

LINCOLN EDUCATIONAL SERVICES CORP
Form 10-Q
May 07, 2012

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

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

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 000-51371

LINCOLN EDUCATIONAL SERVICES CORPORATION

(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction of incorporation or organization)

57-1150621
(IRS Employer Identification No.)

200 Executive Drive, Suite 340
West Orange, NJ
(Address of principal executive offices)

07052
(Zip Code)

(973) 736-9340
(Registrant's telephone number, including area code)

No change
(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 No

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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

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

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

As of May 3, 2012, there were 22,804,111 shares of the registrant’s common stock outstanding.

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

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FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In thousands, except share amounts)
 (Unaudited)

	March 31, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$27,606	\$ 26,524
Accounts receivable, less allowance of \$17,027 and \$20,194 at March 31, 2012 and December 31, 2011, respectively	17,229	19,696
Inventories	2,964	3,051
Prepaid income taxes	14,092	11,743
Deferred income taxes, net	8,439	8,725
Prepaid expenses and other current assets	2,135	2,919
Total current assets	72,465	72,658
PROPERTY, EQUIPMENT AND FACILITIES - At cost, net of accumulated depreciation and amortization of \$129,085 and \$122,274 at March 31, 2012 and December 31, 2011, respectively	175,300	180,014
OTHER ASSETS:		
Noncurrent receivables, less allowance of \$1,587 and \$1,664 at March 31, 2012 and December 31, 2011, respectively	5,312	5,572
Deferred income taxes, net	1,520	1,877
Goodwill	97,371	97,371
Other assets, net	4,384	4,759
Total other assets	108,587	109,579
TOTAL	\$356,352	\$ 362,251

See notes to unaudited condensed consolidated financial statements.

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LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

(Unaudited)

(Continued)

	March 31, 2012	December 31, 2011
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and lease obligations	\$450	\$ 481
Unearned tuition	41,772	43,242
Accounts payable	14,069	15,468
Accrued expenses	12,869	11,296
Other short-term liabilities	392	631
Total current liabilities	69,552	71,118
NONCURRENT LIABILITIES:		
Long-term debt and lease obligations, net of current portion	35,924	36,027
Pension plan liabilities, net	6,648	6,594
Accrued rent	8,677	8,365
Other long-term liabilities	1,073	1,122
Total liabilities	121,874	123,226
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value - 10,000,000 shares authorized, no shares issued and outstanding at March 31, 2012 and December 31, 2011	-	-
Common stock, no par value - authorized 100,000,000 shares at March 31, 2012 and December 31, 2011, issued and outstanding 28,613,615 shares at March 31, 2012 and 28,548,274 shares at December 31, 2011	141,377	141,377
Additional paid-in capital	19,632	19,535
Treasury stock at cost - 5,910,541 shares at March 31, 2012 and December 31, 2011, respectively	(82,860)	(82,860)
Retained earnings	163,045	167,689
Accumulated other comprehensive loss	(6,716)	(6,716)
Total stockholders' equity	234,478	239,025
TOTAL	\$356,352	\$ 362,251

See notes to unaudited condensed consolidated financial statements.

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LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (In thousands, except per share amounts)
 (Unaudited)

	Three Months Ended March 31,	
	2012	2011
REVENUE	\$104,871	\$145,358
COSTS AND EXPENSES:		
Educational services and facilities	51,809	59,016
Selling, general and administrative	57,187	67,888
Gain on sale of assets	(30)	(21)
Total costs & expenses	108,966	126,883
OPERATING (LOSS) INCOME	(4,095)	18,475
OTHER:		
Interest income	2	3
Interest expense	(1,314)	(1,092)
Other income	8	6
(LOSS) INCOME BEFORE INCOME TAXES	(5,399)	17,392
(BENEFIT) PROVISION FOR INCOME TAXES	(2,344)	7,036
NET (LOSS) INCOME	\$(3,055)	\$10,356
Basic		
Net (loss) income per share	\$(0.14)	\$0.47
Diluted		
Net (loss) income per share	\$(0.14)	\$0.46
Weighted average number of common shares outstanding:		
Basic	22,137	21,943
Diluted	22,137	22,418

See notes to unaudited condensed consolidated financial statements.

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LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
 (In thousands)
 (Unaudited)

	March 31,	
	2012	2011
Net (loss) income	\$(3,055) \$10,356
Other comprehensive (loss) income	-	-
Employee pension plan adjustments, net of taxes	-	-
Comprehensive (loss) income	\$(3,055) \$10,356

See notes to unaudited condensed consolidated financial statements.

