JAKKS PACIFIC INC
Form 10-K
March 15, 2016

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

FORM 10-K

(Mark One)

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2015

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission File Number 0-28104

JAKKS PACIFIC, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	95-4527222 (I.R.S. Employer Identification No.)
2951 28th St. Santa Monica, California (Address of principal executive offices)	90405 (Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, $.001 par value per share	Nasdaq Global Select

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

Title of Class

Common Stock, $.001 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 of the Act.
Yes o No x

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 x No o

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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.   o

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

o Large Accelerated Filer	x Accelerated Filer	o Non-Accelerated Filer (Do not check if a Smaller Reporting Company)	o Smaller Reporting Com

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

The aggregate market value of the voting and non-voting common equity (the only such common equity being Common Stock, $.001 par value per share) held by non-affiliates of the registrant (computed by reference to the closing sale price of the Common Stock on June 30, 2015 of $9.89) is $195,081,288.

The number of shares outstanding of the registrant’s Common Stock, $.001 par value (being the only class of its common stock), is 20,340,388 as of March 14, 2016.

Documents Incorporated by Reference

None.

JAKKS PACIFIC, INC.

INDEX TO ANNUAL REPORT ON FORM 10-K

For the Fiscal Year ended December 31, 2015

Items in Form 10-K

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

PART I

Item 1. Business

In this report, “JAKKS,” the “Company,” “we,” “us” and “our” refer to JAKKS Pacific, Inc., its subsidiaries and our majority owned joint venture.

Company Overview

We are a leading multi-line, multi-brand toy company that designs, produces, markets and distributes toys and related products, pet toys, consumables and related products, electronics and related products, kids indoor and outdoor furniture, and other consumer products. We focus our business on acquiring or licensing well-recognized trademarks and brand names, most with long product histories (“evergreen brands”). We seek to acquire these evergreen brands because we believe they are less subject to market fads or trends. We also develop proprietary products marketed under our own trademarks and brand names, and have historically acquired complementary businesses to further grow our portfolio. For accounting purposes, our products can be divided into two segments: (i) traditional toys and electronics and (ii) role play, novelty and seasonal toys. Segment information with respect to revenues, assets and profits or losses attributable to each segment is contained in Note 3 to the audited consolidated financial statements contained below in Item 8. Our products include:

Traditional Toys and Electronics

Action figures and accessories, including licensed characters, principally based on Batman, Star Wars, and Nintendo ® franchises;

Toy vehicles, including Max Tow, Road Champs®, Fly Wheels® and MXS® toy vehicles and accessories;

Electronics products, including Spy Net® spy products, Plug It In & Play TV Games™ video games based on popular brands;

Dolls and accessories, including small dolls, large dolls, fashion dolls and baby dolls based on licenses, including Disney Frozen , Disney Princess®, Disney Fairies®, infant and pre-school toys based on PBS’s Daniel Tiger’s Neighborhood;

Private label products as “exclusives” for a myriad of retail customers in many product categories;

Foot-to-floor ride-on toys based on Fisher Price®, Kawasaki®, and DC Comics®, inflatable environments, tents and wagons; and

Pet products, including toys, consumables, and accessories, branded JAKKS Pets® and American Classics™ , among others.

Role Play, Novelty and Seasonal Toys

Role play, dress-up, pretend play and novelty products for boys and girls based on well-known brands and entertainment properties such as Disney Frozen, Black & Decker ®, McDonald’s ®, Dirt Devil ®, Disney Princess ®, Disney Fairies® and Dora the Explorer ®, as well as those based on our own proprietary brands;

Indoor and outdoor kids' furniture, activity trays and tables and room décor; kiddie pools, seasonal and outdoor products, including those based on Crayola®, Disney® characters and more, and Funnoodle ® pool floats;

Halloween and everyday costumes for all ages based on licensed and proprietary non-licensed brands, including Spiderman®, Toy Story®, Sesame Street®, Power Rangers®¸Hasbro® brands and Disney's Frozen, Disney Princess®, and related Halloween accessories; and

Junior sports and outdoor activity toys including Skyball® hyper-charged balls and sport sets and Wave Hoops® toy hoops marketed under our Maui Toys brand.

We continually review the marketplace to identify and evaluate popular and evergreen brands and product categories that we believe have the potential for growth. We endeavor to generate growth within these lines by:

- creating innovative products under our established licenses and brand names;
- adding new items to the branded product lines that we expect will enjoy greater popularity;
- infusing innovation and technology when appropriate to make them more appealing to today's kids; and
- focusing our marketing efforts to enhance consumer recognition and retailer interest.

Our Business Strategy

In addition to developing our own proprietary brands and marks, licensing popular trademarks enables us to use these high-profile marks at a lower cost than we would incur if we purchased these marks or developed comparable marks on our own. By licensing trademarks, we have access to a far greater range of marks than would be available for purchase. We also license technology developed by unaffiliated inventors and product developers to enhance the design and functionality of our products.

We sell our products through our in-house sales staff and independent sales representatives to toy and mass-market retail chain stores, department stores, office supply stores, drug and grocery store chains, club stores, toy specialty stores and wholesalers. Our three largest customers are Wal-Mart, Target, and Toys 'R' Us, which accounted for approximately 21.9%, 13.0% and 9.5%, respectively, of our net sales in 2015. No other customer accounted for more than 10.0% of our net sales in 2015.

Our Growth Strategy

In 2014 and 2015, we generated net sales of $810.1 million and $745.7 million, respectively, and net income of $21.5 million in 2014 and $23.2 million in 2015. Approximately 7.8% and 8.6% of our net sales in 2014 and 2015, respectively, were attributable to our acquisitions since 2011. Key elements of our growth strategy include:

Expand Core Products. We manage our existing and new brands through strategic product development initiatives, including introducing new products, modifying existing products and extending existing product lines to maximize their longevity. Our marketing teams and product designers strive to develop new products or product lines to offer added technological, aesthetic and functional improvements to our extensive portfolio.

Enter New Product Categories. We use our extensive experience in the toy and other consumer product industries to evaluate products and licenses in new product categories and to develop additional product lines. We began marketing licensed classic video games for simple plug-in use with television sets and expanded into several related categories by infusing additional technologies such as motion gaming and through the licensing of this category from our current licensors, such as Disney® and MTV Networks which owns Nickelodeon® .

Pursue Strategic Acquisitions. We supplement our internal growth with selected strategic acquisitions. In July 2012 we acquired the business of Maui, Inc., an Ohio corporation, and A.S. Design Limited, a related Hong Kong corporation (collectively, "Maui"). Maui is a leading manufacturer and distributor of spring and summer activity toys and impulse toys. We will continue focusing our acquisition strategy on businesses or brands that we believe have compatible product lines and/or offer valuable trademarks or brands.

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Acquire Additional Character and Product Licenses. We have acquired the rights to use many familiar brand and character names and logos from third parties that we use with our primary trademarks and brands. Currently, among others, we have license agreements with Nickelodeon ®, Disney ®, and Warner Bros.®, as well as with the licensors of the many popular licensed children's characters previously mentioned, among others. We intend to continue to pursue new licenses from these entertainment and media companies and other licensors. We also intend to continue to purchase additional inventions and product concepts through our existing network of inventors and product developers.

Expand International Sales. We believe that foreign markets, especially Europe, Australia, Canada, Latin America and Asia, offer us significant growth opportunities. In 2015, our sales generated outside the United States were approximately $203.6 million, or 27.3% of total net sales. We intend to continue to expand our international sales and in 2015 opened sales offices and further expanded distribution agreements in Latin America and Europe to capitalize on our experience and our relationships with foreign distributors and retailers. We expect these initiatives to contribute to our international growth in 2016.

Capitalize On Our Operating Efficiencies. We believe that our current infrastructure and operating model can accommodate growth without a proportionate increase in our operating and administrative expenses, thereby increasing our operating margins.

The execution of our growth strategy, however, is subject to several risks and uncertainties and we cannot assure you that we will continue to experience growth in, or maintain our present level of net sales (see "Risk Factors," beginning on page 11). For example, our growth strategy will place additional demands upon our management, operational capacity and financial resources and systems. The increased demand upon management may necessitate our recruitment and retention of additional qualified management personnel. We cannot assure you that we will be able to recruit and retain qualified personnel or expand and manage our operations effectively and profitably. To effectively manage future growth, we must continue to expand our operational, financial and management information systems and to train, motivate and manage our work force. While we believe that our operational, financial and management information systems will be adequate to support our future growth, no assurance can be given they will be adequate without significant investment in our infrastructure. Failure to expand our operational, financial and management information systems or to train, motivate or manage employees could have a material adverse effect on our business, financial condition and results of operations.

Moreover, implementation of our growth strategy is subject to risks beyond our control, including competition, market acceptance of new products, changes in economic conditions, our ability to obtain or renew licenses on commercially reasonable terms and our ability to finance increased levels of accounts receivable and inventory necessary to support our sales growth, if any.

Furthermore, we cannot assure you that we can identify attractive acquisition candidates or negotiate acceptable acquisition terms, and our failure to do so may adversely affect our results of operations and our ability to sustain growth.

Finally, our acquisition strategy involves a number of risks, each of which could adversely affect our operating results, including difficulties in integrating acquired businesses or product lines, assimilating new facilities and personnel and harmonizing diverse business strategies and methods of operation; diversion of management attention from operation of our existing business; loss of key personnel from acquired companies; and failure of an acquired business to achieve targeted financial results.

Industry Overview

According to Toy Industry Association, Inc., the leading toy industry trade group, the United States is the world's largest toy market, followed by Japan and Western Europe. Total retail sales of toys, excluding video games, in the United States, were approximately $19.5 billion in 2015. We believe the two largest United States toy companies, Mattel and Hasbro, collectively hold a dominant share of the domestic non-video toy market. In addition, hundreds of smaller companies compete in the design and development of new toys, the procurement of character and product licenses, and the improvement and expansion of previously introduced products and product lines.

Over the past few years, the toy industry has experienced substantial consolidation among both toy companies and toy retailers. We believe that the ongoing consolidation of toy companies provides us with increased growth opportunities due to retailers' desire to not be entirely dependent upon a few dominant toy companies. Retailer concentration also enables us to ship products, manage account relationships and track point of sale information more effectively and efficiently.

Products

We focus our business on acquiring or licensing well-recognized trademarks or brand names, and we seek to acquire evergreen brands which are less subject to market fads or trends. Generally, our license agreements for products and concepts call for royalties ranging from 1% to 20% of net sales, and some may require minimum guarantees and advances. Our principal products include:

Traditional Toys and Electronics

Electronics Products

Our electronic products category includes our Plug It In & Play TV Games®, Hero Portal, SpyNet Spy products and Laser Challenge® product lines. Our current Plug It In & Play TV Games® titles, geared to the leisure gamer segments, feature licensed brands such as Teenage Mutant Ninja Turtles.

Wheels Products

Motorized and plastic toy vehicles and accessories.

Our extreme sports offerings include our MXS line of motorcycles with generic and well-known riders and other vehicles include off-road vehicles and skateboards, which are sold individually and with playsets and accessories. In 2014, we launched our proprietary line of motorized vehicles under the brand Max Tow™, and in 2015, we expanded the product line to include higher performance versions as well as mini size vehicles and play sets under the Max Mini line.

Action Figures and Accessories

We currently develop, manufacture and distribute other action figures and action figure accessories including those based on Star Wars®, and Batman®, capitalizing on the expertise we built in the action figure category.

Our line of big figures featuring our 31" figures including Superman®, Power Rangers® and Star Wars® to include an assortment of 20" figures as well as 48" Teenage Mutant Ninja Turtles figures and Star Wars figures.

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Dolls

Dolls and accessories include small dolls, large dolls, fashion dolls and baby dolls based on licenses, including Disney's Frozen, Disney Princess®, Disney Fairies®, including an extensive line of baby doll accessories that emulate real baby products that mothers today use; plush, infant and pre-school toys, and private label fashion dolls for other retailers and sold to Disney Stores and Disney Parks and Resorts.

In 2013, we launched miWorld®, a line of mall-based playhouse elements featuring Claire's, Skechers and O.P.I. among others which incorporates DreamPlay technology adding a virtual experience to a physical toy and expanded the product line to include additional retail brands and updates of the app.

Pet Products

Our Pet Products category includes pet toys, treats, beds, clothes and related pet products. These products are marketed under JAKKS Pets® and our own proprietary brand of assorted pet products under the brand American Classics ® among others as well as licenses including numerous entertainment and consumer product properties.

Role Play, Novelty & Seasonal

Role Play and Dress-up Products

Our line of role play and dress-up products for boys and girls features entertainment and consumer products properties such as Disney's Frozen, Disney Princess®, Disney Fairies®, Dora the Explorer® , and Black & Decker®. These products generated a significant amount of sales in 2014 and 2015.

Seasonal/ Outdoor Products

We have a wide range of seasonal toys and outdoor and leisure products including our recently acquired Maui line of proprietary products including Sky Ball and Wave Hoop among other outdoor toys. Our Funnoodle® pool toys include the basic Funnoodle pool floats and a variety of other pool toys.

Indoor and Outdoor Kids' Furniture

We produce an extensive array of licensed indoor and outdoor kids' furniture and activity tables, and room decor. Our licensed portfolio includes character licenses, including Crayola®, Disney Princess®, Toy Story ®, Mickey Mouse®, Dora the Explorer®, and others. Products include children's puzzle furniture, tables and chairs to activity sets, trays, stools and a line of licensed molded kiddie pools, among others.

Halloween and Everyday Costume Play

We produce an expansive and innovative line of Halloween costumes and accessories which includes a wide range of non-licensed Halloween costumes such as horror, pirates, historical figures and aliens to animals, vampires, angels and more, as well as popular licensed characters from top intellectual property owners including Disney®, Hasbro®, Sesame Workshop®, Mattel®, and many others. In 2016, we will be adding new licenses including Lego brands.

DreamPlay Technology

In September 2012, we formed a joint venture with NantWorks LLC called DreamPlay Toys LLC to exploit their patented recognition technologies in conjunction with toy and consumer products. In 2013, we launched two lines of toy products which utilize the technologies to enhance the play pattern of the toys as well as enhance the in-store experience of the consumer. The first product line was based on Disney's Little Mermaid followed by our propriety concept, miWorld®. Both product lines were accompanied by a software application which brings the toy products to life adding a rich virtual experience to a physical experience. In 2015, we released updates to these apps as well as launched several other toys with application based product lines.

Sales, Marketing and Distribution

We sell all of our products through our own in-house sales staff and independent sales representatives to toy and mass-market retail chain stores, department stores, office supply stores, drug and grocery store chains, club stores, toy specialty stores and wholesalers. Our three largest customers are Wal-Mart, Target, and Toys ‘R’ Us, which accounted for approximately 47.4% of our net sales in 2014 and 44.4% of our net sales in 2015. With the JAKKS Pets® product line, we distribute pet products to key pet supply retailers Petco and PetSmart in addition to many other pet retailers and our existing customers. We generally sell products to our customers pursuant to letters of credit or, in some cases, on open account with payment terms typically varying from 30 to 90 days. From time to time, we allow our customers credits against future purchases from us in order to facilitate their retail markdown and sales of slow-moving inventory. We also sell our products through e-commerce sites, including Toysrus.com and Amazon.com.

We contract the manufacture of most of our products to unaffiliated manufacturers located in The People’s Republic of China (“China”). We sell the finished products on a letter of credit basis or on open account to our customers, many of whom take title to the goods in Hong Kong or China. These methods allow us to reduce certain operating costs and working capital requirements. A portion of our sales originate in the United States, so we hold certain inventory in our warehouses and fulfillment facilities. To date, a majority of all of our sales has been to domestic customers. We intend to continue expanding distribution of our products into foreign territories and, accordingly, we have:

- entered into a joint venture in China,
- engaged representatives to oversee sales in certain foreign territories,
- engaged distributors in certain foreign territories,
- established direct relationships with retailers in certain foreign territories,
- opened sales offices in Europe,
- opened sales offices and a distribution center in Canada, and
- expanded in-house resources dedicated to product development and marketing of our lines.

Outside of the United States, we currently sell our products primarily in Europe, Australia, Canada, Latin America and Asia. Sales of our products abroad accounted for approximately $156.6 million, or 19.3% of our net sales, in 2014 and approximately $203.6 million, or 27.3% of our net sales, in 2015. We believe that foreign markets present an attractive opportunity, and we plan to intensify our marketing efforts and further expand our distribution channels abroad.

We establish reserves for sales allowances, including promotional allowances and allowances for anticipated defective product returns, at the time of shipment. The reserves are determined as a percentage of net sales based upon either historical experience or upon estimates or programs agreed upon by our customers and us.

We obtain, directly, or through our sales representatives, orders for our products from our customers and arrange for the manufacture of these products as discussed below. Cancellations generally are made in writing, and we take appropriate steps to notify our manufacturers of these cancellations. We may incur costs or other losses as a result of cancellations.

We maintain a full-time sales and marketing staff, many of whom make on-site visits to customers for the purpose of showing product and soliciting orders for products. We also retain a number of independent sales representatives to sell and promote our products, both domestically and internationally. Together with retailers, we occasionally test the consumer acceptance of new products in selected markets before committing resources to large-scale production.

We publicize and advertise our products in trade and consumer magazines and other publications, market our products at international, national and regional toy and other specialty trade shows, conventions and exhibitions and carry on cooperative advertising programs with toy and mass market retailers and other customers which include the use of print and television ads and in-store displays. We also produce and broadcast television commercials for several of our product lines, if we expect that the resulting increase in our net sales will justify the relatively high cost of television advertising.

Product Development

Each of our product lines has an in-house manager responsible for product development. The in-house manager identifies and evaluates inventor products and concepts and other opportunities to enhance or expand existing product lines or to enter new product categories. In addition, we create proprietary products to fully exploit our concept and character licenses. Although we have the capability to create and develop products from inception to production, we also use third-parties to provide a portion of the sculpting, sample making, illustration and package design required for our products in order to accommodate our increasing product innovations and introductions. Typically, the development process takes from three to nine months from concept to production and shipment to our customers.

We employ a staff of designers for all of our product lines. We occasionally acquire our other product concepts from unaffiliated third parties. If we accept and develop a third party’s concept for new toys, we generally pay a royalty on the sale of the toys developed from this concept, and may, on an individual basis, as well as some of our DreamPlay apps, guarantee a minimum royalty. In addition, we engage third-party developers to program our line of Plug it in & Play TV Games. Royalties payable to inventors and developers generally range from 1% to 5% of the wholesale sales price for each unit of a product sold by us. We believe that utilizing experienced third-party inventors gives us access to a wide range of development talent. We currently work with numerous toy inventors and designers for the development of new products and the enhancement of existing products.

