CONSOLIDATED TOMOKA LAND CO
Form 10-Q
May 03, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

¨ **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 01-11350

CONSOLIDATED-TOMOKA LAND CO.

(Exact name of registrant as specified in its charter)

Florida	**59-0483700**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1530 Cornerstone Blvd., Suite 100 Daytona Beach, Florida	**32117**
(Address of principal executive offices)	**(Zip Code)**

(386) 274-2202

(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 ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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 accelerated filer, smaller reporting company, and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class of Common Stock Outstanding

April 29, 2013

$1.00 par value 5,850,192

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED BALANCE SHEETS

	(Unaudited) March 31, 2013	December 31, 2012
ASSETS		
Cash and Cash Equivalents	$ 1,429,630	$ 1,301,739
Restricted Cash	888,150	
Refundable Income Tax	765,225	239,720
Land and Development Costs	27,150,497	27,848,525
Intangible Assets Net	6,369,095	4,527,426
Assets Held for Sale		3,433,500
Other Assets	8,671,630	8,254,399
	45,274,227	45,605,309
Property, Plant, and Equipment:		
Land, Timber, and Subsurface Interests	15,210,501	15,194,901
Golf Buildings, Improvements, and Equipment	2,945,387	2,879,263
Income Properties, Land, Buildings, and Improvements	153,836,295	132,202,887
Other Furnishings and Equipment	912,021	906,441
Total Property, Plant, and Equipment	172,904,204	151,183,492
Less, Accumulated Depreciation and Amortization	(12,379,354)	(12,091,901)
Property, Plant, and Equipment Net	160,524,850	139,091,591
TOTAL ASSETS	$ 205,799,077	$ 184,696,900
LIABILITIES		
Accounts Payable	$ 246,086	$ 440,541
Accrued Liabilities	6,662,555	6,972,343
Accrued Stock-Based Compensation	414,620	265,311
Pension Liability	1,230,701	1,317,683
Deferred Income Taxes Net	33,006,809	32,357,505
Notes Payable and Line of Credit	49,148,158	29,126,849
TOTAL LIABILITIES	90,708,929	70,480,232
Commitments and Contingencies		
SHAREHOLDERS EQUITY		
Common Stock 25,000,000 shares authorized; $1 par value, 5,850,192 shares issued and 5,835,558 shares outstanding at March 31, 2013; 5,847,036 shares issued and 5,832,402 shares outstanding at December 31, 2012	5,750,625	5,726,136
Treasury Stock, at cost 14,634 shares held at March 31, 2013 and December 31, 2012	(453,654)	(453,654)
Additional Paid In Capital	7,450,969	6,939,023
Retained Earnings	103,579,688	103,242,643

Accumulated Other Comprehensive Loss	(1,237,480)	(1,237,480)
TOTAL SHAREHOLDERS EQUITY	115,090,148	114,216,668
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 205,799,077	$ 184,696,900

See Accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Revenues		
Income Properties	$ 3,154,668	$ 2,190,511
Real Estate Operations	338,348	1,065,667
Golf Operations	1,464,685	1,329,579
Other Income	97,677	42,668
Total Revenues	5,055,378	4,628,425
Direct Cost of Revenues		
Income Properties	(229,509)	(144,404)
Real Estate Operations	(121,478)	(164,818)
Golf Operations	(1,407,629)	(1,461,227)
Other Income	(31,369)	(71,558)
Total Direct Cost of Revenues	(1,789,985)	(1,842,007)
General and Administrative Expenses	(1,753,564)	(1,423,648)
Depreciation and Amortization	(772,516)	(537,408)
Gain on Disposition of Assets		85,000
Total Operating Expenses	(4,316,065)	(3,718,063)
Operating Income	739,313	910,362
Interest Income	166	
Interest Expense	(296,668)	(150,229)
Loss on Early Extinguishment of Debt		(245,726)
Income from Continuing Operations Before Income Tax Expense	442,811	514,407
Income Tax Expense	(165,753)	(196,257)
Income from Continuing Operations	277,058	318,150
Income from Discontinued Operations (Net of Tax)	59,987	176,251
Net Income	$ 337,045	$ 494,401
Per Share Information:		
Basic and Diluted		
Income from Continuing Operations	$ 0.05	$ 0.06
Income from Discontinued Operations (Net of Tax)	0.01	0.03
Net Income	$ 0.06	$ 0.09

