ITT EDUCATIONAL SERVICES INC
Form 10-Q
November 19, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from __________ to __________

Commission file number 1-13144

ITT EDUCATIONAL SERVICES, INC.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**36-2061311** **(I.R.S. Employer** **Identification No.)**
13000 North Meridian Street **Carmel, Indiana** **(Address of principal executive offices)**	**46032-1404** **(Zip Code)**

Registrant s telephone number, including area code: (317) 706-9200

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

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 ¨ No x

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. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

23,448,168

Number of shares of Common Stock, $.01 par value, outstanding at October 31, 2014

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ITT EDUCATIONAL SERVICES, INC.

Carmel, Indiana

Quarterly Report to Securities and Exchange Commission

June 30, 2014

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

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ITT EDUCATIONAL SERVICES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

	June 30, 2014 (unaudited)	As of December 31, 2013	June 30, 2013 (unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$ 224,956	$ 215,771	$ 182,568
Restricted cash	2,768	5,636	5,819
Accounts receivable, net	68,937	99,530	125,927
PEAKS Trust student loans, less allowance for loan losses of $0, $0 and $0	7,420	7,730	7,307
Deferred income taxes	67,415	77,549	68,215
Prepaid expenses and other current assets	36,056	28,400	20,015
Total current assets	407,552	434,616	409,851
Property and equipment, net	158,947	168,509	179,095
PEAKS Trust student loans, excluding current portion, less allowance for loan losses of $38,420, $29,349 and $4,319	65,997	76,479	101,375
Deferred income taxes	78,218	68,324	45,267
Other assets	65,505	58,923	31,990
Total assets	$ 776,219	$ 806,851	$ 767,578
Liabilities and Shareholders Equity			
Current liabilities:			
Current portion of long-term debt	$ 50,000	$ 50,000	$ 0
Current portion of PEAKS Trust senior debt	132,429	157,883	102,695
Accounts payable	75,918	58,021	63,719
Accrued compensation and benefits	23,320	18,107	26,219
Other current liabilities	46,233	42,136	43,177
Deferred revenue	131,378	147,630	113,891
Total current liabilities	459,278	473,777	349,701
Long-term debt	0	0	120,000
PEAKS Trust senior debt, excluding current portion	58,442	71,341	124,983
Other liabilities	138,361	146,087	43,208
Total liabilities	656,081	691,205	637,892
Shareholders equity:			

Preferred stock, $.01 par value, 5,000,000 shares authorized, none issued	0	0	0
Common stock, $.01 par value, 300,000,000 shares authorized, 37,068,904 issued	371	371	371
Capital surplus	198,806	200,040	195,141
Retained earnings	944,431	940,449	970,405
Accumulated other comprehensive income (loss)	2,670	3,146	(7,787)
Treasury stock, 13,665,129, 13,698,716 and 13,700,051 shares, at cost	(1,026,140)	(1,028,360)	(1,028,444)
Total shareholders equity	120,138	115,646	129,686
Total liabilities and shareholders equity	$ 776,219	$ 806,851	$ 767,578

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

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ITT EDUCATIONAL SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Revenue	$ 238,096	$ 260,459	$ 476,019	$ 545,521
Costs and expenses:				
Cost of educational services	116,276	123,541	236,391	247,717
Student services and administrative expenses	97,547	98,335	196,785	200,056
Legal and professional fees related to certain lawsuits, investigations and accounting matters	8,380	213	13,927	1,713
Loss related to loan program guarantees	0	0	0	3,803
Provision for PEAKS Trust student loan losses	9,071	4,319	9,071	4,319
Total costs and expenses	231,274	226,408	456,174	457,608
Operating income	6,822	34,051	19,845	87,913
(Loss) on consolidation of PEAKS Trust	0	0	0	(73,248)
Interest income	15	25	34	59
Interest (expense)	(6,263)	(7,369)	(13,164)	(10,943)
Income (loss) before provision for income taxes	574	26,707	6,715	3,781
Provision for income taxes	182	6,503	2,701	849
Net income	$ 392	$ 20,204	$ 4,014	$ 2,932
Earnings per share:				
Basic	$ 0.02	$ 0.86	$ 0.17	$ 0.13
Diluted	$ 0.02	$ 0.86	$ 0.17	$ 0.12
Weighted average shares outstanding:				
Basic	23,459	23,414	23,453	23,406
Diluted	23,785	23,550	23,815	23,516

