreement”). The amounts outstanding under the credit facility are payable in full upon maturity of the facility on March 27, 2019, and the credit facility is secured by a security interest in favor of the lender covering a substantial amount of the assets of the Company. As of December 31, 2015, the amount of outstanding borrowings was nil and outstanding stand-by letters of credit totaled $23.2 million; the total excess borrowing capacity was $55.5 million. As of September 30, 2016, the amount of outstanding borrowings was nil and outstanding stand-by letters of credit totaled $28.2 million; the total excess borrowing capacity was $24.7 million including $2.7 million remaining of restricted funds on deposit in the process of being returned to the Company. Such funds became unrestricted when the excess borrowing capacity under the credit line became positive.

The Company’s ability to borrow under the WF Loan Agreement is also subject to its ongoing compliance with certain financial covenants, including the maintenance by the Company of a fixed charge coverage ratio of at least 1.2:1.0 based on the trailing four fiscal quarters. As of December 31, 2015 and September 30, 2016, the Company was in compliance with the financial covenants under the WF Loan Agreement.

The Company may borrow funds at LIBOR or at a base rate, plus applicable margins of 225 basis point spread over LIBOR and 125 basis point spread on base rate loans. In addition to standard fees, the facility has an unused credit line fee, which ranges from 25 to 50 basis points. As of December 31, 2015 and September 30, 2016, the interest rate on the credit facility was approximately 2.25%.

The WF Loan Agreement also contains customary events of default, including a cross default provision and a change of control provision. In the event of a default, all of the obligations of the Company and its subsidiaries under the WF Loan Agreement may be declared immediately due and payable. For certain events of default relating to insolvency and receivership, all outstanding obligations become due and payable.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 6 — Convertible Senior Notes

In July 2013, the Company sold an aggregate of $100.0 million principal amount of 4.25% Convertible Senior Notes due 2018 (the “2018 Notes”). The 2018 Notes are senior unsecured obligations of the Company paying interest semi-annually in arrears on August 1 and February 1 of each year at a rate of 4.25% per annum and will mature on August 1, 2018. The initial and still current conversion rate for the 2018 Notes is 114.3674 shares of JAKKS common stock per $1,000 principal amount of notes, equivalent to an initial conversion price of approximately $8.74 per share of common stock, subject to adjustment in certain events. Upon conversion, the 2018 Notes will be settled in shares of the Company’s common stock. Holders of the 2018 Notes may require that the Company repurchase for cash all or some of their notes upon the occurrence of a fundamental change (as defined in the 2018 Notes). During April and May of 2016 the Company repurchased and retired an aggregate of approximately $0.7 million principal amount of the 2018 Notes.

In June 2014, the Company sold an aggregate of $115.0 million principal amount of 4.875% Convertible Senior Notes due 2020 (the “2020 Notes”). The 2020 Notes are senior unsecured obligations of the Company paying interest semi-annually in arrears on June 1 and December 1 of each year at a rate of 4.875% per annum and will mature on June 1, 2020. The initial and still current conversion rate for the 2020 Notes is 103.7613 shares of JAKKS common stock per $1,000 principal amount of notes, equivalent to an initial conversion price of approximately $9.64 per share of common stock, subject to adjustment in certain events. Upon conversion, the 2020 Notes will be settled in shares of the Company’s common stock. Holders of the 2020 Notes may require that the Company repurchase for cash all or some of their notes upon the occurrence of a fundamental change (as defined in the 2020 Notes). In January 2016, the Company repurchased and retired an aggregate of $2.0 million principal amount of the 2020 Notes.

On January 1, 2016, the Company adopted ASU 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs,” which requires that debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt premiums and discounts. ASU 2015-03 applies retrospectively and does not change the recognition and measurement requirements for debt issuance costs. As a result, the Company reclassified $5.8 million of debt issuance costs previously included in other long term assets to convertible senior notes, net on its condensed consolidated financial statements as of December 31, 2015.

The fair value of the 2018 Notes as of December 31, 2015 and September 30, 2016 was approximately $102.0 million and $111.8 million, respectively, based upon the most recent quoted market price. The fair value of the 2020 Notes as of December 31, 2015 and September 30, 2016 was approximately $112.3 million and $120.0 million, respectively, based upon the most recent quoted market price. The fair value of the convertible senior notes is considered to be a Level 2 measurement on the fair value hierarchy.