Safety testing of our products is done at the manufacturers’ facilities by quality control personnel employed by us or by independent third-party contractors engaged by us. Safety testing is designed to meet or exceed regulations imposed by federal and state, as well as applicable international governmental authorities, our retail partners, licensors and the

Toy Industry Association. We also closely monitor quality assurance procedures for our products for safety purposes. In addition, independent laboratories engaged by some of our larger customers and licensors test certain of our products.

Manufacturing and Supplies

Most of our products are currently produced by overseas third-party manufacturers, which we choose on the basis of quality, reliability and price. Consistent with industry practice, the use of third-party manufacturers enables us to avoid incurring fixed manufacturing costs, while maximizing flexibility, capacity and production technology. Substantially all of the manufacturing services performed overseas for us are paid for on open account with the manufacturers. To date, we have not experienced any material delays in the delivery of our products; however, delivery schedules are subject to various factors beyond our control, and any delays in the future could adversely affect our sales. Currently, we have ongoing relationships with over eighty different manufacturers. We believe that alternative sources of supply are available to us although we cannot be assured that we can obtain adequate supplies of manufactured products.

Although we do not conduct the day-to-day manufacturing of our products, we are extensively involved in the design of the product prototype and production tools, dyes and molds for our products and we seek to ensure quality control by actively reviewing the production process and testing the products produced by our manufacturers. We employ quality control inspectors who rotate among our manufacturers' factories to monitor the production of substantially all of our products.

The principal raw materials used in the production and sale of our toy products are plastics, zinc alloy, plush, printed fabrics, paper products and electronic components, all of which are currently available at reasonable prices from a variety of sources. Although we do not manufacture our products, we own the majority of the tools, dyes and molds used in the manufacturing process, and these are transferable among manufacturers if we choose to employ alternative manufacturers. Tools, dyes and molds represent a substantial portion of our property and equipment with a net book value of $8.8 million in 2014 and $10.2 million in 2015; substantially all of these assets are located in China.

Trademarks and Copyrights

Most of our products are produced and sold under trademarks owned by or licensed to us. We typically register our properties, and seek protection under the trademark, copyright and patent laws of the United States and other countries where our products are produced or sold. These intellectual property rights can be significant assets. Accordingly, while we believe we are sufficiently protected, the loss of some of these rights could have an adverse effect on our business, financial condition and results of operations.

Competition

Competition in the toy industry is intense. Globally, certain of our competitors have greater financial resources, larger sales and marketing and product development departments, stronger name recognition, longer operating histories and benefit from greater economies of scale. These factors, among others, may enable our competitors to market their products at lower prices or on terms more advantageous to customers than those we could offer for our competitive products. Competition often extends to the procurement of entertainment and product licenses, as well as the marketing and distribution of products and the obtaining of adequate shelf space. Competition may result in price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on our business, financial condition and results of operations. In each of our product lines we compete against one or both of the toy industry's two dominant companies, Mattel and Hasbro. In addition, we compete in our Halloween costume lines with Rubies. We also compete with numerous smaller domestic and foreign toy manufacturers, importers and marketers in each of our product categories.

Seasonality and Backlog

In 2015, approximately 67.1% of our net sales were made in the third and fourth quarters. Generally, the first quarter is the period of lowest shipments and sales in our business and in the toy industry and therefore it is also the least profitable quarter due to various fixed costs. Seasonality factors may cause our operating results to fluctuate significantly from quarter to quarter. However, our seasonal products are primarily sold in the spring and summer seasons. Our results of operations may also fluctuate as a result of factors such as the timing of new products (and related expenses) introduced by us or our competitors, the advertising activities of our competitors, delivery schedules set by our customers and the emergence of new market entrants. We believe, however, that the low retail price of most of our products may be less subject to seasonal fluctuations than higher priced toy products.

We ship products in accordance with delivery schedules specified by our customers, who generally request delivery of products within three to six months of the date of their orders for orders shipped FOB China or Hong Kong and within three days for orders shipped domestically. Because customer orders may be canceled at any time without penalty, our backlog may not accurately indicate sales for any future period.

Government and Industry Regulation

Our products are subject to the provisions of the Consumer Product Safety Act ("CPSA"), the Federal Hazardous Substances Act ("FHSA"), the Flammable Fabrics Act ("FFA") and the regulations promulgated there under. The CPSA and the FHSA enable the Consumer Products Safety Commission ("CPSC") to exclude from the market consumer products that fail to comply with applicable product safety regulations or otherwise create a substantial risk of injury, and articles that contain excessive amounts of a banned hazardous substance. The FFA enables the CPSC to regulate and enforce flammability standards for fabrics used in consumer products. The CPSC may also require the repurchase by the manufacturer of articles. Similar laws exist in some states and cities and in various international markets. We maintain a quality control program designed to ensure compliance with all applicable laws.

Employees

As of February 29, 2016, we employed 775 persons, all of whom are full-time employees, including three executive officers. We employed 364 people in the United States, 11 people in Canada, 262 people in Hong Kong, 118 people in China, 16 people in the United Kingdom, 1 person in France, and 3 people in Germany. We believe that we have good relationships with our employees. None of our employees are represented by a union.

Environmental Issues

We are subject to legal and financial obligations under environmental, health and safety laws in the United States and in other jurisdictions where we operate. We are not currently aware of any material environmental liabilities associated with any of our operations.

Available Information

We make available free of charge on or through our Internet website, www.jakks.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The contents of our website are not incorporated in or deemed to be a part of any such report.

Our Corporate Information

We were formed as a Delaware corporation in 1995. Our principal executive offices are located at 2951 28th Street, Santa Monica, California 90405. Our telephone number is (424) 268-9444 and our Internet Website address is www.jakks.com. The contents of our website are not incorporated in or deemed to be a part of this Annual Report on Form 10-K.

Item 1A. Risk Factors

From time to time, including in this Annual Report on Form 10-K, we publish forward-looking statements, as disclosed in our Disclosure Regarding Forward-Looking Statements, beginning immediately following the Table of Contents of this Annual Report. We note that a variety of factors could cause our actual results and experience to differ materially from the anticipated results or other expectations expressed or anticipated in our forward-looking statements. The factors listed below are risks and uncertainties that may arise and that may be detailed from time to time in our public announcements and our filings with the Securities and Exchange Commission, such as on Forms 8-K, 10-Q and 10-K. We undertake no obligation to make any revisions to the forward-looking statements contained in this Annual Report on Form 10-K to reflect events or circumstances occurring after the date of the filing of this report.

Our inability to redesign, restyle and extend our existing core products and product lines as consumer preferences evolve, and to develop, introduce and gain customer acceptance of new products and product lines, may materially and adversely impact our business, financial condition and results of operations.

Our business and operating results depend largely upon the appeal of our products. Our continued success in the toy industry will depend upon our ability to redesign, restyle and extend our existing core products and product lines as consumer preferences evolve, and to develop, introduce and gain customer acceptance of new products and product lines. Several trends in recent years have presented challenges for the toy industry, including:

- the phenomenon of children outgrowing toys at younger ages, particularly in favor of interactive and high technology products;
- increasing use of technology;
- shorter life cycles for individual products; and
- higher consumer expectations for product quality, functionality and value.

We cannot assure you that:

- our current products will continue to be popular with consumers;
- the products that we introduce will achieve any significant degree of market acceptance;
- the life cycles of our products will be sufficient to permit us to recover licensing, design, manufacturing, marketing and other costs associated with those products.
- our inclusion of new technology will result in higher sales or increased profits.

Our failure to achieve any or all of the foregoing benchmarks may adversely affect our business, financial condition and results of operations.

The failure of our character-related and theme-related products to become and/or remain popular with children may materially and adversely impact our business, financial condition and results of operations.

The success of many of our character-related and theme-related products depends upon the popularity of characters in movies, television programs, live sporting exhibitions, and other media and events. We cannot assure you that:

- media associated with our character-related and theme-related product lines will be released at the times we expect or will be successful;

- the success of media associated with our existing character-related and theme-related product lines will result in substantial promotional value to our products;

- we will be successful in renewing licenses upon expiration on terms that are favorable to us; or

- we will be successful in obtaining licenses to produce new character-related and theme-related products in the future.

Our failure to achieve any or all of the foregoing benchmarks may cause the infrastructure of our operations to fail, thereby adversely affecting our business, financial condition and results of operations.

There are risks associated with our license agreements.

Our current licenses require us to pay minimum royalties

Sales of products under trademarks or trade or brand names licensed from others account for substantially all of our net sales. Product licenses allow us to capitalize on characters, designs, concepts and inventions owned by others or developed by toy inventors and designers. Our license agreements generally require us to make specified minimum royalty payments, even if we fail to sell a sufficient number of units to cover these amounts. In addition, under certain of our license agreements, if we fail to achieve certain prescribed sales targets, we may be unable to retain or renew these licenses.

Some of our licenses are restricted as to use

Under the majority of our license agreements, the licensors have the right to review and approve our use of their licensed products, designs or materials before we may make any sales. If a licensor refuses to permit our use of any licensed property in the way we propose, or if their review process is delayed, our development or sale of new products could be impeded.

New licenses are difficult and expensive to obtain

Our continued success will substantially depend upon our ability to obtain additional licenses. Intense competition exists for desirable licenses in our industry. We cannot assure you that we will be able to secure or renew significant licenses on terms acceptable to us. In addition, as we add licenses, the need to fund additional royalty advances and guaranteed minimum royalty payments may strain our cash resources.

A limited number of licensors account for a large portion of our net sales

We derive a significant portion of our net sales from a limited number of licensors. If one or more of these licensors were to terminate or fail to renew our license or not grant us new licenses, our business, financial condition and results of operations could be adversely affected.

The toy industry is highly competitive and our inability to compete effectively may materially and adversely impact our business, financial condition and results of operations.

The toy industry is highly competitive. Globally, certain of our competitors have financial and strategic advantages over us, including:

- greater financial resources;
- larger sales, marketing and product development departments;
- stronger name recognition;
- longer operating histories; and
- greater economies of scale.

In addition, the toy industry has no significant barriers to entry. Competition is based primarily upon the ability to design and develop new toys, procure licenses for popular characters and trademarks and successfully market products. Many of our competitors offer similar products or alternatives to our products. Our competitors have obtained and are likely to continue to obtain licenses that overlap our licenses with respect to products, geographic areas and markets. We cannot assure you that we will be able to obtain adequate shelf space in retail stores to support our existing products, expand our products and product lines or continue to compete effectively against current and future competitors.

We may not be able to sustain or manage our product line growth, which may prevent us from increasing our net revenues.

Historically, we have experienced growth in our product lines through acquisitions of businesses, products and licenses. This growth in product lines has contributed significantly to our total revenues over the last few years. For example, revenues associated with companies we acquired since 2011 were approximately $63.4 million and $64.0 million, in 2014 and 2015, respectively, representing approximately 7.8% and 8.6%, respectively, of our total revenues for those periods. As a result, even though we had no acquisitions since 2012, comparing our future period-to-period operating results may not be meaningful and results of operations from prior periods may not be indicative of future results. We cannot assure you that we will continue to experience growth in, or maintain our present level of, net sales.

Our growth strategy calls for us to continuously develop and diversify our toy business by acquiring other companies, entering into additional license agreements, refining our product lines and expanding into international markets, which will place additional demands upon our management, operational capacity and financial resources and systems. The increased demand upon management may necessitate our recruitment and retention of qualified management personnel. We cannot assure you that we will be able to recruit and retain qualified personnel or expand and manage our operations effectively and profitably. To effectively manage future growth, we must continue to expand our operational, financial and management information systems and to train, motivate and manage our work force. There can be no assurance that our operational, financial and management information systems will be adequate to support our future operations. Failure to expand our operational, financial and management information systems or to train, motivate or manage employees could have a material adverse effect on our business, financial condition and results of operations.

In addition, implementation of our growth strategy is subject to risks beyond our control, including competition, market acceptance of new products, changes in economic conditions, our ability to obtain or renew licenses on commercially reasonable terms, our ability to identify acquisition candidates and conclude acquisitions on acceptable terms, and our ability to finance increased levels of accounts receivable and inventory necessary to support our sales growth, if any. Accordingly, we cannot assure you that our growth strategy will be successful.

If we are unable to acquire and integrate companies and new product lines successfully, we will be unable to implement a significant component of our growth strategy.

Our growth strategy depends, in part, upon our ability to acquire companies and new product lines. Future acquisitions, if any, may succeed only if we can effectively assess characteristics of potential target companies and product lines, such as:

- attractiveness of products;
- suitability of distribution channels;
- management ability;
- financial condition and results of operations; and
- the degree to which acquired operations can be integrated with our operations.

We cannot assure you that we can identify attractive acquisition candidates or negotiate acceptable acquisition terms, and our failure to do so may adversely affect our results of operations and our ability to sustain growth. Our acquisition strategy involves a number of risks, each of which could adversely affect our operating results, including:

- difficulties in integrating acquired businesses or product lines, assimilating new facilities and personnel and harmonizing diverse business strategies and methods of operation;
- diversion of management attention from operation of our existing business;
- loss of key personnel from acquired companies;
- failure of an acquired business to achieve targeted financial results; and
- Limited capital to finance acquisitions.

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A limited number of customers account for a large portion of our net sales, so that if one or more of our major customers were to experience difficulties in fulfilling their obligations to us, cease doing business with us, significantly reduce the amount of their purchases from us or return substantial amounts of our products, it could have a material adverse effect on our business, financial condition and results of operations.

Our three largest customers accounted for 44.4% of our net sales in 2015. Except for outstanding purchase orders for specific products, we do not have written contracts with or commitments from any of our customers and pursuant to the terms of certain of our vendor agreements, even some purchase orders may be cancelled without penalty up until delivery. A substantial reduction in or termination of orders from any of our largest customers could adversely affect our business, financial condition and results of operations. In addition, pressure by large customers seeking price reductions, financial incentives, and changes in other terms of sale or for us to bear the risks and the cost of carrying inventory could also adversely affect our business, financial condition and results of operations. If one or more of our major customers were to experience difficulties in fulfilling their obligations to us, cease doing business with us, significantly reduce the amount of their purchases from us or return substantial amounts of our products, it could have a material adverse effect on our business, financial condition and results of operations. In addition, the bankruptcy or other lack of success of one or more of our significant retailers could negatively impact our revenues and bad debt expense.

We depend upon our Chief Executive Officer and any loss or interruption of his services could adversely affect our business, financial condition and results of operations.

Our success has been largely dependent upon the experience and continued services of Stephen G. Berman, our President and Chief Executive Officer. We cannot assure you that we would be able to find an appropriate replacement for Mr. Berman should the need arise, and any loss or interruption of the services of Mr. Berman could adversely affect our business, financial condition and results of operations.

We depend upon third-party manufacturers, and if our relationship with any of them is harmed or if they independently encounter difficulties in their manufacturing processes, we could experience product defects, production delays, cost overruns or the inability to fulfill orders on a timely basis, any of which could adversely affect our business, financial condition and results of operations.

We depend upon many third-party manufacturers who develop, provide and use the tools, dyes and molds that we generally own to manufacture our products. However, we have limited control over the manufacturing processes themselves. As a result, any difficulties encountered by the third-party manufacturers that result in product defects, production delays, cost overruns or the inability to fulfill orders on a timely basis could adversely affect our business, financial condition and results of operations.

We do not have long-term contracts with our third-party manufacturers. Although we believe we could secure other third-party manufacturers to produce our products, our operations would be adversely affected if we lost our relationship with any of our current suppliers or if our current suppliers' operations or sea or air transportation with our overseas manufacturers were disrupted or terminated even for a relatively short period of time. Our tools, dyes and molds are located at the facilities of our third-party manufacturers.

Although we do not purchase the raw materials used to manufacture our products, we are potentially subject to variations in the prices we pay our third-party manufacturers for products, depending upon what they pay for their raw materials.

We have substantial sales and manufacturing operations outside of the United States, subjecting us to risks common to international operations.

We sell products and operate facilities in numerous countries outside the United States. Sales to our international customers comprised approximately 27.3% of our net sales for the year ended December 31, 2015 and approximately 19.3% of our net sales for the year ended December 31, 2014. We expect our sales to international customers to account for a greater portion of our revenues in future fiscal periods. Additionally, we utilize third-party manufacturers, located principally in China, and are subject to the risks normally associated with international operations, including:

- currency conversion risks and currency fluctuations;
- limitations, including taxes, on the repatriation of earnings;
- political instability, civil unrest and economic instability;

greater difficulty enforcing intellectual property rights and weaker laws protecting such rights;

complications in complying with laws in varying jurisdictions and changes in governmental policies;

greater difficulty and expenses associated with recovering from natural disasters, such as earthquakes, hurricanes and floods;

transportation delays and interruption;

work stoppages;

the potential imposition of tariffs; and

the pricing of intercompany transactions may be challenged by taxing authorities in both Hong Kong and the United States, with potential increases in income taxes.

Our reliance upon external sources of manufacturing can be shifted, over a period of time, to alternative sources of supply, should such changes be necessary. However, if we were prevented from obtaining products or components for a material portion of our product line due to medical, political, labor or other factors beyond our control, our operations would be disrupted while alternative sources of products were secured. Also, the imposition of trade sanctions by the United States against a class of products imported by us from, or the loss of “normal trade relations” status by, China could significantly increase our cost of products imported from that nation. Because of the importance of international sales and international sourcing of manufacturing to our business, our financial condition and results of operations could be significantly and adversely affected if any of the risks described above were to occur.

Our business is subject to extensive government regulation and any violation by us of such regulations could result in product liability claims, loss of sales, diversion of resources, damage to our reputation, increased warranty costs or removal of our products from the market, and we cannot assure you that our product liability insurance for the foregoing will be sufficient.

Our business is subject to various laws, including the Federal Hazardous Substances Act, the Consumer Product Safety Act, the Flammable Fabrics Act and the rules and regulations promulgated under these acts. These statutes are administered by the CPSC, which has the authority to remove from the market products that are found to be defective and present a substantial hazard or risk of serious injury or death. The CPSC can require a manufacturer to recall, repair or replace these products under certain circumstances. We cannot assure you that defects in our products will not be alleged or found. Any such allegations or findings could result in:

product liability claims;

loss of sales;

diversion of resources;

damage to our reputation;

increased warranty and insurance costs; and

removal of our products from the market.

