LINCOLN EDUCATIONAL SERVICES CORP
Form 10-Q
May 06, 2016

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, 2016

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<br>(State or other jurisdiction of incorporation or organization) | 57-1150621<br>(IRS Employer Identification No.) |

| | |
|---|---|
| 200 Executive Drive, Suite 340<br>West Orange, NJ<br>(Address of principal executive offices) | 07052<br>(Zip Code) |

(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 No

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 4, 2016, there were 23,932,912 shares of the registrant’s common stock outstanding.

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

INDEX TO FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016

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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, 2016 | December 31, 2015 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 20,166 | $ 38,420 |
| Restricted cash | 7,371 | 7,362 |
| Accounts receivable, less allowance of $9,255 and $9,126 at March 31, 2016 and December 31, 2015, respectively | 10,709 | 9,613 |
| Inventories | 1,096 | 1,043 |
| Prepaid income taxes and income taxes receivable | 330 | 349 |
| Assets held for sale | 46,319 | 45,911 |
| Prepaid expenses and other current assets | 3,190 | 2,566 |
| Total current assets | 89,181 | 105,264 |
| PROPERTY, EQUIPMENT AND FACILITIES - At cost, net of accumulated depreciation and amortization of $121,938 and $122,037 at March 31, 2016 and December 31, 2015, respectively | 60,476 | 66,508 |
| OTHER ASSETS: | | |
| Noncurrent restricted cash | 20,266 | 15,259 |
| Noncurrent receivables, less allowance of $734 and $797 at March 31, 2016 and December 31, 2015, respectively | 4,749 | 4,993 |
| Goodwill | 14,536 | 14,536 |
| Other assets, net | 1,092 | 1,190 |
| Total other assets | 40,643 | 35,978 |
| TOTAL | $ 190,300 | $ 207,750 |

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)
(Continued)
(Unaudited)

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Current portion of term loan | $ 10,000 | $ 10,000 |
| Current portion of capital lease obligations | - | 114 |
| Current portion of finance obligation | 5,033 | - |
| Unearned tuition | 16,100 | 21,390 |
| Accounts payable | 13,324 | 12,863 |
| Accrued expenses | 12,767 | 12,157 |
| Liabilities held for sale | 16,760 | 14,236 |
| Other short-term liabilities | 239 | 686 |
| Total current liabilities | 74,223 | 71,446 |
| | | |
| NONCURRENT LIABILITIES: | | |
| Long-term loan | 31,287 | 32,124 |
| Long-term capital lease obligations | - | 3,785 |
| Long-term finance obligation | - | 9,672 |
| Pension plan liabilities | 5,543 | 5,549 |
| Accrued rent | 3,824 | 4,177 |
| Total liabilities | 114,877 | 126,753 |
| | | |
| COMMITMENTS AND CONTINGENCIES | | |
| | | |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, no par value - 10,000,000 shares authorized, no shares issued and outstanding at March 31, 2016 and December 31, 2015 | - | - |
| Common stock, no par value - authorized: 100,000,000 shares at March 31, 2016 and December 31, 2015; issued and outstanding: 29,666,077 shares at March 31, 2016 and 29,727,555 shares at December 31, 2015 | 141,377 | 141,377 |
| Additional paid-in capital | 27,564 | 27,292 |
| Treasury stock at cost - 5,910,541 shares at March 31, 2016 and December 31, 2015 | (82,860) | (82,860) |
| (Accumulated deficit) retained earnings | (3,808) | 2,260 |
| Accumulated other comprehensive loss | (6,850) | (7,072) |
| Total stockholders' equity | 75,423 | 80,997 |
| TOTAL | $ 190,300 | $ 207,750 |

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, | |
|---|---|---|
| | 2016 | 2015 |
| REVENUE | $ 43,443 | $ 47,674 |
| COSTS AND EXPENSES: | | |
| Educational services and facilities | 23,144 | 22,914 |
| Selling, general and administrative | 27,012 | 29,639 |
| Gain on sale of assets | (389) | (43) |
| Total costs & expenses | 49,767 | 52,510 |
| OPERATING LOSS | (6,324) | (4,836) |
| OTHER: | | |
| Interest income | 64 | 9 |
| Interest expense | (1,572) | (1,488) |
| Other income | 1,753 | 223 |
| LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | (6,079) | (6,092) |
| PROVISION FOR INCOME TAXES | 50 | 50 |
| LOSS FROM CONTINUING OPERATIONS | (6,129) | (6,142) |
| INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES | 61 | (741) |
| NET LOSS | $ (6,068) | $ (6,883) |
| Basic | | |
| Loss per share from continuing operations | $ (0.26) | $ (0.27) |
| Gain (loss) per share from discontinued operations | 0.00 | (0.03) |
| Net loss per share | $ (0.26) | $ (0.30) |
| Diluted | | |
| Loss per share from continuing operations | $ (0.26) | $ (0.27) |
| Gain (loss) per share from discontinued operations | 0.00 | (0.03) |
| Net loss per share | $ (0.26) | $ (0.30) |
| Weighted average number of common shares outstanding: | | |
| Basic | 23,351 | 23,056 |
| Diluted | 23,351 | 23,056 |

See notes to unaudited condensed consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2016 | 2015 |
| Net loss | $ (6,068) | $ (6,883) |
| Other comprehensive income | | |
| Employee pension plan adjustments | 222 | 231 |
| Comprehensive loss | $ (5,846) | $ (6,652) |

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 Deficit) | Accumulated Other Comprehensive Loss | Total |
|---|---|---|---|---|---|---|---|
| BALANCE - January 1, 2016 | 29,727,555 | $141,377 | $27,292 | $(82,860) | $2,260 | $(7,072) | 80,997 |
| Net loss | - | - | - | - | (6,068) | - | (6,068) |
| Employee pension plan adjustments | - | - | - | - | - | 222 | 222 |
| Stock-based compensation expense | | | | | | | |
| Restricted stock | (26,200) | - | 373 | - | - | - | 373 |
| Net share settlement for equity-based compensation | (35,278) | - | (101) | - | - | - | (101) |
| BALANCE - March 31, 2016 | 29,666,077 | $141,377 | $27,564 | $(82,860) | $(3,808) | $(6,850) | $75,423 |

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Treasury Stock | Retained Earnings (Accumulated Deficit) | Accumulated Other Comprehensive Loss | Total |
|---|---|---|---|---|---|---|---|
| BALANCE - January 1, 2015 | 29,933,086 | $141,377 | $26,350 | $(82,860) | $5,610 | $(7,467) | $83,010 |
| Net loss | - | - | - | - | (6,883) | - | (6,883) |
| Employee pension plan adjustments, net of taxes | - | - | - | - | - | 231 | 231 |
| Stock-based compensation expense | | | | | | | |
| Restricted stock | (168,432) | - | 299 | - | - | - | 299 |
| Stock options | - | - | 33 | - | - | - | 33 |
| Net share settlement for equity-based compensation | (9,208) | - | (21) | - | - | - | (21) |
| BALANCE - March 31, 2015 | 29,755,446 | $141,377 | $26,661 | $(82,860) | $(1,273) | $(7,236) | $76,669 |