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LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
 (In thousands, except share amounts)
 (Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
BALANCE - January 1, 2012	28,548,274	\$141,377	\$19,535	\$(82,860)	\$167,689	\$ (6,716)	\$239,025
Net loss	-	-	-	-	(3,055)	-	(3,055)
Stock-based compensation expense							
Restricted stock	86,000	-	834	-	-	-	834
Stock options	-	-	72	-	-	-	72
Tax deficiency of stock-based awards and cancels	-	-	(624)	-	-	-	(624)
Net share settlement for equity-based compensation	(20,659)	-	(185)	-	-	-	(185)
Cash dividend of \$0.07 per common share	-	-	-	-	(1,589)	-	(1,589)
BALANCE - March 31, 2012	28,613,615	\$141,377	\$19,632	\$(82,860)	\$163,045	\$ (6,716)	\$234,478

See notes to unaudited condensed consolidated financial statements.

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LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

Three Months Ended
March 31,
2012 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Net (loss) income	\$(3,055)	\$10,356
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	7,063	6,908
Deferred income taxes	643	385
Gain on disposition of assets	(30)	(21)
Provision for doubtful accounts	3,682	6,743
Stock-based compensation expense	906	1,316
Tax benefit associated with exercise of share based payments	-	(91)
Deferred rent	432	248
(Increase) decrease in assets:		
Accounts receivable	(955)	4,333
Inventories	87	23
Prepaid income taxes	(2,973)	528
Prepaid expenses and current assets	751	(502)
Other assets	296	(74)
Increase (decrease) in liabilities:		
Accounts payable	(919)	(1,806)
Accrued expenses	1,453	(11,735)
Pension plan liabilities	(196)	(63)
Unearned tuition	(1,470)	(1,176)
Other liabilities	(38)	(333)
Total adjustments	8,732	4,683
Net cash provided by operating activities	5,677	15,039
CASH FLOWS FROM INVESTING ACTIVITIES:		
Restricted cash	-	323
Capital expenditures	(2,722)	(11,860)
Proceeds from sale of property and equipment	35	26
Net cash used in investing activities	(2,687)	(11,511)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on borrowings	-	(20,000)
Proceeds from exercise of stock options	-	113
Tax benefit associated with exercise of share based payments	-	91
Net share settlement for equity-based compensation	(185)	(359)
Dividends paid	(1,589)	(5,605)
Principal payments under capital lease obligations	(134)	(99)
Net cash used in financing activities	(1,908)	(25,859)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,082	(22,331)
CASH AND CASH EQUIVALENTS—Beginning of period	26,524	65,995
CASH AND CASH EQUIVALENTS—End of period	\$27,606	\$43,664

See notes to unaudited condensed consolidated financial statements.

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LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

(Continued)

Three Months Ended
March 31,
2012 2011

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:

Interest	\$1,059	\$972
Income taxes	\$53	\$6,221

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING
ACTIVITIES:

Liabilities accrued for the purchase of fixed assets	\$219	\$2,904
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See notes to unaudited condensed consolidated financial statements.

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LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2012 AND 2011

(In thousands, except share and per share amounts and unless otherwise stated)
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activities – Lincoln Educational Services Corporation and Subsidiaries (the “Company”) is a provider of diversified career-oriented post-secondary education. The Company offers recent high school graduates and working adults degree and diploma programs in five principal areas of study: Health Science, Automotive Technology, Skilled Trades, Business and Information Technology and Hospitality Services. The Company currently has 46 schools in 17 states across the United States.

Basis of Presentation – The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Certain information and footnote disclosures normally included in annual financial statements have been omitted or condensed pursuant to such regulations. These statements, which should be read in conjunction with the December 31, 2011 consolidated financial statements of the Company, reflect all adjustments, consisting solely of normal recurring adjustments, necessary to present fairly the consolidated financial position, results of operations, and cash flows for such periods. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2012.

The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates in the Preparation of Financial Statements – The preparation of financial statements in conformity with GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the period. On an ongoing basis, the Company evaluates the estimates and assumptions, including those related to revenue recognition, bad debts, fixed assets, goodwill and other intangible assets, stock-based compensation, income taxes, benefit plans and certain accruals and contingencies. Actual results could differ from those estimates.