Any of these results may adversely affect our business, financial condition and results of operations. There can be no assurance that our product liability insurance will be sufficient to avoid or limit our loss in the event of an adverse outcome of any product liability claim.

We depend upon our proprietary rights and our inability to safeguard and maintain the same, or claims of third parties that we have violated their intellectual property rights, could have a material adverse effect on our business, financial condition and results of operations.

We rely upon trademark, copyright and trade secret protection, nondisclosure agreements and licensing arrangements to establish, protect and enforce our proprietary rights in our products. The laws of certain foreign countries may not protect intellectual property rights to the same extent or in the same manner as the laws of the United States. We cannot assure you that we or our licensors will be able to successfully safeguard and maintain our proprietary rights. Further, certain parties have commenced legal proceedings or made claims against us based upon our alleged patent infringement, misappropriation of trade secrets or other violations of their intellectual property rights. We cannot assure you that other parties will not assert intellectual property claims against us in the future. These claims could divert our attention from operating our business or result in unanticipated legal and other costs, which could adversely affect our business, financial condition and results of operations.

Market conditions and other third-party conduct could negatively impact our margins and implementation of other business initiatives.

Economic conditions, such as decreased consumer confidence, may adversely impact our margins. In addition, general economic conditions were significantly and negatively affected by the September 11th terrorist attacks and could be similarly affected by any future attacks. Such a weakened economic and business climate, as well as consumer uncertainty created by such a climate, could adversely affect our sales and profitability. Other conditions, such as the unavailability of electronics components, may impede our ability to manufacture, source and ship new and continuing products on a timely basis. Significant and sustained increases in the price of oil could adversely impact the cost of the raw materials used in the manufacture of our products, such as plastic.

We may not have the funds necessary to purchase our outstanding convertible senior notes upon a fundamental change or other purchase date, as required by the indenture governing the notes.

In June 2014, the Company sold an aggregate of $115.0 million principal amount of 4.875% Convertible Senior Notes due on June 1, 2020, of which $113.0 million are currently outstanding (the “2020 Notes”). Holders of the 2020 Notes may require us to repurchase for cash all or some of their notes upon the occurrence of a fundamental change (as defined in the 2020 Notes). Holders of the 2020 Notes may convert their notes upon the occurrence of specified events. Upon conversion, the 2020 Notes will be settled in shares of the Company’s common stock. In July 2013, the Company sold an aggregate of $100.0 million principal amount of 4.25% Convertible Senior Notes due on August 1, 2018 (the “2018 Notes”). Holders of the 2018 Notes may require us to repurchase for cash all or some of their notes upon the occurrence of a fundamental change (as defined in the 2018 Notes). Holders of the 2018 Notes may convert their notes upon the occurrence of specified events. Upon conversion, the 2018 Notes will be settled in shares of the Company’s common stock. Restrictions on borrowings under or loss of our credit facility could have a material adverse effect on our financial condition including an adverse impact on our ability to pay the 2018 and 2020 Notes when due.

Restrictions under or the loss of availability under our credit facility could adversely impact our financial condition and our ability to pay our convertible notes when due.

On March 27, 2014, we obtained a $75,000,000 revolving line of credit. Any amounts borrowed under the revolving credit line are our senior secured obligations. All outstanding borrowings under the revolving credit line are accelerated and become immediately due and payable (and the revolving credit line terminates) in the event of a default which includes, among other things, failure to comply with financial ratio covenants or breach of representations contained in the credit line documents, defaults under other loans or obligations, involvement in bankruptcy proceedings, an occurrence of a change of control or an event constituting a material adverse effect on us (as such terms are defined in the credit line documents). We are also subject to negative covenants which, during the life of the credit line, prohibit and/or limit us from, among other things, incurring certain types of other debt, acquiring other companies, making certain expenditures or investments, changing the character of our business, and certain changes to our executive officers.

We have a full valuation allowance on the entire balance of deferred taxes on our books since their future realization is uncertain.

Deferred tax assets are realized by prior and future taxable income of appropriate character. Current accounting standards require that a valuation allowance be recorded if it is not likely that sufficient taxable income of appropriate character will be generated to realize the deferred tax assets. We currently believe that based on the available information, it is more likely than not that our deferred tax assets will not be realized, and accordingly we have recorded a valuation allowance against our US federal and state deferred tax assets. Our net operating losses and tax credit carry-forwards can expire if unused, and their utilization could be substantially limited in the event of an "ownership change," as defined in Section 382 of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code.

An adverse decision in litigation in which we have been named as a defendant could have a material adverse effect on our financial condition and results of operations

We are defendants in a class action described herein and under "Legal Proceedings" in our periodic reports filed pursuant to the Securities Exchange Act of 1934 (see "Legal Proceedings"). No assurances can be given that the results of these litigation matters will be favorable to us or that an adverse decision in such litigation would not have a material adverse impact on our financial condition and results of operations.

Item 2. Properties

The following is a listing of the principal leased offices maintained by us as of February 29, 2016:

Property	Location	Approximate Square Feet	Lease Expiration Date
Domestic			
Distribution Center	City of Industry, California	800,000	April 30, 2018
Distribution Center	Hickory, NC	139,438	August 31, 2016
Sales Office/Showroom	Bentonville, Arkansas	9,000	September 30, 2019
Disguise Office	Poway, California	24,200	March 31, 2021
Maui Toys Office/Warehouse	Youngstown, Ohio	73,000	Month-to-month
Sales Office	Hoffman Estates, Il	2,102	December 8, 2018
Corporate Office/Showroom	Santa Monica, California	65,858	January 31, 2024
Showroom	Glendale, California	5,830	January 31, 2020
International			
Distribution Center	Brampton, Ontario, Canada	105,700	December 31, 2019
Europe Office	Berkshire, UK	4,746	February 25, 2018
Hong Kong Headquarters	Kowloon, Hong Kong	41,130	June 30, 2019
Production Inspection and Testing Office	Shenzhen, China	5,417	May 14, 2017
Production Inspection and Testing Lab	Guangdong, China	23,200	December 31, 2016

Item 3. Legal Proceedings

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. We believe that the claims in the Class Action are without merit, and we intend to defend vigorously against them. However, because the Class Action is in a preliminary stage, we 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.

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is traded on the Nasdaq Global Select exchange under the symbol "JAKK." The following table sets forth, for the periods indicated, the range of high and low sales prices for our common stock on this exchange.

	Price Range of Common Stock	
	High	Low
2014:		
First quarter	$ 7.55	$ 5.45
Second quarter	9.48	6.92
Third quarter	8.58	6.23
Fourth quarter	8.99	6.13
2015:		
First quarter	7.30	5.70
Second quarter	10.09	6.60
Third quarter	10.28	8.26
Fourth quarter	9.02	7.36

Performance Graph

The graph and tables below display the relative performance of our common stock, the Russell 2000 Price Index (the "Russell 2000") and a peer group index, by comparing the cumulative total stockholder return (which assumes reinvestment of dividends, if any) on an assumed $100 investment on December 31, 2010 in our common stock, the Russell 2000 and the peer group index over the period from January 1, 2010 to December 31, 2015.

In accordance with recently enacted regulations implemented by the Securities and Exchange Commission, we retained the services of an expert compensation consultant. In the performance of its services, such consultant used a peer group index for its analysis of our compensation policies. We believe that these companies represent a cross-section of publicly-traded companies with product lines and businesses similar to our own throughout the comparison period and, accordingly, we are using the same peer group for purposes of the performance graph. EMak Worldwide Inc. and THQ Inc. were excluded from the performance peer group in 2014 and Kid Brands, Inc. was excluded in 2015. Our peer group index includes the following companies: Activision Blizzard, Inc., Electronic Arts, Inc. Hasbro, Inc. Leapfrog Enterprises, Inc., Mattel, Inc. and Take-Two Interactive, Inc.

The historical performance data presented below may not be indicative of the future performance of our common stock, any reference index or any component company in a reference index.

Annual Return Percentage

	December 31, 2011	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015
JAKKS Pacific	(21.6)%	(9.0)%	(45.6)%	1.2%	17.1%
Peer Group	2.2	1.0	52.5	11.3	44.2
Russell 2000	(4.2)	16.3	38.8	4.9	(4.4)

Indexed Returns

	January 1, 2010	December 31, 2011	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015
JAKKS Pacific	$ 100.0	$ 78.4	$ 71.3	$ 38.8	$ 39.3	$ 46.0
Peer Group	100.0	102.2	103.2	157.3	175.1	252.5
Russell 2000	100.0	95.8	111.5	154.8	162.4	155.2

Security Holders

To the best of our knowledge, as of March 7, 2016, there were 100 holders of record of our common stock. We believe there are numerous beneficial owners of our common stock whose shares are held in “street name.”

Dividends

In July 2011, we implemented a cash dividend program in the amount of $0.40 per share annually, payable on a quarterly basis to holders of record of our common stock. Effective February 20, 2013, the dividend amount was reduced to $0.28 per share annually and effective July 17, 2013, the dividend program was suspended. During 2012, we paid total dividends per share of $0.40 to holders of our common stock, and during 2013, we paid total dividends per share of $0.14. The payment of dividends on common stock is at the discretion of the Board of Directors and is subject to customary limitations.

Equity Compensation Plan Information

The table below sets forth the following information as of the year ended December 31, 2015 for (i) all compensation plans previously approved by our stockholders and (ii) all compensation plans not previously approved by our stockholders, if any:

(a) the number of securities to be issued upon the exercise of outstanding options, warrants and rights;

(b) the weighted-average exercise price of such outstanding options, warrants and rights; and

(c) other than securities to be issued upon the exercise of such outstanding options, warrants and rights, the number of securities remaining available for future issuance under the plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans, Excluding Securities Reflected in Column (a) (c)
Equity compensation plans approved by security holders		$	708,123
Equity compensation plans not approved by security holders			—
Total		$	708,123

Equity compensation plans approved by our stockholders consists of the 2002 Stock Award and Incentive Plan. An additional 1.4 million shares were added to the number of total issuable shares under the Plan and approved by the Board in 2013. Additionally, 411,409 shares of restricted stock awards remained unvested as of December 31, 2015. Disclosures with respect to equity issuable to certain of our executive officers pursuant to the terms of their employment agreements is disclosed below under Item 11.

Issuer Purchases of Equity Securities

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum dollar value of shares that may yet be purchased under the plans or programs
October 1-31, 2015	225,967	$ 8.33	225,967	$ 21,129,608
November 1-30, 2015	49,799	8.00	49,799	20,731,111
December 1-31, 2015	497,562	7.88	497,562	16,807,881

Total	773,328	8.02	773,328

In June 2015, the Board of Directors authorized a stock repurchase program, under which the Company could repurchase up to $30.0 million of the Company's common stock and/or convertible senior notes payable from time to time. As of December 31, 2015, the Company had repurchased 1,547,361 shares at a total cost of $13.2 million, of which 1,000,000 shares have been retired and cancelled, and 547,361 shares are held by the Company in the form of Treasury shares.

Item 6. Selected Financial Data

You should read the financial data set forth below in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (included in Item 7) and our consolidated financial statements and the related notes (included in Item 8).

	Years Ended December 31,				
	2011	2012	2013	2014	2015
	(In thousands, except per share data)				
Consolidated Statement of Operations Data:					
Net sales	$ 677,751	$ 666,762	$ 632,925	$ 810,060	$ 745,741
Cost of sales	483,761	468,825	477,146	574,253	517,172
Gross profit	193,990	197,937	155,779	235,807	228,569
Selling, general and administrative expenses	192,710	211,159	195,296	203,326	198,039
Reorganization charges			5,015	1,154	
Income (loss) from operations	1,280	(13,222)	(44,532)	31,327	30,530
Change in fair value of business combination liability			6,000	5,932	5,642
Profit from video game joint venture	6,000	3,000		—	2,701
Income (loss) from joint ventures	(34)	130	(3,148)	314	60
Interest income	412	671	327	112	62
Interest expense	(8,196)	(9,228)	(9,942)	(12,461)	(12,402)
Income (loss) before provision (benefit) for income taxes	(538)	(18,649)	(51,295)	25,224	26,593
Provision (benefit) for income taxes	(9,010)	86,151	2,611	3,715	3,423
Net income (loss)	8,472	(104,800)	(53,906)	21,509	23,170
Net loss attributable to non-controlling interests					(84)
Net income (loss) attributable to JAKKS Pacific, Inc.	$ 8,472	$ (104,800)	$ (53,906)	$ 21,509	$ 23,254
Basic earnings (loss) per share	$ 0.32	$ (4.37)	$ (2.43)	$ 1.03	$ 1.20
Diluted earnings (loss) per share	$ 0.32	$ (4.37)	$ (2.43)	$ 0.70	$ 0.71
Dividends declared per common share	$ 0.20	$ 0.40	$ 0.14	$ —	$ —

During the third quarter of 2015, we recorded income of $5.6 million related to the reversal of a portion of the Maui earn-out and during the second and fourth quarters of 2015 we recorded an aggregate of $2.7 million related to our former video game joint venture with THQ.

During the second quarter of 2014, we incurred restructuring charges of $1.2 million related to office space consolidations as part of the reorganization plan which commenced in the third quarter of 2013. During the third quarter of 2014, we recorded income of $5.9 million related to the reversal of a portion of the Maui earn-out. The Maui earn-out reversal was due to Maui not achieving the prescribed earn-out targets in 2014.

In 2013, we booked a charge of $14.9 million related to the write-down of certain excess and impaired inventory. We also booked a charge of $14.4 million related to the write-down of license advances and minimum guarantees that are not expected to be earned through sales of that licensed product. During the fourth quarter of 2013, we incurred restructuring charges of $5.0 million related to the office space consolidations given the decrease in sales in 2013, and recorded income of $6.0 million related to the reversal of a portion of the Maui earn-out. The Maui earn-out reversal was due to Maui not achieving the prescribed earn-out targets in 2013.

During the third quarter of 2012, we acquired Maui, Inc., an Ohio corporation, Kessler Services, Inc., a Nevada corporation, and A.S. Design Limited, a Hong Kong corporation (collectively, “Maui”).

During the fourth quarter of 2011, we acquired Moose Mountain Toymakers Limited, a Hong Kong corporation, and Moose Mountain Marketing, Inc., a New Jersey Corporation (collectively, “Moose Mountain”).

	At December 31,				
	2011	2012	2013	2014	2015
			(In thousands)		
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 257,258	$ 189,321	$ 117,071	$ 71,525	$ 102,528
Working capital	374,652	186,581	136,337	246,245	252,228
Total assets	615,234	554,825	449,844	561,782	505,900
Short-term debt		70,710	38,098		
Long-term debt	92,188	94,918	100,000	215,000	215,000
Total stockholders’ equity	393,591	207,220	148,685	145,084	153,406

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors. You should read this section in conjunction with our consolidated financial statements and the related notes (included in Item 8).

Critical Accounting Policies

The accompanying consolidated financial statements and supplementary information were prepared in accordance with accounting principles generally accepted in the United States of America. Significant accounting policies are discussed in Note 2 to the Consolidated Financial Statements, Item 8. Inherent in the application of many of these accounting policies is the need for management to make estimates and judgments in the determination of certain revenues, expenses, assets and liabilities. As such, materially different financial results can occur as circumstances change and additional information becomes known. The policies with the greatest potential effect on our results of operations and financial position include:

Allowance for Doubtful Accounts. Our allowance for doubtful accounts is based upon management's assessment of the business environment, customers' financial condition, historical collection experience, accounts receivable aging, customer disputes and the collectability of specific customer accounts. If there were a deterioration of a major customer's creditworthiness, or actual defaults were higher than our historical experience, our estimates of the recoverability of amounts due to us could be overstated, which could have an adverse impact on our operating results. Our allowance for doubtful accounts is also affected by the time at which uncollectible accounts receivable balances are actually written off.

Major customers' accounts are monitored on an ongoing basis; more in-depth reviews are performed based upon changes in a customer's financial condition and/or the level of credit being extended. When a significant event occurs, such as a bankruptcy filing by a specific customer, and on a quarterly basis, the allowance is reviewed for adequacy and the balance or accrual rate is adjusted to reflect current risk prospects.

Revenue Recognition. Our revenue recognition policy is to recognize revenue when persuasive evidence of an arrangement exists, title transfer has occurred (product shipment), the price is fixed or determinable and collectability is reasonably assured. Sales are recorded net of sales returns and discounts, which are estimated at the time of shipment based upon historical data. JAKKS routinely enters into arrangements with its customers to provide sales incentives and support customer promotions and we provide allowances for returns and defective merchandise. Such programs are primarily based upon customer purchases, customer performance of specified promotional activities and other specified factors such as sales to consumers. Accruals for these programs are recorded as sales adjustments that reduce gross revenue in the period the related revenue is recognized.

Goodwill and other indefinite-lived intangible assets. Goodwill and indefinite-lived intangible assets are not amortized, but are tested for impairment at least annually at the reporting unit level.

Factors we consider important that could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and
- significant negative industry or economic trends.

Due to the subjective nature of the impairment analysis, significant changes in the assumptions used to develop the estimate could materially affect the conclusion regarding the future cash flows necessary to support the valuation of long-lived assets, including goodwill. The valuation of goodwill involves a high degree of judgment and uncertainty related to our key assumptions. Any changes in our key projections or estimates could result in a reporting unit either passing or failing the first step of the impairment model, which could significantly change the amount of any impairment ultimately recorded.

Based upon the assumptions underlying the valuation, impairment is determined by estimating the fair value of a reporting unit and comparing that value to the reporting unit's book value. Goodwill is tested for impairment annually. If the implied fair value is more than the book value of the reporting unit, an impairment loss is not indicated. If impairment exists, the fair value of the reporting unit is allocated to all of its assets and liabilities excluding goodwill, with the excess amount representing the fair value of goodwill. An impairment loss is measured as the amount by which the book value of the reporting unit's goodwill exceeds the estimated fair value of that goodwill.

The Company assessed its goodwill for impairment as of October 1, 2015 for each of its reporting units by evaluating qualitative factors, including, but not limited to, the performance of each reporting unit, general economic conditions, access to capital, the industry and competitive environment, the interest rate environment. Utilizing the aforementioned, the Company reviewed step-one of its impairment model and determined that it was not likely that the fair value of its reporting units were less than the carrying amounts. As such, the Company determined there was no indication of impairment to be recorded. The amount of goodwill assigned to each of the two reporting units, traditional toys and electronics and role play, novelty and seasonal toys, amounted to $24.6 million and $19.6 million, respectively.