Dividends Declared and Paid	$	$

See Accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended	
	March 31, 2013	March 31, 2012
Net Income	$ 337,045	$ 494,401
Total Other Comprehensive Income, Net of Tax		
Total Comprehensive Income	$ 337,045	$ 494,401

See Accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Unaudited)

	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders Equity
Balance December 31, 2012	$ 5,726,136	$ (453,654)	$ 6,939,023	$ 103,242,643	$ (1,237,480)	$ 114,216,668
Net Income				337,045		337,045
Exercise of Stock Options	5,989		171,864			177,853
Vested Restricted Stock	18,500		101,032			119,532
Stock Compensation Expense from Restricted Stock Grants and Equity Classified Stock Options			239,050			239,050
Balance March 31, 2013	$ 5,750,625	$ (453,654)	$ 7,450,969	$ 103,579,688	$ (1,237,480)	$ 115,090,148

See Accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Cash Flow from Operating Activities:		
Net Income	$ 337,045	$ 494,401
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Depreciation and Amortization	778,046	537,808
Gain on Disposition of Property, Plant, and Equipment and Intangible Assets	(54,179)	(85,000)
Loss on Disposition of Assets Held for Sale	26,367	
Deferred Income Taxes	649,304	14,681
Non-Cash Compensation	444,416	250,025
Decrease (Increase) in Assets:		
Refundable Income Taxes	(424,473)	399,905
Land and Development Costs	(4,799)	(32,772)
Other Assets	(458,094)	(419,541)
Increase (Decrease) in Liabilities:		
Accounts Payable	(194,455)	58,123
Accrued Liabilities and Accrued Stock Based Compensation	291,349	119,860
Income Taxes Payable		(704,485)
Net Cash Provided By Operating Activities	1,390,527	633,005
Cash Flow From Investing Activities:		
Acquisition of Property, Plant, and Equipment	(25,709,940)	(9,484)
Acquisition of Intangible Assets	(2,183,538)	
Increase in Restricted Cash	(888,150)	
Proceeds from Disposition of Property, Plant, and Equipment, Net	3,935,547	85,000
Proceeds from Disposition of Assets Held for Sale, Net	3,407,133	
Net Cash Provided By (Used In) Investing Activities	(21,438,948)	75,516
Cash Flow from Financing Activities:		
Proceeds from Notes Payable and Line of Credit	57,700,000	17,115,849
Payments on Notes Payable and Line of Credit	(37,678,691)	(16,155,714)
Cash Proceeds from Exercise of Stock Options	155,003	2,089
Net Cash Provided By Financing Activities	20,176,312	962,224
Net Increase in Cash	127,891	1,670,745
Cash, Beginning of Year	1,301,739	6,174
Cash, End of Period	$ 1,429,630	$ 1,676,919

Supplemental Disclosure of Cash Flows:

Income tax refunds totaling $39,406 and $227,500 were received in the first three months of 2013 and 2012, respectively.

Interest totaling $229,169 and $115,440 was paid in the first three months of 2013 and 2012, respectively.

During March 2013, the Company settled a legal proceeding resulting in a non-cash conveyance of certain acreage in the amount of $702,827. This non-cash transaction was reflected on the balance sheet as a decrease in land and development costs and accrued liabilities.

See Accompanying Notes to Consolidated Financial Statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1. DESCRIPTION OF BUSINESS AND PRINCIPLES OF INTERIM STATEMENTS

Description of Business

The terms us, we, our, and the Company as used in this report refer to Consolidated-Tomoka Land Co. (CTLC) together with our consolidat subsidiaries.

We are a diversified real estate operating company. We own and manage commercial real estate properties in seven states in the U.S., and two self-developed properties located in Florida. As of March 31, 2013, we own 36 single-tenant income producing properties, in seven states, with more than 790,000 square feet of gross leasable space. We also own and manage a land portfolio of over 10,000 acres in Florida, a majority of which is located within and forms a substantial portion of the western boundary of the City of Daytona Beach. Our land is well located along both sides of Interstate 95 and near central Florida s Interstate 4 corridor. We also have a golf course operation, which consists of the LPGA International golf club, lease property for billboards, have agricultural operations, which are managed by a third party and consist of leasing land for hay production, timber harvesting, and hunting leases, and own and manage subsurface oil, gas, and mineral interests. The results of our agricultural and subsurface leasing operations are included in Other Income and Real Estate Operations on our consolidated statement of operations, respectively.