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, 2016 | 2015 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | $(6,068) | $(6,883) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 3,427 | 3,667 |
| Amortization of deferred finance charges | 215 | 204 |
| Gain on disposition of assets | (391) | (47) |
| Gain on capital lease termination | (1,677) | - |
| Fixed asset donation | (58) | (9) |
| Provision for doubtful accounts | 3,300 | 3,278 |
| Stock-based compensation expense | 373 | 332 |
| Deferred rent | (212) | (187) |
| (Increase) decrease in assets: | | |
| Accounts receivable | (4,734) | (5,861) |
| Inventories | (29) | (168) |
| Prepaid income taxes and income taxes receivable | 19 | 52 |
| Prepaid expenses and current assets | (570) | (464) |
| Other assets and charges | (444) | (418) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 208 | (302) |
| Accrued expenses | 2,738 | (50) |
| Unearned tuition | (5,035) | 583 |
| Other liabilities | (231) | (32) |
| Total adjustments | (3,101) | 578 |
| Net cash used in operating activities | (9,169) | (6,305) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (501) | (759) |
| Proceeds from sale of property and equipment | 428 | 80 |
| Net cash used in investing activities | (73) | (679) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on borrowings | (386) | (32,500) |
| Reclassifications of payments of borrowings from restricted cash | - | 30,000 |
| Reclassifications of proceeds of borrowings from restricted cash | (5,016) | - |
| Payment of deferred finance fees | (645) | - |
| Proceeds from borrowings | - | 2,500 |
| Net share settlement for equity-based compensation | (101) | (21) |
| Principal payments under capital lease obligations | (2,864) | (114) |
| Net cash used in financing activities | (9,012) | (135) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (18,254) | (7,119) |
| CASH AND CASH EQUIVALENTS—Beginning of period | 38,420 | 12,299 |
| CASH AND CASH EQUIVALENTS—End of period | $20,166 | $5,180 |

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, | |
|---|---|---|
| | 2016 | 2015 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid during the year for: | | |
| Interest | $ 1,473 | $ 1,483 |
| Income taxes | $ 78 | $ - |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Liabilities accrued for or noncash purchases of fixed assets | $ 602 | $ 48 |

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, 2016 AND 2015
(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 its subsidiaries (collectively, the "Company") provide diversified career-oriented post-secondary education to recent high school graduates and working adults. The Company currently operates 30 schools in 15 states and offers programs in automotive technology, skilled trades (which include HVAC, welding and computerized numerical control and electronic systems technology, among other programs), healthcare services (which include nursing, dental assistant, medical administrative assistant and pharmacy technician, among other programs), hospitality services (which include culinary, therapeutic massage, cosmetology and aesthetics) and business and information technology (which includes information technology and criminal justice programs). The schools operate under the Lincoln Technical Institute, Lincoln College of Technology, Lincoln College of New England, Lincoln Culinary Institute, and Euphoria Institute of Beauty Arts and Sciences brand names. Most of the campuses serve major metropolitan markets and each typically offers courses in multiple areas of study. Five of the campuses are destination schools, which attract students from across the United States and, in some cases, from abroad. The Company's other campuses primarily attract students from their local communities and surrounding areas. All of the campuses are nationally or regionally accredited and are eligible to participate in federal financial aid programs by the U.S. Department of Education (the "DOE") and applicable state education agencies and accrediting commissions which allow students to apply for and access federal student loans as well as other forms of financial aid.

In the first quarter of 2015, the Company reorganized its operations into three reportable business segments: (a) Transportation and Skilled Trades, (b) Healthcare and Other Professions, and (c) Transitional which refers to businesses that are currently being phased out. In November, 2015, the Company's Board of Directors approved a plan for the Company to divest 17 of the 18 schools included in its Healthcare and Other Professions business segment and, then, in December, 2015, the Board of Directors approved a plan to cease operations of the remaining school in this segment located in Hartford, Connecticut. The Hartford school is scheduled to close in the fourth quarter of 2016. Divestiture of the Healthcare and Other Professions business segment marks a shift in the Company's business strategy intended to enable the Company to focus its energy and resources predominantly on Transportation and Skilled Trades though some other programs will continue to be available at some campuses. The results of operations of the 17 campuses included in the Healthcare and Other Professions segment that are being divested are reflected as discontinued operations in the condensed consolidated financial statements.

Liquidity—For the last several years, the Company and the proprietary school sector have faced deteriorating earnings. Government regulations have negatively impacted earnings by making it more difficult for potential students to obtain loans, which, when coupled with the overall economic environment, have hindered potential students from enrolling in post-secondary schools. In light of these factors, the Company has incurred significant operating losses as a result of lower student population. Despite these events, the Company believes that its likely sources of cash should be sufficient to fund operations for the next twelve months. At March 31, 2016, the Company's sources of cash primarily included cash from operations, and cash and cash equivalents of $47.8 million (of which $27.6 million is restricted). The Company is also continuing to take actions to improve cash flow by aligning its cost structure to its student population.

In addition to the current sources of capital that will provide short term liquidity, the Company plans to sell approximately $29.6 million in assets net of liabilities, which are currently classified as held for sale and are expected to be sold within one year from the date of classification of which up to $10 million will be required to pay down debt.

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 ("SEC") and in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial statements. 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, 2015 consolidated financial statements and related disclosures of the Company included in the Annual Report on Form 10-K filed with the SEC on March 10, 2016, reflect all adjustments, consisting of normal recurring adjustments and impairments 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, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2016.

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

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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, impairments, fixed assets, income taxes, benefit plans and certain accruals. Actual results could materially differ from those estimates.

New Accounting Pronouncements – In March 2016, the Financial Accounting Standard Board ("FASB") issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting. ASU No. 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences. Under the new guidance, all excess tax benefits and tax deficiencies should be recognized as income tax expense or benefit in the income statement. Further, tax benefits should be recognized regardless of whether the benefits reduce taxes payable in the current period. Under the previous U.S. GAAP, excess tax benefits are recognized in additional paid-in capital; tax deficiencies are recognized either as an offset to accumulated excess tax benefits, if any, or in the income statement. Also, under the previous U.S. GAAP, excess tax benefits are not recognized until the deduction reduces taxes payable. The new guidance is effective for the Company on January 1, 2017, with earlier application permitted in any interim or annual period. The Company is currently evaluating the impact of ASU No. 2016-09, however it is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB amended the Accounting Standards Codification ("ASC") by creating ASC Topic 842, Leases. ASC Topic 842 requires a lessee to record a right-of-use asset and a lease liability for all leases with a lease term greater than 12 months. The main difference between previous U.S.GAAP and ASC Topic 842 is the recognition under ASC 842 of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S.GAAP. The new guidance, effective for the Company on January 1, 2019, with earlier application permitted, is being evaluated to determine if it will have a material impact on the Company's consolidated financial statements.

In November 2015, the FASB issued guidance which simplifies the balance sheet classification of deferred taxes. The guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. This guidance is effective for public business entities for annual periods, and for interim periods within those periods, beginning after December 15, 2016 with early adoption permitted. The Company early adopted as of December 31, 2015. It does not have a material impact on the Company's consolidated results of operations, financial condition or the financial statement disclosures.

In April 2015, the FASB issued accounting guidance related to the presentation of debt issuance costs in the balance sheet as a direct reduction from the carrying amount of the debt liability, consistent with debt discounts, rather than as an asset. Amortization of debt issuance costs will continue to be reported as interest expense. Debt issuance costs related to revolving credit arrangements, however, will continue to be presented as an asset and amortized ratably over the term of the arrangement. In August 2015, the FASB issued accounting guidance related to the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements which clarifies that companies may continue to present unamortized debt issuance costs associated with line of credit arrangements as an asset. These pronouncements are effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, with early adoption permitted. The guidance became effective for the Company on January 1, 2016 and did not have a material impact on the Company's consolidated financial statements.

In January 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-01, Income Statement – Extraordinary and Unusual Items. ASU 2015-01 simplifies income statement classification by removing the concept of extraordinary items from U.S. GAAP. Under the existing guidance, an entity is required to separately disclose extraordinary items, net of tax, in the income statement after income from continuing operations if an event or transaction is of unusual nature and occurs infrequently. This separate, net-of-tax presentation (and corresponding earnings per share impact) will no longer be allowed. The existing requirement to separately present items that are of unusual nature or occur infrequently on a pre-tax basis within income from continuing operations has been retained. The new guidance also requires similar separate presentation of items that are both unusual and infrequent. The guidance, effective for the Company on January 1, 2016, with earlier application permitted as of the beginning of the fiscal year of adoption, did not have a material impact on the Company's consolidated financial statements.

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In August 2014, the FASB issued a new standard – ASU No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern - that will explicitly require management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. According to the new standard, substantial doubt about an entity's ability to continue as a going concern exists if it is probable that the entity will be unable to meet its obligations as they become due within one year after the date the entity's financial statements are issued. In order to determine the specific disclosures, if any, that would be required, management will need to assess if substantial doubt exists, and, if so, whether its plans will alleviate such substantial doubt. The new standard requires assessment each annual and interim period and will be effective for the Company on December 31, 2016 with earlier application permitted.  The Company does not believe this guidance will have any impact on its consolidated financial statements.

In May 2014, the FASB issued a new standard related to revenue recognition, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new standard will replace most of the existing revenue recognition standards in GAAP.  In July 2015, the FASB voted to defer the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date.  In August 2015, the FASB issued ASU2015-14 wherein it was approved to defer the effective date of revenue standard ASU 2014-09 by one year for all entities and permits early adoptions on a limited basis.  The new standard can be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the change recognized at the date of the initial application. The Company is assessing the potential impact of the new standard on financial reporting and has not yet selected a transition method.

Stock-Based Compensation – The Company measures the value of stock options on the grant date at fair value, using the Black-Scholes option valuation model.  The Company amortizes the fair value of stock options, net of estimated forfeitures, utilizing straight-line amortization of compensation expense over the requisite service period of the grant.

The Company measures the value of service and performance-based restricted stock on the fair value of a share of common stock on the date of the grant. The Company amortizes the fair value of service-based restricted stock utilizing straight-line amortization of compensation expense over the requisite service period of the grant.

The Company amortizes the fair value of the performance-based restricted stock based on the determination of the probable outcome of the performance condition.  If the performance condition is expected to be met, then the Company amortizes the fair value of the number of shares expected to vest utilizing straight-line basis over the requisite performance period of the grant.  However, if the associated performance condition is not expected to be met, then the Company does not recognize the stock-based compensation expense.

Income Taxes – The Company accounts for income taxes in accordance with FASB Accounting Standards Code ("ASC") Topic 740, "Income Taxes" ("ASC 740"). This statement requires an asset and liability approach for measuring deferred taxes based on temporary differences between the financial statement and tax bases of assets and liabilities existing at each balance sheet date using enacted tax rates for years in which taxes are expected to be paid or recovered.

In accordance with ASC 740, the Company assesses its deferred tax asset to determine whether all or any portion of the asset is more likely than not unrealizable.  A valuation allowance is required to be established or maintained when, based on currently available information, it is more likely than not that all or a portion of a deferred tax asset will not be realized. In accordance with ASC 740, the Company's assessment considers whether there has been sufficient income in recent years and whether sufficient income is expected in future years in order to utilize the deferred tax asset. In evaluating the realizability of deferred income tax assets, the Company considered, among other things, historical levels of income, expected future income, the expected timing of the reversals of existing temporary reporting differences, and the expected impact of tax planning strategies that may be implemented to prevent the potential loss of future income tax benefits. Significant judgment is required in determining the future tax consequences of events that have been recognized in the Company's consolidated financial statements and/or tax returns. Differences between anticipated and actual outcomes of these future tax consequences could have a material impact on the Company’s consolidated financial position or results of operations. Changes in, among other things, income tax legislation, statutory income tax rates, or future income levels could materially impact the Company’s valuation of income tax assets and liabilities and could cause the Company’s income tax provision to vary significantly among financial reporting periods.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. During the three months ended March 31, 2016 and 2015, the Company did not have any interest and penalties expense associated with uncertain tax positions.

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2. WEIGHTED AVERAGE COMMON SHARES

The weighted average number of common shares used to compute basic and diluted loss per share for the three months ended March 31, 2016 and 2015 was as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2016 | 2015 |
| Basic shares outstanding | 23,351,192 | 23,055,803 |
| Dilutive effect of stock options | - | - |
| Diluted shares outstanding | 23,351,192 | 23,055,803 |

For the three months ended March 31, 2016 and 2015, options to acquire 220,194 and 96,968 shares, respectively, were excluded from the above table because the Company reported a net loss for each quarter and therefore their impact on reported loss per share would have been antidilutive. For the three months ended March 31, 2016 and 2015, options to acquire 316,525 and 758,338 shares, respectively, 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 loss per share would have been antidilutive.

In 2013 and 2014, the Company issued performance shares that vest when certain performance conditions are satisfied. As of March 31, 2016, these performance conditions were not met for most of these shares. As a result, the Company has determined most of these shares to be contingently issuable. Accordingly, 73,827 shares of outstanding performance shares have been excluded from the computation of diluted earnings per share for the three months ended March 31, 2016, and 226,106 shares have been excluded for the three months ended March 31, 2015. Refer to Note 6 for more information on performance shares.

3. DISCONTINUED OPERATIONS

On November 3, 2015, the Board of Directors approved a plan for the Company to divest 17 of the 18 schools included in its Healthcare and Other Professions segment. The planned divestiture of the Company's Healthcare and Other Professions segment constitutes a strategic shift for the Company. The results of operations of these campuses are reflected as discontinued operations in the condensed consolidated financial statements. Implementation of the plan will result in the Company's operations focused solely on the Transportation and Skilled Trades segment.

The results of operations at these 17 campuses for the three months ended March 31, 2016 and March 31, 2015 were as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2016 | 2015 |
| Revenue | $ 27,201 | $ 29,046 |
| | | |
| Income (loss) before income tax | 61 | (741 ) |
| Income tax benefit | | - |
| Net income (loss) from discontinued operations | $ 61 | $ (741 ) |

On December 3, 2015, the Board of Directors approved a plan to cease operations at the Hartford, Connecticut school which is scheduled to close in the fourth quarter of 2016 and is included in the Transitional segment.

4. GOODWILL AND LONG-LIVED ASSETS

The Company reviews long-lived assets for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. There was no long-lived asset impairment during the three months ended March 31, 2016 and 2015.

The Company reviews goodwill and 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. The Company concluded that as of March 31, 2016 and 2015 there was no indicator of potential impairment and, accordingly, the Company did not test goodwill for impairment.

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The carrying amount of goodwill at March 31, 2016 and 2015 is as follows:

| | Gross Goodwill Balance | Accumulated Impairment Losses | Net Goodwill Balance |
|---|---|---|---|
| Balance as of January 1, 2016 | $108,417 | $ (93,881) | $ 14,536 |
| Adjustments | - | - | - |
| Balance as of March 31, 2016 | $108,417 | $ (93,881) | $ 14,536 |

| | Gross Goodwill Balance | Accumulated Impairment Losses | Net Goodwill Balance |
|---|---|---|---|
| Balance as of January 1, 2015 | $115,872 | $ (93,665) | $22,207 |
| Adjustments | - | - | - |
| Balance as of March 31, 2015 | $115,872 | $ (93,665) | $22,207 |

Intangible assets, which are included in other assets in the accompanying condensed consolidated balance sheets, consist of the following:

| | Trade Name | Curriculum | Total |
|---|---|---|---|
| Gross carrying amount at December 31, 2015 | 310 | 160 | 470 |
| Adjustments | - | - | - |
| Gross carrying amount at March 31, 2016 | 310 | 160 | 470 |