DOVER MOTORSPORTS INC
Form 10-Q
August 02, 2016

United States

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2016

Commission file number 1-11929

Dover Motorsports, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**51-0357525**
(State or Other Jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)

1131 North DuPont Highway, Dover, Delaware 19901

(Address of principal executive offices)

(302) 883-6500

(Registrant s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 (§232.405 of this chapter) 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

As of July 25, 2016, the number of shares of each class of the registrant s common stock outstanding is as follows:

Common Stock -	18,292,347 shares
Class A Common Stock -	18,510,975 shares

Part I Financial Information

Item 1. Financial Statements

DOVER MOTORSPORTS, INC.

CONSOLIDATED STATEMENTS OF EARNINGS

AND COMPREHENSIVE INCOME

In Thousands, Except Per Share Amounts

(Unaudited)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Revenues:				
Admissions	$ 3,682	$ 4,212	$ 3,682	$ 4,212
Event-related	4,542	4,681	4,681	4,691
Broadcasting	17,022	16,486	17,022	16,486
Other	7	1	7	1
	25,253	25,380	25,392	25,390
Expenses:				
Operating and marketing	13,847	13,629	15,053	14,738
General and administrative	1,820	1,811	3,774	3,751
Loss on disposal of long-lived assets				40
Depreciation	867	1,422	1,763	2,967
	16,534	16,862	20,590	21,496
Income from assets held for sale		606		1,033
Operating earnings	8,719	9,124	4,802	4,927
Interest expense, net	(66)	(86)	(125)	(233)
(Provision) benefit for contingent obligation	(70)	125	(56)	102
Other (expense) income	(8)		(8)	1
Earnings before income taxes	8,575	9,163	4,613	4,797
Income tax expense	(3,509)	(3,669)	(1,890)	(1,907)
Net earnings	5,066	5,494	2,723	2,890
Unrealized gain (loss) on available-for-sale securities, net of income taxes	5	(7)	10	4
Change in net actuarial loss and prior service cost, net of income taxes	18	19	35	38

Comprehensive income	$	5,089	$	5,506	$	2,768	$	2,932
Net earnings per common share:								
Basic	$	0.14	$	0.15	$	0.07	$	0.08
Diluted	$	0.14	$	0.15	$	0.07	$	0.08

The Notes to the Consolidated Financial Statements are an integral part of these consolidated financial statements.

DOVER MOTORSPORTS, INC.

CONSOLIDATED BALANCE SHEETS

In Thousands, Except Share and Per Share Amounts

(Unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash	$ 1	$ 1
Accounts receivable	1,565	173
Inventories	16	72
Prepaid expenses and other	977	1,136
Receivable from Dover Downs Gaming & Entertainment, Inc.		44
Prepaid income taxes		1
Deferred income taxes		79
Assets held for sale	26,000	26,000
Total current assets	28,559	27,506
Property and equipment, net	53,502	53,542
Other assets	914	851
Deferred income taxes		549
Total assets	$ 82,975	$ 82,448
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 647	$ 137
Accrued liabilities	3,079	3,215
Payable to Dover Downs Gaming & Entertainment, Inc.	14	
Income taxes payable	1,405	
Deferred revenue	2,403	1,278
Total current liabilities	7,548	4,630
Revolving line of credit	1,500	5,900
Liability for pension benefits	3,668	3,790
Provision for contingent obligation	1,783	1,727
Deferred income taxes	13,703	14,408
Total liabilities	28,202	30,455
Commitments and contingencies (see Notes to the Consolidated Financial Statements)		
Stockholders equity:		
Preferred stock, $0.10 par value; 1,000,000 shares authorized; shares issued and outstanding: none		
Common stock, $0.10 par value; 75,000,000 shares authorized; shares issued and outstanding: 18,293,135 and 18,220,484, respectively	1,829	1,822
Class A common stock, $0.10 par value; 55,000,000 shares authorized; shares issued and outstanding: 18,510,975 and 18,510,975, respectively	1,851	1,851
Additional paid-in capital	101,747	101,742
Accumulated deficit	(47,578)	(50,301)
Accumulated other comprehensive loss	(3,076)	(3,121)
Total stockholders equity	54,773	51,993
Total liabilities and stockholders equity	$ 82,975	$ 82,448

The Notes to the Consolidated Financial Statements are an integral part of these consolidated financial statements.