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

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ITT EDUCATIONAL SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$ 392	$ 20,204	$ 4,014	$ 2,932
Other comprehensive income (loss), net of tax:				
Net actuarial pension loss amortization, net of income tax of $0, $182, $0 and $393	0	286	0	619
Prior service cost (credit) amortization, net of income tax of $150, $151, $301 and $302	(238)	(238)	(476)	(476)
Other comprehensive income (loss), net of tax	(238)	48	(476)	143
Comprehensive income	$ 154	$ 20,252	$ 3,538	$ 3,075

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

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ITT EDUCATIONAL SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Cash flows from operating activities:				
Net income	$ 392	$ 20,204	$ 4,014	$ 2,932
Adjustments to reconcile net income to net cash flows from operating activities:				
Depreciation and amortization	6,508	7,351	12,970	14,643
Provision for doubtful accounts	13,767	14,924	30,382	30,229
Deferred income taxes	(1,594)	1,484	(2,010)	(13,899)
Stock-based compensation expense	2,311	2,301	4,862	5,394
Settlement cost	0	0	0	(46,000)
Accretion of discount on PEAKS Trust student loans	(3,239)	(4,104)	(6,372)	(5,464)
Accretion of discount on PEAKS Trust senior debt	1,441	1,381	2,982	2,033
Provision for PEAKS Trust student loan losses	9,071	4,319	9,071	4,319
Loss on consolidation of PEAKS Trust	0	0	0	73,248
Other	(248)	71	(428)	365
Changes in operating assets and liabilities, net of acquisition:				
Restricted cash	1,525	874	2,868	(638)
Accounts receivable	(5,320)	(34,543)	982	(77,228)
PEAKS Trust student loans	4,083	3,392	8,093	4,579
Accounts payable	8,582	6	17,897	415
Other operating assets and liabilities	(5,545)	(2,121)	(9,430)	(8,032)
Deferred revenue	(10,171)	(6,737)	(17,400)	(22,009)
Net cash flows from operating activities	21,563	8,802	58,481	(35,113)
Cash flows from investing activities:				
Facility expenditures	(145)	(360)	(157)	(460)
Capital expenditures, net	(1,002)	(1,955)	(2,500)	(3,373)
Acquisition of company	(584)	0	(5,033)	0
Proceeds from repayment of notes	97	107	193	322
Note advances and purchases of investments	(1)	0	(1)	(1,241)
Net cash flows from investing activities	(1,635)	(2,208)	(7,498)	(4,752)
Cash flows from financing activities:				
Proceeds (repayment) from revolving borrowings	0	(30,000)	0	(20,000)

Repayment of PEAKS Trust senior debt	0	(661)	(41,070)	(661)
Repurchase of common stock and shares tendered for taxes	(7)	(3)	(728)	(371)
Net cash flows from financing activities	(7)	(30,664)	(41,798)	(21,032)
Net change in cash and cash equivalents	19,921	(24,070)	9,185	(60,897)
Cash and cash equivalents at beginning of period	205,035	206,638	215,771	243,465
Cash and cash equivalents at end of period	$ 224,956	$ 182,568	$ 224,956	$ 182,568

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

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ITT EDUCATIONAL SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Dollars and shares in thousands)