Convertible senior notes, net of debt issuance costs consist of the following (in thousands):

	December 31, 2015			September 30, 2016		
	Principal Amount	Debt Issuance Costs	Net Amount	Principal Amount	Debt Issuance Costs	Net Amount
4.25% convertible senior notes (due 2018)	$100,000	$ 2,181	$97,819	$99,305	$ 1,461	$97,844
4.875% convertible senior notes (due 2020)	115,000	3,653	111,347	113,000	2,911	110,089
Total convertible senior notes, net of debt	$215,000	$ 5,834	$209,166	$212,305	$ 4,372	$207,933

issuance costs

Amortization expense classified as interest expense related to debt issuance costs was $0.4 million and $0.4 million for the three months ended September 30, 2015 and 2016, respectively, and $1.2 million and $1.5 million for the nine months ended September 30, 2015 and 2016, respectively.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 7 — Income Taxes

The Company’s income tax expense of $1.4 million for the three months ended September 30, 2015 reflects an effective tax rate of 2.9%. The Company’s income tax expense of $1.1 million for the three months ended September 30, 2016 reflects an effective tax rate of 3.4%. The majority of the provision relates to foreign taxes.

The Company’s income tax expense of $3.1 million for the nine months ended September 30, 2015 reflects an effective tax rate of 8.7%. The Company’s income tax expense of $2.2 million for the nine months ended September 30, 2016 reflects an effective tax rate of 19.8%. The majority of the provision relates to foreign taxes.

In November 2015, the FASB issued ASU No. 2015-17, “Balance Sheet Classification of Deferred Taxes,” which requires all deferred tax assets and liabilities to be classified as noncurrent on the balance sheet. The guidance in ASU 2015-17 is effective for the fiscal year, and interim periods within that fiscal year, beginning after December 15, 2016, with early adoption permitted. The Company early adopted this standard as of January 1, 2016 and applied the standard retrospectively. As a result of adopting this standard, current deferred tax liabilities of $2.7 million and non-current deferred tax assets of $0.4 million were reclassified to net non-current deferred tax liabilities as of December 31, 2015.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 8 — Earnings Per Share

The following table is a reconciliation of the weighted average shares used in the computation of earnings per share for the periods presented (in thousands, except per share data):

	Three Months Ended September 30,					
	2015			2016		
	Income	**Weighted** Average Shares	**Per-Share**	**Income**	**Weighted** Average Shares	**Per-** Share
Earnings per share – basic						
Net income available to common stockholders	$45,845	18,559	$ 2.47	$30,612	16,044	$ 1.91
Effect of dilutive securities:						
Convertible senior notes	1,779	23,369		1,840	23,081	
Unvested performance stock grants	—	409		—	164	
Unvested restricted stock grants	—	225		—	215	
Earnings per share – diluted						
Net income available to common stockholders plus assumed exercises and conversion	$47,624	42,562	$ 1.12	$32,452	39,504	$ 0.82

	Nine Months Ended September 30,					
	2015			**2016**		
	Income	Weighted Average Shares	Per-Share	**Income**	Weighted Average Shares	Per-Share
Earnings per share – basic						
Net income available to common stockholders	$32,584	18,929	$1.72	$8,828	16,561	$0.53
Effect of dilutive securities:						
Convertible senior notes	5,516	23,369		5,557	23,123	
Unvested performance stock grants	—	284		—	115	
Unvested restricted stock grants	—	155		—	117	
Earnings per share – diluted						
Net income available to common stockholders plus assumed exercises and conversion	$38,100	42,737	$0.89	$14,385	39,916	$0.36

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the weighted average number of common shares and common share equivalents outstanding during the period (which consist of warrants, options and convertible debt to the extent they are dilutive). The weighted average number of common shares outstanding excludes shares repurchased pursuant to a prepaid forward share repurchase agreement (See Note 9). Common share equivalents that could potentially dilute basic earnings per share in the future, which were excluded from the computation of diluted earnings per share due to being anti-dilutive, totaled approximately 2,679,155 and 2,407,225 for the three months ended September 30, 2015 and 2016, respectively, and approximately 2,634,393 and 2,227,787 for the nine months ended September 30, 2015 and 2016, respectively.