DOVER MOTORSPORTS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In Thousands

(Unaudited)

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Operating activities:		
Net earnings	$ 2,723	$ 2,890
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	1,763	2,967
Amortization of credit facility fees	48	48
Stock-based compensation	171	196
Excess tax benefits from stock-based compensation	(27)	
Deferred income taxes	(80)	(772)
Provision (benefit) for contingent obligation	56	(102)
Income from assets held for sale		(1,033)
Changes in assets and liabilities:		
Accounts receivable	(1,392)	(1,160)
Inventories	56	(46)
Prepaid expenses and other	143	(132)
Accounts payable	459	348
Accrued liabilities	(136)	519
Payable to/receivable from Dover Downs Gaming & Entertainment, Inc.	58	
Income taxes payable/prepaid income taxes	1,405	2,006
Deferred revenue	1,125	2,759
Liability for pension benefits	(63)	(36)
Net cash provided by operating activities	6,309	8,452
Investing activities:		
Capital expenditures	(1,671)	(1,112)
Purchases of available-for-sale securities	(103)	(8)
Proceeds from available-for-sale securities	24	5
Non-refundable payments received related to assets held for sale		1,200
Net cash (used in) provided by investing activities	(1,750)	85
Financing activities:		
Borrowings from revolving line of credit	12,720	12,640
Repayments on revolving line of credit	(17,120)	(20,600)
Repurchase of common stock	(186)	(121)
Excess tax benefits from stock-based compensation	27	
Net cash used in financing activities	(4,559)	(8,081)
Net increase in cash		456
Cash, beginning of period	1	24
Cash, end of period	$ 1	$ 480
Supplemental information:		
Interest paid	$ 199	$ 255
Income tax payments	$ 563	$ 669
Change in accounts payable/accrued expenses for capital expenditures	$ 51	$ (683)

The Notes to the Consolidated Financial Statements are an integral part of these consolidated financial statements.

DOVER MOTORSPORTS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 Basis of Presentation

References in this document to we, us and our mean Dover Motorsports, Inc. and/or its wholly owned subsidiaries, as appropriate.

The accompanying consolidated financial statements have been prepared in compliance with Rule 10-01 of Regulation S-X and U.S. generally accepted accounting principles, and accordingly do not include all of the information and disclosures required for audited financial statements. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our latest Annual Report on Form 10-K filed on March 4, 2016. In the opinion of management, these consolidated financial statements include all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of operations, financial position and cash flows for the interim periods presented. Operating results for the three and six-month periods ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016 due to the seasonal nature of our business.

NOTE 2 Business Operations

Dover Motorsports, Inc. is a public holding company that is a leading marketer and promoter of motorsports entertainment in the United States. Through our subsidiaries, we own and operate Dover International Speedway® in Dover, Delaware and Nashville Superspeedway® near Nashville, Tennessee. Our Dover facility is scheduled to promote the following six events during 2016, all of which are under the auspices of the premier sanctioning body in motorsports - the National Association for Stock Car Auto Racing (NASCAR):

- 2 NASCAR Sprint Cup Series events;
- 2 NASCAR XFINITY Series events;
- 1 NASCAR Camping World Truck Series event; and
- 1 NASCAR K&N Pro Series East event.