	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Common Stock in Treasury Shares	Common Stock in Treasury Amount	Total
Balance as of December 31, 2012	37,069	$ 371	$ 197,113	$ 967,473	$ (7,930)	(13,744)	$ (1,031,262)	$ 125,765
For the six months ended June 30, 2013 (unaudited):								
Net income				2,932				2,932
Other comprehensive income, net of income tax					143			143
Equity award vesting and exercises			(3,189)			66	3,189	0
Tax benefit from equity awards			(4,177)					(4,177)
Stock-based compensation			5,394					5,394
Shares tendered for taxes						(22)	(371)	(371)
Balance as of June 30, 2013	37,069	371	195,141	970,405	(7,787)	(13,700)	(1,028,444)	129,686
For the six months ended December 31, 2013 (unaudited):								
Net (loss)				(29,956)				(29,956)
Other comprehensive income, net of income tax					10,933			10,933
Equity award vesting and exercises			(108)			2	108	0

Tax benefit from equity awards			(1,237)					(1,237)
Stock-based compensation			6,244					6,244
Shares tendered for taxes						(1)	(24)	(24)
Balance as of December 31, 2013	37,069	371	200,040	940,449	3,146	(13,699)	(1,028,360)	115,646
For the six months ended June 30, 2014 (unaudited):								
Net income				4,014				4,014
Other comprehensive (loss), net of income tax					(476)			(476)
Equity award vesting and exercises			(2,878)			52	2,878	0
Tax benefit from equity awards			(3,218)					(3,218)
Stock-based compensation			4,862					4,862
Shares tendered for taxes						(19)	(728)	(728)
Issuance of shares for Director s compensation				(32)		1	70	38
Balance as of June 30, 2014	37,069	$ 371	$ 198,806	$ 944,431	$ 2,670	(13,665)	$ (1,026,140)	$ 120,138

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

ITT EDUCATIONAL SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(Dollars in thousands, except per share data and unless otherwise stated)

1. The Company and Basis of Presentation

We are a leading proprietary provider of postsecondary degree programs in the United States based on revenue and student enrollment. As of June 30, 2014, we were offering:

- master, bachelor and associate degree programs to approximately 55,000 students at ITT Technical Institute and Daniel Webster College locations; and
- short-term information technology and business learning solutions for career advancers and other professionals.

In addition, we offered one or more of our online degree programs to students who are located in all 50 states. As of June 30, 2014, we had 148 college locations (including 146 campuses and two learning sites) in 39 states and two training facilities. As of September 30, 2014, we had eliminated both training facilities by transferring the activities conducted at those training facilities to our college locations. All of our college locations are authorized by the applicable education authorities of the states in which they operate and are accredited by an accrediting commission recognized by the U.S. Department of Education (ED). We have provided career-oriented education programs since 1969 under the ITT Technical Institute name and since June 2009 under the Daniel Webster College name. In August 2013, we acquired all of the membership interests of Cable Holdings, LLC (Cable Holdings), an education company that offers short-term information technology and business learning solutions for career advancers and other professionals. In January 2014, we acquired certain assets and assumed certain liabilities of CompetenC Solutions, Inc. and Great Equalizer, Inc. CompetenC Solutions, Inc. and Great Equalizer, Inc. were education companies that operated primarily under the name of Ascolta (Ascolta) and offered short-term information technology and business learning solutions for career advancers and other professionals. See Note 3 Acquisition, for additional discussion of the acquisition of the Ascolta business. Our corporate headquarters are located in Carmel, Indiana.

The accompanying unaudited condensed consolidated financial statements include the accounts of ITT Educational Services, Inc., its wholly-owned subsidiaries and, beginning on February 28, 2013, the PEAKS Trust, a variable interest entity (VIE) in which ITT Educational Services, Inc. is the primary beneficiary, and have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) for interim periods and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures, including significant accounting policies, normally included in a complete presentation of financial statements prepared in accordance with those principles, rules and regulations have been omitted. All significant intercompany balances and transactions are eliminated upon consolidation.

The Condensed Consolidated Balance Sheet as of December 31, 2013 was derived from audited financial statements but, as presented in this report, may not include all disclosures required by GAAP. Arrangements where we have a variable interest in another party are evaluated in accordance with the provisions of Financial Accounting Standards

Board (FASB) Accounting Standards Codification (ASC or Codification) 810, Consolidation (ASC 810), to dete
whether we are required to consolidate the other party in our condensed consolidated financial statements. See Note 6 Variable Interest Entities, for a further discussion of the VIEs in which we held a variable interest and the consolidation of the PEAKS Trust in our condensed consolidated financial statements beginning February 28, 2013.