13

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 9 — Common Stock and Preferred Stock

In June 2014, the Company effectively repurchased 3,112,840 shares of its common stock at an average cost of $7.71 per share for an aggregate amount of $24.0 million pursuant to a prepaid forward share repurchase agreement entered into with Merrill Lynch International (“ML”). These repurchased shares are treated as retired for basic and diluted EPS purposes although they remain legally outstanding. The Company reflects the aggregate purchase price as a reduction to stockholders’ equity classified as Treasury Stock. No shares have been delivered to the Company by ML as of September 30, 2016.

In June 2015, the Board of Directors authorized the repurchase of up to an aggregate of $30.0 million of the Company’s outstanding common stock and/or convertible notes (collectively, “securities”). The Company intends to retire any repurchased securities. As of September 30, 2016, the Company repurchased and retired 3,313,645 shares of its common stock at an aggregate cost of $26.7 million and also repurchased and retired $2.0 million principal amount of its 2020 Notes at a cost of $1.94 million and $695,000 principal amount of its 2018 Notes at a cost of $685,887. As of September 30, 2016, the Company had $0.7 million remaining under its current securities repurchase authorization.

In January 2016, the Company issued an aggregate of 449,120 shares of restricted stock at a value of approximately $3.6 million to two executive officers, which vest, subject to certain company financial performance criteria and market conditions, over a three year period. In addition, an aggregate of 62,710 shares of restricted stock at an aggregate value of approximately $0.5 million were issued to its five non-employee directors, which vest in January 2017.

In March 2016, the Company issued an aggregate of 134,058 shares of restricted stock at a value of approximately $0.9 million to an executive officer, which vest, subject to certain company financial performance criteria and market conditions, over a three year period.

All issuances of common stock, including those issued pursuant to stock option and warrant exercises, restricted stock grants and acquisitions, are issued from the Company’s authorized but not issued and outstanding shares.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 10 — Business Combinations

In July 2012, the Company acquired all of the stock of Maui, Inc. and related entities (collectively, “Maui”). The total initial consideration of $37.6 million consisted of $36.2 million in cash and the assumption of liabilities in the amount of $1.4 million. In addition, the Company agreed to pay an earn-out of up to an aggregate amount of $18.0 million in cash over the three calendar years following the acquisition based on the achievement of certain financial performance criteria. The fair value of the expected earn-out of $16.0 million was accrued and recorded as goodwill as of the acquisition date. Maui did not achieve the prescribed minimum earn-out targets for each of the three years in the period ended December 31, 2015; therefore, changes of $6.0 million, $5.9 million and $5.6 million in the earn-out liability were credited to other income in the fourth quarter of 2013 and third quarters of 2014 and 2015, respectively. Maui is a leading manufacturer and distributor of spring and summer activity toys and impulse toys, and was included in the Company’s results of operations from the date of acquisition.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 11 — Joint Ventures

The Company owns a fifty percent interest in a joint venture (“DreamPlay Toys”) with NantWorks LLC (“NantWorks”). Pursuant to the operating agreement of DreamPlay Toys, the Company paid to NantWorks cash in the amount of $8.0 million and issued NantWorks a warrant to purchase 1.5 million shares of the Company’s common stock at a value of $7.0 million in exchange for the exclusive right to utilize NantWorks’ recognition technology platform for toy products. The Company has classified these rights as an intangible asset and is amortizing the asset over the anticipated revenue stream from the exploitation of these rights. Pursuant to the amended Toy Services Agreement (the “TSA”) entered into with NantWorks, the joint venture may develop and produce toys utilizing recognition technologies owned by NantWorks, for which NantWorks is entitled to receive a preferred return based upon net sales of DreamPlay Toys product sales and third-party license fees. In exchange for cash payments in the aggregate amount of $1.2 million payable to NantWorks over a two-year period, the TSA was extended to September 30, 2018, subject to the achievement of certain financial targets. The accrued preferred return for NantWorks was approximately $295,457 and nil for the three months ended September 30, 2015 and 2016, respectively, and approximately $359,452 and nil for the nine months ended September 30, 2015 and 2016, respectively. The Company retains the financial risk of the joint venture and is responsible for the day-to-day operations, including the development, sale and distribution of the toy products, for which it is entitled to receive any remaining profit or is responsible for any losses. The results of operations of the joint venture are consolidated with the Company’s results.