We have hosted the Firefly Music Festival (Firefly) on our property in Dover, Delaware for five consecutive years. The inaugural three day festival with 40 musical acts was held in July 2012, followed by a three day festival in June 2013 with over 70 musical acts, a four day festival in June 2014 with over 100 musical acts, and a four day festival in June 2015 with 120 musical acts. The event returned to Dover on June 16-19, 2016 with over 110 musical acts. In September 2014, Red Frog Events LLC formed RFGV Festivals LLC - a joint venture with Goldenvoice that promotes Firefly. Goldenvoice is owned by AEG Live, one of the world s largest presenters of live music and entertainment events. We entered into an amended agreement with RFGV Festivals granting them two 5 year options to extend our facility rental agreement through 2032 (from its original expiration date of 2022) in exchange for a rental commitment to secure our property for up to two festivals per year. Rent is at differing rates depending on how many events are actually held. On June 26-28, 2015, the inaugural Big Barrel Country Music Festival was held at our facility. The three day festival was promoted by RFGV Festivals and featured 40 musical acts. On January 28, 2016, RFGV Festivals announced it will not promote the event in 2016. In addition to the facility rental fee, we also receive a percentage of the concession sales we manage at the events.

Nashville Superspeedway no longer promotes NASCAR events and has not entered into sanction agreements with NASCAR since 2011. We currently use the facility on a limited basis for motorsports track rentals. On May 29, 2014, we entered into an agreement to sell the facility for $27 million in cash and the assumption by the potential buyer of obligations of ours under certain Variable Rate Tax Exempt Infrastructure Revenue Bonds. The sales agreement was amended several times extending the closing date. In consideration for these amendments, during 2014 we received $1,700,000 in non-refundable deposits from the potential buyer which was to be applied against the purchase price at closing. In 2015, we received $1,200,000 in non-refundable deposits to extend closing under the agreement, a portion of which was to be applied against the purchase price depending on the closing date. During the three and six-month periods ended June 30, 2015, $606,000 and $1,033,000, respectively, was recorded as income from assets held for sale in our consolidated statements of operations as those deposit amounts were not to be applied against the purchase price at closing based on the terms of the amendments. On June 1, 2015, the potential buyer defaulted under the agreement and did not subsequently cure the default. The amended closing date under the agreement was July 27, 2015; therefore, the agreement expired by its terms. We have expanded our sales efforts and are in discussions with additional prospective buyers. The assets of Nashville Superspeedway are reported as assets held for sale in our consolidated balance sheets at June 30, 2016 and December 31, 2015.

NOTE 3 Summary of Significant Accounting Policies

Property and equipment Property and equipment is stated at cost. Depreciation is provided for financial reporting purposes using the straight-line method over the asset s estimated useful life. Accumulated depreciation was $55,940,000 and $54,306,000 as of June 30, 2016 and December 31, 2015, respectively.

In the first quarter of 2016, we began a renovation project of certain track related assets that will take approximately one year to complete. As a result, we adjusted the service lives of those assets to properly reflect their shortened estimated useful life. We recorded depreciation expense of $68,000 and $159,000, respectively, in the three and six-month periods ended June 30, 2016 related to these assets and expect to record an additional $49,000 of depreciation expense during the remainder of 2016.

In the first quarter of 2015, we identified certain track related assets that, as a result of our planned reduction of grandstand seating, were retired at the end of our 2015 race season. As a result, we adjusted the service lives of those assets to properly reflect their shortened estimated useful life. We recorded depreciation expense of $655,000 and $1,384,000 in the three and six-month periods ended June 30, 2015 related to these assets. As of December 31, 2015, these assets were fully depreciated.

Revenue recognition We classify our revenues as admissions, event-related, broadcasting and other. Admissions revenue includes ticket sales for all of our events. Event-related revenue includes amounts received from sponsorship fees; luxury suite rentals; hospitality tent rentals and catering; concessions and souvenir sales and vendor commissions for the right to sell concessions and souvenirs at our facilities; sales of programs; track rentals and other event-related revenues. Additionally, event related revenue includes amounts received for the use of our property and a portion of the concession sales we manage from the Firefly Music Festival. Broadcasting revenue includes rights fees obtained for television and radio broadcasts of events held at our speedways and any ancillary media rights fees.