In the opinion of our management, the financial statements contain all adjustments necessary to fairly state our financial condition and results of operations. The interim financial information should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K as filed with the SEC for the year ended December 31, 2013.

2. <u>New Accounting Guidance</u>

In August 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-15, which is included in the Codification under ASC 205, Presentation of Financial Statements (ASC 205). This guidance was issued to define management s responsibility to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and to provide related footnote disclosure in certain circumstances. Under the new guidance, management is required to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity s ability to continue as a going concern within one year after the date the financial statements are issued and to provide related disclosures. The guidance will be effective for our interim and annual reporting periods beginning January 1, 2017. We have not completed our evaluation of the impact that this guidance may have on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, which is included in the Codification under ASC 606, Revenue Recognition (ASC 606). This guidance requires the recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration expected in exchange for those goods or services. This guidance will become effective for our interim and annual reporting periods beginning January 1, 2017. We have not completed our evaluation of the impact that this guidance may have on our condensed consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, which is included in the Codification under ASC 205. This update changes the requirements for reporting discontinued operations and clarifies when disposals of groups of assets qualify for a discontinued operations presentation under ASC 205. This guidance will become effective for our interim and annual reporting periods beginning January 1, 2015, and will be applied to any transactions that meet those requirements beginning January 1, 2015.

In July 2013, the FASB issued ASU No. 2013-11, which is included in the Codification under ASC 740, Income Taxes (ASC 740). This update provides guidance on the presentation of unrecognized tax benefits when net operating loss carryforwards, similar tax losses or tax credit carryforwards exist. This guidance became effective for our interim and annual reporting periods beginning January 1, 2014. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements.

3. Acquisition

On January 31, 2014, we acquired certain assets and assumed certain liabilities of CompetenC Solutions, Inc. and Great Equalizer, Inc. for approximately $5,186, of which $5,033 was paid in the six months ended June 30, 2014 and the remaining $153 was paid by October 31, 2014. CompetenC Solutions, Inc. and Great Equalizer, Inc. were education companies that operated primarily under the name of Ascolta and offered short-term information technology and business learning solutions for career advancers and other professionals. The acquisition of the Ascolta business allowed us to expand our offerings in the short-term learning solutions market by integrating the Ascolta operations into the Center for Professional Development @ ITT Technical Institute (the CPD).

Our condensed consolidated financial statements include the results of the Ascolta business from the acquisition date. The revenue and expenses of the Ascolta business included in our Condensed Consolidated Statement of Income for the three and six months ended June 30, 2014 were not material. Our revenue, net income and earnings per share would not have been materially affected, if the revenue and expenses of the Ascolta business were presented for the three and six months ended June 30, 2014 and 2013 as if the transaction had occurred at the beginning of the earliest period presented. The costs incurred to acquire the Ascolta business were expensed and were not material.

We accounted for the acquisition of the Ascolta business in accordance with ASC 805, Business Combinations (ASC 805), which requires the use of the acquisition method of accounting for all business combinations. We considered the report of a third-party valuation firm in allocating the purchase price to identifiable net assets. The excess of the consideration paid over the estimated fair values of the identifiable net assets acquired was recognized as goodwill and is expected to be deductible for income tax purposes. The identifiable intangible assets acquired consist of customer relationships and non-compete agreements, which are being amortized over a weighted-average life of approximately five years. The estimated aggregate amortization expense in each of the next five succeeding fiscal years is not material.