More than 50% of the Company s income property portfolio and all of the land, golf operations, agriculture operations, and subsurface interests are in the State of Florida.

Interim Financial Information

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited consolidated financial statements do not include all of the information and notes required by accounting principles in the United States of America for complete financial statements and should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2012, which provides a more complete understanding of the Company s accounting policies, financial position, operating results, business properties and other matters. The unaudited consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary to present fairly the financial position of the Company and the results of operations for the interim periods.

Certain items in the prior year s consolidated statement of operations have been reclassified to conform to the presentation of statements of operations for the three months ended March 31, 2013. Specifically, the amounts of depreciation and amortization expense, and interest expense have been segregated into separate line items whereas previously these amounts were included in direct cost of revenues and general and administrative expense, respectively. These reclassifications had no effect on the current year and prior year presentation of income (loss) from continuing operations before taxes.

The results of operations for the first three months ended March 31, 2013 are not necessarily indicative of results to be expected for the year ending December 31, 2013.

NOTE 1. DESCRIPTION OF BUSINESS AND PRINCIPLES OF INTERIM STATEMENTS (continued)

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Any real estate entities or properties included in the consolidated financial statements have been consolidated only for the periods that such entities or properties were owned or under control by us. All significant inter-company balances and transactions have been eliminated in the consolidated financial statements.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Because of the adverse market conditions that currently exist in the Florida and national real estate markets, and financial and credit markets, it is possible that the estimates and assumptions, most notably with the Company s investment in income properties and its pension liability, could change materially during the time span associated with the continued weakened state of the real estate and financial markets.

Fair Value of Financial Instruments

The largest carrying amounts of the Company s financial assets and liabilities, including cash and cash equivalents, restricted cash, accounts receivable, and accounts payable at March 31, 2013 and December 31, 2012, approximate fair value because of the short maturity of these instruments. The carrying amount of the Company s notes payable approximates fair value at March 31, 2013 and December 31, 2012, since the notes are at floating rates or fixed rates, which approximate current market rates for notes with similar risks and maturities.

Intangible Assets

As of March 31, 2013, the in-place lease value totaled $6,369,095, net of accumulated amortization of $2,934,139. At December 31, 2012 the in-place lease value totaled $4,527,426, net of accumulated amortization of $3,443,102. Amortization expense for the three months ended March 31, 2013 and 2012 was $167,509 and $97,407, respectively.

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NOTE 2. DISCONTINUED OPERATIONS

In May 2012, we sold our income property in Asheville, North Carolina, which was leased to Northern Tool and Equipment, for $3.925 million. We also sold our income property in Powder Springs, Georgia, which was leased to Walgreen Co., for $4.09 million. A gain of $78,455 was recognized on the sale of the two properties in the quarter ended June 30, 2012. Discontinued operations for the three months ended March 31, 2012, includes the operating results of these two income properties that were sold in the quarter ended June 30, 2012.

In the fourth quarter of 2012, one income property, the PNC Bank in Alpharetta, Georgia, was classified as held for sale as we had commenced an active program to market and sell the property and determined there was a high probability that a sales transaction would occur within one year. A property classified as held for sale is carried at the lower of carrying cost or estimated fair value, less estimated cost to sell, and is reported as discontinued operations with its respective results of operations classified as income from discontinued operations on our consolidated statements of operations. In accordance with FAS ASC 360, depreciation was discontinued once the property was classified as held for sale.

On February 14, 2013, the Company sold its interest in the 4,128 square-foot building under lease to PNC Bank, located in Alpharetta, Georgia. The sales price on this transaction amounted to $3,550,000. The property was presented as assets held for sale on the consolidated balance sheet at December 31, 2012; and as of December 31, 2012, the value was written down to reflect the contractual sales price resulting in a loss of $426,794. The property s operating results were included in discontinued operations for each of the three month periods ended March 31, 2013 and 2012.

On February 21, 2013, the Company sold its interest in the 13,824 square-foot building under lease to CVS, located in Clermont, Florida. The sales price on this transaction amounted to $4,050,000. As of December 31, 2012, no contract was in place, therefore, this property was not presented as assets held for sale on the balance sheet at December 31, 2012. Upon the sale in February 2013, the property s operating results were included in discontinued operations for each of the three month periods ended March 31, 2013 and 2012.