Goodwill and intangible assets amounted to $88.7 million as of December 31, 2015.

Reserve for Inventory Obsolescence. We value our inventory at the lower of cost or market. Based upon a consideration of quantities on hand, actual and projected sales volume, anticipated product selling prices and product lines planned to be discontinued, slow-moving and obsolete inventory is written down to its net realizable value.

Failure to accurately predict and respond to consumer demand could result in us under-producing popular items or overproducing less popular items. Furthermore, significant changes in demand for our products would impact management's estimates in establishing our inventory provision.

Management estimates are monitored on a quarterly basis and a further adjustment to reduce inventory to its net realizable value is recorded, as an increase to cost of sales, when deemed necessary under the lower of cost or market standard.

Income Allocation for Income Taxes.

Our annual income tax provision and related income tax assets and liabilities are based upon actual income as allocated to the various tax jurisdictions based upon our transfer pricing study, US and foreign statutory income tax rates and tax regulations and planning opportunities in the various jurisdictions in which we operate. Significant judgment is required in interpreting tax regulations in the U.S. and foreign jurisdictions, and in evaluating worldwide uncertain tax positions. Actual results could differ materially from those judgments, and changes from such judgments could materially affect our consolidated financial statements.

Income taxes and interest and penalties related to income tax payable.

We do not file a consolidated return for our foreign subsidiaries. We file federal and state returns and our foreign subsidiaries each file returns in their respective jurisdictions, as applicable. Deferred taxes are provided on a liability method, whereby deferred tax assets are recognized as deductible temporary differences and operating loss and tax credit carry-forwards 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 bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some 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.

We must assess the likelihood that we will be able to recover our deferred tax assets. Deferred tax assets are reduced by a valuation allowance, if, based upon the weight of available evidence, it is more likely than not that we will not realize some portion or all of the deferred tax assets. We consider all available positive and negative evidence when assessing whether it is more likely than not that deferred tax assets are recoverable. We consider evidence such as our past operating results, the existence of cumulative losses in previous periods and our forecast of future taxable income. We believe this to be a critical accounting policy because should there be a change in our ability to recover our deferred tax assets, our tax provision would increase in the period in which we determine that the recovery is not likely, as well as decrease in the period in which the assessment of the recoverability of the deferred tax assets reverses, which could have a material impact on our results of operations.

We have not provided for United States federal income and foreign withholding taxes on the undistributed earnings of our foreign subsidiaries because we intend to reinvest such earnings indefinitely. Should we decide to remit this income to the U.S. in a future period, our provision for income taxes may increase materially in the period that our intent changes.

We accrue a tax reserve for additional income taxes and interest, which may become payable in future years as a result of audit adjustments by tax authorities. The reserve is based upon management's assessment of all relevant information and is periodically reviewed and adjusted as circumstances warrant. As of December 31, 2015, our income tax reserves were approximately $2.2 million and relates to the potential tax settlement in Hong Kong and adjustments in the area of withholding taxes.

We recognize current period interest expense and the reversal of previously recognized interest expense that has been determined to not be assessable due to the expiration of the related audit period or other compelling factors on the income tax liability for unrecognized tax benefits as interest expense, and penalties and penalty reversals related to the income taxes payable as other expense in our consolidated statements of operations.

Share-Based Compensation.

We grant restricted stock and options to purchase our common stock to our employees (including officers) and non-employee directors under our 2002 Stock Award and Incentive Plan (the "Plan"), which incorporated the shares remaining under our Third Amended and Restated 1995 Stock Option Plan. The benefits provided under the Plan are share-based payments. Related to the stock option grants, we estimate the value of share-based awards on the date of grant using the Black-Scholes option-pricing model. The determination of the fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price, as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, cancellations, terminations, risk-free interest rates and expected dividends. Related to the restricted stock award grants, we determine the value of each award based on the market value of the underlying common stock at the date of each grant and expense each award over the stipulated service period.

Recent Accounting Pronouncements.

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. In April 2015, the FASB issued for public comment a proposed ASU to defer the effective date of ASU 2014-09 and in July 2015, affirmed its proposal to defer the effective date of the new revenue standard for all entities by one year. The mandatory adoption date of Accounting Standards Codification ("ASC") ASC 606 is now January 1, 2018. There are two methods of adoption allowed, either: (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). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we 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 our annual and interim reporting periods beginning January 1, 2017. Upon adoption we will use this guidance to evaluate going concern.

In April 2015, the FASB issued Accounting Standards Update 2015-03, "Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). ASU 2015-03 requires an entity to present debt issuance costs related to a recognized debt liability in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The amendment will be effective for our annual and interim reporting periods beginning January 1, 2016 and should be applied on a retrospective basis. The adoption of ASU 2015-03 will not have any impact on our results of operations, but will result in debt issuance costs being presented as a direct reduction from the carrying amount of debt liabilities.

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. We are currently evaluating the impact of the pending adoption of ASU 2015-11 on the consolidated financial statements.

In August 2015, the FASB issued Accounting Standards Update 2015-15, “Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements” (“ASU 2015-15”). ASU 2015-15 codifies an SEC staff announcement that entities are permitted to defer and present debt issuance costs related to line-of-credit arrangements as assets. The announcements were effective upon issuance. The adoption of ASU 2015-15 does not have any impact on our consolidated financial statements.

In November 2015, the FASB issued Accounting Standards Update 2015-17, “Balance Sheet Classification of Deferred Taxes” (“ASU 2015-17”). ASU 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. ASU 2015-17 is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. We are currently evaluating the impact that of ASU 2015-17 will have on our financial position or financial statement disclosures.

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. We are currently evaluating the impact of the pending adoption of this new standard on our financial statements.

Results of Operations

The following table sets forth, for the periods indicated, certain statement of operations data as a percentage of net sales.

	Years Ended December 31,		
	2013	2014	2015
Net Sales	100.0%	100.0%	100.0%
Cost of Sales	75.4	70.9	69.4
Gross profit	24.6	29.1	30.6
Selling, general and administrative expenses	31.6	25.2	26.5
Income (loss) from operations	(7.0)	3.9	4.1
Change in fair value of business combination liability	0.9	0.7	0.8
Profit from video game joint venture			0.4
Loss from joint ventures	(0.5)		
Interest income	0.1		
Interest expense	(1.6)	(1.5)	(1.7)
Income (loss) before provision for income taxes	(8.1)	3.1	3.6
Provision for income taxes	0.4	0.4	0.5
Net income (loss)	(8.5)	2.7	3.1
Net loss attributable to non-controlling interests			
Net income (loss) attributable to JAKKS Pacific, Inc.	(8.5)%	2.7%	3.1%

The following table summarizes, for the periods indicated, certain income statement data by segment (in thousands).

	Years Ended December 31,		
	2013	2014	2015
Net Sales			
Traditional Toys and Electronics	$ 320,565	$ 408,426	$ 437,683
Role Play, Novelty and Seasonal Toys	312,360	401,634	308,058
	632,925	810,060	745,741
Cost of Sales			
Traditional Toys and Electronics	244,183	284,261	300,512
Role Play, Novelty and Seasonal Toys	232,963	289,992	216,660
	477,146	574,253	517,172
Gross Profit			
Traditional Toys and Electronics	76,382	124,165	137,171
Role Play, Novelty and Seasonal Toys	79,397	111,642	91,398
	$ 155,779	$ 235,807	$ 228,569

Comparison of the Years Ended December 31, 2014 and 2015

Net Sales

Traditional Toys and Electronics. Net sales of our Traditional Toys and Electronics segment were $437.7 million in 2015, compared to $408.4 million in 2014, representing an increase of $29.3 million, or 7.2%. The increase in net sales was primarily due to increases in unit sales of our toddler dolls based on Disney Frozen, and our Nintendo plush and figures and Star Wars figures, Disney Princess dolls, Cinderella and Fairies, Funnoodle water toys and licensed foot-to-floor ride-ons and wagons.

Role Play, Novelties and Seasonal Products. Net sales of our Role Play, Novelties and Seasonal Products were $308.1 million in 2015, compared to $401.6 million in 2014, representing a decrease of $93.5 million, or 23.3%. The decrease in net sales was primarily due to lower unit sales given the difficult annual comparable with the relative strength of the performance of the Frozen and Marvel brands in 2014.

Cost of Sales

Traditional Toys and Electronics. Cost of sales of our Traditional Toys and Electronics segment was $300.5 million, or 68.7% of related net sales, in 2015, compared to $284.3 million, or 69.6% of related net sales, in 2014, representing an increase of $16.2 million, or 5.7%. This percentage cost of sales decrease was driven by improved product costing and stronger margins on new products in 2015.

Role Play, Novelties and Seasonal Products. Cost of sales of our Role Play, Novelties and Seasonal Products segment was $216.7 million in 2015, or 70.3% of related net sales, compared to $290.0 million in 2014, or 72.2% of related net sales, representing a decrease of $73.3 million, or 25.3%. This percentage cost of sales decrease was driven by better product costing on legacy items and stronger margins on new products in 2015. Also contributing to the percentage decrease in 2015 is the absence of lower selling prices of Marvel Halloween costumes that we had in 2014.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $198.0 million in 2015 and $204.5 million in 2014, constituting 26.6% and 25.2% of net sales, respectively. The overall relative increase of selling, general and administrative expenses as a percentage of Net Sales in 2015 is the result of the comparative decrease in net sales in 2015 compared to 2014. The overall decrease of $6.5 million is primarily due to lower advertising spend in 2015 partially offset by increased Salaries and Benefits in 2015 versus 2014.

Reorganization Charges

We incurred reorganization charges in 2013 to consolidate and stream-line our existing business functions. This was necessary given the decreased volume of consolidated sales in 2013 from 2012. Restructuring charges relate to the termination of lease obligations, one-time severance termination benefits, and other contract terminations and are accounted for in accordance with ASC 420-10 “Exit and Disposal Cost Obligations”. We establish a liability for a cost associated with an exit or disposal activity when a liability is incurred, rather than at the date we commit to an exit plan.

The components of the reorganization charges are as follows (in thousands):

	Accrued Balance December 31, 2014	Accrual	Payments	Accrued Balance December 31, 2015
2013 lease abandonment costs	$ 1,258	—	(1,168)	$ 90
2009 lease abandonment costs	368	—	(368)	—
Total reorganization charges	$ 1,626	—	(1,536)	$ 90

Interest Income

Interest income in 2015 was $ 0.1 million, comparable to $0.1 million in 2014 due to lower cash balances in 2015 offset by a higher proportion of investible cash.

Interest Expense

Interest expense was $12.4 million in 2015, as compared to $12.5 million in 2014. In 2015, we recorded interest expense of $11.5 million related to our convertible senior notes payable and $0.9 million related to our credit facility. In 2014, we recorded interest expense of $11.3 million related to our convertible senior notes payable, $0.8 million related to our credit facility, $0.2 million of uncertain tax expense and $0.2 million related to the interest component of our Maui acquisition earn out payment.

Provision for Income Taxes

Our income tax expense, which includes federal, state and foreign income taxes and discrete items, was $3.4 million, or an effective tax rate of 12.9% for 2015. During 2014, the income tax expense was $3.7 million, or an effective tax rate of 14.7%.

The 2015 tax expense of $3.4 million included a discrete tax expense of $0.9 million primarily comprised of return to provision adjustments. Absent these discrete tax expenses, our effective tax rate for 2015 was 9.5%, primarily due to a full valuation allowance on the Company's United States deferred tax assets and the foreign rate differential, and is impacted by the proportion of Hong Kong earnings to overall earnings and is expected to vary depending on the level of consolidated earnings.

The 2014 tax expense of $3.7 million included a discrete tax benefit of $0.3 million comprised of adjustments from closed tax audits (see Note 13 of the Notes to Consolidated Financial Statements). Absent these discrete tax expenses, our effective tax rate for 2014 was 13.6%, primarily due to a full valuation allowance on the Company’s United States deferred tax assets and the foreign rate differential, and is impacted by the proportion of Hong Kong earnings to overall earnings and is expected to vary depending on the level of consolidated earnings.

We assess the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets by jurisdiction. For the three-year period ended December 31, 2015, we were in a cumulative pre-tax loss position in the U.S. On the basis of this evaluation, as of December 31, 2015, a valuation allowance of $100.9 million has been recorded against the U.S. deferred tax assets that more likely than not will not be realized. The net deferred tax liabilities of $2.3 million represent the net deferred tax liabilities in the foreign jurisdiction, where we are in a cumulative income position.

As of December 31, 2015, we had net deferred tax liabilities of approximately $2.3 million related to foreign jurisdictions.

Comparison of the Years Ended December 31, 2014 and 2013

Net Sales

Traditional Toys and Electronics. Net sales of our Traditional Toys and Electronics segment were $408.4 million in 2014, compared to $320.6 million in 2013, representing an increase of $87.8 million, or 27.4%. The increase in net sales was primarily due to increases in unit sales of our toddler dolls based on Disney Frozen, and our Nintendo plush and figures and Star Wars figures.

Role Play, Novelties and Seasonal Products. Net sales of our Role Play, Novelties and Seasonal Products were $401.6 million in 2014, compared to $312.4 million in 2013, representing an increase of $89.2 million, or 28.6%. The increase in net sales was primarily due to sales contribution of Disney Princess dress up and role-play including Frozen, Princess and Fairies as well as an increase in our unit sales of our Halloween costumes based on Disney Frozen and Marvel characters offset in part by a decrease in the selling price of such Marvel costumes.

Cost of Sales

Traditional Toys and Electronics. Cost of sales of our Traditional Toys and Electronics segment was $284.3 million, or 69.6% of related net sales, in 2014, compared to $244.2 million, or 76.2% of related net sales, in 2013, representing an increase of $40.1 million, or 16.4%. The percentage cost of sales decrease was driven by better product costing and better price points and lower license shortfalls in 2014.

Role Play, Novelties and Seasonal Products. Cost of sales of our Role Play, Novelties and Seasonal Products segment was $290.0 million in 2014, or 72.2% of related net sales, compared to $233.0 million in 2013, or 74.6% of related net sales, representing an increase of $57.0 million, or 24.5%. This percentage cost of sales decrease was driven by better product costing and stronger price points in line with the higher volume of sales and lower license shortfalls in 2014 offset in part by lower selling price of Marvel Halloween costumes.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $204.5 million in 2014 and $200.3 million in 2013, constituting 25.2% and 31.6% of net sales, respectively. The overall relative decrease of selling, general and administrative expenses as a percentage of Net Sales in 2014 is the result of the significant increase in net sales in 2014 and operational efficiencies. The overall increase of $4.2 million is primarily due to performance bonuses awarded in 2014 due to the overall increase in profitability of the Company.

Reorganization Charges

We incurred reorganization charges in 2013 to consolidate and stream-line our existing business functions. This was necessary given the decreased volume of consolidated sales in 2013 from 2012. Restructuring charges relate to the termination of lease obligations, one-time severance termination benefits, and other contract terminations and are accounted for in accordance with ASC 420-10 “Exit and Disposal Cost Obligations”. We establish a liability for a cost associated with an exit or disposal activity when a liability is incurred, rather than at the date we commit to an exit plan.

The components of the reorganization charges are as follows (in thousands):

	Accrued Balance December 31, 2013	Accrual	Actual	Accrued Balance December 31, 2014
2013 lease abandonment costs	$ 2,962	—	(1,704)	$ 1,258
2009 lease abandonment costs	1,219	—	(851)	368
Total reorganization charges	$ 4,181	—	(2,555)	$ 1,626

Interest Income

Interest income in 2014 was $ 0.1 million, compared to $0.3 million in 2013. The decrease in interest income is due to lower cash balances in 2014.

Interest Expense

Interest expense was $12.5 million in 2014, as compared to $9.9 million in 2013. The increase is due to the additional interest expense related to our convertible senior notes payable due in 2020. In 2014, we recorded interest expense of $11.3 million related to our convertible senior notes payable, $0.8 million related to our credit facility, $0.2 million of uncertain tax expense and $0.2 million related to the interest component of our Maui acquisition earn out payment. In 2013, we recorded interest expense of $8.1 million related to our convertible senior notes payable, $0.9 million related to our credit facility and $0.8 million related to the interest component of our Maui acquisition earn out payment.

Provision for Income Taxes

Our income tax expense, which includes federal, state and foreign income taxes and discrete items, was $3.7 million, or an effective tax rate of 14.7% for 2014. During 2013, the income tax expense was $2.6 million, or an effective tax rate of (5.1%).

The 2014 tax expense of $3.7 million included a discrete tax expense of $0.3 million primarily comprised of adjustments from closed tax audits (see Note 13 of the Notes to Consolidated Financial Statements.) Absent these discrete tax expenses, our effective tax rate for 2014 was 13.6%; primarily due to a full valuation allowance on the Company's United States deferred tax assets and the foreign rate differential, and is impacted by the proportion of Hong Kong earnings to overall earnings and is expected to vary depending on the level of consolidated earnings.

The 2013 tax expense of $2.6 million included a discrete tax benefit of $0.3 million comprised of uncertain tax positions and return to provision true-ups (see Note 13 of the Notes to Consolidated Financial Statements). Absent these discrete tax expenses, our effective tax rate for 2013 was (5.8%), primarily due to a full valuation allowance on the Company’s United States deferred tax assets and the foreign rate differential between the United States and Hong Kong. The rate exclusive of discrete items can be materially impacted by the proportion of Hong Kong earnings to consolidated earnings.

We assess the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets by jurisdiction. For the three-year period ended December 31, 2014, we were in a cumulative pre-tax loss position in the U.S. On the basis of this evaluation, as of December 31, 2014, a valuation allowance of $106.8 million has been recorded against the U.S. deferred tax assets that more likely than not will not be realized. The net deferred tax liabilities of $2.6 million represent the net deferred tax liabilities in the foreign jurisdiction, where we are in a cumulative income position.

As of December 31, 2014, we had net deferred tax liabilities of approximately $2.6 million related to foreign jurisdictions.

Quarterly Fluctuations and Seasonality

We have experienced significant quarterly fluctuations in operating results and anticipate these fluctuations in the future. The operating results for any quarter are not necessarily indicative of results for any future period. Our first quarter is typically expected to be the least profitable as a result of lower net sales but substantially similar fixed operating expenses. This is consistent with the performance of many companies in the toy industry.

The following table presents our unaudited quarterly results for the years indicated. The seasonality of our business is reflected in this quarterly presentation.