In addition, the Company purchased for $7.0 million in cash a five percent economic interest in a related entity, DreamPlay, LLC, that will exploit the proprietary recognition technologies in non-toy consumer product categories. NantWorks has the right to repurchase all of the Company’s interest for $7.0 million. The Company has classified this investment as a long term asset on its balance sheet and is accounting for it using the cost method. As of September 30, 2016 the Company determined that the value of this investment will be realized and that no impairment has occurred.

The Company owns a fifty-one percent interest in a joint venture with China-based Meisheng Culture & Creative Corp., which provides certain JAKKS licensed and non-licensed toys and consumer products to agreed-upon territories of the People’s Republic of China. The joint venture includes a subsidiary in the Shanghai Free Trade Zone that sells, distributes and markets these products. The results of operations of the joint venture are consolidated with the Company’s results. The non-controlling interest’s share of the income for the three months ended September 30, 2015 and of the loss for the nine months ended September 30, 2015 was immaterial. The net loss attributable to the non-controlling interest for the three months ended September 30, 2016 was $0.1 million and the net income attributable to the non-controlling interest for the nine months ended September 30, 2016 was $0.2 million.

The Company owns a fifty percent interest in a joint venture (“Pacific Animation Partners”) with the U.S. entertainment subsidiary of a leading Japanese advertising and animation production company. As of December 31, 2015 and September 30, 2016 the net investment in the joint venture was carried at nil. For the three and nine months ended September 30, 2015, the Company recognized $0.1 million of income for funds received related to operations of the joint venture. For the three and nine months ended September 30, 2016, the Company recognized nil and $0.7 million, respectively, of income for funds received related to operations of the joint venture. It is not known if any additional income will be generated by Pacific Animation Partners.

For the nine months ended September 30, 2015 and 2016, respectively, the Company recognized $1.7 million and $0.2 million of income for funds received related to a former video game joint venture in partial settlement of amounts owed to the Company when the joint venture partner was liquidated pursuant to their 2012 bankruptcy filing. It is not known if any additional funds will be received by the Company.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 12 — Goodwill

The changes to the carrying amount of goodwill as of September 30, 2016 are summarized as follows (in thousands):

	Total
Balance, December 31, 2015	$44,199
Adjustments to goodwill for foreign currency translation	(737)
Balance, September 30, 2016	$43,462

The Company applies a fair value-based impairment test to the carrying value of goodwill and indefinite-lived intangible assets on an annual basis and, if certain events or circumstances indicate that an impairment loss may have been incurred, on an interim basis. The analysis of potential impairment of goodwill requires a two-step process. The first step is the estimation of fair value. If the first step indicates that a potential impairment exists, the second step is performed to measure the amount of impairment, if any. Goodwill impairment exists when the estimated fair value of goodwill is less than its carrying value. No goodwill impairment was determined to have occurred during the nine months ended September 30, 2015 and 2016.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 13 — Intangible Assets Other Than Goodwill and Other Assets

Intangible assets other than goodwill and other assets consist primarily of licenses, product lines, customer relationships and trademarks. Amortized intangible assets are included in intangibles in the accompanying balance sheets. Trademarks are disclosed separately in the accompanying balance sheets. Intangible assets as of December 31, 2015 and September 30, 2016 include the following (in thousands, except for weighted useful lives):

		December 31, 2015			September 30, 2016		
	Weighted Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortized Intangible Assets:							
Licenses	5.81	$24,930	$ (20,436)	$4,494	$ 20,130	$ (16,942)	$3,188
Product lines	7.50	50,093	(14,376)	35,717	50,293	(18,993)	31,300
Customer relationships	4.90	3,152	(2,195)	957	3,152	(2,620)	532
Trade names	5.00	3,000	(2,050)	950	3,000	(2,500)	500
Non-compete agreements	5.00	200	(133)	67	200	(167)	33
Total amortized intangible assets		$81,375	$ (39,190)	$42,185	$ 76,775	$ (41,222)	$35,553
Deferred Costs:							
Debt issuance costs	3.07	$1,865	$ (1,048)	$817	$ 1,865	$ (1,463)	$402
Unamortized Intangible Assets:							
Trademarks		$2,308	$ —	$2,308	$ 2,308	$ —	$2,308

Amortization expense related to limited life intangible assets and debt issuance costs, pertaining to the Company's credit facility with Wells Fargo, formally GECC, was $2.3 million and $2.4 million for the three months ended September 30, 2015 and 2016, respectively, and $6.4 million and $7.2 million for the nine months ended September 30, 2015 and 2016, respectively.