The following table sets forth the estimated fair values allocated to the major classes of assets acquired and liabilities assumed in the Ascolta business acquisition as of the acquisition date:

	Assets Acquired	Liabilities Assumed
Accounts receivable and other current assets	$ 849	
Furniture and equipment	370	
Identifiable intangible assets	1,670	
Goodwill	3,332	
Other liabilities		$ 1,035

4. Fair Value

Fair value for financial reporting is defined as the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants at the measurement date. The fair value measurement of our financial assets utilized assumptions categorized as observable inputs under the accounting guidance. Observable inputs are assumptions based on independent market data sources.

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The following table sets forth information regarding the recurring fair value measurement of our financial assets as reflected on our Condensed Consolidated Balance Sheet as of June 30, 2014:

		Fair Value Measurements at Reporting Date Using		
		(Level 1)	(Level 2)	(Level 3)
Description	**As of June 30, 2014**	**Quoted Prices in Active Markets for Identical Assets**	**Significant Other Observable Inputs**	**Significant Unobservable Inputs**
Cash equivalents:				
Money market fund	$ 219,440	$ 219,440	$ 0	$ 0
Restricted cash:				
Money market fund	1,345	1,345	0	0
Other assets:				
Money market fund	8,627	8,627	0	0
	$ 229,412	$ 229,412	$ 0	$ 0

The following table sets forth information regarding the recurring fair value measurement of our financial assets as reflected on our Condensed Consolidated Balance Sheet as of June 30, 2013:

		Fair Value Measurements at Reporting Date Using		
		(Level 1)	(Level 2)	(Level 3)
Description	**As of June 30, 2013**	**Quoted Prices in Active Markets for Identical Assets**	**Significant Other Observable Inputs**	**Significant Unobservable Inputs**
Cash equivalents:				
Money market fund	$ 181,630	$ 181,630	$ 0	$ 0
Restricted cash:				
Money market fund	2,840	2,840	0	0
Other assets:				
Money market fund	8,625	8,625	0	0
	$ 193,095	$ 193,095	$ 0	$ 0

We used quoted prices in active markets for identical assets as of the measurement date to value our financial assets that were categorized as Level 1.

The carrying value for cash and cash equivalents, restricted cash, accounts receivable, accounts payable and other current liabilities approximate fair value, because of the immediate or short-term maturity of these financial instruments. We did not have any financial assets or liabilities recorded at estimated fair value on a non-recurring basis on our Consolidated Balance Sheets as of June 30, 2014 or 2013.

As of June 30, 2014, the carrying value of the private education loans (PEAKS Trust Student Loans) owned by a trust (the PEAKS Trust) that purchased, owns and collects private education loans made under the PEAKS Private Student Loan Program (the PEAKS Program) was $73,417 and the estimated fair value was approximately $86,600. As of June 30, 2013, the carrying value of the PEAKS Trust Student Loans was $108,682 and the estimated fair value was approximately $128,200. The fair value of the PEAKS Trust Student Loans was estimated using the income approach with estimated discounted expected cash flows. We utilized inputs that were unobservable in determining the estimated fair value of the PEAKS Trust Student Loans. The significant inputs used in determining the estimated fair value included the default rate, repayment rate and discount rate. Fair value measurements that utilize significant unobservable inputs are categorized as Level 3 measurements under the accounting guidance.

Each of the carrying value and the estimated fair value of the notes receivable and other receivables included in Prepaid expenses and other current assets or Other assets on our Condensed Consolidated Balance Sheet was approximately $2,500 as of June 30, 2014, $2,500 as of December 31, 2013 and $2,600 as of June 30, 2013. We estimated the fair value of the notes receivable and other receivables by discounting the future cash flows using current rates for similar arrangements. The assumptions used in this estimate are considered unobservable inputs. Fair value measurements that utilize significant unobservable inputs are categorized as Level 3 measurements under the accounting guidance.

Each of the carrying value and the estimated fair value of our debt under our credit agreement was approximately $50,000 as of June 30, 2014, $50,000 as of December 31, 2013 and $120,000 as of June 30, 2013. The fair value of our debt under our credit agreement was estimated by discounting the future cash flows using current rates for similar loans with similar characteristics and remaining maturities. We utilized inputs that were observable or were principally derived from observable market data to estimate the fair value of our debt under our credit agreement. Fair value measurements that utilize significant other observable inputs are categorized as Level 2 measurements under the accounting guidance.