Revenues pertaining to specific events are deferred until the event is held. Concession and souvenir revenues are recorded at the time of sale. Revenues and related expenses from barter transactions in which we provide sponsorship packages in exchange for goods or services are recorded at fair value. Barter transactions accounted for $222,000 and $251,000 of total revenues for the three and six-month periods ended June 30, 2016 and 2015, respectively.

Under the terms of our sanction agreements, NASCAR retains 10% of the gross broadcast rights fees allocated to each NASCAR-sanctioned event as a component of its sanction fee. The remaining 90% is recorded as revenue. The event promoter is required to pay 25% of the gross broadcast rights fees to the event as part of the awards to the competitors, which we record as operating expenses.

Expense recognition The cost of non-event related advertising, promotion and marketing programs is expensed as incurred. Certain direct expenses pertaining to specific events, including prize and point fund monies and sanction fees paid to NASCAR, a majority of our marketing expenses and other expenses associated with the promotion of our racing events are deferred until the event is held, at which point they are expensed. Advertising expenses were $632,000 and $634,000 for the three and six-month periods ended June 30, 2016 or 2015, respectively.

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Net earnings per common share Nonvested share-based payment awards that include rights to dividends or dividend equivalents, whether paid or unpaid, are considered participating securities, and the two-class method of computing basic and diluted net earnings per common share (EPS) is applied for all periods presented. The following table sets forth the computation of EPS (in thousands, except per share amounts):

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net earnings per common share basic and diluted:				
Net earnings	$ 5,066	$ 5,494	$ 2,723	$ 2,890
Allocation to nonvested restricted stock awards	80	86	43	45
Net earnings available to common stockholders	$ 4,986	$ 5,408	$ 2,680	$ 2,845
Weighted-average shares outstanding basic and diluted	36,245	36,157	36,248	36,155
Net earnings per common share basic and diluted	$ 0.14	$ 0.15	$ 0.07	$ 0.08

There were no options outstanding and we paid no dividends during the three and six-month periods ended June 30, 2016 or 2015.

Accounting for stock-based compensation We recorded stock-based compensation expense for our restricted stock awards of $62,000 and $171,000, and $60,000 and $196,000 as general and administrative expenses for the three and six-month periods ended June 30, 2016 and 2015, respectively. We recorded income tax benefits of $26,000 and $70,000, and $23,000 and $78,000 for the three and six-month periods ended June 30, 2016 and 2015, respectively, related to our restricted stock awards.

Recent accounting pronouncements In November 2015, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which requires companies to present deferred income tax assets and deferred income tax liabilities as noncurrent in a classified balance sheet instead of the current requirement to separate deferred income tax liabilities and assets into current and noncurrent amounts. ASU 2015-17 is effective for fiscal years beginning after December 15, 2016, although early adoption is permitted. We adopted the provisions of this ASU on a prospective basis in the second quarter of 2016, as such, prior period balances were not adjusted. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which provides a five step approach to be applied to all contracts with customers. ASU No. 2014-09 also requires expanded disclosures about revenue recognition. This update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for reporting periods beginning after December 15, 2016. We are currently analyzing the impact of ASU No. 2014-09 on our results of operations and, at this time, we are unable to determine the impact on the new standard, if any, on our consolidated financial statements.