18

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 14 — Comprehensive Income

The table below presents the components of the Company’s comprehensive income for the three and nine months ended September 30, 2015 and 2016 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2016	2015	2016
Net Income	$45,864	$30,529	$32,556	$9,001
Other comprehensive income (loss):				
Foreign currency translation adjustment	(1,861)	(2,368)	(1,904)	(6,026)
Comprehensive income	44,003	28,161	30,652	2,975
Less: Net income (loss) attributable to non-controlling interests	19	(83)	(28)	173
Comprehensive income attributable to JAKKS Pacific, Inc.	$43,984	$28,244	$30,680	$2,802

Note 15 — Litigation

On July 25, 2013, a purported class action lawsuit was filed in the United States District Court for the Central District of California captioned Melot v. JAKKS Pacific, Inc. et al., Case No. CV13-05388 (JAK) against Stephen G. Berman, Joel M. Bennett (collectively the “Individual Defendants”), and the Company (collectively, “Defendants”). On July 30, 2013, a second purported class action lawsuit was filed containing similar allegations against Defendants captioned Dylewicz v. JAKKS Pacific, Inc. et al., Case No. CV13-5487 (OON). The two cases (collectively, the “Class Action”) were consolidated on December 2, 2013 under Case No. CV13-05388 JAK (SSx) and lead plaintiff and lead counsel appointed. On January 17, 2014, Plaintiff filed a consolidated class action complaint (the “First Amended Complaint”) against Defendants which alleged that the Company violated Section 10(b) of the Securities Exchange Act and Rule 10b-5 promulgated thereunder by making false and/or misleading statements concerning Company financial projections and performance as part of its public filings and earnings calls from July 17, 2012 through July 17, 2013. Specifically, the First Amended Complaint alleged that the Company’s forward looking statements, guidance and other public statements were false and misleading for allegedly failing to disclose (i) certain alleged internal forecasts, (ii) the Company's alleged quarterly practice of laying off and rehiring workers, (iii) the Company's alleged entry into license agreements with guaranteed minimums the Company allegedly knew it was unable to meet; and (iv) allegedly poor performance of the Monsuno and Winx lines of products after their launch. The First Amended Complaint also alleged violations of Section 20(a) of the Exchange Act by Messrs. Berman and Bennett. The First Amended Complaint sought compensatory and other damages in an undisclosed amount as well as attorneys’ fees and pre-judgment and post-judgment interest. The Company filed a motion to dismiss the First Amended Complaint on February 17, 2014, and the motion was granted, with leave to replead. A Second Amended Complaint (“SAC”) was filed on July 8, 2014 and it set forth similar allegations to those in the First Amended Complaint about discrepancies between internal projections and public forecasts and the other allegations except that the claim with respect to guaranteed minimums that the Company allegedly knew it was unable to meet was eliminated. The Company filed a motion to dismiss the SAC and that motion was granted with leave to replead. A Third Amended Complaint (“TAC”) was filed on March 23, 2015 with similar allegations. The Company filed a motion to dismiss the TAC and that motion was argued on July 22, 2015; after argument it was taken on submission and a decision has not been issued. The foregoing is a summary of the pleadings and is subject to the text of the pleadings which are on file with the Court. The Company believes that the claims in the Class Action are without merit, and it intends to defend vigorously against them. However, because the Class Action is in a preliminary stage, the Company cannot assure you as to its outcome, or that an adverse decision in such action would not have a material adverse effect on our business, financial condition or results of operations.