Following is a summary of income from discontinued operations for the periods:

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Leasing Revenue and Other Income	$ 75,377	$ 307,300
Costs and Other Expenses	(5,530)	(20,363)
Income from Operations	69,847	286,937
Gain on Sale of Property	27,812	
Income before Income Tax Expense	97,659	286,937
Income Tax Expense	(37,672)	(110,686)
Income from Discontinued Operations	$ 59,987	$ 176,251

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NOTE 3. COMMON STOCK AND EARNINGS PER SHARE

Basic earnings per common share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share is based on the assumption of the conversion of stock options at the beginning of each period using the treasury stock method at average cost for the periods.

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Income Available to Common Shareholders:		
Income from Continuing Operations	$ 277,058	$ 318,150
Discontinued Operations	59,987	176,251
Net Income	$ 337,045	$ 494,401
Weighted Average Shares Outstanding	5,717,139	5,725,086
Common Shares Applicable to Stock Options Using the Treasury Stock Method		
Total Shares Applicable to Diluted Earnings Per Share	5,717,139	5,725,086
Basic and Diluted Per Share Information:		
Income from Continuing Operations	$ 0.05	$ 0.06
Discontinued Operations	0.01	0.03
Net Income	$ 0.06	$ 0.09

The effect of 32,480 and 139,151 potentially dilutive securities were not included for the three months ended March 31, 2013 and 2012, respectively, as the effect would be antidilutive.

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NOTE 4. PENSION PLAN

The Company maintains a Defined Benefit Pension Plan (the Pension Plan) for all employees who have attained the age of 21 and completed one year of service. The pension benefits are based primarily on years of service and the average compensation for the five highest consecutive years during the final ten years of employment. The benefit formula generally provides for a life annuity benefit.

Effective December 31, 2011, the Company amended its Pension Plan to freeze participants benefits with no future accruals after that date. Any current or future employee who was not a participant of the Pension Plan on December 31, 2011 will not be eligible to enter the Pension Plan. Although the Pension Plan will remain active with no new entrants and no future accruals, the Company s contribution level is expected to be reduced over time. In January 2013, the Company made a cash contribution to the Pension Plan of $84,600, related to the 2012 Pension Plan year. There are no quarterly contribution requirements for 2013.

NOTE 5. NOTES PAYABLE AND LINE OF CREDIT

On February 27, 2012, the Company entered into a Credit Agreement (the Agreement) with Bank of Montreal (BMO) as Administrative Agent, Letter of Credit Issuer, and a Lender. The Agreement consisted of a $46.0 million revolving credit facility with a maturity date of February 27, 2015 (the Credit Facility). The indebtedness outstanding under the Agreement accrued interest, prior to the amendments of the Agreement, at a rate ranging from the 30-day London Interbank Offer Rate (LIBOR) plus 175 basis points to LIBOR plus 250 basis points based on the total balance outstanding under the Credit Facility as a percentage of total asset value of the Company. The Credit Facility is unsecured and is guaranteed by certain subsidiaries of the Company.

The Credit Facility replaced the $25.0 million revolving credit facility with SunTrust Bank, which had a maturity date of June 27, 2014. Approximately $9.7 million of the initial disbursement of the Credit Facility was used to pay off the outstanding balance of the existing credit facility with SunTrust Bank and approximately $5.6 million was used to pay off the term loan with SunTrust Bank, which had a maturity date of July 1, 2012. The indebtedness under the prior SunTrust revolving credit facility and term loan were secured by certain assets of the Company. The Company wrote off $245,726 of deferred loan costs in the first quarter of 2012 as a result of this early extinguishment of debt.

The Agreement contains restrictive covenants, customary for this type of transaction, including, but not limited to, limitations on the Company s ability to: (a) incur indebtedness; (b) make certain investments; (c) incur certain liens; (d) engage in certain affiliate transactions; and (e) engage in certain major transactions such as mergers. In addition, the Company is subject to various financial maintenance covenants, including, but not limited to, a maximum indebtedness ratio, a maximum secured indebtedness ratio, and a minimum fixed charge coverage ratio. The Agreement also contains affirmative covenants and events of default, including, but not limited to, a cross default to the Company s other indebtedness and the occurrence of a change of control. The Company s failure to comply with these covenants or the occurrence of an event of default could result in acceleration of the Company s debt and other financial obligations under the Agreement.

In September 2012, the Company entered into the First Amendment to the Credit Agreement (Amendment) and added a second participating lender to the Agreement. This Amendment, under the accordion feature, expanded the credit facility to $62.0 million. The Amendment also modified some of the restrictive covenants contained in the original Agreement. These changes to the restrictive covenants are not considered material in nature. On February 14, 2013, the Company added a third participant lender to the Agreement and pursuant to the accordion feature, the Credit Facility was expanded to $66.0 million.

