



*Celebrating 65 Years of Student Success*

CAREERS THAT SHAPE AMERICA



**LINCOLN**  
EDUCATIONAL SERVICES

2010 ANNUAL REPORT

# LINCOLN EDUCATIONAL SERVICES: *CAREERS THAT SHAPE AMERICA*

Now celebrating its 65th year as one of the nation's leading providers of career education, Lincoln Educational Services ("Lincoln"), is committed to providing students with the quality, hands-on career training and education needed to succeed.

From its earliest beginnings in Newark, New Jersey, in 1946, the original Lincoln Technical Institute was at the forefront of technical education, successfully anticipating and implementing specialized training programs returning World War II veterans needed to rejoin America's workforce and obtain the American dream of a successful career.

Initially offering hands-on training in air conditioning and refrigeration, Lincoln expanded its programs in 1948 with an Automotive Mechanics and Automatic Transmission Servicing and Repair program. Continuing to build quality career training programs over the next 40 years, Lincoln was one of the first automotive schools to acquire certification by the National Institute of Automotive Service Excellence.

As the 90s began, Lincoln continued its impressive expansion of campuses nationwide by offering programs in automotive, skilled trades, allied health, business and information technology, and hospitality. In 1994, President George H. W. Bush made a historic visit to Lincoln's Union, N.J. campus where he officially announced plans for new government support of workers' retraining.

Lincoln celebrated its golden anniversary in 1996 with a total of 14 campuses across the country, an event commemorated by U.S. Senators Bill Bradley and Frank Lautenberg, who wrote letters congratulating Lincoln on 50 successful years. As Lincoln entered into the new century, Lincoln announced its public offering under Lincoln Educational Services and began trading on the NASDAQ Global Market under the ticker symbol "LINC" in 2005.

Its new Center for Automotive Education and Training in Queens, New York was opened during Lincoln's 60th anniversary in 2006, when it partnered with the Greater New York Automobile Dealers' Association. In 2007, Lincoln's first Licensed Practical Nursing program was added to the full range of existing allied health programs. In 2010, Lincoln launched its first fully online associate's and bachelor's degree programs under Lincoln Online.

In 2008, Lincoln acquired Briarwood College in Connecticut, accredited by the New England Association of Schools and Colleges, which offers Bachelor's and Associate's Degree programs, and was renamed Lincoln College of New England. Shortly thereafter in 2009 Lincoln acquired several new schools adding to the bench strength and footprint of Lincoln's programs.

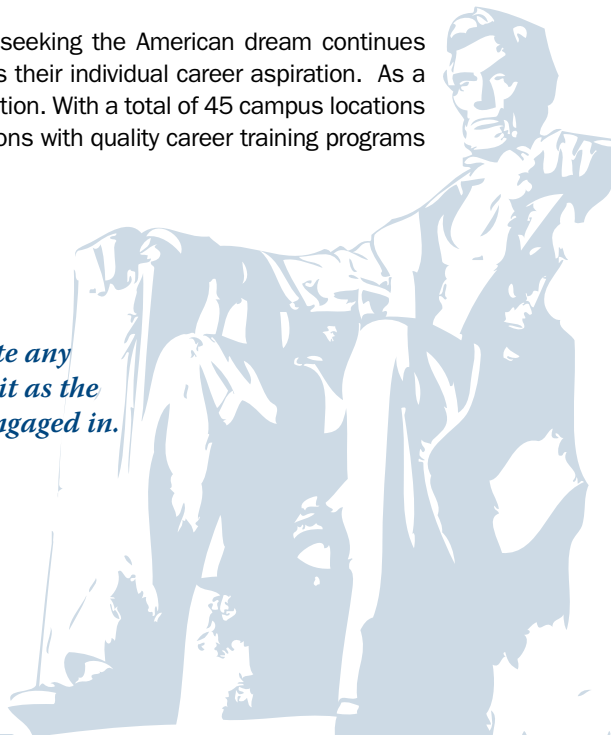
Lincoln's heritage of service to those non-traditional students seeking the American dream continues today. Lincoln has educated and trained students as diverse as their individual career aspiration. As a result, students continue to turn to Lincoln for training and education. With a total of 45 campus locations in 17 states, Lincoln's legacy continues to provide new generations with quality career training programs to help them achieve the American dream.

*Upon the subject of education, not presuming to dictate any plan or system respecting it, I can only say that I view it as the most important subject which we as a people can be engaged in.*

**Abraham Lincoln**

*--March 9, 1832*

*First Political Announcement*





**FELIX RODRIGUEZ**  
*LINCOLN COLLEGE  
 OF NEW ENGLAND GRADUATE*

Felix Rodriguez graduated with a dream of holding a career in public service. He reaped the benefits of his Bachelor of Arts degree in Business and rose through the ranks of the administration within Child Welfare. Felix's commitment and hard work can be seen in his position as Assistant to the Deputy Commissioner of Waterbury, CT. His success within the community has also led him to author a children's book entitled, "Dad, Me, and Muhammad Ali." The Muhammad Ali foundation honored Rodriguez with the addition of his book into the Muhammad Ali Center and Museum Gift Store. "My professor said that I just had to go after my ambitions; I never imagined that I would write this book. I'm so grateful for going to a school like Lincoln College of New England, whose flexibility made studying easier for me to attend as a parent and a working adult."



**MATIE ROMAN**  
*LINCOLN TECHNICAL  
 INSTITUTE GRADUATE*

Matie Roman was affected by the downturn in the economy and lost her job, medical extension benefits and she and her children were evicted from their home. After reaching rock bottom, she realized she wanted to serve and care for others and inquired about the nursing program at Lincoln Technical Institute. Her perseverance and determination followed her through to graduation. After passing the NCLEX-PN exam, Matie obtained her first position as a Pediatric Homecare Nurse. "Without Lincoln and their exceptional skill at teaching adults with busy lives, kids, work, and detrimental circumstances such as mine, I would have not had the opportunity to change my entire life, and my children's lives as well."



**KASHIA CAVE**  
*LINCOLN CULINARY  
 INSTITUTE GRADUATE*

Kashia fulfilled her dream of going to culinary school and graduated from Lincoln Culinary Institute. Her culinary training has impacted the entire Meriden, CT community. Kashia created "My City Kitchen," a program that teaches kids how to cook with nutrition in mind for a healthier lifestyle, which is now incorporated into the Boys and Girls club in her area. Mayor Michael Rohde states: "Kashia came to my office and, within the first thirty seconds, I knew she was for real. She had a passion about her, a spark and a plan." Kashia is fulfilling her dream, "It's because of Lincoln Culinary Institute...This is my dream come true."



**LUIS CASTRO**  
*LINCOLN TECHNICAL  
 INSTITUTE GRADUATE*

Luis was pursuing his degree in automotive training when he found out his grandmother was gravely ill and needed to attend to her miles away. He worked, attended classes, and visited his grandmother in the hospital. The Lincoln staff and instructors supported Luis through this tough time. He never gave up his desire for a better life and worked harder than he has ever worked before in order to graduate. Luis was persistent on working at Prestige Motors in Paramus, NJ. His determination, grades, attendance and attitude ultimately earned him the position of his dreams. "If I didn't come to Lincoln, I don't know what I would be doing right now. I love working with cars."

**1946**



1st Lincoln Technical Institute established in Newark, New Jersey.

1st course offering: to train students to service and install Air Conditioning and Refrigeration equipment.

**1955**



Traveler Training Program established throughout United States by Lincoln for the National Automotive Parts Association.



# LINCOLN

## EDUCATIONAL SERVICES

### Financial Highlights

| Dollars in Thousands, Except Per Share Amounts           | 2010      | 2009      | 2008      | 2007      | 2006      |
|--|-----------|-----------|-----------|-----------|-----------|
| Revenue  | \$639,494 | \$552,536 | \$376,907 | \$327,774 | \$310,630 |
| Total Costs and Expenses                                 | \$516,853 | \$464,218 | \$341,332 | \$301,881 | \$280,012 |
| Operating Income   | \$122,641 | \$ 88,318 | \$ 35,575 | \$ 25,893 | \$ 30,618 |
| Income From Continuing Operations                        | \$ 69,731 | \$ 49,239 | \$ 20,195 | \$ 13,827 | \$ 17,084 |
| Net Income   | \$ 69,731 | \$ 49,239 | \$ 20,195 | \$ 8,340  | \$ 15,552 |
| Earnings Per Common Share From Continuing Operations     |           |           |           |           |           |
| Basic  | \$ 2.86   | \$ 1.87   | \$ 0.80   | \$ 0.54   | \$ 0.67   |
| Diluted  | \$ 2.79   | \$ 1.82   | \$ 0.78   | \$ 0.53   | \$ 0.65   |
| Net Income Per Common Share                              |           |           |           |           |           |
| Basic  | \$ 2.86   | \$ 1.87   | \$ 0.80   | \$ 0.33   | \$ 0.61   |
| Diluted  | \$ 2.79   | \$ 1.82   | \$ 0.78   | \$ 0.32   | \$ 0.60   |
| Cash, Restricted Cash and Marketable Securities          | \$ 66,689 | \$ 46,934 | \$ 15,617 | \$ 3,502  | \$ 7,381  |
| Total Debt   | \$ 56,945 | \$ 57,328 | \$ 10,174 | \$ 15,378 | \$ 9,860  |
| Total Stockholders' Equity                               | \$222,485 | \$218,636 | \$174,949 | \$162,467 | \$151,783 |
| Depreciation and Amortization From Continuing Operations | \$ 26,218 | \$ 24,240 | \$ 17,920 | \$ 15,111 | \$ 13,829 |
| Capital Expenditures                                     | \$ 42,352 | \$ 24,018 | \$ 20,166 | \$ 24,766 | \$ 19,341 |
| Acquisitions, Net of Cash Acquired                       | \$ 0      | \$ 27,552 | \$ 10,520 | \$ 0      | \$ 32,872 |
| Average Enrollment                                       | 31,535    | 27,808    | 20,006    | 17,687    | 17,397    |
| Number of Campuses                                       | 45        | 43        | 36        | 34        | 34        |

### Educational Programs and Areas of Study

#### Automotive

Automotive Technology  
Collision Repair  
Diesel Technology  
Motorcycle Technology

#### Skilled Trades

Electrical Technology  
Electrician  
Electronic Systems Technician  
HVAC  
Welding

#### Health Sciences

Basic X-ray Technician  
Child Development  
Dental Assistant  
Dental Hygiene  
Medical Assistant  
Medical Administrative Assistant  
Medical Coding & Billing  
Mortuary Science  
Nuclear Medicine  
Occupational Therapy Assistant  
Pharmacy Technician  
Phlebotomy  
Practical Nursing  
Surgical Technologist

#### Hospitality

Aesthetics  
Baking and Pastry  
Culinary Arts  
Culinary Management  
Cosmetology  
Hospitality Management  
Italian Culinary Arts  
Massage Therapy

#### Business and IT

Accounting  
Business Management  
Criminal Justice  
Funeral Service Management  
Marketing  
Network Communication & Information Systems  
Paralegal

#### Online Programs

Advanced Medical Coding & Billing  
Business Management  
Criminal Justice  
Graphic Design  
Information Management & Security  
Web Design  
Health Information Technology  
Integrated Marketing Communications

*Lincoln schools offer diploma, certificate, associate's and bachelor's degrees for select programs.*



1965

President Lyndon B. Johnson signed into law the Higher Education Act as part of his "Great Society Domestic Agenda".

1971

J. Warren Davies named first President of National Association of Trade and Technical Schools.

1977

Lincoln has 10 campuses located in NJ, MD, PA, DC, IN, IA, TX and IL.

1991

Lincoln's automotive schools receives the National Institute of Automotive Service Excellence Certification.



# Letter to Shareholders

## Dear Fellow Shareholders:



**Shaun E. McAlmont**  
President and  
Chief Executive Officer

2011 marks Lincoln's 65th year of providing quality education and training to our students in order to position them for lifelong success in their chosen careers. We cannot help but reflect on our long history as a leader in private sector education.

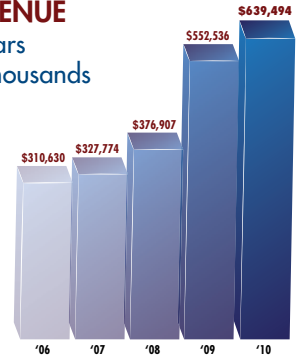
Hundreds of thousands of students have graduated from our institutions over the past six decades, from recent high school graduates and single mothers to first generation college students, displaced workers and veterans. What these students have in common is a shared passion to continue their education and to pursue a rewarding career in health sciences, automotive technology, skilled trades, business and information technology or hospitality services.

We seek to provide our students with a level of service and support that is superior to what they can find at other institutions because we understand the challenges they face as well as their desire to better themselves through education. We hire faculty members who have real world experience as well as a passion for sharing their knowledge and experience with their students. We focus on providing programs that will give students a high return on their educational investment.

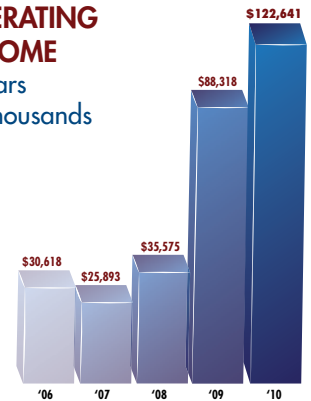
Our commitment to regulatory compliance began with our founder, Warren Davies, who helped establish one of the first accrediting institutions for private proprietary schools. We are very proud of our regulatory record and reputation within the industry, and our commitment to our students has been acknowledged by our accrediting agencies. In 2010, Lincoln had the highest number of "Schools of Distinction" in its history.

With that said, we face a very challenging environment in 2011. New rules will go into effect that will require us to refine some of our practices. Since the specifics of many of these rules are still unclear and regulators are still drafting others, we are taking a conservative approach to our business and implementing changes that we believe will strengthen Lincoln's long term performance.

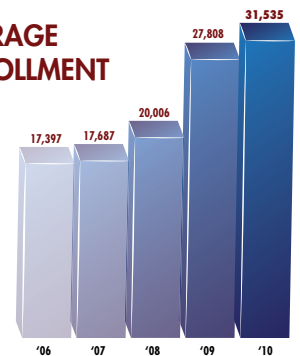
## REVENUE Dollars in Thousands



## OPERATING INCOME Dollars in Thousands



## AVERAGE ENROLLMENT



1994



Lincoln purchases the three Cititone Institutes, the largest training schools in New Jersey.

President George W. Bush makes a historic visit to Lincoln's Union campus where he announced the plans for new government support of workers' retraining.

1996



U.S. Senators Bill Bradley and Frank Lautenberg congratulate Lincoln on their 50th Anniversary of providing generations of highly trained workers for our national economy.

2001



Lincoln acquires Denver Automotive Diesel College.

## Financial and Enrollment Results

In 2010, we achieved a significant number of financial milestones, including record revenue, operating income and earnings per share. Revenue for the full year increased 15.7% to \$639.5 million and our operating margin increased to 19.2% compared to 16.0% in 2009 as we continued to capitalize on the leverage in our business model resulting from increased average enrollment and increased capacity utilization. Our average enrollment of 31,535 students for the year ended December 31, 2010 increased by 13.4% over 2009 and was divided between Health Sciences (40% of our average enrollment), Automotive (30%), Skilled Trades (11%), Business and IT (10%) and Hospitality Services (9%).

Net income for 2010 was \$69.7 million and diluted earnings per share increased 53.3% to \$2.79 per share. We ended 2010 with \$66.0 million in cash and cash equivalents. In our continuing effort to increase shareholder value, we repurchased approximately \$50 million of common stock and, in November, our Board of Directors declared an annual cash dividend of \$1.00 per share, payable quarterly. We paid \$0.25 of this \$1.00 dividend on December 31, 2010. Also in 2010, our former controlling shareholder completely exited its position, which increased the number of publicly traded shares and eliminated a significant overhang in the stock.



## The Current Operating Environment

While 2010 resulted in a number of financial milestones, the current regulatory environment has led us to adjust our business model. Lincoln has historically had an open admissions policy, and as a result, our programs have made a positive socio-economic difference for thousands of students. This approach is being challenged by both current and proposed regulations by the U.S. Department of Education; however, our confidence as a company lies in our ability to serve students as well as the fact that demand will continue to exist for vocational and technical training in areas like nursing, medical office, automotive and the skilled trades.

The negotiated rulemaking process conducted by the Department of Education highlighted several areas of focus which we believe will result in the standards that the Department will use in evaluating institutions on a going forward basis. These metrics are squarely focused on successful student outcomes, including graduation rates, repayment rates and student debt levels, regardless of the demographics served.

The Department's areas of focus led us to make certain adjustments to our business model, which will result in changes to the makeup of our student body, in order to ensure that we are able to meet the Department's goals of achieving higher student outcomes. We made the decision to change our admissions practices with regard to Ability to Benefit (ATB) students. ATB students are non-GED and non-high school graduates who are allowed to enroll in post secondary institutions by passing a Department of Education approved exam. Our research showed that when one of our school's ATB population exceeded 10% of a school's population, the graduation rate for that school was significantly lower because these students had a much higher tendency to leave school prior to graduation. Therefore, we decided to limit our ATB population, which we believe will ultimately result in an increase in our graduation rates.

While we fully support the Department's efforts to ensure that students receive a quality education, we do not believe that the proposed outcomes-based approach takes into consideration

**2003**

Lincoln acquires Nashville Auto Diesel College.

**2004**

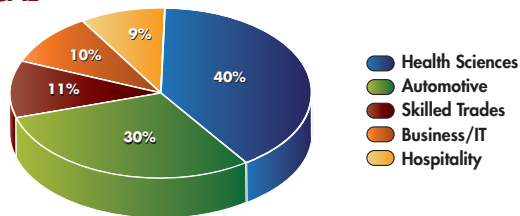
Southwestern College of Business with five campuses in Ohio and Kentucky joins the Lincoln Family, along with New England Technical Institute with four campuses locations throughout Connecticut.