On February 25, 2014, a shareholder derivative action was filed in the Central District of California by Advanced Advisors, G.P. against the Company, nominally, and against Messrs. Berman, Bennett, Miller, Skala, Glick, Ellin, Almagor, Poulsen and Reilly and Ms. Brodsky (Advanced Partners, G.P., v. Berman, et al., CV14-1420 (DSF)). On March 6, 2014, a second shareholder derivative action alleging largely the same claims against the same defendants was filed in the Central District of California by Louisiana Municipal Police Employees Retirement System (Louisiana Municipal Police Employees Retirement System v. Berman et al., CV14-1670 (GHF). On April 17, 2014, the cases were consolidated under Case No. 2:14-01420-JAK (SSx) (the “Derivative Action”). On April 30, 2014, a consolidated amended complaint (“CAC”) was filed, which alleged (i) a claim for contribution under Sections 10(b) and 21(D) of the Securities Exchange Act related to allegations made in the Class Action; (ii) derivative and direct claims for alleged violations of Section 14 of the Exchange Act and Rule 14a-9 promulgated thereunder related to allegedly misleading statements about Mr. Berman’s compensation plan in the Company’s October 25, 2013 proxy statement; (iii) derivative claims for breaches of fiduciary duty related to the Company’s response to an unsolicited indication of interest from Oaktree Capital, stock repurchase, standstill agreement with the Clinton Group, and decisions related to the NantWorks joint venture; and (iv) claims against Messrs. Berman and Bennett for breach of fiduciary duty related to the Class Action. The CAC seeks compensatory damages, pre-judgment and post-judgment interest, and declaratory and equitable relief. The foregoing is a summary of the CAC and is subject to the text of the CAC, which is on file with the Court. A motion to dismiss the CAC or, in the alternative, to stay the CAC, was filed in May 2014. The Court granted the motion in part and denied the motion in part with leave for plaintiff to file an amended pleading. Plaintiff declined to do so. Accordingly, claims i, ii and iv have been dismissed and only the elements of claim iii not relating to the NantWorks joint venture remain. Thus, there are no surviving claims against Messrs. Poulsen, Reilly and Bennett and Ms. Brodsky and the Court approved the parties’ stipulation to strike their names as defendants in the CAC. Pleadings in response to the CAC were filed on October 30, 2014, which are on file with the Court. The matter was referred to mediation by the Court and the parties, at the mediation, reached an agreement in principle to resolve the action. Thereafter the parties entered into a memorandum of such agreement, subject to Court approval. A motion was filed seeking preliminary approval of the settlement and establishment of the procedure for final approval of the settlement; preliminary approval of the settlement was granted and a hearing regarding final approval of the proposed settlement and attorneys’ fees in connection therewith took place on November 2, 2015. At the hearing, the Judge indicated that he would approve the settlement with a formal order, and that he would take the attorneys’ fee issue under advisement.

The Company is a party to, and certain of its property is the subject of, various pending claims and legal proceedings that routinely arise in the ordinary course of our business, but the Company does not believe that any of these claims or proceedings will have a material effect on its business, financial condition or results of operations.

JAKKS PACIFIC, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 16 — Share-Based Payments

The Company's 2002 Stock Award and Incentive Plan (the "Plan"), as amended, provides for the awarding of stock options and restricted stock to employees, officers and non-employee directors. Under the Plan, the Company grants directors, certain officers and other key employees restricted common stock, with vesting contingent upon completion of specified service periods ranging from one to five years. The Company also grants certain officers performance-based awards, with vesting contingent upon the Company's achievement of specified financial goals. The Plan is more fully described in Notes 15 and 17 to the Consolidated Financial Statements in the Company's 2015 Annual Report on Form 10-K.

The following table summarizes the total share-based compensation expense and related tax benefits recognized for the three and nine months ended September 30, 2015 and 2016 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2016	2015	2016
Restricted stock compensation expense	$508	$170	$1,452	$1,254
Tax benefit related to restricted stock compensation	—	—	—	—

No stock options were outstanding as of December 31, 2015 and there has been no stock option activity pursuant to the Plan for the nine months ended September 30, 2016.

Restricted stock award activity pursuant to the Plan for the nine months ended September 30, 2016 is summarized as follows:

	Restricted Stock Awards	
	Number of Shares	Weighted Average Grant Price
Outstanding, December 31, 2015	411,409	$ 6.61
Awarded	645,884	7.00
Released	(125,246)	7.05
Forfeited	(24,822)	6.32
Outstanding, September 30, 2016		