On March 29, 2013, the Company entered into the second amendment to the Credit Agreement (Second Amendment). The Second Amendment, expands the accordion feature allowing the Company to increase the facility up to $125 million and reduces the interest rate by 25 basis points, which now ranges from LIBOR plus 150 basis points up to LIBOR plus 225 basis points, based on the Company s debt level. The Second Amendment also extends the maturity date to March 31, 2016 from February 27, 2015, and reduces the limitations on the Company s ability to make certain investments.

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NOTE 5. NOTES PAYABLE AND LINE OF CREDIT (continued)

On February 22, 2013, the Company closed on a $7.3 million loan with UBS Real Estate Securities Inc., secured by its interest in the two-building office complex leased to Hilton Resorts Corporation which was acquired on January 31, 2013. The new mortgage loan matures in February 2018, carries a fixed rate of interest of 3.655% per annum, and requires payments of interest only prior to maturity. The proceeds from the borrowing were used to pay-down a portion of the Company s outstanding balance on its revolving credit facility.

On March 8, 2013, the Company closed on a $23.1 million loan with Bank of America, N.A., secured by its interest in fourteen income properties. The new mortgage loan matures in April 2023, carries a fixed rate of 3.67% per annum, and requires payments of interest only prior to maturity. The net proceeds from the borrowing were used to pay-down a portion of the Company s outstanding balance on its revolving credit facility.

Notes payable and line of credit consist of the following:

	March 31, 2013	
	Total	Due Within One Year
$66 Million Credit Facility	$ 18,748,158	$
UBS Note Payable	7,300,000	
BOA Note Payable	23,100,000	
	$ 49,148,158	$

Payments applicable to reduction of principal amounts will be required as follows:

Year Ending December 31,	Amount
2013	$
2014	
2015	
2016	18,748,158
2017 and Thereafter	30,400,000
	$ 49,148,158

At March 31, 2013, there was approximately $47.3 million of available borrowing capacity on the existing $66.0 million credit facility, subject to the borrowing base requirements.

For the first three months of 2013, interest expense was $296,668 with $299,169 paid during the period. For the first three months of 2012, interest expense was $150,229 with $115,440 paid during the period. No interest was capitalized during the first three months of 2013 or 2012.

The Company is in compliance with all of its debt covenants as of March 31, 2013 and December 31, 2012.

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NOTE 6. STOCK-BASED COMPENSATION

EQUITY-CLASSIFIED STOCK COMPENSATION

Market Condition Restricted Shares

Under the 2010 Equity Incentive Plan (the 2010 Plan), the Company granted to certain employees non-vested restricted stock which vest upon the achievement of certain market conditions, including the Company s total shareholder return as compared to the total shareholder return of a certain peer group during a five-year performance period.

The Company used a Monte Carlo simulation pricing model to determine the fair value of its market condition based awards. The determination of the fair value of market condition-based awards is affected by the stock price as well as assumptions regarding a number of other variables. These variables include expected stock price volatility over the requisite performance term of awards, the relative performance of the Company s stock price, and shareholder returns to those companies in its peer group, annual dividends, and a risk-free interest rate assumption. Compensation cost is recognized regardless of the achievement of the market conditions, provided the requisite service period is met.

A summary of activity during the three months ended March 31, 2013, is presented below:

Market Condition Non-Vested Restricted Shares	Shares	Wgt. Avg. Grant Date Fair Value
Outstanding at December 31, 2012	7,900	$ 23.13
Granted		
Vested		
Forfeited	(2,833)	23.13
Outstanding at March 31, 2013	5,067	$ 23.13

As of March 31, 2013, there was $61,917 of unrecognized compensation cost, adjusted for estimated forfeitures, related to market condition non-vested restricted shares, which will be recognized over a weighted average period of 2.6 years.

Non-Qualified Stock Option Awards

Pursuant to the Non-Qualified Stock Option Award Agreements between the Company and Mr. Albright and Mr. Patten, Mr. Albright and Mr. Patten were granted options to purchase 50,000 and 10,000 shares of Company common stock, respectively, under the 2010 Plan with an exercise price per share equal to the fair market value on their respective grant dates of August 1, 2011 and April 16, 2012. One-third of the options will vest on each of the first, second, and third anniversaries of their respective grant dates, provided they are an employee of the Company on those dates. In addition, any unvested portion of the options will vest upon a change in control. The options expire on the earliest of: (a) the tenth anniversary of the grant date; (b) twelve months after the employee s death or termination for disability; or (c) thirty days after the termination of employment for any reason other than death or disability.