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As of June 30, 2014, the carrying value of the senior debt issued by the PEAKS Trust in the initial aggregate principal amount of $300,000 (the PEAKS Senior Debt) was $190,871 and the estimated fair value was approximately $205,400. As of June 30, 2013, the carrying value of the PEAKS Senior Debt was $227,678 and the estimated fair value was approximately $227,400. The fair value of the PEAKS Senior Debt was estimated using the income approach with estimated discounted cash flows. We utilized inputs that were unobservable in determining the estimated fair value of the PEAKS Senior Debt. The significant input used in determining the estimated fair value was the discount rate utilized for both credit and liquidity purposes. Fair value measurements that utilize significant unobservable inputs are categorized as Level 3 measurements under the accounting guidance.

5. Equity Compensation

The stock-based compensation expense and related income tax benefit recognized in our Condensed Consolidated Statements of Income in the periods indicated were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Stock-based compensation expense	$ 2,311	$ 2,301	$ 4,862	$ 5,394
Income tax (benefit)	$ (890)	$ (886)	$ (1,872)	$ (2,077)

We did not capitalize any stock-based compensation cost in the three or six months ended June 30, 2014 or 2013.

As of June 30, 2014, we estimated that pre-tax compensation expense for unvested stock-based compensation grants in the amount of approximately $15,000, net of estimated forfeitures, will be recognized in future periods. This expense will be recognized over the remaining service period applicable to the grantees which, on a weighted-average basis, is approximately 2.0 years.

The stock options granted, forfeited, exercised and expired in the period indicated were as follows:

	Six Months Ended June 30, 2014				
	# of Shares	Weighted Average Exercise Price	Aggregate Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (1)
Outstanding at beginning of period	1,332,448	$ 81.77	$ 108,955		
Granted	168,500	$ 27.94	4,708		
Forfeited	(10,334)	$ 30.29	(313)		
Exercised	0	$ 0	0		
Expired	(322,441)	$ 70.87	(22,853)		
Outstanding at end of period	1,168,173	$ 77.47	$ 90,497	2.7	$ 0
Exercisable at end of period	862,165	$ 93.85	$ 80,911	2.3	$ 0

(1) The aggregate intrinsic value of the stock options was calculated by identifying those stock options that had a lower exercise price than the closing market price of our common stock on June 30, 2014 and multiplying the difference between the closing market price of our common stock and the exercise price of each of those stock options by the number of shares subject to those stock options that were outstanding or exercisable, as applicable.

The following table sets forth information regarding the stock options granted and exercised in the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Shares subject to stock options granted	0	154,000	168,500	154,000
Weighted average grant date fair value per share	$ 0	$ 9.16	$ 12.62	$ 9.16
Shares subject to stock options exercised	0	0	0	0
Intrinsic value of stock options exercised	$ 0	$ 0	$ 0	$ 0
Proceeds received from stock options exercised	$ 0	$ 0	$ 0	$ 0
Tax benefits realized from stock options exercised	$ 0	$ 0	$ 0	$ 0

The intrinsic value of a stock option is the difference between the fair market value of the stock and the option exercise price.

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The fair value of each stock option grant was estimated on the date of grant using the following assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Risk-free interest rates	Not applicable	0.7%	1.32%	0.7%
Expected lives (in years)	Not applicable	4.6	4.7	4.6
Volatility	Not applicable	60%	55%	60%
Dividend yield	Not applicable	None	None	None

The following table sets forth the number of restricted stock units (RSUs) that were granted, forfeited and vested in the period indicated:

	Six Months Ended June 30, 2014	
	# of RSUs	Weighted Average Grant Date Fair Value
Unvested at beginning of period	737,844	$ 39.96
Granted	273,356	$ 27.79
Forfeited	(119,419)	$ 16.40
Vested	(52,020)	$ 70.04
Unvested at end of period	839,761	$ 37.49