(unaudited)	2014 First Quarter	Second Quarter	Third Quarter	Fourth Quarter	2015 First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 82,510	$ 124,172	$ 349,362	$ 254,016	$ 114,201	$ 131,106	$ 337,027	$ 163,407
As a % of full year	10.2%	15.3%	43.1%	31.4%	15.3%	17.6%	45.2%	21.9%
Gross Profit	$ 23,555	$ 37,818	$ 94,737	$ 79,697	$ 35,378	$ 39,287	$ 104,329	$ 49,575
As a % of full year	10%	16%	40.2%	33.8%	15.5%	17.2%	45.6%	21.7%
As a % of net sales	28.5%	30.5%	27.1%	31.4%	31%	30%	31%	30.3%
Income (loss) from operations	$ (14,924)	$ (4,819)	$ 43,812	$ 7,258	$ (4,199)	$ (3,008)	$ 44,628	$ (6,891)
As a % of full year	(47.6)%	(15.4)%	139.8%	23.2%	(13.8)%	(9.8)%	146.2%	(22.6)%
As a % of net sales	(18.1)%	(3.9)%	12.5%	2.9%	(3.7)%	(2.3)%	13.2%	(4.2)%
Income (loss) before provision (benefit) for income taxes	$ (16,789)	$ (7,772)	$ 45,807	$ 3,978	$ (7,154)	$ (4,414)	$ 47,239	$ (9,078)
As a % of net sales	(20.3)%	(6.3)%	13.1%	1.6%	(6.3)%	(3.4)%	14%	(5.6)%
Net income (loss)	$ (16,305)	$ (9,053)	$ 44,069	$ 2,798	$ (7,581)	$ (5,727)	$ 45,864	$ (9,386)
As a % of net sales	(19.8)%	(7.3)%	12.6%	1.1%	(6.6)%	(4.4)%	13.6%	(5.7)%
Net loss attributable to non-controlling interests	$ —	$ —	$ —	$ —	$ —	$ (47)	$ 19	$ (56)
As a % of net sales	—%	—%	—%	—%	—%	—%	—%	— %
Net income (loss) attributable to	$ (16,305)	$ (9,053)	$ 44,069	$ 2,798	$ (7,581)	$ (5,680)	$ 45,845	$ (9,330)

JAKKS Pacific, Inc.								
As a % of net sales	(19.8)%	(7.3)%	12.6%	1.1%	(6.6)%	(4.3)%	13.6%	(5.7)%
Diluted earnings (loss) per share	$ (0.74)	$ (0.43)	$ 1.03	$ 0.11	$ (0.40)	$ (0.30)	$ 1.12	$ (0.50)
Weighted average shares and equivalents outstanding	22,003	21,276	45,152	44,060	19,090	19,108	42,562	18,781

Consistent with the seasonality of our business, first and second quarters of 2014 and 2015 and fourth quarter of 2015, experienced seasonally low sales which coupled with fixed overhead resulted in significant net losses.

In the second quarter of 2014, we recognized a charge to income in the amount of $1.2 million related to lease exit costs in connection with our reorganization efforts.

In the third quarter of 2014 and 2015, income of $5.9 million and $5.6 million, respectively was recognized in connection with the change in fair value of the Maui acquisition liability.

Quarterly and year-to-date computations of income (loss) per share amounts are made independently. Therefore, the sum of the per share amounts for the quarters may not agree with the per share amounts for the year.

Debt with Conversion and Other Options

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 conversion rate for the 2018 Notes will be 114.3674 shares of our common 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. Holders of the 2018 Notes may convert their notes upon the occurrence of specified events. Upon conversion, the 2018 Notes will be settled in shares of the Company’s common stock

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 conversion rate for the 2020 Notes will be 103.7613 shares of our common 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. Holders of the 2020 Notes may convert their notes upon the occurrence of specified events. Upon conversion, the 2020 Notes will be settled in shares of the Company’s common stock. The Company received net proceeds of approximately $110.4 million from the offering of which $24.0 million was used to repurchase 3.1 million shares of the Company’s common stock under a prepaid forward purchase. In January 2016 we repurchased $2.0 million of the 2020 Notes.

Liquidity and Capital Resources

As of December 31, 2015, we had working capital of $252.2 million compared to $246.2 million as of December 31, 2014. The increase was primarily attributable to net income, partially offset by the repurchase of our common stock.

Operating activities used net cash of $22.4 million and $79.1 million and provided net cash of $66.3 million for the years ended December 31, 2013, 2014 and 2015, respectively. Net cash was favorably impacted primarily by decreases in accounts receivable and inventory, offset by decreases in accounts payable and accrued expenses. Our accounts receivable turnover as measured by days sales for the quarter outstanding in accounts receivable was 68 days, 83 days, and 90 days as of December 31, 2013, 2014, and 2015, respectively. Other than open purchase orders issued in the normal course of business, we have no obligations to purchase finished goods from our manufacturers. As of December 31, 2015, we had cash and cash equivalents of $102.5 million.

Cash used in investing activities totaled $10.8 million, $12.9 million and $22.2 million for the years ended December 31, 2013, 2014, and 2015, respectively. Cash used in 2015 consisted primarily of $18.3 million cash paid for the purchase of office furniture, equipment and molds and tooling used in the manufacturing of our products. Cash used in 2014 consisted primarily of $10.5 million cash paid for the purchase of office furniture, equipment and molds and tooling used in the manufacturing of our products. Cash used in 2013 consisted primarily of $10.1 million cash paid for the purchase of office furniture, equipment and molds and tooling used in the manufacturing of our products. As part of our strategy to develop and market new products, we have entered into various character and product licenses with royalties generally ranging from 1% to 20% payable on net sales of such products. As of December 31, 2015, these agreements required future aggregate minimum guarantees of $78.8 million, exclusive of $30.6 million in advances already paid. Of this $78.8 million future minimum guarantee, $32.4 million is due over the next twelve months.

Financing activities used cash of $39.0 million, provided cash of $46.0 million, and used cash of $13.4 million for the years ended December 31, 2013, 2014 and 2015, respectively. The cash used in 2015 consists primarily of the repurchase of our common stock.

The following is a summary of our significant contractual cash obligations for the periods indicated that existed as of December 31, 2015 and is based upon information appearing in the notes to the consolidated financial statements (in thousands):

	Less than 1 year	1 – 3 years	3 – 5 years	More Than 5 years	Total
Long-term debt	$ —	$ 100,000	$ 115,000	$ —	$ 215,000
Interest on debt	9,856	17,942	7,942	—	35,740
Operating leases	12,729	21,772	9,992	11,892	56,385
Minimum guaranteed license/royalty payments	32,427	46,355	10	—	78,792
Employment contracts	6,869	5,324	1,315	—	13,508
Total contractual cash obligations	$ 61,881	$ 191,393	$ 134,259	$ 11,892	$ 399,425

The above table excludes any potential uncertain income tax liabilities that may become payable upon examination of our income tax returns by taxing authorities. Such amounts and periods of payment cannot be reliably estimated. See Note 13 to the consolidated financial statements for further explanation of our uncertain tax positions.

In October 2011, we acquired all of the stock of Moose Mountain Toymakers Limited, a Hong Kong company, and a related New Jersey company, Moose Mountain Marketing, Inc. (collectively, "Moose Mountain"). The total initial consideration of $31.5 million consisted of $16.0 million in cash and the assumption of liabilities in the amount of $15.5 million, and resulted in goodwill of $13.5 million. In addition, we agreed to pay an earn-out of up to an aggregate amount of $5.3 million in cash over the three calendar years following the acquisition based upon the achievement of certain financial performance criteria. We have paid $1.75 million for each of the earn-outs related to the years ended 2012, 2013 and 2014. The fair value of the expected earn-out was included in goodwill and assumed liabilities as of December 31, 2011. Moose Mountain is a leading designer and producer of foot to floor ride-ons, inflatable environments, wagons, pinball machines and tents and was included in our results of operations from the date of acquisition.

In July 2012, we acquired all of the stock of Maui, Inc., an Ohio corporation, Kessler Services, Inc., a Nevada corporation, and A.S. Design Limited, a Hong Kong corporation (collectively, "Maui"). The initial cash consideration totaled $36.2 million. In addition, we 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 upon the achievement of certain financial performance criteria, which has been accrued and recorded as goodwill as of December 31, 2012. All future changes to the earn-out liability will be charged to income. In 2013, 2014 and 2015, the earn-outs were not achieved and the related liability of $6.0 million, $5.9 million and $5.6 million, respectively, was reversed to other income. Maui is a leading manufacturer and distributor of spring and summer activity toys and impulse toys and was included in our results of operations from the date of acquisition.

In September 2012, we acquired all of the stock of JKID, LTD., a United Kingdom corporation for an initial cash consideration of $1.1 million and deferred cash payments of $5.5 million payable in five semi-annual payments of $1.1 million each. In addition, we agreed to pay compensation of up to an aggregate amount of $4.4 million in cash over the two year period of 2015 through 2016, based upon the achievement of certain financial performance criteria, which will be charged to expense when earned. JKID is the developer of augmented reality technology that enhances the play patterns of toys and consumer products.

In November 2009, the Company sold an aggregate of $100.0 million principal amount of 4.50% Convertible Senior Notes due 2014 (the "2014 Notes"). The 2014 Notes, which were senior unsecured obligations of the Company, paid cash interest semi-annually at a rate of 4.50% per annum and matured on November 1, 2014. On July 24, 2013, the Company repurchased an aggregate of $61.0 million principal amount of these notes at par plus accrued interest with a portion of the net proceeds from the issuance of $100.0 million principal amount of 4.25% convertible senior notes due 2018 resulting in a gain on extinguishment of $0.1 million. The remaining $39.0 million principal amount was repaid on maturity on November 1, 2014.

We believe that our cash flows from operations and cash and cash equivalents will be sufficient to meet our working capital and capital expenditure requirements and provide us with adequate liquidity to meet our anticipated operating needs for at least the next 12 months. We expect our capital expenditures to be approximately $13.0 million in 2016. Although operating activities are expected to provide cash, to the extent we make any acquisitions or grow significantly in the future, our operating and investing activities may use cash and, consequently, any acquisitions or growth may require us to obtain additional sources of financing. There can be no assurance that any necessary additional financing will be available to us on commercially reasonable terms, if at all. We intend to finance our long-term liquidity requirements out of net cash provided by operations and net cash and cash equivalents. As of December 31, 2015, we do not have any off-balance sheet arrangements.

We have cumulative undistributed earnings of non-U.S. subsidiaries that we consider to be permanently reinvested outside the U.S. Should those earnings be repatriated to the U.S., we would incur additional tax expense. Other than for short-term financing needs of our U.S. parent company, we do not intend to repatriate those earnings to the U.S. The amount of cash and short term investments held by our foreign subsidiaries was $60.8 million and $91.7 million as of December 31, 2014 and 2015, respectively.

During the last three fiscal years ending December 31, 2015, we do not believe that inflation has had a material impact on our net sales and revenues and on income from continuing operations.

Exchange Rates

Sales from our United States and Hong Kong operations are denominated in U.S. dollars and our manufacturing costs are denominated in either U.S. or Hong Kong dollars. Operations and operating expenses of all of our operations are denominated in local currency, thereby creating exposure to changes in exchange rates. Changes in the Hong Kong dollar/U.S. dollar exchange rate may positively or negatively affect our operating results. The exchange rate of the Hong Kong dollar to the U.S. dollar has been fixed by the Hong Kong government since 1983 at HK$7.80 to US$1.00 and, accordingly, has not represented a currency exchange risk to the U.S. dollar. We cannot assure you that the exchange rate between the United States and Hong Kong currencies will continue to be fixed or that exchange rate fluctuations between the United States and Hong Kong currencies will not have a material adverse effect on our business, financial condition or results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial and commodity market prices and rates. We are exposed to market risk in the areas of changes in United States and international borrowing rates and changes in foreign currency exchange rates. In addition, we are exposed to market risk in certain geographic areas that have experienced or remain vulnerable to an economic downturn, such as China. We purchase substantially all of our inventory from companies in China, and, therefore, we are subject to the risk that such suppliers will be unable to provide inventory at competitive prices. While we believe that, should such events occur we would be able to find alternative sources of inventory at competitive prices, we cannot assure you that we would be able to do so. These exposures are directly related to our normal operating and funding activities. To date, we have not used derivative instruments or engaged in hedging activities to minimize our market risk.

Interest Rate Risk

In July 2013, we issued convertible senior notes payable of $100.0 million with a fixed interest rate of 4.25% per annum which remain outstanding as of December 31, 2015. In addition, in June 2014, we issued convertible senior notes payable of $115.0 million principal amount with a fixed interest rate of 4.875% per annum, which remain outstanding as of December 31, 2015. As the interest rates on the notes are at fixed rates, we are not generally subject to any direct risk of loss related to these notes arising from changes in interest rates.

Our exposure to market risk includes interest rate fluctuations in connection with our revolving credit facility (see Note 11 - Credit Facility in the accompanying notes to the consolidated financial statements for additional information). Borrowings under the revolving credit facility bear interest at a variable rate based on Prime Lending Rate or LIBOR Rate at the option of the Company. For Prime Lending Rate loans, the interest rate is equal to the highest of (i) the Federal Funds Rate plus a margin of 0.50%, (ii) the rate last quoted by The Wall Street Journal as the “Prime Rate,” or (iii) the sum of a LIBOR rate plus 1.00%, plus a margin of 2.25%. For LIBOR rate loans, the interest rate is equal to a LIBOR rate plus a margin of 3.25%. Borrowings under the revolving credit facility are therefore subject to risk based upon prevailing market interest rates. Interest rate risk may result from many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond our control. During the year ended December 31, 2015, the maximum amount borrowed under the revolving credit facility was $25.0 million and the average amount of borrowings outstanding was $7.7 million. As of December 31, 2015, the amount of total borrowings outstanding under the revolving credit facility was nil. If the prevailing market interest rates relative to these borrowings increased by 10%, our interest expense during the period ended December 31, 2015 would have increased by less than $0.1 million.

Foreign Currency Risk

We have wholly-owned subsidiaries in Hong Kong, China, the United Kingdom, France, Spain and Canada. Sales are generally made by these operations on FOB China or Hong Kong terms and are denominated in U.S. dollars. However, purchases of inventory and Hong Kong operating expenses are typically denominated in Hong Kong dollars and local operating expenses in China are denominated in local currency, thereby creating exposure to changes in exchange rates. Changes in the Chinese Yuan or Hong Kong dollar/U.S. dollar exchange rates may positively or negatively affect our gross margins, operating income and retained earnings. The exchange rate of the Hong Kong dollar to the U.S. dollar has been fixed by the Hong Kong government since 1983 at HK$7.80 to US$1.00 and, accordingly, has not represented a currency exchange risk to the U.S. dollar. Our mainland China operations are funded in Chinese Yuan. We do not believe that near-term changes in these exchange rates, if any, will result in a material effect on our future earnings, fair values or cash flows. Therefore, we have chosen not to enter into foreign currency hedging transactions. We cannot assure you that this approach will be successful, especially in the event of a significant and sudden change in the value of the Hong Kong dollar or Chinese Yuan.

Item 8. Consolidated Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
JAKKS Pacific, Inc.
Santa Monica, California

We have audited the accompanying consolidated balance sheets of JAKKS Pacific, Inc. ("Company") as of December 31, 2014 and 2015 and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule (Schedule II) listed in the accompanying index. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of JAKKS Pacific, Inc. at December 31, 2014 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), JAKKS Pacific, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 15, 2016 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
BDO USA, LLP
Los Angeles, California
March 15, 2016

JAKKS PACIFIC, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2014	December 31, 2015
	(In thousands, except share data)	
Assets		
Current assets		
Cash and cash equivalents	$ 71,525	$ 102,528
Marketable securities	220	—
Accounts receivable, net of allowance for uncollectible accounts of $3,264 and $2,714 in 2014 and 2015, respectively	234,516	163,387
Inventory, net	78,827	60,544
Income tax receivable	24,008	24,008
Deferred income taxes	3,358	—
Prepaid expenses and other	25,139	31,901
Total current assets	437,593	382,368
Property and equipment		
Office furniture and equipment	14,440	15,141
Molds and tooling	87,360	86,307
Leasehold improvements	5,280	10,640
Total	107,080	112,088
Less accumulated depreciation and amortization	95,984	93,653
Property and equipment, net	11,096	18,435
Deferred tax asset	—	446
Intangibles, net	48,904	42,185
Other long term assets	10,389	8,959
Investment in DreamPlay LLC	7,000	7,000
Goodwill, net	44,492	44,199
Trademarks, net	2,308	2,308
Total assets	$ 561,782	$ 505,900
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 56,113	$ 34,986
Accrued expenses	86,974	54,081
Reserve for sales returns and allowances	24,477	17,267
Income taxes payable	23,784	21,067
Deferred income taxes	—	2,739
Total current liabilities	191,348	130,140
Convertible senior notes, net	215,000	215,000
Other liabilities	1,874	5,155
Income taxes payable	2,496	2,199
Deferred income taxes	5,980	—
Total liabilities	416,698	352,494
Commitments and Contingencies		
Stockholders' equity		
Preferred shares, $.001 par value; 5,000,000 shares authorized; nil outstanding	—	—

Common stock, $.001 par value; 100,000,000 shares authorized; 22,682,295 and 21,153,878 shares issued and outstanding in 2014 and 2015, respectively	23	21
Treasury stock at cost; 3,112,840 and 3,660,201 shares in 2014 and 2015, respectively	(24,000)	(28,322)
Additional paid-in capital	202,051	194,743
Accumulated deficit	(26,645)	(3,391)
Accumulated other comprehensive loss	(6,835)	(10,051)
Total JAKKS Pacific, Inc.’s stockholders’ equity	144,594	153,000
Non-controlling interests	490	406
Total stockholders’ equity	145,084	153,406
Total liabilities and stockholders’ equity	$ 561,782	$ 505,900

See accompanying notes to consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2013	2014	2015
	(In thousands, except per share amounts)		
Net sales	$ 632,925	$ 810,060	$ 745,741
Cost of sales	477,146	574,253	517,172
Gross profit	155,779	235,807	228,569
Selling, general and administrative expenses	200,311	204,480	198,039
Income (loss) from operations	(44,532)	31,327	30,530
Change in fair value of business combination liability	6,000	5,932	5,642
Profit from video game joint venture	—	—	2,701
Income (loss) from joint ventures	(3,148)	314	60
Interest income	327	112	62
Interest expense	(9,942)	(12,461)	(12,402)
Income (loss) before provision for income taxes	(51,295)	25,224	26,593
Provision for income taxes	2,611	3,715	3,423
Net income (loss)	(53,906)	21,509	23,170
Net loss attributable to non-controlling interests	—	—	(84)
Net income (loss) attributable to JAKKS Pacific, Inc.	$ (53,906)	$ 21,509	$ 23,254
Basic earnings (loss) per share	$ (2.43)	$ 1.03	$ 1.20
Basic weighted number of shares	22,200	20,948	19,435
Diluted earnings (loss) per share	$ (2.43)	$ 0.70	$ 0.71
Diluted weighted number of shares	22,200	41,516	43,321