**2005**

Lincoln adds Euphoria Institute of Beauty Arts and Sciences to the Lincoln Family in Las Vegas, Nevada. Lincoln makes its mark on NASDAQ trading under the ticker symbol "LINC".

## 2010 AVERAGE ENROLLMENT BY VERTICAL



the diverse population that we serve in our schools. We also believe that the changes enacted by the Department of Education should be applied to all institutions of higher learning and not just limited to proprietary institutions.

The prolonged economic downturn has also impacted higher education. Many students are discouraged from continuing their studies because they and their families are financially unwilling or unable to assume the additional debt needed to finance their educations. With unemployment rates remaining at high levels, a greater number of students lack the resources to repay their loans, which results in higher default rates. Those students who decide to enroll in school are borrowing more money to finance their education, which impacts our 90/10 ratio. This ratio specifies that an institution that derives more than 90% of its total revenue from Title IV programs for two consecutive years becomes ineligible to participate in Title IV programs. Consequently, we are seeking to enroll more students with the financial resources to borrow less under Title IV programs.

We will continue to provide our students with academic support in order to achieve higher graduation rates. We have developed more robust orientation sessions that better prepare students for the academic rigors ahead as well as the financial responsibilities of repaying their loans. We will expand our in-school remedial training programs to include a larger number of students over an extended period of time. We are re-emphasizing with each of our employees that they directly impact the success of our students and that continued positive reinforcement and interaction will encourage students to remain committed to their goals of graduation.

## Investing for the Future

Despite these challenges, we continue to invest in our future. We expect to open three new campuses in 2011, relocate our Denver campus to a new 215,000 square foot facility with three additional programs, replicate programs in new markets and launch new programs that will broaden our reach into existing markets.

We believe that nursing is a field with long-term demand, and we hope to launch our first registered nurse program in 2011 to build off our successful practical nursing program. We continue to enhance existing programs to provide our students with additional skills needed in today's economy such as the addition of green technologies into our HVAC program, high performance studies into our automotive program and additional patient simulators into our nursing programs.



We received approval in 2010 to offer four regionally accredited online programs and we continue to invest in staffing, services and curriculum to prepare for the anticipated growth in these programs. We have worked closely with our regional accreditors to obtain the necessary approvals with both our on-ground improvements and our on-line growth, and we are pleased with our relationship and progress. We expect to be able to offer additional online programs later in 2011 to help increase our reach into this important market.

2006



Lincoln celebrates its 60th Anniversary and opens the Queens campus partnering with the Greater New York Automobile Dealer's Association.

Lincoln welcomes into the Lincoln Group of Schools New England Institute of Technology and Florida Culinary Institute.

2008

Lincoln adds Associate and Bachelor Degrees to the Online course offerings. In addition, Lincoln announces the acquisition of Briarwood College, accredited by NEASC, offering Associate and Bachelor degree programs.

2009

Lincoln announces the acquisition of Baron Institute of Technology, Culinary Connecticut Institute, Americare School of Nursing and Engine City Technical Institute.



2011

Lincoln celebrates 65 years of providing career-oriented, post-secondary education to our students.

## JOHN BARNES, LINCOLN COLLEGE OF TECHNOLOGY GRADUATE – ALUMNI OF DISTINCTION



John Barnes has earned his place as one of the most well known and widely respected figures in American motorsports through hard work and decades of experience. Barnes has said that the first time he heard an Indy car he knew the sport was in his blood. The Indianapolis Motor Speedway was the driving influence in his career from a young age. Barnes took the education he received as a Lincoln graduate and turned his passion for cars into a full-time career. Today, John is living his dream as CEO and owner of Panther Racing, part of the Indy Racing League (IRL), with 22 race victories and three championships. John also gives back to the community around him and partners with the National Guard in the Hometown Hero Program as well as honors a National Guard soldier at each IRL racing event. He and his wife have also started the Panther Education Center for middle grade student racing enthusiasts. Lincoln is honored to induct John Barnes as an Alumni of Distinction in the Lincoln Hall of Fame.

## 2011 and Beyond

Lincoln has a long history of providing quality outcomes and opportunities for its students. We have successfully managed through numerous economic and regulatory cycles and are well aware of today's challenges.

The demand for a more educated workforce continues to grow each year as our economy becomes more global and service oriented. We are prepared to meet this demand while balancing the challenges of a weak economy, heightened government regulations and a need for greater outcomes. Our focus has been and will continue to be on the success of our students. While the current environment has caused us to adjust our business, we are confident that our institutions will continue to stand as a model for vocational and technical training.

**Shaun E. McAlmont**  
President and  
Chief Executive Officer

## Employer Testimonials

"I have had the privilege of working with a number of medical assistant program graduates from Lincoln Technical Institute. I have always been very pleased with the knowledge and training that they bring into our plasma center from the very first day of employment. They are very proficient in technical aspects of phlebotomy, patient intake, and general knowledge of the medical industry, which is a reflection of the high quality of training they receive at Lincoln Technical Institute."

*Steve Kline,*  
Asst. Facility Manager, Biomat USA

"We have had the pleasure of enlisting Lincoln Technical Institute's Pharmacy Technician externs through our facility. The externs that have been at my facility have been well prepared for their positions as Pharmacy Technicians. My staff and myself are usually quite impressed with the results of our externships and when they are completed they roll into employment. The quality of graduates and professionalism they have exhibited now makes me choose Lincoln Technical Institute as my primary source for screening and hiring Pharmacy Technicians and Medical Records and Billing staff."

*Eric Zwick,*  
Director of Pharmacy, Chem RXLTC Pharmacy





U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2010

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 07052

(Address of principal executive offices)

(973) 736-9340

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, no par value per share

Name of exchange on which registered

The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The aggregate market value of the 21,405,966 shares of common stock held by non-affiliates of the registrant issued and outstanding as of June 30, 2010, the last business day of the registrant's most recently completed second fiscal quarter, was \$440,748,840. This amount is based on the closing price of the common stock on the Nasdaq Global Select Market of \$20.59 per share on June 30, 2010. Shares of common stock held by executive officers and directors and persons who own 5% or more of outstanding common stock have been excluded since such persons may be deemed affiliates. This determination of affiliate status is not a determination for any other purpose.

The number of shares of the registrant's common stock outstanding as of March 10, 2011 was 22,417,758.

Documents Incorporated by Reference

Portions of the Proxy Statement for the Registrant's 2011 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K. With the exception of those portions that are specifically incorporated by reference in this Annual Report on Form 10-K, such Proxy Statement shall not be deemed filed as part of this Report or incorporated by reference herein.

**LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES**

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## Forward-Looking Statements

This Annual Report on Form 10-K contains “forward-looking statements,” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation and availability of resources. These forward-looking statements include, without limitation, statements regarding: proposed new programs; expectations that regulatory developments or other matters will not have a material adverse effect on our consolidated financial position, results of operations or liquidity; statements concerning projections, predictions, expectations, estimates or forecasts as to our business, financial and operating results and future economic performance; and statements of management’s goals and objectives and other similar expressions concerning matters that are not historical facts. Words such as “may,” “should,” “could,” “would,” “predicts,” “potential,” “continue,” “expects,” “anticipates,” “future,” “intends,” “plans,” “believes,” “estimates,” and similar expressions, as well as statements in future tense, identify forward-looking statements.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management’s good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

- our failure to comply with the extensive regulatory framework applicable to our industry or our failure to obtain timely regulatory approvals in connection with a change of control of our company or acquisitions;
- our success in updating and expanding the content of existing programs and developing new programs in a cost-effective manner or on a timely basis;
- risks associated with changes in applicable federal laws and regulations, including final rules that take effect during 2011 and other pending rulemaking by the U.S. Department of Education;
- uncertainties regarding our ability to comply with federal laws and regulations regarding the 90/10 rule and cohort default rates;
- risks associated with the opening of new campuses;
- risks associated with integration of acquired schools;
- industry competition;
- our ability to continue to execute our growth strategies;
- conditions and trends in our industry;
- general economic conditions; and
- other factors discussed under the headings “Business,” “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Forward-looking statements speak only as of the date the statements are made. Except as required under the federal securities laws and rules and regulations of the SEC, we undertake no obligation to update or revise forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. We caution you not to unduly rely on the forward-looking statements when evaluating the information presented herein.

## PART I.

### ITEM 1. BUSINESS

#### OVERVIEW

We are a leading provider of diversified career-oriented post-secondary education as measured by total enrollment. As of December 31, 2010, we operated 45 campuses in 17 states. We offer recent high school graduates and working adults degree and diploma programs in five areas of study: health sciences, automotive technology, skilled trades, business and information technology and hospitality services. For the year ended December 31, 2010, our health science program, our automotive technology program, our skilled trades program, our business and information technology program and our hospitality services program accounted for approximately 40%, 30%, 11%, 10%, and 9%, respectively, of our average enrollment. We had 29,221 students enrolled as of December 31, 2010 and our average enrollment for the year ended December 31, 2010 was 31,535 students, an increase of 13.4% from our average enrollment of 27,808 for the year ended December 31, 2009. For the year ended December 31, 2010, our revenues were \$639.5 million, which represented an increase of 15.7% from the year ended December 31, 2009. For more information relating to our revenues, profits and financial condition, please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements included in this Annual Report on Form 10-K. For the year ended December 31, 2009, our revenues were \$552.5 million, which represents an increase of 46.6% from the year ended December 31, 2008. Excluding our acquisitions of Lincoln College of New England (formerly known as Briarwood College) or BRI on December 1, 2008, six of the seven schools comprising Baran Institute of Technology or BAR on January 20, 2009 and Clemens College, the seventh BAR school, or Clemens on April 20, 2009, or collectively the Acquisitions, our revenues and average enrollment would have increased by 31.5% and 26.5%, respectively, for the year ended December 31, 2009 compared to the year ended December 31, 2008.

All of our schools operate under the Lincoln Technical Institute, Lincoln College of Technology, Lincoln College of New England, Nashville Auto-Diesel College and Euphoria Institute of Beauty Arts and Sciences brand names. Most of our campuses serve major metropolitan markets and each typically offers courses in multiple areas of study. Five of our campuses are destination schools, which attract students from across the United States and, in some cases, from abroad. Our other campuses primarily attract students from their local communities and surrounding areas. All of our schools are nationally or regionally accredited and are eligible to participate in federal financial aid programs by the U.S. Department of Education, or 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. We believe that we provide our students with the highest quality career-oriented training available for our areas of study in our markets. We offer programs in areas of study that we believe are typically underserved by traditional providers of post-secondary education and for which we believe there exists significant demand among students and employers. Furthermore, we believe our convenient class scheduling, career focused curricula and emphasis on job placement offer our students valuable advantages that have been neglected by the traditional academic sector. By combining substantial hands-on training with traditional classroom-based training led by experienced instructors, we believe we offer our students a unique opportunity to develop practical job skills in many of the key areas of expected job demand. We believe these job skills enable our students to compete effectively for employment opportunities and to pursue on-going salary and career advancement.

Each of our schools is an operating segment. Our operating segments have been aggregated into one reportable segment because, in our judgment, the operating segments have similar products, production processes, types of customers, methods of distribution, regulatory environment and economic characteristics.

#### AVAILABLE INFORMATION

Our website is [www.lincolnedu.com](http://www.lincolnedu.com). We make available on this website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, annual proxy statement on Schedule 14A and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the Securities and Exchange Commission. You can access this information on our website, free of charge, by clicking on “Investor Relations.” The information contained on or connected to our website is not a part of this Annual Report on Form 10-K.

#### BUSINESS STRATEGY

Our goal is to strengthen our position as a leading and diversified provider of career-oriented post-secondary education by continuing to pursue the following strategy:

***Expand Existing Areas of Study and Existing Facilities.*** We believe we can leverage our operations to expand our program offerings in existing areas of study and expand into new areas of study to capitalize on demand from students and employers in our target markets. Whenever possible we seek to replicate programs across our campuses. We also expect to continue expanding some of our existing facilities and relocating other facilities to expand capacity. In 2008 and 2009, we increased capacity at four of our Southwestern College campuses and at our campus in Melrose Park, Illinois, and moved into a new and larger campus in Brockton, Massachusetts. In 2009, we acquired a property which is currently being expanded and which will serve as the new home for our Lincoln College of Technology in

Denver, Colorado. In 2010, we moved our Paramus, New Jersey and Mount Laurel, New Jersey campuses into larger facilities and selectively added additional square feet at several other campuses.

**Maximize Utilization of Existing Facilities.** We are focused on improving capacity utilization of existing facilities through increased enrollments and the introduction of new programs. We expect to continue investing in marketing, recruiting and retention resources to increase enrollment.

**Expand Geographic Presence.** We believe that we can leverage our marketing and recruiting programs by opening additional campuses in selected markets and obtaining greater market penetration. For example, in 2008, we expanded our presence in Las Vegas with the opening of our third Euphoria campus in the north end of Las Vegas which will enable us to better serve that market. In 2009, we expanded our presence in Ohio by opening our sixth Southwestern College in Toledo. In 2010, we entered into leases for new schools in Columbus, Ohio and Cleveland, Ohio, which we expect will open in 2011. We believe we can also increase our student enrollments by entering selected new geographic markets that we believe have significant growth potential and where we can leverage our reputation and operating expertise.

**Pursue Strategic Acquisitions.** We continue to evaluate acquisition candidates. In evaluating potential acquisitions, we seek to identify schools that provide the potential for program replication at our existing campuses, expand our program and degree offerings, and extend our presence into markets with attractive growth opportunities. For example, during the first and second quarters of 2009, we completed the acquisition of BAR, which consists of seven campuses and offers associate's degree and diploma programs in the fields of automotive, skilled trades, health sciences and culinary arts.

**Expand Market.** We believe that we can enter new markets and broaden the Lincoln brand by operating regionally accredited schools that offer associate's and bachelor's degrees, both on ground and online. To launch this effort we acquired BRI, subsequently renamed Lincoln College of New England, or LCNE, on December 1, 2008. LCNE operates one campus in Southington, Connecticut, one campus in Suffield, Connecticut and one in Hartford, Connecticut, is regionally accredited by the New England Association of Schools and Colleges and currently offers two bachelor's degree programs and 31 associate's degree programs to students from Connecticut and surrounding states.

**Expand Online Programs.** We offer online programs with a view towards capitalizing on the growing demand for, and flexibility provided by, online education alternatives. In 2008, we launched online associate's and bachelor's degree programs under our national accreditation. We believe that our online programs are an attractive option for students without the geographic or financial flexibility to enroll in campus-based programs and will continue to broaden our market. Furthermore, in 2010, with the addition of LCNE, we launched our first regionally accredited online degree programs that we believe will make our online offerings more attractive and broaden our reach to students seeking a regionally accredited degree.

## **PROGRAMS AND AREAS OF STUDY**

We structure our program offerings to provide our students with a practical, career-oriented education and position them for attractive entry-level job opportunities in their chosen fields. Our diploma/certificate programs typically take between 22 to 105 weeks to complete, with tuition ranging from \$8,500 to \$37,000. Our associate's degree programs typically take between 48 to 104 weeks to complete, with tuition ranging from \$18,000 to \$55,000. Our bachelor's degree programs typically take between 154 and 284 weeks to complete, with tuition ranging from \$55,000 to \$74,000. As of December 31, 2010, all of our schools offer diploma and certificate programs, 22 of our schools are currently approved to offer associate's degree programs and three schools are approved to offer bachelor's degree programs. In order to accommodate the schedules of our students and maximize classroom utilization, at some of our campuses we typically offer courses four to five days a week in three shifts per day and start new classes every month. Other campuses are structured more like a traditional college and start classes every quarter. Also, for those students who do not live near one of our campuses or whose schedules prevent them from attending school, we offer several programs online. We update and expand our programs frequently to reflect the latest technological advances in the field, providing our students with the specific skills and knowledge required in the current marketplace. Classroom instruction combines lectures and demonstrations by our experienced faculty with comprehensive hands-on laboratory exercises in simulated workplace environments.