NOTE 4 Long-Term Debt

At June 30, 2016, Dover Motorsports, Inc. and its wholly owned subsidiaries Dover International Speedway, Inc. and Nashville Speedway, USA, Inc., as co-borrowers had a $35,000,000 secured credit agreement with a bank group. The credit facility expires on July 31, 2017. We are currently seeking to extend the maturity of this obligation prior to its expiration date. Interest is based upon LIBOR plus a margin that varies between 125 and 175 basis points depending on the leverage ratio (125 basis points at June 30, 2016). The facility provides that we may elect to enter into a negative pledge with the bank group in exchange for the release of the security interest in the collateral securing the agreement. In the event we elect to enter into the negative pledge, interest will be based upon LIBOR plus a margin that varies between 150 and 200 basis points depending on the leverage ratio. The credit facility contains certain covenants including maximum funded debt to earnings before interest, taxes, depreciation and amortization (leverage ratio) and a minimum fixed charge coverage ratio. Material adverse changes in our results of operations could impact our ability to maintain financial ratios necessary to satisfy these requirements. In addition, the credit agreement includes a material adverse change clause and provides the lenders with a first lien on all of our assets. The credit facility also provides that if we default under any other loan agreement, that would be a default under this facility. At June 30, 2016, there was $1,500,000 outstanding under the credit facility at an interest rate of 1.70%. The credit facility provides for seasonal funding needs, capital improvements, letter of credit requirements and other general corporate purposes. At June 30, 2016, we were in compliance with the terms of the credit facility. After consideration of stand-by letters of credit outstanding, the remaining maximum borrowings available pursuant to the credit facility were $16,012,000 at June 30, 2016. We expect to be in compliance with the financial covenants, and all other covenants, for all measurement periods during the next twelve months.

NOTE 5 Pension Plans

We maintain a non-contributory tax qualified defined benefit pension plan that has been frozen since July 2011. All of our full time employees were eligible to participate in the qualified plan. Benefits provided by our qualified pension plan were based on years of service and employees remuneration over their employment period. Compensation earned by employees up to July 31, 2011 is used for purposes of calculating benefits under our pension plan with no future benefit accruals after this date. Participants as of July 31, 2011 continue to earn vesting credit with respect to their frozen accrued benefits as they continue to work. We also maintain a non-qualified, non-contributory defined benefit pension plan, the excess plan, for certain employees that has been frozen since July 2011. This excess plan provided benefits that would otherwise be provided under the qualified pension plan but for maximum benefit and compensation limits applicable under federal tax law. The cost associated with the excess plan is determined using the same actuarial methods and assumptions as those used for our qualified pension plan. The assets for the excess plan aggregate $909,000 and $813,000 as of June 30, 2016 and December 31, 2015, respectively, and are recorded in other assets in our consolidated balance sheets (see NOTE 7 Fair Value Measurements).

The components of net periodic pension benefit for our defined benefit pension plans are as follows:

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Interest cost	$ 114,000	$ 130,000	$ 229,000	$ 260,000
Expected return on plan assets	(155,000)	(161,000)	(311,000)	(322,000)
Recognized net actuarial loss	30,000	31,000	59,000	62,000
	$ (11,000)	$	$ (23,000)	$

We contributed $75,000 to our defined benefit pension plans during the three and six-month periods ended June 30, 2016. We do not expect any further contributions to our defined benefit pension plans in 2016. We made no contributions to our defined benefit pension plans during the six months ended June 30, 2015.

We also maintain a non-elective, non-qualified supplemental executive retirement plan (SERP) which provides deferred compensation to certain highly compensated employees that approximates the value of benefits lost by the freezing of the pension plan which are not offset by our enhanced matching contributions in our 401(k) plan. The SERP is a discretionary defined contribution plan and contributions made to the SERP in any given year are not guaranteed and will be at the sole discretion of our Compensation and Stock Incentive Committee. In the three and six-month periods ended June 30, 2016 and 2015, we recorded expenses of $20,000 and $40,000, and $18,000 and $35,000, respectively, related to the SERP. During the six-month periods ended June 30, 2016 and 2015, we contributed $81,000 and $72,000 to the plan, respectively. The liability for SERP pension benefits was $41,000 and $82,000 as of June 30, 2016 and December 31, 2015, respectively.

We maintain a defined contribution 401(k) plan that permits participation by substantially all employees. Our matching contributions to the 401(k) plan were $29,000 and $67,000, and $35,000 and $63,000 in the three and six-month periods ended June 30, 2016 and 2015, respectively.