See accompanying notes to consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31,		
	2013	2014	2015
	(In thousands)		
Net income (loss)	$ (53,906)	$ 21,509	$ 23,170
Other comprehensive income (loss):			
Foreign currency translation adjustment	366	(2,986)	(3,216)
Comprehensive income (loss)	(53,540)	18,523	19,954
Less: Comprehensive loss attributable to non-controlling interests	—	—	(84)
Comprehensive income (loss) attributable to JAKKS Pacific, Inc.	$ (53,540)	$ 18,523	$ 20,038

See accompanying notes to consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015
(In thousands)

	Common Stock				Retained	Accumulated	JAKKS		
	Number of Shares	Amount	Treasury Stock	Additional Paid-in Capital	Earnings (Accumulated Deficit)	Other Comprehensive Income (Loss)	Pacific Inc.'s Stockholders' Equity	Non-Controlling Interests	Total Stockholders' Equity
Balance, December 31, 2012	21,969	$ 22	$	$ 202,577	$ 8,836	$ (4,215)	$ 207,220	$	$ 207,220
Excess tax deficiency on stock options				(160)			(160)		(160)
Restricted stock grants	707	1		1,084			1,085		1,085
Dividends declared					(3,084)		(3,084)		(3,084)
Retirement of restricted stock	(7)			(34)			(34)		(34)
Repurchase of equity component of convertible notes				(2,802)			(2,802)		(2,802)
Net loss					(53,906)		(53,906)		(53,906)
Foreign currency translation adjustment						366	366		366
Balance, December 31, 2013	22,669	23		200,665	(48,154)	(3,849)	148,685		148,685
Excess tax deficiency on vesting of restricted stock				(85)			(85)		(85)
Restricted stock grants	65	1		1,472			1,473		1,473
Retirement of restricted stock	(52)	(1)		(1)			(2)		(2)
Prepaid forward purchase contract			(24,000)	—			(24,000)		(24,000)
Contributions from non-controlling interests			—					490	490
Net income			—		21,509		21,509		21,509

Foreign currency translation adjustment			—		—	(2,986)	(2,986)		(2,986)
Balance, December 31, 2014	22,682	23	(24,000)	202,051	(26,645)	(6,835)	144,594	490	145,084
Restricted stock grants	71	1	—	1,561	—	—	1,562	—	1,562
Retirement of restricted stock	(52)	(1)	—	—	—	—	(1)	—	(1)
Repurchase of common stock	(1,547)	(1)	(13,192)	—	—	—	(13,193)	—	(13,193)
Retirement of treasury stock	—	(1)	8,870	(8,869)	—	—		—	
Net income	—	—	—	—	23,254	—	23,254	(84)	23,170
Foreign currency translation adjustment	—	—	—	—	—	(3,216)	(3,216)	—	(3,216)
Balance, December 31, 2015	21,154	$ 21	$ (28,322)	$ 194,743	$ (3,391)	$ (10,051)	$ 153,000	$ 406	$ 153,406

See accompanying notes to consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2013	2014	2015
	(In thousands)		
Cash flows from operating activities			
Net income (loss)	$ (53,906)	$ 21,509	$ 23,170
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	24,599	21,883	20,902
Share-based compensation expense	1,085	1,473	1,562
Loss on disposal of property and equipment	3,060	18	47
Change in fair value of business combination liability	(6,000)	(5,932)	(5,642)
Gain on extinguishment of convertible notes	(84)	—	—
(Income) loss from joint ventures	3,148	(314)	(1,017)
Deferred income taxes	(129)	(371)	(329)
Changes in operating assets and liabilities, net of acquisitions			
Accounts receivable	4,232	(133,293)	71,129
Inventory	12,906	(32,043)	18,283
Prepaid expenses and other	(6,367)	2,534	(7,513)
Accounts payable	(12,518)	30,838	(21,127)
Accrued expenses	16,283	23,820	(26,234)
Income taxes payable	5,750	2,921	(3,014)
Reserve for sales returns and allowances	(2,999)	(6,897)	(7,210)
Other liabilities	(11,324)	(5,147)	3,281
Excess tax deficiency from share-based compensation	(160)	(85)	—
Total adjustments	31,482	(100,595)	43,118
Net cash provided by (used in) operating activities	(22,424)	(79,086)	66,288
Cash flows from investing activities			
Purchases of property and equipment	(10,129)	(10,453)	(18,327)
Change in other assets	(135)	(2,766)	(4,149)
Contributions to joint venture	(1,636)	—	—
Distributions from joint venture	1,149	332	60
(Purchases) sale of marketable securities	(2)	—	220
Net cash used in investing activities	(10,753)	(12,887)	(22,196)
Cash flows from financing activities			
Common stock surrendered	(34)	(2)	(1)
Common stock repurchased	—	(24,000)	(13,193)
Proceeds from (repayment of) credit facility borrowings	(70,710)	—	—
Credit facility costs	—	(1,851)	(188)
Dividends paid	(3,084)	—	—
Proceeds from issuance of convertible notes	100,000	115,000	—
Bank fees related to convertible notes	(4,179)	(4,594)	—
Retirement of senior convertible notes	(61,000)	(39,000)	—
Proceeds from issuance of common shares of non-controlling interests	—	490	—
Net cash provided by (used in) financing activities	(39,007)	46,043	(13,382)
Net increase (decrease) in cash and cash equivalents	(72,184)	(45,930)	30,710
Effect of foreign currency translation	(66)	384	293

Cash and cash equivalents, beginning of year		189,321		117,071		71,525
Cash and cash equivalents, end of year	$	117,071	$	71,525	$	102,528
Cash paid (refunded) during the period for:						
Interest	$	4,408	$	8,964	$	10,198
Income taxes	$	(4,644)	$	945	$	7,832

See Notes 4, 5 and 19 for additional supplemental information to consolidated statements of cash flows.

See accompanying notes to consolidated financial statements.

JAKKS PACIFIC, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 1—Principal Industry

JAKKS Pacific, Inc. (the "Company") is engaged in the development, production and marketing of consumer products, including toys and related products, electronic products, pet toys and related products, and other consumer products, many of which are based on highly-recognized character and entertainment licenses. The Company commenced its primary business operations in July 1995 through the purchase of substantially all of the assets of a Hong Kong toy company. The Company markets its product lines domestically and internationally.

The Company was incorporated under the laws of the State of Delaware in January 1995.

Note 2—Summary of Significant Accounting Policies

Principles of consolidation

These consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, and its majority owned joint venture. All intercompany transactions have been eliminated.

The Company entered into a joint venture with Meisheng Culture & Creative Corp., for the purpose of providing certain JAKKS licensed and non-licensed toys and consumer products to agreed upon territories of the People's Republic of China. The joint venture will include a subsidiary in the Shanghai Free Trade Zone that is expected to sell, distribute and market these products, which can include dolls, plush, role play products, action figures, costumes, seasonal items, technology and app-enhanced toys and many more, based on top entertainment licenses and JAKKS' own proprietary brands. The Company owns fifty-one percent of the joint venture.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less, when acquired, to be cash equivalents. The Company maintains its cash in bank deposits which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk of cash and cash equivalents.

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has never experienced any losses related to these balances.

Accounts Receivable and Allowance for Doubtful Accounts

Credit is granted to customers on an unsecured basis. Credit limits and payment terms are established based on extensive evaluations made on an ongoing basis throughout the fiscal year of the financial performance, cash generation, financing availability, and liquidity status of each customer. Customers are reviewed at least annually, with more frequent reviews performed as necessary, depending upon the customer's financial condition and the level of credit being extended. For customers who are experiencing financial difficulties, management performs additional financial analyses before shipping to those customers on credit. The Company uses a variety of financial arrangements to ensure collectability of accounts receivable of customers deemed to be a credit risk, including requiring letters of credit, purchasing various forms of credit insurance with unrelated third parties, or requiring cash in advance of shipment.

The Company records an allowance for doubtful accounts based upon management's assessment of the business environment, customers' financial condition, historical collection experience, accounts receivable aging, customer disputes, and the collectability of specific customer accounts.

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual future results could differ from those estimates.

Revenue recognition

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.

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 the sale.

The Company’s reserve for sales returns and allowances decreased by $7.2 million from $24.5 million as of December 31, 2014 to $17.3 million as of December 31, 2015. This decrease was primarily due to certain customers taking their year-end allowances related to 2014 and 2015 during 2015, as well as reduced markdown allowances in 2015.

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. Based upon these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated, or unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based upon observable inputs used in the valuation techniques, the Company is required to provide information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values into three broad levels as follows:

Level 1:	Valuations for assets and liabilities traded in active markets from readily available pricing sources for market transactions involving identical assets or liabilities.
Level 2:	Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.
Level 3:	Valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

In instances where the determination of the fair value measurement is based upon inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based upon the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The following table summarizes the Company's financial assets measured at fair value on a recurring basis as of December 31 (in thousands):

	Carrying Amount as of December 31, 2014	Fair Value Measurements As of December 31, 2014		
		Level 1	Level 2	Level 3
Cash equivalents	$ 12,166	$ 12,166	$ —	$ —
Marketable securities	220	220	—	—
	$ 12,386	$ 12,386	$ —	$ —

	Carrying Amount as of December 31, 2015	Fair Value Measurements As of December 31, 2015		
		Level 1	Level 2	Level 3
Cash equivalents	$ 13,218	$ 13,218	$ —	$ —
Marketable securities	—	—	—	—
	$ 13,218	$ 13,218	$ —	$ —

The Company's accounts receivable, accounts payable and accrued expenses represent financial instruments. The carrying value of these financial instruments is a reasonable approximation of fair value.

The fair value of the 4.25% convertible senior notes payable due 2018 as of December 31, 2014 and 2015 was $96.3 million and $102.0 million respectively, based upon the most recent quoted market prices, and the fair value of the 4.875% convertible senior notes payable due 2020 as of December 31, 2014 and 2015 was $100.9 million and $112.3 million, respectively, based upon the most recent quoted market prices. The fair values of the convertible senior notes are considered to be Level 2 measurements on the fair value hierarchy.

For the years ended December 31, 2014 and 2015, there was no impairment to the value of the Company's non-financial assets.

Inventory

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

	December 31, 2014	December 31, 2015
Raw materials	$ 1,040	$ 3,717
Finished goods	77,787	56,827
	$ 78,827	$ 60,544

Property and equipment

Property and equipment are stated at cost and are being depreciated using the straight-line method over their estimated useful lives as follows:

Office equipment	5 years
Automobiles	5 years
Furniture and fixtures	5 - 7 years
Leasehold improvements	Shorter of length of lease or 10 years

The Company uses the usage method as its depreciation methodology for molds and tools used in the manufacturing of its products, which is more closely correlated to production of goods. The Company believes that the usage method more accurately matches costs with revenues. Furthermore, the useful estimated life of molds and tools is two years.

For the years ended December 31, 2013, 2014, and 2015, the Company’s aggregate depreciation expense related to property and equipment was $11.8 million, $10.4 million, and $10.9 million, respectively.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) includes all changes in equity from non-owner sources. The Company accounts for other comprehensive income in accordance with Accounting Standards Codification (“ASC”) ASC 220, “Comprehensive Income.” All the activity in other comprehensive income (loss) and all amounts in accumulated other comprehensive income (loss) relate to foreign currency translation adjustments.

Advertising

Production costs of commercials and programming are charged to operations in the period during which the production is first aired. The costs of other advertising, promotion and marketing programs are charged to operations in the period incurred. Advertising expense for the years ended December 31, 2013, 2014 and 2015, was approximately $10.1 million, $19.3 million, and $15.8 million, respectively.

The Company also participates in cooperative advertising arrangements with certain customers, whereby it allows a discount from invoiced product amounts in exchange for customer purchased advertising that features the Company's products. Typically, these discounts range from 1% to 6% 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.

Income taxes

The Company does not file a consolidated return with its foreign subsidiaries. The Company files federal and state returns and its foreign subsidiaries file returns in their respective jurisdictions. Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized as deductible temporary differences and operating loss and tax credit carry-forwards 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, in the opinion of management, 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.

Foreign Currency Translation Exposure

The Company's reporting currency is the US dollar. The translation of its net investment in subsidiaries with non-US dollar functional currencies subjects the Company to currency exchange rate fluctuations in its results of operations and financial position. Assets and liabilities of subsidiaries with non-US dollar functional currencies are translated into US dollars at year-end exchange rates. Income, expense, and cash flow items are translated at average exchange rates prevailing during the year. The resulting currency translation adjustments are recorded as a component of accumulated other comprehensive loss/gain within stockholders' equity. The Company's primary currency translation exposures in 2013, 2014 and 2015 were related to its net investment in entities having functional currencies denominated in the Hong Kong dollar.

Foreign Currency Transaction Exposure

Currency exchange rate fluctuations may impact the Company's results of operations and cash flows. The Company's currency transaction exposures include gains and losses realized on unhedged inventory purchases and unhedged receivables and payables balances that are denominated in a currency other than the applicable functional currency. Gains and losses on unhedged inventory purchases and other transactions associated with operating activities are recorded in the components of operating income in the consolidated statement of operations. Inventory purchase transactions denominated in the Hong Kong dollar were the primary transactions that caused foreign currency transaction exposure for the Company in 2013, 2014 and 2015.

Accounting for the impairment of finite-lived tangible and intangible assets

Long-lived assets with finite lives, which include property and equipment and intangible assets other than goodwill, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows from the use of these assets. When any such impairment exists, the related assets will be written down to fair value. Finite-lived intangible assets consist primarily of product technology rights, acquired backlog, customer relationships, product lines and license agreements. These intangible assets are amortized over the estimated economic lives of the related assets. There were no impairments for years ended December 31, 2013, 2014 and 2015.

Goodwill and other indefinite-lived intangible assets

Goodwill and indefinite-lived intangible assets are not amortized, but are tested for impairment at least annually at the reporting unit level. Losses in value are recorded when material impairment has occurred in the underlying assets or when the benefits of the identified intangible assets are realized. Indefinite-lived intangible assets other than goodwill consist of trademarks.

The carrying value of goodwill and trademarks are based upon cost, which is subject to management's current assessment of fair value. Management evaluates fair value recoverability using both objective and subjective factors. Objective factors include cash flows and analysis of recent sales and earnings trends. Subjective factors include management's best estimates of projected future earnings and competitive analysis and the Company's strategic focus.

For the years ended December 31, 2013, 2014 and 2015, there was no impairment to the value of the Company's goodwill or trademarks.

Share-based Compensation

The Company measures all employee share-based compensation awards using a fair value method and records such expense in its consolidated financial statements. The Company recorded $1.1 million, $1.5 million, and $1.6 million of restricted stock expense, in 2013, 2014, and 2015, respectively. See Note 17 for further details relating to share based compensation.

Earnings per share

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

	2013		
	Loss	Weighted Average Shares	Per Share
Basic EPS			
Loss available to common stockholders	$ (53,906)	22,200	$ (2.43)
Effect of dilutive securities:			
Assumed conversion of convertible senior notes	—	—	
Options and warrants	—	—	
Unvested restricted stock grants	—	—	
Diluted EPS			
Loss available to common stockholders plus assumed exercises and conversion	$ (53,906)	22,200	$ (2.43)

	2014		
	Income	Weighted Average Shares	Per Share
Basic EPS			
Income available to common stockholders	$ 21,509	20,948	$ 1.03
Effect of dilutive securities:			
Assumed conversion of convertible senior notes	7,345	20,388	
Options and warrants	—	—	
Unvested restricted stock grants	—	180	
Diluted EPS			
Income available to common stockholders plus assumed exercises and conversion	$ 28,854	41,516	$ 0.70

	2015		
	Income	Weighted Average Shares	Per Share
Basic EPS			
Income available to common stockholders	$ 23,254	19,435	$ 1.20
Effect of dilutive securities:			
Assumed conversion of convertible senior notes	7,385	23,369	
Options and warrants	—	—	
Unvested performance stock grants	—	347	
Unvested restricted stock grants	—	170	
Diluted EPS			
Income available to common stockholders plus assumed exercises and conversion	$ 30,639	43,321	$ 0.71

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). For the years ended December 31, 2013, 2014 and 2015, the convertible notes interest and related common share equivalent of 10,037,523, nil and nil, respectively, were excluded from the diluted earnings per share calculation because they were anti-dilutive. Potentially dilutive stock options and warrants of 1,627,144, 1,601,272 and 1,518,596 for the years ended December 31, 2013, 2014, and 2015, respectively, were excluded from the computation of diluted earnings per share since they would have been anti-dilutive. Potentially dilutive restricted stock of 111,195, nil and nil for the years ended December 31, 2013, 2014 and 2015, respectively, were excluded from the computation of diluted earnings per share since they would have been anti-dilutive.

The Company is also party to a prepaid forward contract to purchase 3,112,840 shares of its common stock that are to be delivered over a settlement period in 2020. The number of shares to be delivered under the prepaid forward contract has been removed from the weighted-average basic and diluted shares outstanding. Any dividends declared and paid on the shares underlying the forward contract are to be reverted back to the Company based on the contractual terms of the forward contract.

Debt with Conversion and Other Options

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 conversion rate for the 2018 Notes will be 114.3674 shares of the Company’s common 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. Holders of the 2018 Notes may convert their notes upon the occurrence of specified events. Upon conversion, the 2018 Notes will be settled in shares of the Company’s common stock.

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 conversion rate for the 2020 Notes will be 103.7613 shares of our common 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. Holders of the 2020 Notes may convert their notes upon the occurrence of specified events. Upon conversion, the 2020 Notes will be settled in shares of the Company’s common stock. The Company received net proceeds of approximately $110.4 million from the offering of which $24.0 million was used to repurchase 3.1 million shares of the Company’s common stock under a prepaid forward purchase contract. In January 2016 the Company repurchased $2.0 million of the 2020 Notes.

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 of its common shares repurchased as a reduction to stockholders’ equity allocated to treasury stock. Any dividends declared and paid on the shares underlying the forward contract are to be reverted back to the Company based on the contractual terms of the forward contract.