The following table lists the programs offered as of December 31, 2010 with the average number of students enrolled in each area of study for the year ended December 31, 2010:

| <b>Programs Offered</b> |                   |   |  |                           |                                    |
|-------------------------|-------------------|---|--|---------------------------|------------------------------------|
| <b>Area of Study</b>    | <b>Bachelor's</b> | <b>Associate's</b>  | <b>Diploma or Certificate</b>  | <b>Average Enrollment</b> | <b>Percent of Total Enrollment</b> |
| Health Sciences         | -                 | Medical Assisting Technology, Medical Assisting & Administrative Technology, Dental Office Management, Child Development, Health Information Technology, Medical Office Management, Medical Assistant, Mortuary Science, Nuclear Medicine Technology, Occupational Therapy Assistant, Dental Hygiene, Dental Administrative Assistant, Surgical Technology, Advanced Medical Coding & Billing | Medical Office Assistant, Medical Assistant, Pharmacy Technician, Medical Coding & Billing, Dental Assistant, Licensed Practical Nursing, Phlebotomy, Nuclear Medicine Technology, Medical Assistant w/Basic X-ray, Basic X-Ray Technician, Patient Care Technician, Surgical Technologist | 12,426                    | 40%                                |
| Automotive              | -                 | Automotive Technology, Master Certified Auto Service Management, Collision Repair & Refinishing Service Management, Diesel Technology, Master Certified Diesel & Truck Service Management   | Automotive Mechanics, Master Certified Automotive Technology, Collision Repair & Refinishing Technology, Diesel & Truck Mechanics, Diesel Technology, Master Certified Diesel & Truck Technology, Master Certified Automotive w/Diesel Technology, Motorcycle Technology                   | 9,569                     | 30%                                |
| Skilled Trades          | -                 | Electronic Engineering Technology, HVAC, Electronics Systems Service Management   | Electrical Technology, Electronics Engineering Technology, Electronics Systems Technician, Heating Ventilation and Air Conditioning Technology, Electrician, Welding Technology  | 3,568                     | 11%                                |

|                                     |  |   |   |               |             |
|-------------------------------------|--|---|---|---------------|-------------|
| Business and Information Technology | Business Management, Business Marketing, Criminal Justice, Funeral Service Management, Integrated Marketing Communication & Design, Information Management & Security, Human Resource Management | PC Systems & Networking Technology, Business Administration, Criminal Justice, Network Communications & Information Systems, Business Management, Business Marketing, Human Resource Management, Accounting Technology, Broadcasting and Communications, Fashion Merchandising, Paralegal, Graphic Design, Web Design, Computer Networking and Security | PC Support Technician, Criminal Justice, Network Communications and Information Systems, Business Office Technology, Computer Networking and Security                 | 3,021         | 10%         |
| Hospitality Services                | Culinary Arts Management   | Culinary Arts, Salon Management, Food and Beverage, International Baking and Pastry, Culinary Management, Hotel Restaurant Management, Dietetic Technician, Travel and Tourism, Hospitality Management  | Culinary Arts, Advanced Culinary Arts, Baking & Pastry Essentials, Cosmetology, Aesthetics, Therapeutic Massage & Bodywork Technician, Advanced Italian Culinary Arts | 2,951         | 9%          |
|                                     |  |   | Total:  | <u>31,535</u> | <u>100%</u> |

**Health Sciences.** For the year ended December 31, 2010, health sciences was our largest area of study, representing 40% of our total average student enrollment. Our health science programs are 24 to 104 weeks in length, with tuition rates of \$8,500 to \$55,000. Graduates of our programs are qualified to obtain positions such as licensed practical nurse, medical administrative assistant, EKG technician, claims examiner and pharmacy technician. Our graduates are employed by a wide variety of employers, including hospitals, laboratories, insurance companies, doctors' offices and pharmacies. Our medical assistant and medical administrative assistant programs are our largest health science programs. As of December 31, 2010, we offered health science programs at 26 of our Lincoln College of Technology and Lincoln Technical Institute schools.

**Automotive Technology.** Automotive technology represents our second largest area of study, with 30% of our total average student enrollment for the year ended December 31, 2010. Our automotive technology programs are 24 to 120 weeks in length, with tuition rates of \$11,000 to \$37,000. We believe we are a leading provider of automotive technology education in each of our local markets. Graduates of our programs are qualified to obtain entry level employment ranging from positions as technicians and mechanics to various apprentice level positions. Our graduates are employed by a wide variety of employers, ranging from automotive and diesel dealers, independent auto body paint and repair shops, to trucking and construction companies.

As of December 31, 2010, six of our Lincoln Technical Institute schools and five of our Lincoln College of Technology schools offered programs in automotive technology and most of these schools offer other technical programs. Our campuses in East Windsor, Connecticut; Nashville, Tennessee; Grand Prairie, Texas; Indianapolis, Indiana; and Denver Colorado are destination schools, attracting students throughout the United States and, in some cases, from abroad.

**Skilled Trades.** For the year ended December 31, 2010, 11% of our total average student enrollment was in our skilled trades programs. Our skilled trades programs are 41 to 116 weeks in length, with tuition rates of \$17,000 to \$29,000. Our skilled trades programs include electrician, heating, ventilation and air conditioning repair, welding and electronic system technician. Graduates of our programs are qualified to obtain entry level employment positions such as electrician, cable installer, welder, wiring and heating, ventilating and air conditioning, or HVAC, installer. Our graduates are employed by a wide variety of employers, including residential and commercial construction, telecommunications installation companies and architectural firms. As of December 31, 2010, we offered skilled trades programs at 13 of our 29 Lincoln Technical Institute and Lincoln College of Technology campuses.

**Business and Information Technology.** For the year ended December 31, 2010, 10% of our total average student enrollment was in our business and information technology programs, which include our diploma and degree criminal justice programs. Our business and information technology programs are 30 to 284 weeks in length, with tuition rates of \$12,000 to \$74,000. We have focused our current information technology, or IT, program offerings on those that are most in demand, such as our personal computer, or PC, systems technician, computer networking and security and business administration specialist programs. Our IT and business graduates work in entry level positions for both small and large corporations. Our criminal justice graduates work in the security industry and for various government agencies and departments. As of December 31, 2010, we offered these programs at 21 of our campuses.

**Hospitality Services.** For the year ended December 31, 2010, 9% of our total average student enrollment was in our hospitality services programs. Our hospitality services programs are 22 to 132 weeks in length, with tuition rates of \$9,000 to \$55,000. Our hospitality programs include therapeutic massage, cosmetology and aesthetics. Graduates work in salons, spas or cruise ships or are self-employed. We offer massage programs at six campuses and cosmetology programs at five campuses. Our culinary graduates are employed by restaurants, hotels, cruise ships and bakeries. As of December 31, 2010, we offered culinary programs at six Lincoln Culinary schools.

## **MARKETING AND STUDENT RECRUITMENT**

We utilize a variety of marketing and recruiting methods to attract students and increase enrollment. Our marketing and recruiting efforts are targeted at potential students who are entering the workforce, or who are underemployed or unemployed and require additional training to enter or re-enter the workforce.

**Marketing and Advertising.** Our marketing program utilizes integrated advertising such as the Internet, television, and various print media, direct mail, and event marketing campaigns. These campaigns are enhanced by student and alumni referrals. Internet lead generation is our most successful medium, built upon successful search engine optimization and specific keywords. Our website inquiries incorporate integrated campaigns that direct potential students to the Lincoln website where they may request additional information on a program of interest. Our internal systems enable us to closely monitor and track the effectiveness of each advertisement on a daily or weekly basis and make adjustments accordingly to enhance efficiency and limit our student acquisition costs.

**Referrals.** Referrals from current students, high school counselors and satisfied graduates and their employers have historically represented 20% to 25% of our new enrollments. Our school administrators actively work with our current students to encourage them to recommend our programs to potential students. We continue to build strong relationships with high school guidance counselors and instructors by offering annual seminars at our training facilities to further educate these individuals on the strengths of our programs. Graduates who have gone on to enjoy success in the workforce frequently recommend our programs, as do local business owners who are pleased with the performance of our graduates whom they have hired.



**Recruiting.** Our recruiting efforts are conducted by a group of approximately 460 field and campus-based representatives who meet directly with potential students during presentations conducted at high schools, in the potential student's home or during a visit to one of our campuses.

**Field-Based Recruiting.** Our field-based recruiting representatives make presentations at high schools to attract students to both our local and destination campuses. Our field-based representatives also visit directly with potential students in their homes. During 2010, we recruited approximately 18% of our students directly out of high school.

**Campus-Inquiries.** When a potential student contacts us as a result of our marketing and outreach efforts, an admissions representative contacts the potential student to follow up on an individual basis. The admissions representative provides information on the programs of interest available at the campus location selected by the potential student and offers an appointment to visit the school and tour the school's facilities.

## **STUDENT ADMISSIONS, ENROLLMENT AND RETENTION**

**Admissions.** In order to attend our schools, students must complete an application and pass an entrance assessment. While each of our programs has different admissions criteria, we screen all applications and counsel the students on the most appropriate program to increase the likelihood that our students complete the requisite coursework and obtain and sustain employment following graduation.

**Enrollment.** We enroll students continuously throughout the year, with our largest classes enrolling in late summer or early fall following high school graduation. We had 29,221 students enrolled as of December 31, 2010 and our average enrollment for the year ended December 31, 2010 was 31,535 students, an increase of 13.4% from December 31, 2009. We had 29,340 students enrolled as of December 31, 2009 and our average enrollment for the year ended December 31, 2009 was 27,808 students, an increase of 39.0% from December 31, 2008. Excluding the Acquisitions, our average student enrollment increased by 26.5%.

**Retention.** To maximize student retention, the staff at each school is trained to recognize the early warning signs of a potential drop and to assist and advise students on academic, financial, employment and personal matters. We monitor our retention rates by instructor, course, program and school. When we notice that a particular instructor or program is experiencing a higher than normal dropout rate, we quickly seek to determine the cause of the problem and attempt to correct it. When we identify that a student is having trouble academically, we offer tutoring.

## **JOB PLACEMENT**

We believe that securing employment for our graduates is critical to our ability to attract high quality students. In addition, we believe that high job placement rates result in low student loan default rates, an important requirement for continued participation in Title IV Programs. See "Regulatory Environment—Regulation of Federal Student Financial Aid Programs." Accordingly, we dedicate significant resources to maintaining an effective graduate placement program. Our non-destination schools work closely with local employers to ensure that we are training students with skills that employers need. Each school has an advisory council made up of local employers who provide us with direct feedback on how well we are preparing our students to succeed in the workplace. This enables us to tailor our programs to the market. The placement staff in each of our destination schools maintains databases of potential employers throughout the country, allowing us to place students in their career field upon graduation. We also have internship programs that provide our students with opportunities to work with employers prior to graduation. For example, some of the students in our automotive programs have the opportunity to complete a portion of their hands-on training in an actual work environment. In addition, some of our allied health students are required to participate in an internship program during which they work in the field as part of their career training. We also assist students with resume writing, interviewing and other job search skills.

## **FACULTY AND EMPLOYEES**

We hire our faculty in accordance with established criteria, including relevant work experience, educational background and accreditation and state regulatory standards. We require meaningful industry experience of our teaching staff in order to maintain the quality of instruction in all of our programs and to address current and industry-specific issues in our course content. In addition, we provide intensive instructional training and continuing education, including quarterly instructional development seminars, annual reviews, technical upgrade training, faculty development plans and weekly staff meetings.

The staff of each school typically includes a school director, a director of graduate placement, an education director, a director of student services, a financial-aid director, an accounting manager, a director of admissions and instructors, all of whom are industry professionals with experience in our areas of study.

As of December 31, 2010, we had approximately 4,500 employees, including 1,173 full-time faculty and 866 part-time instructors. At six of our campuses, the teaching professionals are represented by unions. These employees are covered by collective bargaining agreements that expire between 2011 through 2016. We believe that we have good relationships with these unions and our employees.

## **COMPETITION**

The for-profit, post-secondary education industry is highly competitive and highly fragmented, with no one provider controlling significant market share. Direct competition between career-oriented schools and traditional four-year colleges or universities is limited. Thus, our main competitors are other for-profit, career-oriented schools, as well as public and private two-year junior and community colleges. Competition is generally based on location, the type of programs offered, the quality of instruction, placement rates, reputation, recruiting and tuition rates. Public institutions are generally able to charge lower tuition than our schools, due in part to government subsidies and other financial sources not available to for-profit schools. In addition, some of our other competitors have a more extensive network of schools and campuses than we do, which enables them to recruit students more efficiently from a wider geographic area. Nevertheless, we believe that we are able to compete effectively in our local markets because of the diversity of our program offerings, quality of instruction, the strength of our brands, our reputation and our success in placing students with employers.

We compete with other institutions that are eligible to receive Title IV funding. This includes four-year, not-for-profit public and private colleges and universities, community colleges and all for-profit institutions whether they are four years, two years or less. Our competition differs in each market depending on the curriculum that we offer. For example, a school offering automotive, allied health and skilled trades programs will have a different group of competitors than a school offering allied health, business/IT and skilled trades. Also, because schools can add new programs within six to twelve months, new competition can emerge relatively quickly. Moreover, with the introduction of online learning, the number of competitors in each market has increased because students can now stay local but learn from a non-local institution.

Notwithstanding the above, we mainly compete with community colleges and other career schools, both for-profit and not-for-profit. We focus on programs that are in high demand. We compete against community colleges by seeking to offer more frequent start dates, more flexible hours, better instructional resources, more hands on training, shorter program length and greater assistance with job placement. We compete against the other career schools by seeking to offer a higher quality of education, higher quality instructional equipment and a better overall value. On average, each of our schools has at least three direct competitors and at least a dozen indirect competitors. As we continue to add courses and degree programs, our competitors within a given market increase and thus we face increased competition.

## **ENVIRONMENTAL MATTERS**

We use hazardous materials at our training facilities and campuses, and generate small quantities of waste such as used oil, antifreeze, paint and car batteries. As a result, our facilities and operations are subject to a variety of environmental laws and regulations governing, among other things, the use, storage and disposal of solid and hazardous substances and waste, and the clean-up of contamination at our facilities or off-site locations to which we send or have sent waste for disposal. We are also required to obtain permits for our air emissions and to meet operational and maintenance requirements. In the event we do not maintain compliance with any of these laws and regulations, or are responsible for a spill or release of hazardous materials, we could incur significant costs for clean-up, damages, and fines or penalties. Climate change has not had and is not expected to have a significant effect on our operations.

## **REGULATORY ENVIRONMENT**

Students attending our schools finance their education through a combination of family contributions, individual resources, private loans and federal financial aid programs. Each of our schools participates in the federal programs of student financial aid authorized under the Title IV Programs, which are administered by the DOE. For the year ended December 31, 2010, approximately 83% (calculated based on cash receipts) of our revenues were derived from the Title IV Programs. Students obtain access to federal student financial aid through a DOE prescribed application and eligibility certification process. Student financial aid funds are generally made available to students at prescribed intervals throughout their predetermined expected length of study. Students typically use the funds received from the federal financial aid programs to pay their tuition and fees.

In connection with the students' receipt of federal financial aid, our schools are subject to extensive regulation by governmental agencies and licensing and accrediting bodies. In particular, the Title IV Programs, and the regulations issued thereafter by the DOE, subject us to significant regulatory scrutiny in the form of numerous standards that each of our schools must satisfy in order to participate in the various federal student financial aid programs. To participate in the Title IV Programs, a school must be authorized to offer its programs of instruction by the applicable state education agencies in the states in which it is physically located, be accredited by an accrediting commission recognized by the DOE and be certified as an eligible institution by the DOE. The DOE will certify an institution to participate in Title IV Programs only after the institution has demonstrated compliance with the Higher Education Act of 1965, as amended, or HEA, and the DOE's extensive regulations regarding institutional eligibility. The DOE defines an eligible institution to consist of both a main campus and its additional locations, if any. Each of our schools is either a main campus or an additional location of a main campus. Each of our schools is subject to extensive regulatory requirements imposed by state education agencies, accrediting commissions, and the DOE. Because the DOE periodically revises its regulations and changes its interpretations of existing laws and regulations, we cannot predict with certainty how Title IV Program requirements will be applied in all circumstances. Our schools also participate in other federal and state financial aid programs that assist students in paying the cost of their education.

### ***State Authorization***

Each of our schools must be authorized by the applicable education agencies in the states in which the school is physically located, and in some cases other states, in order to operate and to grant degrees, diplomas or certificates to its students. Some states have sought to assert jurisdiction over online educational institutions that offer educational services to residents in the state or to institutions that advertise or recruit in the state, notwithstanding the lack of a physical location in that state. State agency authorization is also required in each state in which a school is physically located in order for the school to become and remain eligible to participate in Title IV Programs. If we are found not to be in compliance with the applicable state regulation and a state seeks to restrict one or more of our business activities within its boundaries, we may not be able to recruit or enroll students in that state and may have to stop providing services in that state, which could have a material adverse effect on our business and results of operations. Currently, each of our schools is authorized by the applicable state education agencies in the states in which the school is physically located and in which it recruits students.

Our schools are subject to extensive, ongoing regulation by each of these states. State laws typically establish standards for instruction, curriculum, qualifications of faculty, location and nature of facilities and equipment, administrative procedures, marketing, recruiting, financial operations, student outcomes and other operational matters. State laws and regulations may limit our ability to offer educational programs and to award degrees, diplomas or certificates. Some states prescribe standards of financial responsibility that are different from, and in certain cases more stringent than, those prescribed by the DOE. Some states require schools to post a surety bond. We have posted surety bonds on behalf of our schools and education representatives with multiple states in a total amount of approximately \$14.9 million. These bonds are backed by \$0.2 million of letters of credit.

The DOE published new regulations on October 29, 2010, with an effective date of July 1, 2011, that expand the requirements for an institution to be considered legally authorized in the state in which it is physically located for Title IV purposes. In some cases, the regulations will require states to revise their current requirements and/or to license schools in order for institutions to be deemed legally authorized in those states and, in turn, to participate in Title IV Programs. If the states do not amend their requirements where necessary and if schools do not receive approvals where necessary that comply with these new requirements, then the institution could be deemed to lack the state authorization necessary to participate in Title IV Programs. The DOE stated when it published the final regulations that it will not publish a list of states that meet, or fail to meet, the requirements, and it is uncertain how the DOE will interpret these requirements in each state. However, the DOE also stated that institutions unable to obtain state authorization in a state under the above requirements may request a one-year extension of the effective date of the regulation to July 1, 2012, and if necessary, an additional one-year extension of the effective date to July 1, 2013. To receive an extension of the effective date, an institution must obtain from the state an explanation of how a one-year extension will permit the state to modify its procedures to comply with the regulations.

In addition, the new DOE rules also require institutions offering postsecondary education through distance education, such as online programs, to students in a state in which the institution is not physically located or in which it is otherwise subject to state jurisdiction as determined by the state to meet any state requirements for it to be legally offering postsecondary distance education in that state. The regulations require an institution to document upon request by the DOE that it has the applicable state approval. As a result, some of our schools and distance education programs may be required to obtain additional or revised state authorizations. State regulatory requirements for online education vary among the states, are not well developed in many states, are imprecise or unclear in some states, and are subject to change. Any failure to comply with state requirements under the new DOE rules could result in our inability to enroll students or receive Title IV funds for students in those states.