NOTE 6 Stockholders Equity

Changes in the components of stockholders equity are as follows (in thousands):

	Common Stock	Class A Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss
Balance at December 31, 2015	$ 1,822	$ 1,851	$ 101,742	$ (50,301)	$ (3,121)
Net earnings				2,723	
Issuance of restricted stock awards, net of forfeitures	15		(15)		
Stock-based compensation			171		
Repurchase and retirement of common stock	(8)		(178)		
Unrealized gain on available-for-sale securities, net of income tax expense of $7					10
Change in net actuarial loss and prior service cost, net of income tax expense of $24					35
Excess tax benefits on restricted stock			27		
Balance at June 30, 2016	$ 1,829	$ 1,851	$ 101,747	$ (47,578)	$ (3,076)

As of June 30, 2016 and December 31, 2015, accumulated other comprehensive loss, net of income taxes, consists of the following:

	June 30, 2016	December 31, 2015
Net actuarial loss and prior service cost not yet recognized in net periodic benefit cost, net of income tax benefit of $2,147,000 and $2,171,000, respectively	$ (3,129,000)	$ (3,164,000)
Accumulated unrealized gain on available-for-sale securities, net of income tax expense of $38,000 and $31,000, respectively	53,000	43,000
Accumulated other comprehensive loss	$ (3,076,000)	$ (3,121,000)

Effective June 14, 2016, we adopted a stockholder rights plan. The rights are attached to and trade in tandem with our common stock. The rights, unless earlier redeemed by our board of directors, will detach and trade separately from our common stock only upon the occurrence of certain events such as the unsolicited acquisition by a third party of beneficial ownership of 10% or more of our outstanding combined common stock and Class A common stock or the announcement by a third party of the intent to commence a tender or exchange offer for 10% or more of our outstanding combined common stock and Class A common stock. After the rights have detached, the holders of such rights would generally have the ability to purchase such number of either shares of our common stock or stock of an acquiror of our company having a market value equal to twice the exercise price of the right being exercised, thereby causing substantial dilution to a person or group of persons attempting to acquire control of our company. The rights may serve as a significant deterrent to unsolicited attempts to acquire control of us, including transactions involving a premium to the market price of our stock. The rights expire on June 13, 2026, unless earlier redeemed.

On July 28, 2004, our Board of Directors authorized the repurchase of up to 2,000,000 shares of our outstanding common stock. The purchases may be made in the open market or in privately negotiated transactions as conditions warrant. The repurchase authorization has no expiration date, does not obligate us to acquire any specific number of shares and may be suspended at any time. During the first six months of 2016, we purchased and retired 36,038 shares of our outstanding common stock at an average purchase price of $2.22 per share, not including nominal brokerage commissions. No purchases of our equity securities were made pursuant to this authorization during the six months ended June 30, 2015. At June 30, 2016, we had remaining repurchase authority of 1,142,093 shares.

We have a stock incentive plan, adopted in 2014, which provides for the grant of up to 2,000,000 shares of common stock to our officers and key employees through stock options and/or awards valued in whole or in part by reference to our common stock, such as nonvested restricted stock awards. Under the plan, nonvested restricted stock vests an aggregate of twenty percent each year beginning on the second anniversary date of the grant. The aggregate market value of the nonvested restricted stock at the date of issuance is being amortized on a straight-line basis over the six-year period. We granted 153,000 stock awards under this plan during each of the six months ended June 30, 2016 and 2015. As of June 30, 2016, there were 1,704,978 shares available for granting options or stock awards.

During the six months ended June 30, 2016 and 2015, we purchased and retired 44,311 and 49,078 shares of our outstanding common stock at an average purchase price of $2.33 and $2.46 per share, respectively. These purchases were made from employees in connection with the vesting of restricted stock awards under our Stock Incentive Plan and were not pursuant to the aforementioned repurchase authorization. Since the vesting of a restricted stock award is a taxable event to our employees for which income tax withholding is required, the plan allows employees to surrender to us some of the shares that would otherwise have vested in satisfaction of their tax liability. The surrender of these shares is treated by us as a purchase of the shares.

NOTE 7 Fair Value Measurements

Our financial instruments are classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The following table summarizes the valuation of our financial instrument pricing levels as of June 30, 2016 and December 31, 2015:

	Total	**Level 1**	**Level 2**	**Level 3**
June 30, 2016				