Reclassifications

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

Recent Accounting Pronouncements

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 our pending adoption of ASU 2014-09 on our consolidated financial statements and has not yet determined the method by which we 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 April 2015, the FASB issued Accounting Standards Update 2015-03, “Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”). ASU 2015-03 requires an entity to present debt issuance costs related to a recognized debt liability in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The amendment will be effective for our annual and interim reporting periods beginning January 1, 2016 and should be applied on a retrospective basis. The adoption of ASU 2015-03 will not have any impact on our results of operations, but will result in debt issuance costs being presented as a direct reduction from the carrying amount of debt liabilities.

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 August 2015, the FASB issued Accounting Standards Update 2015-15, “Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements” (“ASU 2015-15”). ASU 2015-15 codifies an SEC staff announcement that entities are permitted to defer and present debt issuance costs related to line-of-credit arrangements as assets. The announcements were effective upon issuance. The adoption of ASU 2015-15 does not have any impact on The Company’s consolidated financial statements.

In November 2015, the FASB issued Accounting Standards Update. 2015-17, “Balance Sheet Classification of Deferred Taxes” (“ASU 2015-17”). ASU 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company is currently evaluating the impact that ASU 2015-17 will have on its financial position or financial statement disclosures.

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.

Note 3—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. The Company's reportable segments are Traditional Toys and Electronics, and Role Play, Novelty and Seasonal Toys, each of which includes worldwide sales.

The Traditional Toys and Electronics segment includes action figures, vehicles, playsets, plush products, dolls, accessories, electronic products, construction toys, infant and pre-school toys, foot to floor ride-on vehicles, wagons and pet products and related products.

The Role Play, Novelty and Seasonal segment includes role play and dress-up products, novelty toys, seasonal and outdoor products, indoor and outdoor kids' furniture and Halloween and everyday costume play.

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 sales volumes. Segment assets are comprised of accounts receivable and inventories, net of applicable reserves and allowances, goodwill, molds and tooling and other assets.

Results are not necessarily those that would be achieved were each segment an unaffiliated business enterprise. Information by segment and a reconciliation to reported amounts as of December 31, 2014 and 2015 and for the three years in the period ended December 31, 2015 are as follows (in thousands):

	Years Ended December 31,		
	2013	2014	2015
Net Sales			
Traditional Toys and Electronics	$ 320,565	$ 408,426	$ 437,683
Role Play, Novelty and Seasonal Toys	312,360	401,634	308,058
	$ 632,925	$ 810,060	$ 745,741

	Years Ended December 31,		
	2013	2014	2015
Operating Income (Loss)			
Traditional Toys and Electronics	$ (25,286)	$ 10,654	$ 13,588
Role Play, Novelty and Seasonal Toys	(19,246)	20,673	16,942
	$ (44,532)	$ 31,327	$ 30,530

	Years Ended December 31,		
	2013	2014	2015
Depreciation and Amortization Expense			
Traditional Toys and Electronics	$ 12,475	$ 11,159	$ 10,911
Role Play, Novelty and Seasonal Toys	8,939	7,812	7,949
	$ 21,414	$ 18,971	$ 18,860

	December 31,	
	2014	2015
Assets		
Traditional Toys and Electronics	$ 313,380	$ 326,199
Role Play, Novelty and Seasonal Toys	248,402	179,701

	$ 561,782	$ 505,900

Information regarding the Company's operations in different geographical areas is presented below on the basis the Company uses to manage its business. Net revenues are categorized based upon location of the customer, while long-lived assets are categorized based upon the location of the Company's assets. Tools, dies and molds represent a substantial portion of the long-lived assets included in the United States with a net book value of $8.8 million in 2014 and $10.2 million in 2015 and substantially all of these assets are located in China. The following tables present information about the Company by geographic area as of December 31, 2014 and 2015 and for each of the three years in the period ended December 31, 2015 (in thousands):

	December 31,	
	2014	2015
Long-lived Assets		
China	$ 8,816	$ 10,172
United States	1,689	7,702
Hong Kong	591	561
	$ 11,096	$ 18,435

	Years Ended December 31,		
	2013	2014	2015
Net Sales by Geographic Area			
United States	$ 524,193	$ 653,497	$ 542,101
Europe	48,585	67,027	117,313
Canada	25,125	33,040	32,587
Hong Kong	6,721	2,746	1,675
Other	28,301	53,750	52,065
	$ 632,925	$ 810,060	$ 745,741

Major Customers

Net sales to major customers were as follows (in thousands, except for percentages):

	2013		2014		2015	
	Amount	Percentage of Net Sales	Amount	Percentage of Net Sales	Amount	Percentage of Net Sales
Wal-Mart	$ 135,223	21.4%	$ 165,777	20.5%	$ 163,333	21.9%
Target	98,770	15.6	124,257	15.3	96,766	13.0
Toys 'R' Us	68,074	10.8	93,926	11.6	71,150	9.5
	$ 302,067	47.8%	$ 383,960	47.4%	$ 331,249	44.4%

No other customer accounted for more than 10% of the Company's total net sales.

As of December 31, 2014 and 2015, the Company's three largest customers accounted for approximately 29.8% and 56.2%, 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.

Note 4—Joint Ventures

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. The joint venture was created to develop and produce a boys’ animated television show, which it licensed worldwide for television broadcast as well as consumer products. The Company produced toys based upon the television program under a license from the joint venture which also licensed certain other merchandising rights to third parties. The Company is responsible for fifty percent of the operating expenses of the joint venture. The Company’s investment is being accounted for using the equity method. The joint venture completed and delivered 65 episodes of the show, which began airing in February 2012, and has since ceased production of the television show. For the years ended December 31, 2013, 2014 and 2015, the Company recognized a loss from the joint venture of $3.1 million, a gain of $0.3 million and a gain of $0.1 million, respectively, including producer fees and royalty income from the joint venture in the amount of $0.3 million, $0.2 million and nil, respectively.

As of December 31, 2014 and 2015, the balance of the investment in the Pacific Animation Partners joint venture includes the following components (in thousands):

	December 31, 2014	December 31, 2015
Capital contributions	$ 3,856	$ —
Equity in cumulative net loss	(3,856)	—
Investment in joint venture	$ —	$ —

In September 2012, the Company entered into a joint venture (“DreamPlay Toys”) with NantWorks LLC (“NantWorks”) in which it owns a fifty percent interest. 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 arrange for the provision of the NantWorks recognition technology platform for toy products. The Company has classified these rights as an intangible asset, which are being amortized over the anticipated revenue stream from the exploitation of these rights. The joint venture entered into a Toy Services Agreement, as amended, with a current expiration date of October 1, 2018, to develop and produce toys utilizing recognition technologies owned by NantWorks. Pursuant to the terms of the amended Toy Services Agreement, NantWorks is entitled to receive a renewal fee of $0.4 million per year and a minimum annual preferred return in the amount of $0.5 million based upon net sales of DreamPlay Toys product sales and third-party license fees. The Company retains the financial risk of the joint venture and is responsible for the day-to-day operations, including development, sales and distribution, 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. Sales of DreamPlay Toys products commenced in the third quarter of 2013.

In addition, in 2012, the Company invested $7.0 million in cash in exchange for a five percent economic interest in a related entity, DreamPlay LLC, which will exploit the recognition technologies in non-toy consumer product categories. NantWorks has the right to repurchase the Company’s interest for $7.0 million. The Company has classified this investment as a long term asset on its balance sheet. The Company’s investment is being accounted for using the cost method. As of December 31, 2015, the Company determined the value of this investment will be realized and that no impairment has occurred.

In November 2014, the Company entered into a joint venture with Meisheng Culture & Creative Corp., for the purpose of providing certain JAKKS licensed and non-licensed toys and consumer products to agreed-upon territories of the People’s Republic of China. The joint venture will include a subsidiary in the Shanghai Free Trade Zone that is expected to sell, distribute and market these products, which can include dolls, plush, role play products, action figures, costumes, seasonal items, technology and app-enhanced toys and many more, based on top entertainment licenses and JAKKS' own proprietary brands. The Company owns fifty-one percent of the joint venture. The results of operations of the joint venture are consolidated with the Company's results. Only minimal expenses were incurred in 2014 and the non-controlling interest's share of the losses from the joint venture for the year ended December 31, 2014 and 2015 was nominal and $84,000, respectively.

Note 5—Business Combinations

The Company acquired the following entities to further enhance its existing product lines and to continue diversification into other toy categories and seasonal businesses:

In July 2012, the Company acquired all of the stock of Maui, Inc., an Ohio corporation, Kessler Services, Inc., a Nevada corporation, and A.S. Design Limited, a Hong Kong corporation (collectively, "Maui"). The cash consideration totaled $36.2 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 upon the achievement of certain financial performance criteria, which was accrued and recorded as goodwill as of December 31, 2012. In 2013, 2014 and 2015, Maui did not achieve the minimum prescribed earn-out targets, therefore the reversals of the earn-out of $6.0 million, $5.9 million and $5.6 million, respectively, was recorded as other income. 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.

In September 2012, the Company acquired all of the stock of JKID, LTD., a United Kingdom corporation for an initial cash consideration of $1.1 million and deferred cash payments of $5.5 million payable in five semi-annual payments of $1.1 million each. In addition, the Company agreed to pay additional compensation of up to an aggregate amount of $4.4 million in cash over the two year period of 2015 through 2016, based upon the achievement of certain financial performance criteria, which will be accrued and charged to expense when and if it is earned. JKID is the developer of augmented reality technology that enhances the play patterns of toys and consumer products.

Note 6—Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2014 and 2015 are as follows (in thousands):

	Traditional Toys and Electronics	Role Play, Novelty and Seasonal Toys	Total
Balance, January 1, 2014:			
Goodwill	$ 25,265	$ 19,611	$ 44,876
Adjustments to goodwill for foreign currency translation	(384)	—	(384)
Balance December 31, 2014:	$ 24,881	$ 19,611	$ 44,492
Balance, January 1, 2015:			
Goodwill	$ 24,881	$ 19,611	$ 44,492
Adjustments to goodwill for foreign currency translation	(293)	—	(293)
Balance December 31, 2015:	$ 24,588	$ 19,611	$ 44,199

The Company assesses goodwill and indefinite-lived intangible assets for impairment on an annual basis by reviewing relevant qualitative and quantitative factors. More frequent evaluations may be required if the Company experiences changes in its business climate or as a result of other triggering events that take place. If carrying value exceeds fair value, a possible impairment exists and further evaluation is performed.

The Company assessed its goodwill for impairment as of October 1, 2015 for each of its reporting units by evaluating qualitative factors, including, but not limited to, the performance of each reporting unit, general economic conditions, access to capital, the industry and competitive environment, the interest rate environment. The Company prepared step-one of its impairment model. The valuation of goodwill involves a high degree of judgment and uncertainty related to key assumptions. Due to the subjective nature of the impairment analysis, significant changes in the assumptions used to develop the estimate could materially affect the conclusion regarding the future cash flows necessary to support the valuation of goodwill.

Based on the Company's assessment, it determined that the fair value of its reporting units were not less than the carrying amounts. As such, the Company determined there was no impairment to be recorded.

Note 7—Intangible Assets Other Than Goodwill

Intangible assets other than goodwill 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. Debt offering costs from the issuance of the Company's convertible senior notes are included in other long term assets in the accompanying balance sheets. Intangible assets and debt issuance costs are as follows (in thousands, except for weighted useful lives):

		December 31, 2014			December 31, 2015		
	Weighted Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortized Intangible Assets:							
Licenses	4.96	$ 91,488	$ (85,113)	$ 6,375	$ 91,488	$ (86,994)	$ 4,494
Product lines	5.74	66,594	(27,235)	39,359	67,794	(32,077)	35,717
Customer relationships	5.21	9,348	(7,831)	1,517	9,348	(8,391)	957
Trade names	5.00	3,000	(1,450)	1,550	3,000	(2,050)	950
Non-compete/ Employment contracts	3.90	3,333	(3,230)	103	3,333	(3,266)	67
Total amortized intangible assets		173,763	(124,859)	48,904	174,963	(132,778)	42,185
Deferred Costs:							
Debt issuance costs	3.77	14,923	(6,418)	8,505	11,433	(4,782)	6,651
Unamortized Intangible Assets:							
Trademarks		2,308		2,308	2,308		2,308
		$ 190,994	$ (131,277)	$ 59,717	$ 188,704	$ (137,560)	$ 51,144

For the years ended December 31, 2013, 2014, and 2015, the Company's aggregate amortization expense related to intangible assets and deferred costs was $10.6 million, $10.5 million, and $10.0 million, respectively. The Company currently estimates continuing future amortization expense to be approximately (in thousands):

2016	$ 11,780
2017	10,589
2018	7,667
2019	5,255
2020	4,592
Thereafter	8,953
	$ 48,836

Note 8—Concentration of Credit Risk

Financial instruments that subject the Company to concentration of credit risk are cash and cash equivalents and accounts receivable. Cash equivalents consist principally of short-term money market funds. These instruments are short-term in nature and bear minimal risk. To date, the Company has not experienced losses on these instruments.

The Company performs ongoing credit evaluations of its customers' financial conditions, but does not require collateral to support domestic customer accounts receivable. Most goods shipped FOB Hong Kong or China are secured with irrevocable letters of credit.

As of December 31, 2014 and 2015, the Company's three largest customers accounted for approximately 29.8% and 56.2%, 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.

Note 9—Accrued Expenses

Accrued expenses consist of the following (in thousands):

	2014	2015
Royalties	$ 34,378	$ 21,599
Sales commissions	1,914	1,132
Bonuses	6,200	6,275
Professional fees	2,780	2,535
Acquisition earn-out	6,831	
Salaries and employee benefits	149	185
Interest expense	2,675	2,333
Unearned revenue	1,379	1,720
Molds and tools	2,093	2,669
Reorganization costs	1,626	90
Media expense	5,846	
Inventory liabilities	6,898	6,754
Goods in transit	3,743	2,736
Preference claims	1,017	
Other	9,445	6,053
	$ 86,974	$ 54,081

In addition to royalties currently payable on the sale of licensed products during the quarter, the Company records a liability as Accrued Royalties for the estimated shortfall in achieving minimum royalty guarantees pursuant to certain license agreements (Note 16).

The Company incurred reorganization charges in the fourth quarter of 2009 and 2013 to consolidate and stream-line its existing business functions. Reorganization charges relate to the termination of lease obligations, one-time severance termination benefits, property and equipment impairments and other contract terminations and are accounted for in accordance with “Exit and Disposal Cost Obligations” ASC 420-10.

These rental property reorganization charges relate to the Company's Traditional Toys and Electronics segment. The components of the rental property reorganization charges are as follows (in thousands):

	Accrued Balance December 31, 2014	Accrual	Payments	Accrued Balance December 31, 2015
2013 lease abandonment costs	$ 1,258	$	$ (1,168)	$ 90
2009 lease abandonment costs	368		(368)	
Total reorganization charges	$ 1,626	$	$ (1,536)	$ 90

Note 10—Related Party Transactions

A director of the Company is a partner in a law firm that acts as counsel to the Company. The Company incurred legal fees and expenses to the law firm in the amount of approximately $3.0 million in 2013, $2.4 million in 2014 and $3.1 million in 2015. As of December 31, 2014 and 2015, legal fees and reimbursable expenses of $0.6 million and $1.6 million, respectively, were payable to this law firm.

The owner of Nantworks, the Company's DreamPlay Toys joint venture partner, beneficially owns 25.2% of the Company's outstanding common stock, which includes 1.5 million shares underlying out-of-the-money stock warrants. Pursuant to the joint venture agreements, the Company is obligated to pay Nantworks a preferred return on joint venture sales.

For the years ended December 31, 2013, 2014 and 2015, preferred returns of $188,000, $821,939 and $718,767, respectively, were earned and payable to Nantworks. Pursuant to the amended Toy Services Agreement, Nantworks is entitled to receive a renewal fee in the amount $1.2 million payable in installments of $0.8 million paid on the effective date of the renewal in 2015 and $0.2 million on or before each of August 1, 2016 and 2017. As of December 31, 2014 and 2015, the Company has a receivable from Nantworks in the amount of $0.6 million and $0.6 million, respectively. In addition, the Company previously leased office space from Nantworks. Rent expense, including common area maintenance and parking, for the years ended December 31, 2013, 2014 and 2015 was $0.8 million, $1.3 million and $0.1 million, respectively.

Note 11—Credit Facility

In March 2014, the Company and its domestic subsidiaries entered into a secured credit facility with General Electric Capital Corporation (the "GE Loan Agreement"). The GE Loan Agreement, as amended, provides for a $75.0 million revolving credit facility subject to availability based on prescribed advance rates on certain accounts receivable and inventory. The amounts outstanding under the revolving credit facility are payable in full upon maturity of the revolving credit facility on March 27, 2019. The revolving credit facility is secured by a security interest in favor of the lender covering a substantial amount of the assets of the Company. The amount outstanding on the revolving credit facility as of December 31, 2014 and 2015 is nil and nil, respectively. The total borrowing capacity as of December 31, 2014 and 2015 was approximately $67.1 million and $55.5 million, respectively.

The Company's ability to borrow under the GE Loan Agreement is also subject to its ongoing compliance with certain financial covenants, including that the Company and its domestic subsidiaries maintain a fixed charge coverage ratio of at least 1.2:1.0 based on the trailing four quarters.

The GE Loan Agreement allows the Company to borrow under the revolving credit facility 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 revolving credit facility has an unused line fee based on the unused amount of the credit facility, ranging from 25 to 50 basis points. As of December 31, 2015, the rate on the revolving credit facility was

2.25%.

The GE 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 GE 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.

As of December 31, 2015, the Company has outstanding letters of credit in the aggregate amount of $23.2 million.

As of December 31, 2015, the Company was in compliance with the financial covenants under the GE Loan Agreement.

Note 12—Convertible Senior Notes

Convertible senior notes consist of the following (in thousands):

	December 31,	
	2014	2015
4.25% Convertible senior notes (due 2018)	$ 100,000	$ 100,000
4.875% Convertible senior notes (due 2020)	115,000	115,000
	$ 215,000	$ 215,000

In November 2009, the Company sold an aggregate of $100.0 million principal amount of the 2014 Notes. The 2014 Notes, which were senior unsecured obligations of the Company, paid cash interest semi-annually at a rate of 4.50% per annum and matured on November 1, 2014. In July 2013, the Company repurchased an aggregate of $61.0 million principal amount of these notes at par plus accrued interest with a portion of the net proceeds from the issuance of $100.0 million principal amount of 4.25% convertible senior notes due 2018 resulting in a gain on extinguishment of $0.1 million. The remainder of these notes were redeemed at par at maturity on November 1, 2014.