Stock-Based Compensation – The accompanying condensed consolidated statements of operations include stock-based compensation expense of approximately \$0.9 million and \$1.3 million for the three months ended March 31, 2012 and 2011, respectively. The Company uses the Black-Scholes valuation model for stock options and utilizes straight-line amortization of compensation expense over the requisite service period of the grant. The Company makes an estimate of expected forfeitures at the time options are granted.

New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (“FASB”) issued an amendment to an existing accounting standard which requires companies to present net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. In addition, in December 2011, the FASB issued an amendment to an existing accounting standard which defers the requirement to present components of reclassifications of other comprehensive income on the face of the income statement. The Company early adopted this amendment and has presented statements of comprehensive income. Comprehensive (loss) income is impacted

by employee pension plan adjustments, net of taxes.

In September 2011, the FASB issued a revised standard on testing for goodwill impairment. The revised standard allows an entity to first assess qualitatively whether it is necessary to perform step one of the two-step annual goodwill impairment test. An entity is required to perform step one only if the entity concludes that it is more likely than not that a reporting unit's fair value is less than its carrying amount, a likelihood of more than 50 percent. An entity can choose to perform the qualitative assessment on none, some, or all of its reporting units. Moreover, an entity can bypass the qualitative assessment for any reporting unit in any period and proceed directly to step one of the impairment test, and then perform the qualitative assessment in any subsequent period. The revised standard is effective for the Company for annual and interim goodwill impairment tests performed beginning after January 1, 2012 for the Company. The Company does not believe this guidance will have any impact on its consolidated financial position, results of operations, or cash flows.

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2.WEIGHTED AVERAGE COMMON SHARES

The weighted average number of common shares used to compute basic and diluted (loss) income per share for the three months ended March 31, 2012 and 2011 was as follows:

	Three Months Ended March 31,	
	2012	2011
Basic shares outstanding	22,137,061	21,942,918
Dilutive effect of stock options	-	475,129
Diluted shares outstanding	22,137,061	22,418,047

For the three months ended March 31, 2012, options to acquire 78,301 shares were excluded from the above table because the Company reported a net loss for the quarter and therefore their impact on reported earnings per share would have been antidilutive. For the three months ended March 31, 2011, options to acquire 313,333 shares were excluded from the above table because they have an exercise price that is greater than the average market price of the Company's common stock and therefore their impact on reported earnings per share would have been antidilutive.

On April 29, 2011, the Company issued certain employees performance shares that vest when certain performance conditions are met. These performance conditions were not met as of December 31, 2011 with respect to the Company's performance shares. As a result, the Company has determined these shares to be contingently issuable. Accordingly, 134,131 shares of outstanding performance shares have been excluded from the computation of diluted earnings per share for the three months ended March 31, 2012. Refer to Note 5 for more information on performance shares.

3.GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill at March 31, 2012 is as follows:

Goodwill	\$ 115,303
Accumulated impairment losses	(17,932)
	\$97,371

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There have been no changes in the carrying amount of goodwill from December 31, 2011 through March 31, 2012.

The Company reviews intangible assets for impairment when indicators of impairment exist. Annually, or more frequently if necessary, the Company evaluates goodwill and intangible assets with indefinite lives for impairment, with any resulting impairment reflected as an operating expense. Intangible assets, which are included in other assets in the accompanying condensed consolidated balance sheets, consist of the following:

	Indefinite Trade Name	Trade Name	Accreditation	Curriculum	Non-compete	Total
Gross carrying amount at December 31, 2011	\$ 180	\$ 509	\$ 1,268	\$ 1,150	\$ 1,980	\$ 5,087
Gross carrying amount at March 31, 2012	180	509	1,268	1,150	1,980	5,087
Accumulated amortization at December 31, 2011	-	262	-	620	1,952	2,834
Amortization	-	23	-	29	28	80
Accumulated amortization at March 31, 2012	-	285	-	649	1,980	2,914
Net carrying amount at March 31, 2012	\$ 180	\$ 224	\$ 1,268	\$ 501	\$ -	\$ 2,173
Weighted average amortization period (years)	Indefinite	6	Indefinite	10	3	

Amortization of intangible assets was approximately \$0.1 million and \$0.2 million for the three months ended March 31, 2012 and 2011, respectively.

The following table summarizes the estimated future amortization expense:

Year Ending December 31,	
Remainder of 2012	\$ 153
2013	181
2014	160
2015	91
2016	47