If any of our schools fail to comply with state licensing requirements, they are subject to the loss of state licensure or authorization. If any one of our schools lost its authorization from the education agency of the state in which the school is located, that school and its related main campus and/or additional locations would lose its eligibility to participate in Title IV Programs, be unable to offer its programs and we could be forced to close that school. If one of our schools lost its state authorization from a state other than the state in which the school is located, the school would not be able to recruit students or to operate in that state.

Due to state budget constraints in certain states in which we operate, it is possible that those states may reduce the number of employees in, or curtail the operations of, the state education agencies that authorize our schools. A delay or refusal by any state education agency in approving any changes in our operations that require state approval could prevent us from making such changes or could delay our ability to make such changes. States periodically change their laws and regulations applicable to our schools and such changes could require us to change our practices and could have a material adverse effect on our business and results of operations.

### **Accreditation**

Accreditation is a non-governmental process through which a school submits to ongoing qualitative and quantitative review by an organization of peer institutions. Accrediting commissions primarily examine the academic quality of the school's instructional programs, and a grant of accreditation is generally viewed as confirmation that the school's programs meet generally accepted academic standards. Accrediting commissions also review the administrative and financial operations of the schools they accredit to ensure that each school has the resources necessary to perform its educational mission.

Accreditation by an accrediting commission recognized by the DOE is required for an institution to be certified to participate in Title IV Programs. In order to be recognized by the DOE, accrediting commissions must adopt specific standards for their review of educational institutions. As of December 31, 2010, nineteen of our campuses are accredited by the Accrediting Commission of Career Schools and Colleges or ACCSC; twenty-one of our campuses are accredited by the Accrediting Council for Independent Colleges and Schools or ACICS; three of our campuses are accredited by the New England Association of Schools and Colleges or NEASC; and two of our campuses are accredited by Accrediting Bureau of Health Education Schools or ABHES. All of these accrediting commissions are recognized by the DOE. The following is a list of the dates on which each campus was accredited by its accrediting commission, the date by which its accreditation must be renewed and the type of accreditation.

### **Accrediting Commission of Career Schools and Colleges Reaccreditation Dates**

| <b>School</b>        | <b>Last Accreditation Letter</b> | <b>Next Accreditation</b> | <b>Type of Accreditation</b> |
|----------------------|----------------------------------|---------------------------|------------------------------|
| Philadelphia, PA     | December 5, 2008                 | May 1, 2013               | National                     |
| Union, NJ            | March 10, 2010                   | February 1, 2014          | National                     |
| Mahwah, NJ*          | March 10, 2010                   | August 1, 2014            | National                     |
| Melrose Park, IL     | June 2, 2010                     | November 1, 2014          | National                     |
| Denver, CO           | September 8, 2006                | February 1, 2011****      | National                     |
| Columbia, MD         | March 13, 2007                   | February 1, 2012          | National                     |
| Grand Prairie, TX    | May 29, 2007                     | August 1, 2011            | National                     |
| Allentown, PA        | March 7, 2008                    | January 1, 2012           | National                     |
| Nashville, TN        | September 5, 2008                | May 1, 2012               | National                     |
| Indianapolis, IN     | December 5, 2008                 | November 1, 2012          | National                     |
| New Britain, CT      | September 5, 2008                | January 1, 2013           | National                     |
| Shelton, CT**        | December 9, 2009                 | September 1, 2013         | National                     |
| Cromwell, CT**       | March 13, 2007                   | November 1, 2011          | National                     |
| Hamden, CT**         | September 7, 2007                | July 1, 2012              | National                     |
| Queens, NY*          | September 5, 2008                | June 1, 2012              | National                     |
| Hartford, CT         | June 2, 2010                     | November 1, 2014          | National                     |
| Suffield, CT***      | August 1, 2007                   | August 1, 2012            | National                     |
| East Windsor, CT     | September 5, 2008                | February 1, 2013          | National                     |
| South Plainfield, NJ | September 11, 2009               | August 1, 2014            | National                     |

- \* Branch campus of main campus in Union, NJ
- \*\* Branch campus of main campus in New Britain, CT
- \*\*\* Branch campus of main campus in Hartford, CT
- \*\*\*\* Currently undergoing re-accreditation

## Accrediting Council for Independent Colleges and Schools Reaccreditation Dates

| <u>School</u>                       | <u>Last Accreditation Letter</u> | <u>Next Accreditation</u> | <u>Type of Accreditation</u> |
|-------------------------------------|----------------------------------|---------------------------|------------------------------|
| Brockton, MA****                    | December 16, 2008                | December 31, 2014         | National                     |
| Lincoln, RI                         | December 16, 2008                | December 31, 2014         | National                     |
| Lowell, MA**                        | December 16, 2008                | December 31, 2014         | National                     |
| Somerville, MA                      | December 16, 2008                | December 31, 2014         | National                     |
| Philadelphia (Center City), PA*     | April 23, 2007                   | December 31, 2012         | National                     |
| Edison, NJ                          | April 23, 2007                   | December 31, 2012         | National                     |
| Marietta, GA****                    | December 16, 2008                | December 31, 2014         | National                     |
| Moorestown, NJ*                     | April 23, 2007                   | December 31, 2012         | National                     |
| Paramus, NJ*                        | April 23, 2007                   | December 31, 2012         | National                     |
| Philadelphia (Northeast), PA*       | April 23, 2007                   | December 31, 2012         | National                     |
| Dayton, OH                          | August 13, 2009                  | December 31, 2015         | National                     |
| Cincinnati (Vine Street), OH***     | August 13, 2009                  | December 31, 2015         | National                     |
| Cincinnati (Northland Blvd.), OH*** | August 13, 2009                  | December 31, 2015         | National                     |
| Franklin, OH***                     | August 13, 2009                  | December 31, 2015         | National                     |
| Florence, KY***                     | August 13, 2009                  | December 31, 2015         | National                     |
| Toledo, OH***                       | December 9, 2009                 | December 31, 2015         | National                     |
| West Palm Beach, FL                 | April 16, 2008                   | December 31, 2014         | National                     |
| Las Vegas (Summerlin), NV****       | December 16, 2008                | December 31, 2014         | National                     |
| Henderson (Green Valley), NV****    | December 16, 2008                | December 31, 2014         | National                     |
| Las Vegas (Aliante), NV****         | April 8, 2009                    | December 31, 2014         | National                     |
| Columbus, OH***                     | January 5, 2011                  | December 31, 2015         | National                     |

- \* Branch campus of main campus in Edison, NJ
- \*\* Branch campus of main campus in Somerville, MA
- \*\*\* Branch campus of main campus in Dayton, OH
- \*\*\*\* Branch campus of main campus in Lincoln, RI

## New England Association of Schools and Colleges of Technology Reaccreditation Dates

| <u>School</u>   | <u>Last Accreditation Letter</u> | <u>Next Accreditation</u> | <u>Type of Accreditation</u> |
|-----------------|----------------------------------|---------------------------|------------------------------|
| Southington, CT | November 1, 2006                 | November 1, 2011          | Regional                     |
| Suffield, CT*   | November 1, 2006                 | November 1, 2011          | Regional                     |
| Hartford, CT*   | November 20, 2009                | November 1, 2011          | Regional                     |

- \* Branch campus of main campus in Southington, CT

## Accrediting Bureau of Health Education Schools Reaccreditation Dates

| <u>School</u> | <u>Last Accreditation Letter</u> | <u>Next Accreditation</u> | <u>Type of Accreditation</u> |
|---------------|----------------------------------|---------------------------|------------------------------|
| Fern Park, FL | December 17, 2010                | December 31, 2013         | National                     |
| Seminole, FL* | December 17, 2010                | December 31, 2013         | National                     |

- \* Branch campus of main campus in Fern Park, FL

Our Denver, Colorado school is currently going through the process of reaccreditation with ACCSC. ACCSC has established a timeframe for various submissions and visits associated with the reaccreditation process. We have complied with each of the deadlines provided by ACCSC. ACCSC scheduled the presentation of the school's reaccreditation application for its February 2011 Commission meeting and we are currently waiting for the ACCSC action on our application. We have received a letter from ACCSC notifying us that the school maintains its accreditation while going through the reaccreditation process.

If one of our schools fails to comply with accrediting commission requirements, the institution and its main and/or branch campuses are subject to the loss of accreditation. If any one of our schools lost its accreditation, students attending that school would no longer be eligible to receive Title IV Program funding, and we could be forced to close that school. Any institution required to submit retention or placement data to the ACICS is required to obtain prior permission from the ACICS for the initiation of any new program and new branch campus or learning site. The following institutions are providing placement or retention data to ACICS: Dayton, OH, Cincinnati (Vine Street), OH, Cincinnati (Northland Blvd.), OH, Toledo, OH, Lincoln, RI, Edison, NJ, Henderson (Green Valley), NV, Somerville, MA and Philadelphia (Northeast), PA.

Prior to our acquisition of BAR in January 2009, ABHES directed the institution in Fern Park, FL to show cause why its accreditation should not be withdrawn based upon a visit to the school's branch campus in Seminole, Florida. We were informed that at ABHES's December 2009 board meeting, the ABHES board acknowledged that all the concerns covered by the show cause order were resolved to their satisfaction. However, the show cause order was extended until the next ABHES commission meeting, due to the schools composite score under DOE financial responsibility regulations. See "Regulatory Environment – Financial Responsibility Standards." We were notified by ABHES on June 3, 2010 that the institution's show cause order was vacated.

Prior to our acquisition of BRI, the American Board of Funeral Service Education, or ABFSE, the accrediting agency that provides programmatic accreditation of the college's mortuary sciences program, directed BRI to show cause why its accreditation should not be withdrawn. BRI submitted a response and hosted a follow-up visit from the agency in February 2009. BRI received a visit report and submitted a response to that report which was reviewed by ABFSE at its commission meeting. ABFSE informed the school that the show cause will stay in place until 2010, subject to improvement in the pass rate of the certification test. The pass rate for 2009 graduates exceeded the required threshold. We were notified by ABFSE on April 28, 2010 that the institution's show cause order was vacated.

### ***Nature of Federal and State Support for Post-Secondary Education***

The federal government provides a substantial part of the support for post-secondary education through Title IV Programs, in the form of grants and loans to students who can use those funds at any institution that has been certified as eligible by the DOE. Most aid under Title IV Programs is awarded on the basis of financial need, generally defined as the difference between the cost of attending the institution and the expected amount a student and his or her family can reasonably contribute to that cost. All recipients of Title IV Program funds must maintain a satisfactory grade point average and progress in a timely manner toward completion of their program of study. In addition, each school must ensure that Title IV Program funds are properly accounted for and disbursed in the correct amounts to eligible students.

Students at our schools received grants and loans to fund their education under the following Title IV Programs: (1) the Federal Family Education Loan Program (FFEL), (2) the Federal Direct Loan Program (FDL), (3) the Federal Pell Grant, or Pell, program, (4) the Federal Supplemental Educational Opportunity Grant program, and (5) the Federal Perkins Loan, or Perkins program.

***Federal Family Education Loan/William D. Ford Direct Loan Program.*** Effective July 1, 2010, the FFEL Program ended and was replaced with the Federal Direct Loan Program. The lender under this program is the DOE rather than a bank or other lending institution. For the year ended December 31, 2010, we derived approximately 62% of our Title IV revenues from a combination of the FFEL and Federal Direct Loan Programs.

***Pell.*** Under the Pell program, the DOE makes grants to students who demonstrate the greatest financial need. For the year ended December 31, 2010, we derived approximately 26% of our revenues (calculated based on cash receipts) from the Pell program.

***Federal Supplemental Educational Opportunity Grant.*** Under the Federal Supplemental Educational Opportunity Grant program, the DOE issues grants which are designed to supplement Pell grants for students with the greatest financial needs. An institution is required to make a 25% matching contribution for all funds received from the DOE under this program. For the year ended December 31, 2010, we received less than 1% of our revenues (calculated based on cash receipts) from the Federal Supplemental Educational Opportunity Grant program.

***Perkins.*** Perkins loans are made from a revolving institutional account, 75% of which is funded by the DOE and the remainder by the institution. Each institution is responsible for collecting payments on Perkins loans from its former students and lending those funds to currently enrolled students. Defaults by students on their Perkins loans reduce the amount of funds available in the applicable school's revolving account to make loans to additional students, but the school does not have any obligation to guarantee the loans or repay the defaulted amounts. For the year ended December 31, 2010, we derived less than 1% of our revenues (calculated based on cash receipts) from the Perkins program.

### ***Other Financial Assistance Programs***

Some of our students receive financial aid from federal sources other than Title IV Programs, such as the programs administered by the U.S. Department of Veterans Affairs and programs administered under the Workforce Investment Act. In addition, some states also provide financial aid to our students in the form of grants, loans or scholarships. The eligibility requirements for state financial aid and these other federal aid programs vary among the funding agencies and by program. States that provide financial aid to our students are facing significant budgetary constraints. Some states have reduced the level of state financial aid for our students. Due to state budgetary shortfalls and constraints in certain states in which we operate, we believe that the overall level of state financial aid for our students is likely to decrease in the near term, but we cannot predict how significant any such reductions will be or how long they will last.

In addition to Title IV and other government-administered programs, all of our schools participate in alternative loan programs for their students. Alternative loans fill the gap between what the student receives from all financial aid sources and what the student may need to cover the full cost of their education. Students or their parents can apply to a number of different lenders for this funding at current market interest rates.

## ***Reorganization***

We were founded in 1946 as Lincoln Technical Institute, Inc. In February 2003, we reorganized our corporate structure to create a holding company, Lincoln Educational Services Corporation. The ownership of Lincoln Educational Services Corporation was identical to that of Lincoln Technical Institute, Inc. immediately prior to this reorganization. We subsequently began operating our entire organization under the Lincoln Educational Services Corporation name; however, before this reorganization, all of our interaction with the DOE, state and federal regulators and accrediting agencies was conducted by Lincoln Technical Institute, Inc.

## ***Regulation of Federal Student Financial Aid Programs***

To participate in Title IV Programs, an institution must be authorized to offer its programs by the relevant state education agencies in the state in which it is physically located, be accredited by an accrediting commission recognized by the DOE and be certified as eligible by the DOE. The DOE will certify an institution to participate in Title IV Programs only after the institution has demonstrated compliance with the Higher Education Act of 1965, as amended, HEA, or Higher Education Act, and the DOE's extensive regulations regarding institutional eligibility. The DOE defines an institution to consist of both a main campus and its additional locations, if any. Under this definition, for DOE purposes, we had the following 20 institutions as of December 31, 2010, collectively consisting of 20 main campuses and 25 additional locations:

| <b>Brand</b>                       | <b>Main Campus (es)</b>   | <b>Additional Location (s)</b>   |  |
|------------------------------------|---|--|--|
| <b>Lincoln Technical Institute</b> | Union, NJ   | Mahwah, NJ<br>Queens, NY   |  |
|                                    | Philadelphia, PA<br>Allentown, PA<br>Edison, NJ                           | Moorestown, NJ<br>Paramus, NJ<br>Philadelphia, PA (Center City)<br>Philadelphia, PA (Northeast)  |  |
|                                    | Somerville, MA<br>Lincoln, RI   | Lowell, MA<br>Marietta, GA *<br>Brockton, MA<br>Henderson, NV (Green Valley)**<br>Las Vegas, NV (Summerlin)**<br>Las Vegas, NV (Aliante)** |  |
|                                    | New Britain, CT   | Shelton, CT<br>Cromwell, CT<br>Hamden, CT  |  |
|                                    | East Windsor, CT<br>Hartford, CT<br>South Plainfield, NJ<br>Fern Park, FL | Suffield, CT<br>Seminole, FL   |  |
|                                    | <b>Lincoln College of Technology</b>                                      | Indianapolis, IN<br>Grand Prairie, TX<br>Melrose Park, IL<br>Columbia, MD<br>Denver, CO<br>West Palm Beach, FL<br>Dayton, OH               | Cincinnati, OH (Vine Street)<br>Franklin, OH<br>Cincinnati, OH (Northland Blvd.)<br>Florence, KY<br>Toledo, OH<br>Columbus, OH |
|                                    |   | <b>Nashville Auto Diesel College</b>   | Nashville, TN  |
|                                    |   | <b>Lincoln College of New England</b>  | Southington, CT<br>Suffield, CT<br>Hartford, CT  |

\* This campus operates under the Lincoln College of Technology brand.

\*\* These campuses operate under the Euphoria Institute of Beauty Arts & Sciences brand.

All of our main campuses, including their additional locations, are currently certified by the DOE under provisional status until September 30, 2013 to participate in the Title IV Programs except for Southington, CT that has been certified by the DOE under provisional status until June 30, 2013. The provisional certification at each institution is due to the change in ownership resulting in a change of control that the DOE determined resulted from the sale in 2010 by our then largest stockholder of a portion of its ownership in our company except for Southington, CT which received provisional certification due to its merger with Clemens College. In addition, our Denver institution is provisionally certified as a result of the change in ownership and because its default rate under the Federal Perkins Loan program that was published most recently prior to the effective date of its program participation agreement exceeded 30%. Currently, each of our institutions may apply to the DOE for recertification to participate in the Title IV programs on a non-provisional basis at least 90 days prior to the expiration date of its current program participation agreement.

The DOE, accrediting commissions and state education agencies have responsibilities for overseeing compliance with Title IV Program requirements. As a result, each of our schools is subject to detailed oversight and review, and must comply with a complex framework of laws and regulations. Because the DOE periodically revises its regulations and changes its interpretation of existing laws and regulations, we cannot predict with certainty how the Title IV Program requirements will be applied in all circumstances.