ASC 470-20, “Debt with Conversion and Other Options,” requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) upon conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. In accordance with ASC 470-20, the Company allocated $13.7 million of the $100.0 million principal amount of the 2014 Notes to the equity component, which represents a discount to the debt that was being amortized to interest expense through November 1, 2014. Interest expense associated with the amortization of the discount was $2.0 million, $0.9 million, and nil for December 31, 2013, 2014 and 2015. The Company repurchased $61.0 million of the 2014 Notes during the year ended December 31, 2013 as discussed below, with $2.8 million of the price allocated to the repurchase of the related equity component. In addition, approximately $2.2 million of the unamortized debt discount and $0.6 million of debt issuance costs were written off in connection with the repurchase of the 2014 Notes. The remaining aggregate $39.0 million of principal amount of the 2014 Notes were redeemed at par at maturity on November 1, 2014. The balance of the discount was nil at December 31, 2014 and December 31, 2015.

In July 2013, the Company sold an aggregate of $100.0 million principal amount of 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 conversion rate for the 2018 Notes will be 114.3674 shares of the Company’s common 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. Holders of the 2018 Notes may convert their notes upon the occurrence of specified events. Upon conversion, the 2018 Notes will be settled in shares of the Company’s common stock. The Company used $61.0 million of the approximate $96.0 million in net proceeds from the offering to repurchase at par $61.0 million principal amount of the 2014 Notes. The remainder of the net proceeds will be used for general corporate purposes.

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 conversion rate for the 2020 Notes will be 103.7613 shares of our common 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. Holders of the 2020 Notes may convert their notes upon the occurrence of specified events. Upon conversion, the 2020 Notes will be settled in shares of the Company’s common stock. The Company received net proceeds of approximately $110.4 million from the offering of which $24.0 million was used to repurchase 3.1 million shares of the Company’s common stock under a prepaid forward purchase contract and $39.0

million was used to redeem at par the remaining outstanding principal amount of the 2014 Notes at maturity on November 1, 2014. The remainder of the net proceeds will be used for general corporate purposes. In January 2016 the Company repurchased $2.0 million of the 2020 Notes.

Key components of the 4.50% convertible senior notes due 2014 consist of the following (in thousands):

	Years Ended December 31, 2013	2014	2015
Contractual interest expense on the coupon	$ 3,356	$ 1,463	$
Amortization of debt discount and debt issuance costs recognized as interest expense	2,030	1,140	
	$ 5,386	$ 2,603	$

Key components of the 4.25% convertible senior notes due 2018 consist of the following (in thousands):

	December 31, 2014	2015
Principal amount of notes	$ 100,000	$ 100,000
Net carrying amount of the 2018 convertible notes	$ 100,000	$ 100,000

	Years Ended December 31, 2013	2014	2015
Contractual interest expense	$ 1,771	$ 4,250	$ 4,250
Amortization of debt issuance costs recognized as interest expense	421	835	836
	$ 2,192	$ 5,085	$ 5,086

Key components of the 4.875% convertible senior notes due 2020 consist of the following (in thousands):

	December 31, 2014	2015
Principal amount of notes	$ 115,000	$ 115,000
Net carrying amount of the 2020 convertible notes	$ 115,000	$ 115,000

	Years Ended December 31, 2013	2014	2015
Contractual interest expense	$ —	$ 3,135	$ 5,606
Amortization of debt issuance costs recognized as interest expense	—	473	811
	$ —	$ 3,608	$ 6,417

Note 13—Income Taxes

The Company does not file a consolidated return with its foreign subsidiaries. The Company files federal and state returns and its foreign subsidiaries file returns in their respective jurisdiction.

For the years ended 2013, 2014 and 2015, the provision for income taxes, which included federal, state and foreign income taxes, was an expense of $2.6 million, $3.7 million, and $3.4 million reflecting effective tax provision rates of (5.1%), 14.7% and 12.9%, respectively.

For the year ended 2013 and 2014, provision for income taxes includes federal, state and foreign income taxes at effective tax rates of (5. 1 %) and 14.7%. Exclusive of discrete items, the effective tax provision rate would be (5.8%) in 2013 and 13.6% in 2014. The decrease in the effective rate absent discrete items was primarily due to the foreign rate differential between the United States and Hong Kong. The rate exclusive of discrete items can be materially impacted by the proportion of Hong Kong earnings to consolidated earnings.

The 2015 tax expense of $3.4 million included a discrete tax expense of $0.9 million primarily comprised of return to provision adjustments. Absent these discrete tax expenses, the Company's effective tax rate for 2015 was 9.5%; primarily due to a full valuation allowance on the Company's United States deferred tax assets and the foreign rate differential, and is impacted by the proportion of Hong Kong earnings to overall earnings and is expected to vary depending on the level of consolidated earnings.

For years ended 2014 and 2015, the Company had net deferred tax liabilities of approximately $2.6 million and $2.3 million, respectively, related to foreign jurisdictions.

Provision for income taxes reflected in the accompanying consolidated statements of operations are comprised of the following (in thousands):

	2013	2014	2015
Federal	$ (1,862)	$ (4)	$ —
State and local	(390)	287	708
Foreign	4,894	3,887	3,044
Total Current	2,642	4,170	3,752
APIC	(160)	(84)	—
Deferred	129	(371)	(329)
Total	$ 2,611	$ 3,715	$ 3,423

The components of deferred tax assets/(liabilities) are as follows (in thousands):

	2014	2015
Net deferred tax assets/(liabilities):		
Current:		
Reserve for sales allowances and possible losses	$1,034	$797
Accrued expenses	8,231	1,252
Prepaid royalties	16,322	13,869
Accrued royalties	5,029	4,178
Inventory	4,065	3,495
State income taxes	(8,206)	(7,231)
Other	709	487
Gross current	27,184	16,847
Valuation allowance	(23,826)	(19,586)
Net current	3,358	(2,739)
Long Term:		
Federal and state net operating loss carryforwards	29,383	37,473
Property and equipment	4,542	4,039
Original issue discount interest	(13,561)	(10,419)
Goodwill and intangibles	43,269	36,990
Share based compensation	2,309	2,487
Other	11,037	11,228
Gross long-term	76,979	81,798
Valuation allowance	(82,959)	(81,352)
Net long-term	(5,980)	446
Total net deferred tax assets/(liabilities)	$(2,622)	$(2,293)

Provision for income taxes varies from the U.S. federal statutory rate. The following reconciliation shows the significant differences in the tax at statutory and effective rates:

	2013	2014	2015
Federal income tax expense	35.0%	35.0%	35.0%
State income tax expense, net of federal tax effect	6.2		1.0
Effect of differences in U.S. and Foreign statutory rates	4.8	(14.1)	(9.4)
Uncertain tax positions	0.4		0.3
Earn out adjustments			(7.4)
Provision to return			12.2
Other	4.3	(0.4)	1.6
Foreign deemed dividend	(45.3)		1.7
Foreign tax credit	21.4		(0.5)
Valuation allowance	(31.9)	(5.8)	(21.6)
	(5.1)%	14.7%	12.9%

Deferred taxes result from temporary differences between tax bases of assets and liabilities and their reported amounts in the consolidated financial statements. The temporary differences result from costs required to be capitalized for tax purposes by the U.S. Internal Revenue Code ("IRC"), and certain items accrued for financial reporting purposes in the year incurred but not deductible for tax purposes until paid. The Company has established a full valuation allowance on net deferred tax assets in the United States since, in the opinion of management, it is not more likely than not that the U.S. net deferred tax assets will be realized.

The components of income (loss) before provision (benefit) for income taxes are as follows (in thousands):

	2013	2014	2015
Domestic	$ (66,470)	$ 5,358	$ 11,692
Foreign	15,175	19,866	14,901
	$ (51,295)	$ 25,224	$ 26,593

The Company has approximately $252 million of cumulative undistributed earnings of non-U.S. subsidiaries for which U.S. taxes have not been provided as of December 31, 2015. These earnings are intended to be permanently reinvested outside the U.S. If future events necessitate that these earnings should be repatriated to the U.S., an additional tax expense and related liability may be required. The determination of the amount of unrecognized U.S. deferred tax liability for undistributed earnings of non-U.S. subsidiaries is not practicable. The Company also does not provide deferred taxes on foreign currency translation adjustments under the indefinite reversal exception.

The Company uses a recognition threshold and measurement process for recording in the consolidated financial statements uncertain tax positions ("UTP") taken or expected to be taken in a tax return.

$1.8 million of additional UTPs related to Hong Kong mold depreciation were recognized in 2015. In addition, approximately $2.1 million of California audit and R&D Credit based UTPs became de-recognized during 2015, due to the closing of a California income tax audit. These items were included in the 2015 income tax provision. During 2014, approximately $44,000 of the liability for UTP was de-recognized.

Current interest on uncertain income tax liabilities is recognized as interest expense and penalties are recognized in selling, general and administrative expenses in the consolidated statement of operations. During 2013, the Company recognized $120,000 of current year interest expense relating to UTPs. During 2014, the Company recognized $150,000 of current year interest expense relating to UTPs. During 2015, the Company did not recognize any current year interest expense relating to UTPs.

The following table provides further information of UTPs that would affect the effective tax rate, if recognized, as of December 31, 2015 (in millions):

Balance, January 1, 2013	$	4.8
Current year additions		0.3
Current year reduction due to lapse of applicable statute of limitations		(2.5)
Balance, December 31, 2013		2.6
Current year additions		—
Current year reduction due to lapse of applicable statute of limitations		(0.1)
Balance, December 31, 2014		2.5
Current year additions		1.8
Current year reduction due to audit settlement		(2.1)
Balance, December 31, 2015	$	2.2

Tax years 2012 through 2014 remain subject to examination in the United States. The tax years 2010 through 2014 are generally still subject to examination in the various states. The tax years 2009 through 2014 are still subject to examination in Hong Kong. In the normal course of business, the Company is audited by federal, state, and foreign tax authorities. The U.S. Internal Revenue Service is not currently examining any of the tax years.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets by jurisdiction. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2015. Such objective evidence limits the ability to consider other subjective evidence such as the Company’s projections for future growth. The Company is required to establish a valuation allowance for the U.S. deferred tax assets and record a charge to income if Management determines, based upon available evidence at the time the determination is made, that it is more likely than not that some portion or all of the deferred tax assets may not be realized.

For the three-year period ended December 31, 2015, the Company was in a cumulative pre-tax loss position in the U.S. On the basis of this evaluation, as of December 31, 2015, a valuation allowance of $100.9 million has been recorded against the U.S. deferred tax assets that more likely than not will not be realized. For the year ended December 31, 2015, the valuation allowance decreased by $5.9 million from $106.8 million at December 31, 2014 to $100.9 million at December 31, 2015. The net deferred tax liabilities of $2.3 million represent the net deferred tax liabilities in the foreign jurisdiction, where the Company is in a cumulative income position. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased, or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as the Company’s projections for growth.

At December 31, 2015, the Company had U.S. federal net operating loss carryforwards, or "NOLs," of approximately $76 million, which will begin to expire in 2031. At December 31, 2015, the Company's state NOLs were mainly from California. The majority of the approximately $110 million of California NOLs will begin to expire in 2031. At December 31, 2015, the Company had foreign tax credit carryforwards of approximately $12.6 million, which will begin to expire in 2022. At December 31, 2015, the Company had federal research and development tax credit carryforwards ("credit carryforwards") of approximately $0.5 million, which will begin to expire in 2029. At December 31, 2015, the Company had state research and development tax credits of approximately $140,000, which carry forward indefinitely. Utilization of certain NOLs and research credit carryforwards may be subject to an annual limitation due to ownership change limitations set forth in Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, and comparable state income tax laws. Any future annual limitation may result in the expiration of NOLs and credit carryforwards before utilization.

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Note 14—Leases

The Company leases office, warehouse and showroom facilities and certain equipment under operating leases. Rent expense for the years ended December 31, 2013, 2014 and 2015 totaled $14.4 million, $13.0 million, and $11.5 million, respectively. Including leases abandoned during 2013 and 2014, the following is a schedule of minimum annual lease payments (in thousands).

2016	$ 12,729
2017	12,524
2018	9,248
2019	5,995
2020	3,997
Thereafter	11,892
	$ 56,385

Note 15—Common Stock, Preferred Stock and Warrants

The Company has 105,000,000 authorized shares of stock consisting of 100,000,000 shares of $.001 par value common stock and 5,000,000 shares of $.001 par value preferred stock. On December 31, 2014 shares issued and outstanding were 22,682,295, and on December 31, 2015, shares issued and outstanding were 21,153,878.

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.

During 2013, the Company declared a cash dividend of $0.07 per share to shareholders of record as of market close on March 15, 2013 and June 14, 2013. Cash paid for these dividends were approximately $1.5 million and $1.5 million, respectively. In July 2013, the dividend plan was suspended.

In January 2014, the Company issued an aggregate of 531,993 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, over a one to three year period. In addition, an aggregate of 78,150 shares of restricted stock were issued to its five non-employee directors, which vested in January 2015, at an aggregate value of approximately $0.5 million.

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 of its common shares repurchased as a reduction to stockholders’ equity allocated to treasury stock. No shares have been delivered to the Company by ML as of December 31, 2015.

In January 2015, the Company issued an aggregate of 525,734 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 one to three year period. In addition, an aggregate of 73,855 shares of restricted stock were issued to its five non-employee directors, which vest in January 2016, at an aggregate value of approximately $0.5 million.

In April 2015, the Company issued an aggregate of 135,234 shares of restricted stock at a value of approximately $0.9 million to an executive officer, which vests subject to certain company financial performance criteria and market conditions, over a one to three year period.

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 December 31, 2015, the Company repurchased 1,547,361 shares of its common stock at an aggregate value of $13.2 million, of which 1,000,000 shares have been retired and cancelled. No convertible notes have been repurchased as of December 31, 2015.

No dividend was declared or paid in 2014 and 2015.

Note 16—Commitments

The Company has entered into various license agreements whereby the Company may use certain characters and intellectual properties in conjunction with its products. Generally, such license agreements provide for royalties to be paid at 1% to 20% of net sales with minimum guarantees and advance payments.

In the event the Company determines that a shortfall in achieving the minimum guarantee is likely, a liability is recorded for the estimated short fall and charged to royalty expense.

Future annual minimum royalty guarantees as of December 31, 2015 are as follows (in thousands):

2016	$	32,427
2017		28,696
2018		17,659
2019		10
	$	78,792

The Company has entered into employment and consulting agreements with certain executives expiring through December 31, 2018. The aggregate future annual minimum guaranteed amounts due under those agreements as of December 31, 2015 are as follows (in thousands):

2016	$	6,869
2017		5,324
2018		1,315
	$	13,508

Note 17—Share-Based Payments

Under its 2002 Stock Award and Incentive Plan ("the Plan"), which incorporated its Third Amended and Restated 1995 Stock Option Plan, the Company has reserved 6,525,000 shares of its common stock for issuance upon the exercise of options granted under the Plan, as well as for the awarding of other securities. Under the Plan, employees (including officers), non-employee directors and independent consultants may be granted options to purchase shares of common stock and other securities (Note 15). The vesting of these options and other securities may vary, but typically vest on a step-up basis over a maximum period of 4 years. Restricted shares typically vest in the same manner, with the exception of certain awards vesting over one to two years. Share-based compensation expense is recognized on a straight-line basis over the requisite service period. As of December 31, 2015, 708,123 shares were available for future grant. Additional shares may become available to the extent that options or shares of restricted stock presently outstanding under the Plan terminate or expire.

Restricted Stock

Under the Plan, share-based compensation payments may include the issuance of shares of restricted stock. Restricted stock award grants are based upon employment contracts, which vary by individual and year, and are subject to vesting conditions. Non-employee directors each receive grants of restricted stock at a value of $100,000 annually which vest after one year – this amount is prorated if a director is appointed within the year. In addition, at the discretion of Management and approval of the Board, non-executive employees also may receive restricted stock awards, which occurs approximately once per year.

During 2013, the Company issued a total of 996,990 shares of restricted stock, of which, 285,543 shares of restricted stock (with performance based vesting measures) were issued to two executive officers and were subsequently forfeited based upon the Company not meeting certain financial targets for the year. 54,227 shares were granted to its non-employee directors. The remaining 657,220 shares of restricted stock were granted to non-executive employees. The Company cancelled 4,582 shares of restricted stock due to various non-executive employees departing from the Company prior to shares vesting completely. Also during 2013, certain employees, including an executive officer, surrendered an aggregate of 7,540 shares of restricted stock at a value of less than $0.1 million to cover income taxes on the vesting of shares. As of December 31, 2013, 721,752 shares of the restricted stock remained unvested, representing a weighted average grant date fair value of $5.0 million.

During 2014, the Company issued a total of 610,143 shares of restricted stock; of which 531,993 shares of restricted stock (with performance based vesting measures) were issued to two executive officers and were subsequently forfeited based upon the Company not meeting certain financial targets for the year. A total of 78,150 shares were granted to its non-employee directors. The Company cancelled 12,658 shares of restricted stock due to various non-executive employees departing from the Company prior to shares vesting completely. Also during 2014, certain employees, including an executive officer, surrendered an aggregate of 51,877 shares of restricted stock at a value of less than $0.1 million to cover income taxes due on the vesting of restricted shares. As of December 31, 2014, 568,057 shares of the restricted stock remained unvested, representing a weighted average grant date fair value of $3.7 million.

During 2015, the Company issued a total of 734,823 shares of restricted stock; of which 660,968 shares of restricted stock (with performance based vesting measures) were issued to two executive officers. Of the 660,968 shares, a total of 612,221 were subsequently forfeited based upon the Company not meeting certain financial targets for the year. A total of 73,855 shares were granted to its non-employee directors. The Company cancelled 51,633 shares of restricted stock due to various non-executive employees departing from the Company prior to shares vesting completely. Also during 2015, certain employees, including an executive officer, surrendered an aggregate of 52,024 shares of restricted stock for a nominal amount to cover income taxes due on the vesting of restricted shares. As of December 31, 2015, 411,409 shares of the restricted stock remained unvested, representing a weighted average grant date fair value of $2.7 million.

The following table summarizes the restricted stock award activity, annually, for the years ended December 31, 2013, 2014 and 2015: