LINCOLN EDUCATIONAL SERVICES CORP
Form 10-Q
August 09, 2007

U. S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

or

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

Commission File Number 000-51371

LINCOLN EDUCATIONAL SERVICES CORPORATION
(Exact name of registrant as specified in its charter)

New Jersey	**57-1150621**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

200 Executive Drive, Suite 340
West Orange, NJ 07052
(Address of principal executive offices)

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

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 ý No o

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

Large accelerated filer o Accelerated filer ý Non-accelerated filer o

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

As of August 7, 2007, there were 25,504,966 shares of the registrant's common stock outstanding.

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

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FOR THE QUARTER ENDING JUNE 30, 2007

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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)

	June 30, 2007	December 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,697	$ 6,461
Restricted cash	1,458	920
Accounts receivable, less allowance of $11,685 and $11,456 at June 30, 2007 and December 31, 2006, respectively	19,844	20,473
Inventories	2,052	2,438
Deferred income taxes	4,720	4,827
Prepaid expenses and other current assets	3,117	3,049
Prepaid income taxes	7,865	-
Total current assets	44,753	38,168
PROPERTY, EQUIPMENT AND FACILITIES - At cost, net of accumulated depreciation and amortization of $76,582 and $72,870 at June 30, 2007 and December 31, 2006, respectively	98,091	94,368
OTHER ASSETS:		
Deferred finance charges	924	1,019
Pension plan assets, net	1,129	1,107
Deferred income taxes, net	3,794	2,688
Goodwill	82,860	84,995
Noncurrent accounts receivable, less allowance of $117 and $84 at June 30, 2007 and December 31, 2006, respectively	1,053	723
Other assets, net	3,202	3,148
Total other assets	92,962	93,680
TOTAL	$ 235,806	$ 226,216

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)

	June 30, 2007	December 31, 2006
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and lease obligations	$ 94	$ 91
Unearned tuition	25,316	33,150
Accounts payable	13,833	12,118
Accrued expenses	9,666	10,335
Advance payments of federal funds	297	557
Income taxes payable	-	2,860
Total current liabilities	49,206	59,111
NONCURRENT LIABILITIES:		
Long-term debt and lease obligations, net of current portion	31,222	9,769
Other long-term liabilities	5,969	5,553
Total liabilities	86,397	74,433
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value - 10,000,000 shares authorized, no shares issued and outstanding at June 30, 2007 and December 31, 2006	-	-
Common stock, no par value - authorized 100,000,000 shares at June 30, 2007 and December 31, 2006, issued and outstanding 25,495,536 shares at June 30, 2007 and 25,450,695 shares at December 31, 2006	120,293	120,182
Additional paid-in capital	8,809	7,695
Deferred compensation	(648)	(467)
Retained earnings	23,366	26,784
Accumulated other comprehensive loss	(2,411)	(2,411)
Total stockholders' equity	149,409	151,783
TOTAL	$ 235,806	$ 226,216

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 June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
REVENUES	$ 76,276	$ 75,363	$ 154,418	$ 150,876
COSTS AND EXPENSES:				
Educational services and facilities	34,752	32,609	70,504	64,746
Selling, general and administrative	40,854	40,955	85,603	79,623
Gain on sale of assets	(15)	-	(15)	-
Impairment of goodwill and long-lived assets	3,005	-	3,005	-
Total costs & expenses	78,596	73,564	159,097	144,369
OPERATING (LOSS) INCOME	(2,320)	1,799	(4,679)	6,507
OTHER:				
Interest income	35	306	83	777
Interest expense	(670)	(570)	(1,154)	(1,044)
Other income	-	54	-	70
(LOSS) INCOME BEFORE INCOME TAXES	(2,955)	1,589	(5,750)	6,310
(BENEFIT) PROVISION FOR INCOME TAXES	(1,255)	623	(2,432)	2,582
NET (LOSS) INCOME	$ (1,700)	$ 966	$ (3,318)	$ 3,728
Earnings (loss) per share - basic:				
Net (loss) income available to common stockholders	$ (0.07)	$ 0.04	$ (0.13)	$ 0.15
Earnings (loss) per share - diluted:				
Net (loss) income available to common stockholders	$ (0.07)	$ 0.04	$ (0.13)	$ 0.14
Weighted average number of common shares outstanding:				
Basic	25,483	25,303	25,471	25,245
Diluted	25,483	26,084	25,471	26,061

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)
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Deferred Compensation	Accumulated Other Comprehensive Loss	Retained Earnings	Total
BALANCE - December 31, 2006	25,451	$ 120,182	$ 7,695	$ (467)	$ (2,411)	$ 26,784	$ 151,783
Net loss	-	-	-	-	-	(3,318)	(3,318)
Initial adoption of FIN 48	-	-	-	-	-	(100)	(100)
Issuance of restricted stock and amortization of deferred compensation	23	-	320	(181)	-	-	139
Stock-based compensation expense	-	-	749	-	-	-	749
Tax benefit of options exercised	-	-	45	-	-	-	45
Exercise of stock options	22	111	-	-	-	-	111
BALANCE - June 30, 2007	25,496	$ 120,293	$ 8,809	$ (648)	$ (2,411)	$ 23,366	$ 149,409

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)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (3,318)	$ 3,728
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	7,768	7,136
Amortization of deferred finance charges	95	97
Deferred income taxes	(999)	(1,469)
Gain on disposal of assets	(15)	-
Impairment of goodwill and long-lived assets	3,005	-
Fixed asset donations	-	(16)
Provision for doubtful accounts	7,980	7,446
Stock-based compensation expense and issuance of restricted stock	888	757
Tax benefit associated with exercise of stock options	-	359
Deferred rent	336	618
(Increase) decrease in assets:		
Accounts receivable	(7,681)	(8,544)
Inventories	386	(330)
Prepaid expenses and current assets	(662)	(1,893)
Other assets	(267)	40
Increase (decrease) in liabilities:		
Accounts payable	1,714	(2,863)
Other liabilities	(278)	(1,062)
Income taxes payable/prepaid	(10,725)	(6,602)
Accrued expenses	(688)	1,035
Unearned tuition	(7,834)	(9,831)
Total adjustments	(6,977)	(15,122)
Net cash used in operating activities	(10,295)	(11,394)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Restricted cash	(538)	(2,069)
Capital expenditures	(11,543)	(8,643)
Acquisitions, net of cash acquired	-	(32,759)
Net cash used in investing activities	(12,081)	(43,471)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	21,500	10,000
Payments on borrowings	-	(55)
Proceeds from exercise of stock options	111	272
Tax benefit associated with exercise of stock options	45	-
Principal payments under capital lease obligations	(44)	(142)
Net cash provided by financing activities	21,612	10,075
NET DECREASE IN CASH AND CASH EQUIVALENTS	(764)	(44,790)
CASH AND CASH EQUIVALENTS—Beginning of period	6,461	50,257

CASH AND CASH EQUIVALENTS—End of period	$	5,697	$	5,467

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)

	Six Months Ended June 30,			
		2007		**2006**
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid during the year for:				
Interest	$	1,000	$	932
Income taxes	$	9,287	$	10,294
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:				
Cash paid during the year for:				
Fair value of assets acquired	$	-	$	48,987
Net cash paid for the acquisition		-		(39,973)
Liabilities assumed	$	-	$	9,014

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
SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(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 diversified provider of 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: Automotive Technology, Health Sciences (which includes programs for licensed practical nursing (LPN), medical administrative assistants, medical assistants, pharmacy technicians, medical coding and billing and dental assisting), Business and Information Technology, Hospitality Services (spa and culinary) and Skilled Trades. The Company currently has 37 campuses 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, when read in conjunction with the December 31, 2006 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 and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2007.

The unaudited condensed consolidated financial statements as of June 30, 2007 and the condensed consolidated financial statements as of December 31, 2006 and for the three and six months ended June 30, 2007 and 2006 include the accounts of the Company. 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. Actual results could differ from those estimates.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 159 “*The Fair Value Option for Financial Assets and Financial Liabilities*”, providing companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS No. 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. Generally accepted accounting principles have required different measurement attributes for different assets and liabilities that can create artificial volatility in earnings. SFAS No. 159 helps to mitigate this type of accounting-induced volatility by enabling companies to report related assets and liabilities at fair value, which would likely reduce the need for companies to comply with detailed rules for hedge accounting. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the Company's choice to use fair value on its earnings. It also requires entities to display the fair value of those assets and liabilities for which the Company has chosen to use fair value on the face of the balance sheet. SFAS No. 159 will be effective for the Company as of January 1, 2008. The Company is currently evaluating the impact of the adoption of this Statement on its consolidated financial statements.

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In September 2006, the FASB issued SFAS No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)."* Among other items, SFAS No. 158 requires recognition of the overfunded or underfunded status of an entity's defined benefit postretirement plan as an asset or liability in the financial statements, requires the measurement of defined benefit postretirement plan assets and obligations as of the end of the employer's fiscal year, and requires recognition of the funded status of defined benefit postretirement plans in other comprehensive income. The Company adopted SFAS No. 158 on December 31, 2006. The incremental effects of applying SFAS No. 158 on the Company's December 31, 2006 consolidated financial statements, on a line by line basis, are as follows:

	Balances Before Adoption of Statement 158	**Adjustments**	**Balances After Adoption of Statement 158**
Pension plan assets, net	$ 5,169	$ (4,062)	$ 1,107
Deferred income taxes	1,037	1,651	2,688