Significant factors relating to Title IV Programs that could adversely affect us include the following:

***Congressional Action.*** Political and budgetary concerns significantly affect Title IV Programs. Congress periodically revises the HEA and other laws governing the Title IV programs. On August 14, 2008, the Higher Education Opportunity Act, Public Law 110-315, reauthorized the Title IV HEA programs through at least September 30, 2014. The HEA reauthorization among other things revises the 90/10 Rule, as described below, revises the calculation of an institution's cohort default rate, requires additional disclosures and certifications with respect to non-Title IV alternative loans, prohibits certain activities or relations between lenders and schools to discourage preferential treatment of lenders based on factors not in students' best interests, and makes other changes.

In addition, Congress reviews and determines federal appropriations for Title IV Programs on an annual basis. Congress can also make changes in the laws affecting Title IV Programs in the annual appropriations bills and in other laws it enacts between the Higher Education Act reauthorizations. Because a significant percentage of our revenues are derived from Title IV Programs, any action by Congress that significantly reduces Title IV Program funding or the ability of our schools or students to participate in Title IV Programs could reduce our student enrollment and our revenues. Congressional action may also increase our administrative costs and require us to modify our practices in order for our schools to comply fully with Title IV Program requirements.

The Health, Education, Labor and Pensions Committee of the U.S. Senate, or the HELP Committee, held several hearings in 2010 focusing on the proprietary education sector. In August 2010, the HELP Committee issued a wide-ranging request for information from 30 proprietary education entities, including our company. We responded to this request, and in February 2011 to a follow-up request, and intend to continue cooperating with the HELP Committee. The HELP Committee has scheduled a hearing in March 2011 and is expected to convene one or more additional hearings in 2011.

We cannot predict what, if any, legislation or other actions will be taken or proposed by the HELP Committee or Congress in response to the hearings, the requests for information from our company and other entities, or other activities of the Committee or Congress. Any action by Congress that significantly reduces funding for Title IV Programs or that limits or restricts the ability of our schools, programs, or students to receive funding through those programs, or that imposes new restrictions or constraints upon our business or operations could result in increased administrative costs and decreased profit margin. In addition, current requirements for student or school participation in Title IV programs may change or one or more of the present Title IV programs could be replaced by other programs with materially different student or school eligibility requirements. If we cannot comply with the provisions of the HEA, as they may be revised, or if the cost of such compliance is excessive, or if funding is materially reduced, our revenues or profit margin could be materially adversely affected.

***DOE Development of New Regulations.*** The DOE published two Notices of Proposed Rulemaking, or NPRM, in June and July 2010 which proposed new regulations related to 14 "program integrity" topics. The DOE issued final regulations on October 29, 2010 addressing each of these topics, except for regulations imposing additional eligibility requirements on educational programs subject to the DOE requirement of preparing students for gainful employment in a recognized occupation. The topics covered in the final regulations published on October 29, 2010, which have a general effective date of July 1, 2011, include, but are not limited to: revisions to the incentive compensation rule, a significant expansion of the notice and approval requirements for adding new academic programs and new reporting and disclosure requirements for such programs, the definition of high school diploma for the purpose of establishing institutional eligibility to participate in the Title IV programs and student eligibility to receive Title IV aid, ability to benefit students, misrepresentation of information provided to students and prospective students, incentive compensation, state authorization as a component of institutional eligibility, agreements between institutions of higher education, verification of information included on student aid applications, satisfactory academic progress, monitoring grade point averages, retaking coursework, return of Title IV funds with respect to term-based programs with modules or compressed courses and with respect to taking attendance, and the timeliness and method of disbursements of Title IV funds. The topics covered in the October 2010 final regulations also include a new federal definition of a "credit hour" for federal student aid purposes, which new definition may result in changes to the number of credit hours awarded for certain of our educational programs and in changes to the amount of federal student aid available to students enrolled in such programs. The implementation of all of the October 2010 final regulations will require us to change our practices to comply with these requirements. The changes to our practices,



or our inability to comply with the final regulations on or after their effective date, could have a material adverse effect on our business and results of operations.

The DOE has announced its intent to issue in early 2011 final regulations regarding gainful employment that would go into effect on July 1, 2012 and would apply to all educational programs that are subject to the DOE requirement of preparing students for gainful employment in a recognized occupation, which would include all of the Title IV-eligible educational programs at each of our institutions. The proposed gainful employment regulations in the July 2010 NPRM would, among other things, measure each educational program against threshold benchmarks in each of two categories: (1) an annual loan repayment rate and (2) an annual student debt measure comparing the median annual student loan payment by program to average annual earnings and to discretionary income. The various formulas are calculated under complex methodologies and definitions outlined in the proposed regulations, and would be based on data that may not be readily accessible to institutions. An educational program that does not achieve threshold rates in either or both category could (1) lose its Title IV eligibility, (2) be placed on restricted status, (3) be required to provide annual employer affirmations that the program aligns with recognized occupations at their businesses and that there are projected job vacancies or expected demand for those occupations at those businesses, (4) be subject to limits on enrollment of Title IV recipients, and/or (5) be required to provide disclosures and warnings to current and prospective students that they may have difficulty repaying loans obtained for attending that program. An institution with one or more ineligible programs or programs on restricted status would be subject to provisional certification.

The implementation of regulatory changes proposed in the July 2010 NPRM, or any other changes the DOE may propose and implement, could require us to eliminate certain educational programs, and could have a material adverse effect on the rate at which students enroll in our programs and on our business and results of operations. The regulations proposed in the July 2010 NPRM are not final regulations and remain subject to further review and change pending publication of the final regulations in the Federal Register. We are closely monitoring and continuing to evaluate the regulatory changes which result from the rulemaking process.

***The "90/10 Rule."*** Under the HEA reauthorization, a proprietary institution that derives more than 90% of its total revenue from the Title IV programs, or 90/10 Rule percentage, for two consecutive fiscal years becomes immediately ineligible to participate in the Title IV programs and may not reapply for eligibility until the end of two fiscal years. An institution with revenues exceeding 90% for a single fiscal year ending after August 14, 2008 will be placed on provisional certification and may be subject to other enforcement measures. Under prior law, an institution would immediately lose its eligibility to participate in Title IV Programs if it derived more than 90% of its revenue (calculated based on cash receipts) from those programs in any fiscal year as calculated in accordance with DOE regulations and would be ineligible to apply to regain its eligibility until the following fiscal year. If one of our institutions violated the 90/10 Rule and became ineligible to participate in Title IV Programs but continued to disburse Title IV Program funds, the DOE would require the institution to repay all Title IV Program funds received by the institution after the effective date of the loss of eligibility.

We have calculated that, for our 2010 fiscal year, our institutions' 90/10 Rule percentages ranged from 62.1% to 96.9%. Our Dayton institution (consisting of a main campus and six additional locations) had a 90/10 Rule percentage of 96.9% and was our only institution with a 90/10 Rule percentage above 90%. For 2009 and 2008, none of our institutions derived more than 90% of their revenues from Title IV Programs. We regularly monitor compliance with this requirement to minimize the risk that any of our institutions would derive more than the maximum percentage of its revenues from Title IV Programs for any fiscal year.

Effective July 1, 2008, the annual Stafford loans available for undergraduate students under the Federal Family Education Loan Program, or FFEL, increased. This loan limit increase, coupled with recent increases in grants from the Pell program and other Title IV loan limits, will result in some of our schools experiencing an increase in the revenues they receive from the Title IV programs. The HEA reauthorization provided temporary relief from the impact of the loan limit increases by counting as non-Title IV revenue in the 90/10 Rule calculation amounts received from loans received between July 1, 2008 and June 30, 2011 that are attributable to the increased annual loan limits. The HEA authorization also provided other relief by allowing institutions to include as non-Title IV revenue in its 90/10 Rule calculation the net present value of certain institutional loans subject to certain limitations and conditions. During 2010, we have seen a reduction in the loan commitments we offer our students to help them bridge the gap between the tuition charged for their particular program and the amount of grants, third-party loans and parental assistance each student receives. We believe that these reductions are due to increases in student loan limits available to students as well as an increase in Pell Grants. As a result, a greater percentage of students are able to finance their educations entirely from financial aid sources. While this provides greater opportunities for our students, it also severely impacts our ability to comply with the 90/10 Rule. Because of the increases in Title IV student loan limits and grants in recent years, it will be increasingly difficult for us to comply with the 90/10 Rule without increasing tuition prices above the applicable maximums for Title IV student loans and grants, because this is one of the more effective methods of reducing the 90/10 Rule percentage, although this method may not be successful. Moreover, the above-mentioned relief from certain loan limit increases is scheduled to expire for loans received on or after July 1, 2011, and the above-mentioned institutional loan relief is scheduled to expire for institutional loans made on or after July 1, 2012. If any of our institutions loses eligibility to participate in Title IV programs, that loss would cause an event of default under our credit agreement, and would also adversely affect our students' access to various government-sponsored student financial aid programs, which could have a material adverse effect on the rate at which our students enroll in our programs and on our business and results of operations.

**Student Loan Defaults.** An institution may lose its eligibility to participate in some or all Title IV Programs if the rates at which the institution's current and former students default on their federal student loans exceed specified percentages. The DOE calculates these rates based on the number of students who have defaulted, not the dollar amount of such defaults. The DOE calculates an institution's cohort default rate (as defined by the DOE regulations) on an annual basis as the rate at which borrowers scheduled to begin repayment on their loans in one year default on those loans by the end of the next year (two year ratio). An institution whose Federal Family Education Loan and Federal Direct Loan cohort default rate is 25% or greater for three consecutive federal fiscal years loses eligibility to participate in the Federal Family Education Loan, Federal Direct Loan, and Pell programs for the remainder of the federal fiscal year in which the DOE determines that such institution has lost its eligibility and for the two subsequent federal fiscal years. An institution whose Federal Family Education Loan and Federal Direct Loan cohort default rate for any single federal fiscal year exceeds 40% loses its eligibility to participate in the Federal Family Education Loan and Federal Direct Loan programs for the remainder of the federal fiscal year in which the DOE determines that such institution has lost its eligibility and for the two subsequent federal fiscal years. If an institution's cohort default rate equals or exceeds 25% in any of its three most recent fiscal years, the institution may be placed on provisional certification status.

The HEA has been amended by the Higher Education Opportunity Act, or HEOA, to provide for the calculation of an institution's cohort default rate using a three-year period, beginning with the cohort default rate for the 2009 federal fiscal year. Under the HEA reauthorization, an institution's cohort default rate is redefined to be based on the rate at which its former students default on their FFEL and FDL loans over a period of time that is one year longer than the period of time over which rates currently are calculated. As a result, most institutions' respective cohort default rates are expected to increase under the new provision, which first would apply to cohort default rates for the 2009 federal fiscal year. The DOE will not impose sanctions based on rates calculated under the new provision until three consecutive years have been calculated under the new method. Until that time, the DOE will continue to calculate rates under the old method and impose sanctions based on those rates. The HEOA also increases the cohort default three-year threshold from 25% to 30% effective for three year cohort default rates issued beginning in federal fiscal year 2012.

On September 13, 2010 the DOE published final two year cohort default rates for each of our institutions for the 2008 fiscal year, which rates range from 4.1% to 26.3%. As a result, one of our institutions had a cohort default rate (as defined by the DOE) of 25% or greater for the 2008 federal fiscal year. The following table sets forth the cohort default rates for each of our 21 DOE institutions for the federal fiscal years 2008, 2007 and 2006, the three most recent years for which the DOE has published such rates:

| <b>Institution</b>     | <b>2008</b> | <b>2007</b> | <b>2006</b> |
|------------------------|-------------|-------------|-------------|
| Union, NJ              | 14.3%       | 12.6%       | 10.8%       |
| Indianapolis, IN       | 12.0%       | 13.0%       | 12.3%       |
| Philadelphia, PA       | 20.9%       | 19.9%       | 15.0%       |
| Columbia, MD           | 13.7%       | 12.5%       | 12.0%       |
| Allentown, PA          | 11.2%       | 10.3%       | 10.1%       |
| Melrose Park, IL       | 16.0%       | 18.1%       | 11.8%       |
| Grand Prairie, TX      | 26.3%       | 22.0%       | 19.3%       |
| Edison, NJ             | 17.4%       | 16.3%       | 14.5%       |
| Denver, CO             | 11.7%       | 11.0%       | 11.1%       |
| Nashville, TN          | 7.8%        | 7.2%        | 5.6%        |
| Lincoln, RI            | 14.0%       | 12.9%       | 14.9%       |
| Somerville, MA         | 11.8%       | 12.3%       | 12.3%       |
| Dayton, OH             | 20.2%       | 13.5%       | 9.9%        |
| New Britain, CT        | 9.0%        | 9.1%        | 11.2%       |
| West Palm Beach, FL    | 14.2%       | 10.3%       | 9.9%        |
| Southington, CT*       | 18.6%       | 22.9%       | 10.2%       |
| South Plainfield, NJ** | 4.6%        | 9.4%        | 6.3%        |
| Fern Park, FL**        | 7.0%        | 5.9%        | 6.2%        |
| Hartford, CT**         | 4.1%        | 6.5%        | 5.3%        |
| East Windsor, CT**     | 6.3%        | 9.5%        | 6.1%        |
| Clemens College, CT*** | 5.3%        | 0.0%        | 0.0%        |

\* This institution was acquired on December 1, 2008.

\*\* These institutions were acquired on January 20, 2009.

\*\*\* This institution was acquired on April 20, 2009.

On February 14, 2011, the DOE issued draft two year cohort default rates for the 2009 federal fiscal year. The draft rates are not final and may be subject to appeal and further upward or downward revisions before the DOE publishes final rates, which is expected to occur in September 2011. The draft 2009 rates ranged from 10.6% to 35.7%. Our Philadelphia, PA, Grand Prairie, TX, Melrose Park, IL, Denver, CO and Somerville, MA institutions had cohort default rates over 25%. We plan to appeal our 2009 draft rates.

On February 4, 2011 the DOE released unofficial trial three year cohort default rates for federal fiscal year 2008. These unofficial rates continue to be for information purposes only and are calculated using the abovementioned methodology for calculating three-year cohort default rates. No benefits or sanctions apply to these trial rates. In December 2009, the DOE issued an electronic announcement explaining the future changes to the methodology for calculating an institution's cohort default rate based on defaults occurring over a three-year period, rather than a two-year period, and released unofficial trial three-year cohort default rates for the 2005, 2006, and 2007 federal fiscal years. The rates for our institutions under the new methodology ranged from 10.6% to 37.0% for the 2006 federal fiscal year, from 16.2% to 42.2% for the 2007 federal fiscal year and from 19.3% to 47.5% for the 2008 federal fiscal year. Our official cohort default rates for institutions for these same time periods as published by the DOE range from 0% to 19.3% for the 2006 federal fiscal year, from 0% to 22.9% for the 2007 federal fiscal year and from 4.1% to 26.3% for the 2008 federal fiscal year. The DOE stated in the electronic announcement that the publication of these rates is for informational purposes only and that no sanctions will be imposed based on these rates. If the final 2009 fiscal year cohort default rate for Grand Prairie is 25% or greater, then the rate would be the institution's second consecutive fiscal year cohort default rate of 25% or greater. None of the other four institutions with a draft 2009 rate of 25% or greater had a cohort default rate of 25% or greater for the 2008 fiscal year.

### ***Perkins Loan Program***

An institution whose Perkins cohort default rate is 50% or greater for three consecutive federal award years loses eligibility to participate in the Perkins program for the remainder of the federal award year in which DOE determines that the institution has lost its eligibility and for the two subsequent federal award years. None of our institutions has had a Perkins cohort default rate of 50% or greater for any of the last three federal award years. The DOE also will not provide any additional federal funds to an institution for Perkins loans in any federal award year in which the institution's Perkins cohort default rate is 25% or greater. Such institutions also may be subject to provisional certification. Our Denver, Colorado institution, or Denver, and our New Britain, Connecticut institution, or New Britain, are our only institutions participating in the Perkins program. Denver's Perkins cohort default rate was 27.1% for students scheduled to begin repayment in the 2008-2009 federal award year. The DOE did not provide any additional Federal Capital Contribution Funds for Perkins loans to Denver. Denver continues to make loans out of its existing Perkins loan fund. Denver is provisionally certified because its default rate under the Federal Perkins Loan program that was published most recently prior to the effective date of its program participation agreement exceeded 30.0% and also based on its change in ownership. New Britain institution's cohort default rate was 20.0% for students scheduled to begin repayment in the 2008-2009 federal award year. New Britain is provisionally certified by the DOE based on its change in ownership.

***Financial Responsibility Standards.*** All institutions participating in Title IV Programs must satisfy specific standards of financial responsibility. The DOE evaluates institutions for compliance with these standards each year, based on the institution's annual audited financial statements, as well as following a change in ownership resulting in a change of control of the institution.

The most significant financial responsibility measurement is the institution's composite score, which is calculated by the DOE based on three ratios:

- The equity ratio, which measures the institution's capital resources, ability to borrow and financial viability;
- The primary reserve ratio, which measures the institution's ability to support current operations from expendable resources; and
- The net income ratio, which measures the institution's ability to operate at a profit.

The DOE assigns a strength factor to the results of each of these ratios on a scale from negative 1.0 to positive 3.0, with negative 1.0 reflecting financial weakness and positive 3.0 reflecting financial strength. The DOE then assigns a weighting percentage to each ratio and adds the weighted scores for the three ratios together to produce a composite score for the institution. The composite score must be at least 1.5 for the institution to be deemed financially responsible without the need for further oversight. If an institution's composite score is below 1.5, but is at least 1.0, it is in a category denominated by the DOE as "the zone." Under the DOE regulations, institutions that are in the zone are deemed to be financially responsible for a period of up to three years but are required to accept payment of Title IV Program funds under the cash monitoring or reimbursement method of payment and to provide to the DOE timely information regarding various oversight and financial events.

If an institution's composite score is below 1.0, the institution is considered by the DOE to lack financial responsibility. If the DOE determines that an institution does not satisfy the DOE's financial responsibility standards, depending on its composite score and other factors, that institution may establish its financial responsibility on an alternative basis by, among other things:

- Posting a letter of credit in an amount equal to at least 50% of the total Title IV Program funds received by the institution during the institution's most recently completed fiscal year;
- Posting a letter of credit in an amount equal to at least 10% of such prior year's Title IV Program funds, accepting provisional certification, complying with additional DOE monitoring requirements and agreeing to receive Title IV Program funds under an arrangement other than the DOE's standard advance funding arrangement; and/or
- Complying with additional DOE monitoring requirements and agreeing to receive Title IV Program funds under an arrangement other than the DOE's standard advance funding arrangement.

The DOE has evaluated the financial responsibility of our institutions on a consolidated basis. We have submitted to the DOE our audited financial statements for the 2008 and 2009 fiscal years reflecting a composite score of 1.8 and 2.0, respectively, based upon our calculations, and that our schools meet the DOE standards of financial responsibility. For the 2010 fiscal year, we have calculated our composite score to be 1.8. However, this is subject to determination by the DOE once it receives and reviews our audited financial statements for the 2010 fiscal year.

***Return of Title IV Funds.*** An institution participating in Title IV Programs must calculate the amount of unearned Title IV Program funds that have been disbursed to students who withdraw from their educational programs before completing them, and must return those unearned funds to the DOE or the applicable lending institution in a timely manner, which is generally within 45 days from the date the institution determines that the student has withdrawn.

If an institution is cited in an audit or program review for returning Title IV Program funds late for 5% or more of the students in the audit or program review sample, the institution must post a letter of credit in favor of the DOE in an amount equal to 25% of the total amount of Title IV Program funds that should have been returned for students who withdrew in the institution's previous fiscal year. None of our institutions are currently required to submit a letter of credit to the DOE based on late return of Title IV funds.

***School Acquisitions.*** When a company acquires a school that is eligible to participate in Title IV Programs, that school undergoes a change of ownership resulting in a change of control as defined by the DOE. Upon such a change of control, a school's eligibility to participate in Title IV Programs is generally suspended until it has applied for recertification by the DOE as an eligible school under its new ownership, which requires that the school also re-establish its state authorization and accreditation. The DOE may temporarily and provisionally certify an institution seeking approval of a change of control under certain circumstances while the DOE reviews the institution's application. The time required for the DOE to act on such an application may vary substantially. DOE recertification of an institution following a change of control will be on a provisional basis. Our expansion plans are based, in part, on our ability to acquire additional schools and have them certified by the DOE to participate in Title IV Programs. Our expansion plans take into account the approval requirements of the DOE and the relevant state education agencies and accrediting commissions.

***Change of Control.*** In addition to school acquisitions, other types of transactions can also cause a change of control. The DOE, most state education agencies and our accrediting commissions have standards pertaining to the change of control of schools, but these standards are not uniform. DOE regulations describe some transactions that constitute a change of control, including the transfer of a controlling interest in the voting stock of an institution or the institution's parent corporation. For a publicly traded corporation, DOE regulations provide that a change of control occurs in one of two ways: (a) if a person acquires ownership and control of the corporation so that the corporation is required to file a Current Report on Form 8-K with the Securities and Exchange Commission disclosing the change of control or (b) if the corporation has a shareholder that owns at least 25% of the total outstanding voting stock of the corporation and is the largest shareholder of the corporation, and that shareholder ceases to own at least 25% of such stock or ceases to be the largest shareholder. These standards are subject to interpretation by the DOE. A significant purchase or disposition of our common stock could be determined by the DOE to be a change of control under this standard.

Most of the states and our accrediting commissions include the sale of a controlling interest of common stock in the definition of a change of control although some agencies could determine that the sale or disposition of a smaller interest would result in a change of control. A change of control under the definition of one of these agencies would require the affected school to reaffirm its state authorization or accreditation. Some agencies would require approval prior to a sale or disposition that would result in a change of control in order to maintain authorization or accreditation. The requirements to obtain such reaffirmation from the states and our accrediting commissions vary widely.

A change of control could occur as a result of future transactions in which our company or schools are involved. Some corporate reorganizations and some changes in the board of directors are examples of such transactions. Moreover, the potential adverse effects of a change of control could influence future decisions by us and our stockholders regarding the sale, purchase, transfer, issuance or redemption of our stock. In addition, the adverse regulatory effect of a change of control also could discourage bids for your shares of common stock and could have an adverse effect on the market price of our shares.

***Opening Additional Schools and Adding Educational Programs.*** For-profit educational institutions must be authorized by their state education agencies and be fully operational for two years before applying to the DOE to participate in Title IV Programs. However, an institution that is certified to participate in Title IV Programs may establish an additional location and apply to participate in Title IV Programs at that location without reference to the two-year requirement, if such additional location satisfies all other applicable DOE eligibility requirements. Our expansion plans are based, in part, on our ability to open new schools as additional locations of our existing institutions and take into account the DOE's approval requirements.

A student may use Title IV Program funds only to pay the costs associated with enrollment in an eligible educational program offered by an institution participating in Title IV Programs. Generally, an institution that is eligible to participate in Title IV Programs may add a new educational program without DOE approval if that new program leads to an associate's level or higher degree and the institution already offers programs at that level, or if that program prepares students for gainful employment in the same or a related occupation as an educational program that has previously been designated as an eligible program at that institution and meets minimum length requirements.

If an institution erroneously determines that an educational program is eligible for purposes of Title IV Programs, the institution would likely be liable for repayment of Title IV Program funds provided to students in that educational program. Our expansion plans are based, in part, on our ability to add new educational programs at our existing schools. We do not believe that current DOE regulations will create significant obstacles to our plans to add new programs.

Under final regulations published in October 2010 and effective July 1, 2011, a proprietary institution must notify the DOE at least 90 days before the first day of a new additional program (as defined by applicable DOE regulations). The new regulations apply to both degree-granting and non-degree granting educational programs. The notice must describe how the institution determined the need for the new program and how the program was designed to meet local market needs, or for an online program, regional or national market needs. The institution must also describe how the program was reviewed or approved by, or developed in conjunction with, business advisory committees, program integrity boards, public or private oversight or regulatory agencies and businesses that would likely employ graduates of the program. The institution must include in its notice that the program has been approved by its accrediting agency or is otherwise included in the institution's accreditation by its accrediting agency, as well as a description of any wage analysis it may have performed that is related to the new program. Unless otherwise required by the DOE to obtain approval for the new program, an institution that provides a notice may proceed with its plans to offer the new program based on its determination that the program is an eligible program that prepares students for gainful employment in a recognized occupation. However, the DOE may alert the institution, at least 30 days before the first day of class, that the DOE must approve the program for Title IV purposes. If any new program submitted by our institutions is identified as being subject to DOE review and approval for Title IV purposes, it could result in difficulties or delays in introducing the program, which could have a negative impact on our growth and enrollments.

Some of the state education agencies and our accrediting commission also have requirements that may affect our schools' ability to open a new campus, establish an additional location of an existing institution or begin offering a new educational program. Any institution required to submit retention data to the ACICS may be required to obtain prior permission from the ACICS for the initiation of any new program or new branch campus or learning site. We do not believe that these standards will create significant obstacles to our expansion plans.

***Administrative Capability.*** The DOE assesses the administrative capability of each institution that participates in Title IV Programs under a series of separate standards. Failure to satisfy any of the standards may lead the DOE to find the institution ineligible to participate in Title IV Programs or to place the institution on provisional certification as a condition of its participation. These criteria require, among other things, that the institution:

- Comply with all applicable federal student financial aid regulations;
- Have capable and sufficient personnel to administer the federal student financial aid programs;
- Administer Title IV programs with adequate checks and balances in its system of internal controls over financial reporting;
- Divides the function of authorizing and disbursing or delivering Title IV Program Funds so that no office has the responsibility for both functions;
- Establish and maintain records required under the Title IV regulations;
- Develop and apply an adequate system to identify and resolve discrepancies in information from sources regarding a student's application for financial aid under Title IV;
- Have acceptable methods of defining and measuring the satisfactory academic progress of its students;
- Refer to the Office of the Inspector General any credible information indicating that any applicant, student, employee or agent of the school has been engaged in any fraud or other illegal conduct involving Title IV Programs;
- Not be, and not have any principal or affiliate who is, debarred or suspended from federal contracting or engaging in activity that is cause for debarment or suspension;
- Provide financial aid counseling to its students;
- Submit in a timely manner all reports and financial statements required by the regulations; and
- Not otherwise appear to lack administrative capability.

Failure by an institution to satisfy any of these or other administrative capability criteria could cause the institution to lose its eligibility to participate in Title IV Programs, which would have a material adverse effect on our business and results of operations.

Other standards provide that an institution may be found to lack administrative capability and be placed on provisional certification if its student loan default rate under the Federal Family Education Loan and Federal Direct Loan program is 25% or greater for any of the three most recent federal fiscal years, or if its Perkins cohort default rate exceeds 15%. Our Grand Prairie institution had a Federal Family Education Loan and Federal Direct Loan cohort default rate above 25% for the 2008 federal fiscal year. None of our institutions had a Federal Family Education Loan and Federal Direct Loan cohort default rate above 25% for the 2006 or 2007 federal fiscal years. Our Denver institution's Perkins Loan cohort default rate was 27.1% for students scheduled to begin repayment in the 2009-2010 federal award year. Institutions with default rates that exceed statutory or regulatory benchmarks may be subject to consequences that include but are not limited to loss of eligibility to participate in the Title IV programs. See "Regulatory Environment – Student Loan Defaults" and "Regulatory Environment – Perkins Loans Program."

***Ability to Benefit Regulations.*** Under certain circumstances, an institution may elect to admit non-high school graduates, or "ability to benefit," students, into certain of its programs of study. In order for ability to benefit students to be eligible for Title IV Program participation, the institution must comply with the ability to benefit requirements set forth in the Title IV Program requirements. The basic evaluation method to determine that a student has the ability to benefit from the program is the student's achievement of a minimum score on a test approved by the DOE and independently administered in accordance with DOE regulations. The HEOA provisions also permit students to demonstrate their ability to benefit and become eligible to receive Title IV funds upon satisfactory completion of six credit hours or the equivalent coursework. In addition to the testing requirements, the DOE regulations also prohibit ability to benefit student enrollments from constituting 50% or more of the total enrollment of the institution. In 2010, the following schools were authorized to enroll "ability to benefit" applicants: Southwestern College, New Britain, Cromwell, Shelton, Hamden, Union, Mahwah, Indianapolis, Melrose Park, Grand Prairie, Somerville, Denver, West Palm Beach, Center City Philadelphia, Northeast Philadelphia, Paramus, Moorestown, Marietta, Lowell, Edison, Brockton, Allentown, Las Vegas (Summerlin), Hartford, Suffield, Fern Park, Seminole, BRI and South Plainfield.

***Restrictions on Payment of Commissions, Bonuses and Other Incentive Payments.*** An institution participating in Title IV Programs may not provide any commission, bonus or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any person or entity engaged in any student recruiting or admission activities or in making decisions regarding the awarding of Title IV Program funds. The DOE's current regulations establish twelve "safe harbors" identifying types of compensation that could be paid without violating the incentive compensation rule. On October 29, 2010, the DOE adopted final rules effective July 1, 2011 that amended the incentive compensation rule by, among other things, eliminating the twelve safe harbors (and thereby reducing the scope of permissible payments under the rule) and expanding the scope of payments and employees subject to the rule. The DOE has stated that it does not intend to provide private guidance regarding particular compensation structures in the future and will enforce the regulations as written. We cannot predict how the DOE will interpret and enforce the revised incentive compensation rule. The implementation of the final regulations will require us to change our compensation practices and could have a material adverse effect on the rate at which students enroll in our programs and on our business and results of operations.

***Eligibility and Certification Procedures.*** Each institution must periodically apply to the DOE for continued certification to participate in Title IV Programs. The institution must also apply for recertification when it undergoes a change in ownership resulting in a change of control. The institution also may come under DOE review when it undergoes a substantive change that requires the submission of an application, such as opening an additional location or raising the highest academic credential it offers.

The DOE may place an institution on provisional certification status if it determines that the institution does not fully satisfy certain administrative and financial standards or if the institution undergoes a change in ownership resulting in a change of control. As a result of our then largest shareholder's sale of a portion of its ownership in our company during 2010, all institutions went through a change in ownership and were issued provisional program participation agreements. The DOE may withdraw an institution's provisional certification with the institution having fewer due process protections than if it were fully certified. In addition, the DOE may more closely review an institution that is provisionally certified if it applies for approval to open a new location, add an educational program, acquire another school or make any other significant change. Provisional certification does not otherwise limit an institution's access to Title IV Program funds.

All institutions are recertified on various dates for various amounts of time. The following table sets forth the expiration dates for each of our institutions' current program participation agreements:

| <b>Institution</b>   | <b>Expiration Date of Current Program Participation Agreement</b> |
|----------------------|---|
| Allentown, PA        | September 30, 2013*   |
| Columbia, MD         | September 30, 2013*   |
| Philadelphia, PA     | September 30, 2013*   |
| Denver, CO           | September 30, 2013**  |
| Lincoln, RI          | September 30, 2013*   |
| Nashville, TN        | September 30, 2013*   |
| Somerville, MA       | September 30, 2013*   |
| Edison, NJ           | September 30, 2013*   |
| Union, NJ            | September 30, 2013*   |
| Grand Prairie, TX    | September 30, 2013*   |
| Indianapolis, IN     | September 30, 2013*   |
| Melrose Park, IL     | September 30, 2013*   |
| Dayton, OH           | September 30, 2013*   |
| New Britain, CT      | September 30, 2013*   |
| West Palm Beach, FL  | September 30, 2013*   |
| Southington, CT      | June 30, 2013***  |
| East Windsor, CT     | September 30, 2013*   |
| Fern Park, FL        | September 30, 2013*   |
| South Plainfield, NJ | September 30, 2013*   |
| Hartford, CT         | September 30, 2013*   |

\* Provisionally certified as a result of our then largest shareholder's sale of a portion of its ownership in our company during 2010.

\*\* Provisionally certified as a result of our then largest shareholder's sale of a portion of its ownership in our company during 2010 and for having a default rate under the Federal Perkins Loan program in excess of 30%.

\*\*\* Provisionally certified as a result of a merger with Clemens College.

**Compliance with Regulatory Standards and Effect of Regulatory Violations.** Our schools are subject to audits, program reviews, and site visits by various regulatory agencies, including the DOE, the DOE's Office of Inspector General, state education agencies, student loan guaranty agencies, the U.S. Department of Veterans Affairs and our accrediting commissions. In addition, each of our institutions must retain an independent certified public accountant to conduct an annual audit of the institution's administration of Title IV Program funds. The institution must submit the resulting audit report to the DOE for review.

On January 11, 2011, the DOE notified our Philadelphia campus that an on-site Program Review was scheduled to begin on January 31, 2011. The Program Review assessed the Philadelphia campus's administration of Title IV, HEA programs for the 2009-10 and 2010-11 award years. The Program Review concluded on February 4, 2011. The DOE issued a Program Review Report dated February 24, 2011 containing two findings. The institution intends to respond to the report. No liabilities were asserted in the program review report.

On February 28, 2011, the DOE notified our Dayton campus that an on-site Program Review will begin on March 28, 2011 and that the Program Review will assess the institution's administration of the Title IV, HEA programs in which it participates for the 2009-2010 and 2010-2011 award years.

If one of our schools failed to comply with accrediting or state licensing requirements, such school and its main and/or branch campuses could be subject to the loss of state licensure or accreditation, which in turn could result in a loss of eligibility to participate in Title IV Programs. If the DOE determined that one of our institutions improperly disbursed Title IV Program funds or violated a provision of the Higher Education Act or DOE regulations, the institution could be required to repay such funds and related costs to the DOE and lenders, and could be assessed an administrative fine. The DOE could also place the institution on provisional certification and/or transfer the institution to the reimbursement or cash monitoring system of receiving Title IV Program funds, under which an institution must disburse its own funds to students and document the students' eligibility for Title IV Program funds before receiving such funds from the DOE. An institution that is operating under this "Heightened Cash Monitoring, Type 1 status," is required to credit student accounts before drawing down funds under Title IV Programs and to draw down funds in an amount no greater than the previous disbursement to students and parents. Additionally, an institution's compliance audit is required to contain verification that this did occur throughout the year. In addition to the above, the DOE requires institutions to comply with certain requirements if they are operating in "the zone," which is indicative of a composite score between 1.0 and 1.4. Those requirements include providing timely information regarding any of the following oversight and financial events:

- Any adverse action, including a probation or similar action, taken against the institution by its accrediting agency;
- Any event that causes the institution, or related entity to realize any liability that was noted as a contingent liability in the institution's or related entity's most recent audit financial statement;
- Any violation by the institution of any loan agreement;
- Any failure of the institution to make a payment in accordance with its debt obligations that results in a creditor filing suit to recover funds under those obligations;
- Any withdrawal of owner's equity from institution by any means, including declaring a dividend; or
- Any extraordinary losses, as defined in accordance with Accounting Principles Board Opinion No. 30.

Operating under the zone requirements may also require the institution to submit its financial statement and compliance audits earlier than the date previously required and require the institution to provide information about its current operations and future plans. An institution that continues to fail to meet the financial responsibility standards set by the DOE or does not comply with the zone requirements may lose its eligibility to continue to participate in Title IV funding. If eligibility is lost, the institution may be required to post irrevocable letters of credit, for an amount determined by the DOE at a minimum of 50% of the Title IV Program funds received by the institution during its most recently completed fiscal year. The institution may also be required to post irrevocable letters of credit at a minimum of 10% of such funds and be provisionally certified and subject to other reporting and monitoring requirements.

Significant violations of Title IV Program requirements by us or any of our institutions could be the basis for a proceeding by the DOE to limit, suspend or terminate the participation of the affected institution in Title IV Programs or to civil or criminal penalties. Generally, such a termination extends for 18 months before the institution may apply for reinstatement of its participation. There is no DOE proceeding pending to fine any of our institutions or to limit, suspend or terminate any of our institutions' participation in Title IV Programs.

We and our schools are also subject to complaints and lawsuits relating to regulatory compliance brought not only by our regulatory agencies, but also by third parties, such as present or former students or employees and other members of the public. If we are unable to successfully resolve or defend against any such complaint or lawsuit, we may be required to pay money damages or be subject to fines, limitations, loss of federal funding, injunctions or other penalties. Moreover, even if we successfully resolve or defend against any such complaint or lawsuit, we may have to devote significant financial and management resources in order to reach such a result.

***Lenders and Guaranty Agencies.*** In 2010, six lenders provided funding to our schools under the FFEL program. Beginning in June 2009 and continuing through June 30, 2010, we began phasing out FFEL loans and moving all students to the Federal Direct Loan Program. By June 30, 2010, the FFEL program was completely phased out and all loans for the second half of the year were processed through the Federal Direct Loan Program.



**Item 1A. RISK FACTORS**

*The following risk factors and other information included in this Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe are not material may also adversely affect our business, financial condition, operating results, cash flows and prospects.*

**RISKS RELATED TO OUR INDUSTRY**

**Failure of our schools to comply with the extensive regulatory requirements for school operations could result in financial penalties, restrictions on our operations and loss of external financial aid funding, which could affect our revenues and impose significant operating restrictions on us.**

Our schools are subject to extensive regulation by federal and state governmental agencies and by accrediting commissions. In particular, the Higher Education Act of 1965, as amended, and the regulations promulgated thereunder by the DOE, set forth numerous standards that our schools must satisfy to participate in various federal student financial assistance programs under Title IV Programs. In 2010, we derived approximately 83% of our revenues, calculated based on cash receipts, from Title IV Programs. To participate in Title IV Programs, each of our schools must receive and maintain authorization by the applicable education agencies in the state in which each school is physically located, be accredited by an accrediting commission recognized by the DOE and be certified as an eligible institution by the DOE. These regulatory requirements cover the vast majority of our operations, including our educational programs, facilities, instructional and administrative staff, administrative procedures, marketing, recruiting, student performances and outcomes, financial operations and financial condition. These regulatory requirements also affect our ability to acquire or open additional schools, add new educational programs, expand existing educational programs, and change our corporate structure and ownership.

If any of our schools fails to comply with applicable regulatory requirements, the school and its related main campus and/or additional locations could be subject to the loss of state licensure or accreditation, the loss of eligibility to participate in and receive funds under the Title IV Programs, the loss of the ability to grant degrees, diplomas and certificates, provisional certification, or the imposition of liabilities or monetary penalties, each of which could adversely affect our revenues and impose significant operating restrictions upon us. In addition, the loss by any of our schools of its accreditation, its state authorization or license, or its eligibility to participate in Title IV Programs constitutes an event of default under our credit agreement, which we and our subsidiaries entered into with a syndicate of banks on December 1, 2009. An event of default on our credit agreement could result in the acceleration of all amounts then outstanding under our credit agreement. The various regulatory agencies periodically revise their requirements and modify their interpretations of existing requirements and restrictions. We cannot predict with certainty how any of these regulatory requirements will be applied or whether each of our schools will be able to comply with these requirements or any additional requirements instituted in the future.

**Congress may change the laws applicable to, or reduce funding for, Title IV Programs, which could reduce our student population, revenues or profit margin.**

Political and budgetary concerns significantly affect Title IV programs. Congress periodically revises the Higher Education Act and other laws governing Title IV HEA Programs and annually determines the funding level for each Title IV Program. On August 14, 2008, the Higher Education Opportunity Act, Public Law 110-315 was enacted. The HEA reauthorized the Title IV programs through at least September 30, 2014. Any action by Congress that significantly reduces funding for Title IV Programs or the ability of our schools or students to receive funding through those programs could result in increased administrative costs and decreased profit margin.

In addition, Congress reviews and determines federal appropriations for Title IV Programs on an annual basis. Congress can also make changes in the laws affecting Title IV Programs in the annual appropriations bills and in other laws it enacts between the Higher Education Act reauthorizations. Because a significant percentage of our revenues are derived from Title IV Programs, any action by Congress that significantly reduces Title IV Program funding or the ability of our schools or students to participate in Title IV Programs could reduce our student enrollment and our revenues. Congressional action may also increase our administrative costs and require us to modify our practices in order for our schools to comply fully with Title IV Program requirements.

The HELP Committee held several hearings in 2010 focusing on the proprietary education sector. In August 2010, the HELP Committee issued a wide-ranging request for information from thirty proprietary education entities, including our company. We responded to this request, and in February 2011 to a follow-up request, and intend to continue cooperating with the HELP Committee. The HELP Committee is expected to convene one or more additional hearings in 2011.

We cannot predict what if any legislation or other actions will be taken or proposed by the HELP Committee or Congress in response to the hearings, the requests for information from our company and other entities, or other activities of the Committee or Congress. Any action by Congress that significantly reduces funding for Title IV Programs or that limits or restricts the ability of our schools, programs, or students to receive funding through those programs or that imposes new restrictions or constraints upon our business or operations could result in increased administrative costs and decreased profit margin. In addition, current requirements for student or school participation in Title IV programs may change or one or more of the present Title IV programs could be replaced by other programs with materially different student or school eligibility requirements. If we cannot comply with the provisions of the HEA, as they may be revised, or if the

cost of such compliance is excessive, or if funding is materially reduced, our revenues or profit margin could be materially adversely affected.

**The DOE may change its regulations in a manner which could require us to incur additional costs in connection with our administration of the Title IV programs, affect our ability to remain eligible to participate in the Title IV programs, impose restrictions on our participation in the Title IV programs, affect the rate at which students enroll in our programs, or otherwise have a material adverse effect on our business and results of operations.**

The DOE published two NPRMs in the Federal Register in June 2010 and July 2010 which propose new regulations related to Title IV program integrity issues. The DOE issued final regulations on October 29, 2010 addressing each of these topics, except for regulations imposing additional eligibility requirements on educational programs subject to the DOE requirement of preparing students for gainful employment in a recognized occupation. The topics covered in the final regulations published on October 29, 2010, which have a general effective date of July 1, 2011, include, but are not limited to: revisions to the incentive compensation rule, significant expansion of the notice and approval requirements for adding new academic programs and new reporting and disclosure requirements for such programs, the definition of high school diploma for the purpose of establishing institutional eligibility to participate in the Title IV programs and student eligibility to receive Title IV aid, ability to benefit students, misrepresentation of information provided to students and prospective students, incentive compensation, state authorization as a component of institutional eligibility, agreements between institutions of higher education, verification of information included on student aid applications, satisfactory academic progress, monitoring grade point averages, retaking coursework, return of Title IV funds with respect to term-based programs with modules or compressed courses and with respect to taking attendance, and the timeliness and method of disbursements of Title IV funds. The topics covered in the October 2010 final regulations also include a new federal definition of a "credit hour" for federal student aid purposes, which new definition may result in changes to the number of credit hours awarded for certain of our educational programs and in changes to the amount of federal student aid available to students enrolled in such programs. The implementation of all of the October 2010 final regulations will require us to change our practices to comply with these requirements. The changes to our practices, or our inability to comply with the final regulations on or after their effective date, could have a material adverse effect on our business and results of operations.

The DOE has announced its intent to issue in early 2011 final regulations regarding gainful employment that would go into effect on July 1, 2012 and would apply to all educational programs that are subject to the DOE requirement of preparing students for gainful employment in a recognized occupation, which would include all of the Title IV-eligible educational programs at each of our institutions. The proposed gainful employment regulations in the July 2010 NPRM would, among other things, measure each educational program against threshold benchmarks in each of two categories: (1) an annual loan repayment rate and (2) an annual student debt measure comparing the median annual student loan payment by program to average annual earnings and to discretionary income. The various formulas are calculated under complex methodologies and definitions outlined in the proposed regulations, and would be based on data that may not be readily accessible to institutions. An educational program that does not achieve threshold rates in either or both category could (1) lose its Title IV eligibility, (2) be placed on restricted status, (3) be required to provide annual employer affirmations that the program aligns with recognized occupations at their businesses and that there are projected job vacancies or expected demand for those occupations at those businesses, (4) be subject to limits on enrollment of Title IV recipients, and/or (5) be required to provide disclosures and warnings to current and prospective students that they may have difficulty repaying loans obtained for attending that program. An institution with one or more ineligible programs or programs on restricted status would be subject to provisional certification.

The implementation of regulatory changes proposed in the July 2010 NPRM, or any other changes the DOE may propose and implement, could require us to eliminate certain educational programs, and could have a material adverse effect on the rate at which students enroll in our programs and on our business and results of operations. The regulations proposed in the July 2010 NPRM are not final regulations and remain subject to further review and change pending publication of the final regulations in the Federal Register. We are closely monitoring and continuing to evaluate the regulatory changes which result from the rulemaking process.

**If we or our eligible institutions do not meet the financial responsibility standards prescribed by the DOE, we may be required to post letters of credit or our eligibility to participate in Title IV Programs could be terminated or limited, which could significantly reduce our student population and revenues.**

To participate in Title IV Programs, an eligible institution must satisfy specific measures of financial responsibility prescribed by the DOE or post a letter of credit in favor of the DOE and possibly accept other conditions on its participation in Title IV Programs. Any obligation to post one or more letters of credit would increase our costs of regulatory compliance. Our inability to obtain a required letter of credit or limitations on, or termination of, our participation in Title IV Programs could limit our students' access to various government-sponsored student financial aid programs, which could significantly reduce our student population and revenues.

Each year, based on the financial information submitted by an eligible institution that participates in Title IV Programs, the DOE calculates three financial ratios for the institution: an equity ratio, a primary reserve ratio and a net income ratio. Each of these ratios is scored separately and then combined into a composite score to measure the institution's financial responsibility. If the composite score for an institution falls below thresholds established by the DOE, the DOE could place the institution on provisional certification and/or transfer the institution to the reimbursement or cash monitoring system of receiving Title IV Program funds, under which an institution must disburse its own funds to students and document the student's eligibility for Title IV Program funds before receiving such funds from the

DOE. If an institution has a composite score between 1.0 and 1.4, the institution will be required to operate under "Heightened Cash Monitoring, Type 1 status." If an institution's composite score is below 1.0, the institution is considered by the DOE to lack financial responsibility and, as a condition of Title IV Program participation, the institution may be required to, among other things, post a letter of credit in an amount of at least 10 to 50 percent of the institution's annual Title IV Program participation for its most recent fiscal year.

The DOE has evaluated the financial responsibility requirements of our institutions on a consolidated basis. Based on our calculations, our 2010 and 2009 consolidated financial statements reflect a composite score for the Company of 1.8 and 2.0, respectively. However, our 2010 composite score is subject to confirmation by the DOE once it receives and reviews our audited financial statements for the 2010 fiscal year.

**If we fail to demonstrate "administrative capability" to the DOE, our business could suffer.**

DOE regulations specify extensive criteria an institution must satisfy to establish that it has the requisite "administrative capability" to participate in Title IV Programs. For a description of these criteria, see "Regulatory Environment – Administrative Capability."

Other standards provide that an institution may be found to lack administrative capability and be placed on provisional certification if its student loan default rate under the Federal Family Education Loan and Federal Direct Loan program is 25% or greater for any of the three most recent federal fiscal years, or if its Perkins cohort default rate exceeds 15%. Our Grand Prairie institution had a Federal Family Education Loan and Federal Direct Loan cohort default rate above 25% for the 2008 federal fiscal year. None of our institutions had a Federal Family Education Loan and Federal Direct Loan cohort default rate above 25% for the 2006 or 2007 federal fiscal years. Our Denver institution's Perkins Loan cohort default rate was 27.1% for students scheduled to begin repayment in the 2009-2010 federal award year.

If an institution fails to satisfy any of these criteria or any other DOE regulation, the DOE may, among other things:

- Require the repayment of Title IV funds;
- Impose a less favorable payment system for the institution's receipt of Title IV funds;
- Place the institution on provisional certification status; or
- Commence a proceeding to impose a fine or to limit, suspend or terminate the participation of the institution in Title IV Programs.

If we are found not to have satisfied the DOE's "administrative capability" requirements, one or more of our institutions, including its additional locations, could be limited in its access to, or lose, Title IV Program funding. A decrease in Title IV funding could adversely affect our revenue, as we received approximately 83% of our revenue (calculated based on cash receipts) from Title IV Programs in 2010, which would have a material adverse effect on our business and results of operations.

**We are subject to fines and other sanctions if we pay impermissible commissions, bonuses or other incentive payments to individuals involved in certain recruiting, admissions or financial aid activities, which could increase our cost of regulatory compliance and adversely affect our results of operations.**

An institution participating in Title IV Programs may not provide any commission, bonus or other incentive payment based directly or indirectly on success in enrolling students or securing financial aid to any person involved in any student recruiting or admission activities or in making decisions regarding the awarding of Title IV Program funds. The DOE's current regulations establish twelve "safe harbors" identifying types of compensation that could be paid without violating the incentive compensation rule. On October 29, 2010, the DOE issued final rules effective July 1, 2011 that amended the incentive compensation rule by, among other things, eliminating the twelve safe harbors (and thereby reducing the scope of permissible payments under the rule) and expanding the scope of payments and employees subject to the rule. The DOE has stated that it does not intend to provide private guidance regarding particular compensation structures in the future and will enforce the regulations as written. We cannot predict how the DOE will interpret and enforce the revised incentive compensation rule. The implementation of the final regulations will require us to change our compensation practices and could have a material adverse effect on the rate at which students enroll in our programs and on our business and results of operations. If we are found to have violated this law, we could be fined or otherwise sanctioned by the DOE or we could face litigation filed under the *qui tam* provisions of the Federal False Claims Act.

**If our schools do not maintain their state authorizations and their accreditation, they may not participate in Title IV Programs, which could adversely affect our student population and revenues.**

An institution that grants degrees, diplomas or certificates must be authorized by the appropriate education agency of the state in which it is located and, in some cases, other states. Requirements for authorization vary substantially among states. The school must be authorized by each state in which it is physically located in order for its students to be eligible for funding under Title IV Programs. Loss of state authorization by any of our schools from the education agency of the state in which the school is located would end that school's eligibility to participate in Title IV Programs and could cause us to close the school.

Some states have sought to assert jurisdiction over online educational institutions that offer educational services to residents in the state or to institutions that advertise or recruit in the state, notwithstanding the lack of a physical location in the state. State regulatory requirements for online education vary among the states, are not well developed in many states, are imprecise or unclear in some states and are subject to change. If we are found not to be in compliance with an applicable state regulation and a state seeks to restrict one or more of our business activities within its boundaries, we may not be able to recruit or enroll students in that state and may have to cease providing services and advertising in that state.

The DOE published new regulations on October 29, 2010 with an effective date of July 1, 2011, that expand the requirements for an institution to be considered legally authorized in the state in which it is physically located for Title IV purposes. See “Regulatory Environment – State Authorization.” If the states do not amend their requirements where necessary and if schools do not receive approvals where necessary that comply with these new requirements, then the institution could be deemed to lack the state authorization necessary to participate in the Title IV Programs. However, under the final regulations, institutions unable to obtain state authorization in a state under the above requirements may request a one-year extension of the effective date of the regulation to July 1, 2012, and if necessary, an additional one-year extension of the effective date to July 1, 2013. To receive an extension of the effective date, an institution must obtain from the state an explanation of how a one-year extension will permit the state to modify its procedures to comply with the regulations.

In addition, the new DOE rules also require institutions offering postsecondary education through distance education, such as online programs, to students in a state in which the institution is not physically located or in which it is otherwise subject to state jurisdiction as determined by the state to meet any state requirements for it to be legally offering postsecondary distance education in that state. See “Regulatory Environment – State Authorization.” If we are unable to obtain the required approvals, our students in the affected schools or programs may be unable to receive Title IV funds which could have a material adverse effect on our business and operations.

A school also must be accredited by an accrediting commission recognized by the DOE in order to participate in Title IV Programs. Accreditation is a non-governmental process through which an institution submits to qualitative review by an organization of peer institutions, based on the standards of the accrediting agency and the stated aims and purposes of the institution, including achieving and maintaining stringent retention, completion and placement outcomes. Certain states require institutions to maintain accreditation as a condition of continued authorization to grant degrees. The Higher Education Act requires accrediting commissions recognized by the DOE to review and monitor many aspects of an institution's operations and to take appropriate disciplinary action when the institution fails to comply with the accrediting agency's standards. Loss of accreditation by any of our main campuses would result in the termination of eligibility of that school and all of its branch campuses to participate in Title IV Programs and could cause us to close the school and its branches.