On January 23, 2013 the Company granted options to purchase 51,000 shares of the Company s common stock under the 2010 Plan to certain employees of the Company, including 10,000 shares to Mr. Patten, with an exercise price of $34.95 per share, which was equal to the fair market value at the date of grant. One-third of these options will vest on each of the first, second, and third anniversaries of the grant date, provided the recipient is an employee of the Company on those dates. Any unvested portion of the options will vest upon a change in control. The options expire on the earliest of: (a) the fifth anniversary of the grant date; (b) twelve months after the employee s death or termination for disability; or (c) thirty days after the termination of employment for any reason other than death or disability.

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NOTE 6. STOCK-BASED COMPENSATION (continued)

A summary of the activity for both awards during the three months ended March 31, 2013, is presented below:

	Shares	Wtd. Avg. Ex. Price	Wtd. Avg. Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2012	60,000	$ 28.97		
Granted	51,000	34.95		
Exercised	(5,000)	28.90		
Expired				
Outstanding at March 31, 2013	106,000	$ 31.85	6.71	$ 784,150
Exercisable at March 31, 2013	11,667	$ 28.90	8.33	$ 120,753

The weighted-average grant-date fair value of options granted during the three months ended March 31, 2013 was $6.58. The total intrinsic value of options exercised during the three months ended March 31, 2013 was $44,950. As of March 31, 2013, there was $580,744 of unrecognized compensation related to non-qualified, non-vested stock option awards, which will be recognized over a period of 2.2 years.

Market Condition Inducement Grant of Restricted Shares

Inducement grants of 96,000 and 17,000 restricted shares of the Company s common stock were awarded to Mr. Albright and Mr. Patten on August 1, 2011 and April 16, 2012, respectively. Mr. Albright s restricted shares were granted outside of the 2010 Plan while Mr. Patten s restricted shares were awarded under the 2010 Plan. The Company filed a registration statement with the Securities and Exchange Commission on Form S-8 to register the resale of Mr. Albright s restricted stock award. The restricted shares will vest in six increments based upon the price per share of the Company s common stock during the term of their employment (or within sixty days after termination of employment by the Company without cause), meeting or exceeding the target trailing sixty-day average closing prices ranging from $36.00 per share for the first increment to $65.00 per share for the final increment. If any increment of the restricted shares fails to satisfy the applicable stock price condition prior to six years from the grant date, that increment of the restricted shares will be forfeited.

During the three months ended March 31, 2013, the closing price per share of the Company s common stock on a sixty-day trading average reached $36.00, and as a result, 16,000 shares and 2,500 shares vested for Mr. Albright and Mr. Patten, respectively.

A summary of the activity for both awards during the three months ended March 31, 2013, is presented below:

	Shares	Wtd. Avg. Fair Value
Outstanding at December 31, 2012	113,000	$ 18.40
Granted		
Vested	(18,500)	23.89
Forfeited		
Outstanding at March 31, 2013	94,500	$ 17.33

As of March 31, 2013, there was $504,155 of unrecognized compensation cost, adjusted for estimated forfeitures, related to market condition non-vested restricted shares, which will be recognized over a weighted average period of 0.8 years.

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NOTE 6. STOCK-BASED COMPENSATION (continued)

LIABILITY-CLASSIFIED STOCK COMPENSATION

The Company previously had a stock option plan (the 2001 Plan) pursuant to which 500,000 shares of the Company s common stock could be issued. The 2001 Plan expired in 2010, and no new stock options may be issued under the 2001 Plan. Under the 2001 Plan, both stock options and stock appreciation rights were issued in prior years and such issuances were deemed to be liability-classified awards under the Share-Based Payment Topic of FASB ASC.

A summary of share option activity under the 2001 Plan for the three months ended March 31, 2013 is presented below:

Stock Options

	Shares	Wtd. Avg. Ex. Price	Wtd. Avg. Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2012	80,800	$ 52.43		
Granted				
Exercised	(2,000)	20.12		
Expired	(13,000)	67.41		
Outstanding at March 31, 2013	65,800	$ 50.45	4.12	$ 155,894
Exercisable at March 31, 2013	65,800	$		