**Our institutions would lose eligibility to participate in Title IV Programs if the percentage of their revenues derived from those programs were too high, which could reduce our student population and revenues.**

Under the HEA reauthorization, a proprietary institution that derives more than 90% of its total revenue from the Title IV programs for two consecutive fiscal years becomes immediately ineligible to participate in the Title IV programs and may not reapply for eligibility until the end of two fiscal years. An institution with revenues exceeding 90% for a single fiscal year ending after August 14, 2008 will be placed on provisional certification and may be subject to other enforcement measures. Under prior law, an institution would immediately lose its eligibility to participate in Title IV Programs if it derived more than 90% of its revenue (calculated based on cash receipts) from those programs in any fiscal year as calculated in accordance with DOE regulations and would be ineligible to apply to regain its eligibility until the following fiscal year. If one of our institutions violated the 90/10 Rule and became ineligible to participate in Title IV Programs but continued to disburse Title IV Program funds, the DOE would require the institution to repay all Title IV Program funds received by the institution after the effective date of the loss of eligibility.

We have calculated that, for our 2010 fiscal year, our institutions' 90/10 Rule percentages ranged from 62.1% to 96.9%. Our Dayton institution (consisting of a main campus and six additional locations) had a 90/10 Rule percentage of 96.9% and was our only institution with a 90/10 Rule percentage above 90%. For 2009 and 2008, none of our institutions derived more than 90% of their revenues from Title IV Programs. We regularly monitor compliance with this requirement to minimize the risk that any of our institutions would derive more than the maximum percentage of its revenues from Title IV Programs for any fiscal year.

Effective July 1, 2008, the annual Stafford loans available for undergraduate students under the Federal Family Education Loan Program, or FFEL, increased. This loan limit increase, coupled with recent increases in grants from the Pell program and other Title IV loan limits, will result in some of our schools experiencing an increase in the revenues they receive from the Title IV programs. The HEA reauthorization provided temporary relief from the impact of the loan limit increases by counting as non-Title IV revenue in the 90/10 Rule calculation amounts received from loans received between July 1, 2008 and June 30, 2011 that are attributable to the increased annual loan limits. The HEA authorization also provided other relief by allowing institutions to include as non-Title IV revenue in its 90/10 Rule calculation the net present value of certain institutional loans subject to certain limitations and conditions. During 2010, we have seen a reduction in the loan commitments we offer our students to help them bridge the gap between the tuition charged for their particular program and the amount of grants, third-party loans and parental assistance each student receives. We believe that these reductions are due to increases in student loan limits available to students as well as an increase in Pell Grants. As a result, a greater percentage of students are able to finance their education entirely from financial aid sources. While this provides greater opportunities for our students, it also

severely impacts our ability to comply with the 90/10 Rule. Because of the increases in Title IV student loan limits and grants in recent years, it will be increasingly difficult for us to comply with the 90/10 Rule without increasing tuition prices above the applicable maximums for Title IV student loans and grants, because this is one of the more effective methods of reducing the 90/10 Rule percentage, although this method may not be successful. Moreover, the abovementioned relief from certain loan limit increases is scheduled to expire for loans received on or after July 1, 2011, and the abovementioned institutional loan relief is scheduled to expire for institutional loans made on or after July 1, 2012.

If any of our institutions loses eligibility to participate in Title IV programs, that loss would cause an event of default under our credit agreement, which could result in the acceleration of any indebtedness then outstanding under our credit agreement, and would also adversely affect our students' access to various government-sponsored student financial aid programs, which could have a material adverse effect on the rate at which our students enroll in our programs and on our business and results of operations. If the relief from certain loan limit increases is not extended beyond its current June 30, 2011 expiration date and the institutional loan relief is not extended beyond its current July 1, 2012 expiration date, our institutions' 90/10 Rule percentages would increase, which would adversely affect our institutions' ability to comply with the 90/10 Rule.

**Our institutions would lose eligibility to participate in Title IV Programs if their former students defaulted on repayment of their federal student loans in excess of specified levels, which could reduce our student population and revenues.**

An institution may lose its eligibility to participate in some or all Title IV Programs if the rates at which the institution's current and former students default on their federal student loans exceed specified percentages. The DOE calculates these rates based on the number of students who have defaulted, not the dollar amount of such defaults. The DOE calculates an institution's cohort default rate (as defined by the DOE regulations) on an annual basis as the rate at which borrowers scheduled to begin repayment on their loans in one year default on those loans by the end of the next year (two year ratio). An institution whose Federal Family Education Loan and Federal Direct Loan cohort default rate is 25% or greater for three consecutive federal fiscal years loses eligibility to participate in the Federal Family Education Loan, Federal Direct Loan, and Pell programs for the remainder of the federal fiscal year in which the DOE determines that such institution has lost its eligibility and for the two subsequent federal fiscal years. An institution whose Federal Family Education Loan and Federal Direct Loan cohort default rate for any single federal fiscal year exceeds 40% loses its eligibility to participate in the Federal Family Education Loan and Federal Direct Loan programs for the remainder of the federal fiscal year in which the DOE determines that such institution has lost its eligibility and for the two subsequent federal fiscal years. If an institution's cohort default rate equals or exceeds 25% in any of its three most recent fiscal years, the institution may be placed on provisional certification status.

The HEA has been amended by the Higher Education Opportunity Act, or HEOA, to provide for the calculation of an institution's cohort default rate using a three year period, beginning with the cohort default rate for the 2009 federal fiscal year. Under the HEA reauthorization, an institution's cohort default rate is redefined to be based on the rate at which its former students default on their FFEL and FDL loans over a period of time that is one year longer than the period of time over which rates currently are calculated. As a result, most institutions' respective cohort default rates are expected to increase under the new provision, which first would apply to cohort default rates for the 2009 federal fiscal year. The DOE will not impose sanctions based on rates calculated under the new provision until three consecutive years have been calculated under the new method. Until that time, the DOE will continue to calculate rates under the old method and impose sanctions based on those rates. The HEOA also increases the cohort default three-year threshold from 25% to 30% effective for three year cohort default rates issued beginning in federal fiscal year 2012.

On September 13, 2010 the DOE published the final cohort default rate for each of our institutions for the 2008 fiscal year which range from 4.1% to 26.3%. As a result, one of our institutions had a cohort default rate (as defined by the DOE) of 25% or greater for any of the federal fiscal years 2008, 2007 and 2006, the three most recent years for which the DOE has published such rates. See "Regulatory Environment – Student Default Rates."

On February 14, 2011, the DOE issued draft two-year cohort default rates for the 2009 federal fiscal year. The draft rates are not final and may be subject to appeal and further upward or downward revisions before the DOE publishes final rates, which is expected to occur in September 2011. The draft 2009 rates ranged from 10.6% to 35.7%. Our Philadelphia, PA, Grand Prairie, TX, Melrose Park, IL, Denver, CO and Somerville, MA institutions had cohort default rates over 25%. We plan to appeal our 2009 draft rates. If the final 2009 fiscal year cohort default rate for Grand Prairie is 25% or greater, then the rate would be the institution's second consecutive fiscal year cohort default rate of 25% or greater. None of the other four institutions with a draft 2009 rate of 25% or greater had a cohort default rate of 25% or greater for the 2008 fiscal year.

On February 4, 2011 the DOE released unofficial trial three-year cohort default rates for FY2008. These unofficial rates continue to be for information purposes only and are calculated using the abovementioned methodology for calculating three-year cohort default rates. No benefits or sanctions apply to these trial rates. In December 2009, the DOE issued an electronic announcement explaining the future changes to the methodology for calculating an institution's cohort default rate based on defaults occurring over a three-year period, rather than a two-year period, and released unofficial trial three-year cohort default rates for the 2005, 2006, and 2007 federal fiscal years. The rates for our institutions under the new methodology ranged from 10.6% to 37.0% for the 2006 federal fiscal year, from 16.2% to 42.2% for the 2007 federal fiscal year and from 19.3% to 47.5% for the 2008 federal fiscal year. Our official cohort default rates for institutions for these same time periods as published by the DOE range from 0% to 19.3% for the 2006 federal fiscal year, from 0% to 22.9% for the

2007 federal fiscal year and from 4.1% to 26.3% for the 2008 federal fiscal year. The DOE stated in the electronic announcement that the publication of these rates is for informational purposes only and that no sanctions will be imposed based on these rates.

**We are subject to sanctions if we fail to correctly calculate and timely return Title IV Program funds for students who withdraw before completing their educational program, which could increase our cost of regulatory compliance and decrease our profit margin.**

An institution participating in Title IV Programs must correctly calculate the amount of unearned Title IV Program funds that have been credited to students who withdraw from their educational programs before completing them and must return those unearned funds in a timely manner, generally within 45 days of the date the institution determines that the student has withdrawn. If the unearned funds are not properly calculated and timely returned, we may have to post a letter of credit in favor of the DOE or may be otherwise sanctioned by the DOE, which could increase our cost of regulatory compliance and adversely affect our results of operations.

**If regulators do not approve our acquisition of a school that participates in Title IV Programs, the acquired school would no longer be permitted to participate in Title IV Programs, which could impair our ability to operate the acquired school as planned or to realize the anticipated benefits from the acquisition of that school.**

If we acquire a school that participates in Title IV Programs, we must obtain approval from the DOE and applicable state education agencies and accrediting commissions in order for the school to be able to continue operating and participating in Title IV Programs. An acquisition can result in the temporary suspension of the acquired school's participation in Title IV Programs unless we submit to the DOE a timely and materially complete application for recertification and the DOE issues a temporary provisional program participation agreement. If we were unable to timely re-establish the state authorization, accreditation or DOE certification of the acquired school, our ability to operate the acquired school as planned or to realize the anticipated benefits from the acquisition of that school could be impaired.

**Issuance or sales of a substantial amount of our common stock could result in a change in control under the DOE standards, the standards of state education agencies, and/or the standards of certain institutional accrediting agencies, and could require each of our schools to apply for recertification for continued ability to participate in Title IV Programs and reaffirmation of their state authorizations and accreditations. The failure to obtain the required recertifications and reaffirmations could have a material adverse effect on our results of operations.**

The DOE, most state education agencies and our accrediting commissions each have standards pertaining to a change in control of schools that are not uniform and are subject to interpretation by these respective agencies. A change in control under the definition of one of these agencies requires the affected school to reaffirm the applicable DOE approval, state authorization or accreditation. Each school that undergoes a change in control under the standards of the DOE must apply for recertification for continued ability to participate in Title IV Programs. Some agencies would require approval prior to a sale or disposition that would result in a change in control in order to maintain authorization or accreditation. The requirements to obtain such reaffirmation from the states and our accrediting commissions vary widely. See "Regulatory Environment – Change of Control."

A change of control could occur as a result of future transactions in which our company or schools are involved. Some corporate reorganizations and some changes in the board of directors are examples of such transactions. Moreover, the potential adverse effects of a change of control could influence future decisions by us and our stockholders regarding the sale, purchase, transfer, issuance or redemption of our stock. In addition, the adverse regulatory effect of a change of control also could discourage bids for your shares of common stock and could have an adverse effect on the market price of our shares.

If we fail to apply for or obtain approvals from the DOE and applicable state education agencies and accrediting commissions, our institutions could lose their approval to participate in the Title IV programs, their accreditation, and their authority to operate in the applicable states, which would have a material adverse impact on our results of operation.

**Regulatory agencies or third parties may conduct compliance reviews, bring claims or initiate litigation against us. If the results of these reviews or claims are unfavorable to us, our results of operations and financial condition could be adversely affected.**

Because we operate in a highly regulated industry, we are subject to compliance reviews and claims of noncompliance and lawsuits by government agencies and third parties. If the results of these reviews or proceedings are unfavorable to us, or if we are unable to defend successfully against third-party lawsuits or claims, we may be required to pay money damages or be subject to fines, limitations on the operations of our business, loss of federal funding, injunctions or other penalties. Even if we adequately address issues raised by an agency review or successfully defend a third-party lawsuit or claim, we may have to divert significant financial and management resources from our ongoing business operations to address issues raised by those reviews or defend those lawsuits or claims. Certain of our institutions are subject to ongoing reviews and proceedings. See "Regulatory Environment – State Authorization," "Regulatory Environment – Accreditation," and "Regulatory Environment - *Compliance with Regulatory Standards and Effect of Regulatory Violations.*"

**Our failure to comply with regulations promulgated by the DOE could result in financial penalties, or the limitation, suspension, or termination of our continued participation in the Title IV programs.**

Students attending our schools finance their education through a combination of family contributions, individual resources, private loans and federal financial aid programs. Each of our schools participates in the federal programs of student financial aid authorized under the Title IV Programs, which are administered by the DOE. For the year ended December 31, 2010, approximately 83% (calculated based on cash receipts) of our revenues were derived from the Title IV Programs. Students obtain access to federal student financial aid through a DOE prescribed application and eligibility certification process. Student financial aid funds are generally made available to students at prescribed intervals throughout their predetermined expected length of study. Students typically use the funds received from the federal financial aid programs to pay their tuition and fees.

In connection with the students' receipt of federal financial aid, our schools are subject to extensive regulation by governmental agencies and licensing and accrediting bodies. In particular, the Title IV Programs, and the regulations issued thereafter by the DOE, subject us to significant regulatory scrutiny in the form of numerous standards that each of our schools must satisfy in order to participate in the various federal student financial aid programs. The DOE has published new regulations, proposed other regulations, and may propose additional regulations in the future that are applicable to our institutions. Failure of an institution to comply with new or existing DOE regulations could result in sanctions that could have a material adverse effect on our business, including:

- loss of eligibility to participate in Title IV programs;
- requirement to repay Title IV funds and related costs to the DOE and lenders;
- transfer of the institution to the heightened cash monitoring level two method of payment or to the reimbursement method of payment, which would adversely affect the timing of the institution's receipt of Title IV funds;
- requirement to post a letter of credit in favor of the DOE as a condition for continued Title IV certification;
- requirement to provide timely information regarding certain oversight and financial events;
- proceedings to impose a fine or to limit, suspend or terminate the institution's participation in Title IV programs;
- an emergency action to suspend the institution's participation in Title IV programs without prior notice or a prior opportunity for a hearing;
- denial or refusal to consider an institution's application for renewal of its certification to participate in Title IV programs; or
- referral of a matter for possible civil or criminal investigation.

**Our regulatory environment and our reputation may be negatively influenced by the actions of other postsecondary institutions.**

In recent years, regulatory investigations and civil litigation have been commenced against several postsecondary educational institutions. These investigations and lawsuits have alleged, among other things, deceptive trade practices and non-compliance with DOE regulations. These allegations have attracted adverse media coverage and have been the subject of federal and state legislative hearings. Although the media, regulatory and legislative focus has been primarily on the allegations made against these specific companies, broader allegations against the overall postsecondary sector may negatively impact public perceptions of postsecondary educational institutions, including us. Such allegations could result in increased scrutiny and regulation by the DOE, U.S. Congress, accrediting bodies, state legislatures or other governmental authorities on all postsecondary institutions, including us.

**A decline in the overall growth of enrollment in postsecondary institutions, or in our core disciplines or in the number of students seeking degrees online, could cause us to experience lower enrollment at our schools, which could negatively impact our future growth.**

The growth rate of enrollment in degree-granting, postsecondary institutions over the next ten years is expected to be slower than in the prior ten years. Growth rates of online postsecondary education enrollment are also expected to be slower in future periods. In addition, the number of high school graduates eligible to enroll in degree-granting, postsecondary institutions is expected to fall before resuming a growth pattern for the foreseeable future. Although, as of December 31, 2010, only 22% of our students were enrolled in degree-granting programs (primarily at the associate's degree level), our strategy is to expand our degree granting offerings. In order to increase our current growth rates in degree granting programs, we will need to attract a larger percentage of students in existing markets and expand our markets by creating new academic programs. In addition, if job growth in the fields related to our core disciplines is weaker than expected, as a result of any regional or national economic downturn or otherwise, fewer students may seek the types of diploma or degree granting programs that we offer and seek to offer. Our failure to attract new students, or the decisions by prospective students to seek diploma or degree programs in other disciplines, would have an adverse impact on our future growth. Over the last three quarters, we have seen decreases in our enrollment growth due to, among other things, reducing the number of "ability to benefit" students admitted to our schools. We have identified "ability to benefit" students as a high risk due to their greater likelihood to leave school prior to graduating and subsequently default on their loans, and we have reduced the number of "ability to benefit" students we will admit. These changes to our business model are expected to decrease our enrollments and our revenue and cause pressure on our margins as we strive to bring those students to below 10% of our population over the next two years.

## **RISKS RELATED TO OUR BUSINESS**

**If we fail to effectively manage our growth, we may incur higher costs and expenses than we anticipate in connection with our growth.**

We have experienced a period of significant growth since 1999. Our continued growth has strained and may in the future strain our management, operations, employees or other resources. We will need to continue to assess the adequacy of our staff, controls and procedures to meet the demands of our continued growth. We may not be able to maintain or accelerate our current growth rate, effectively manage our expanding operations or achieve planned growth on a timely or profitable basis. If we are unable to manage our growth effectively while maintaining appropriate internal controls, we may experience operating inefficiencies that likely will increase our expected costs.

**We may not be able to successfully integrate acquisitions into our business, which may materially adversely affect our business, financial condition, results of operations and could cause the market value of our common stock to decline.**

Since 1999, we have acquired a number of schools and we intend to continue to grow our business through acquisitions and internal expansion of our programs. The anticipated benefits of an acquisition may not be achieved unless we successfully integrate the acquired school or schools into our operations and are able to effectively manage, market and apply our business strategy to any acquired schools. Integration challenges include, among others, regulatory approvals, significant capital expenditures, assumption of known and unknown liabilities and our ability to control costs. The successful integration of future acquisitions may also require substantial attention from our senior management and the senior management of the acquired schools, which could decrease the time that they devote to the day-to-day management of our business. The difficulties of integration may initially be increased by the necessity of integrating personnel with disparate business backgrounds and corporate cultures. Management's focus on the integration of acquired schools and on the application of our business strategy to those schools could interrupt or cause loss of momentum in our other ongoing activities. Our inability to properly manage or support the growth may have a material adverse effect on our business, financial condition, and results of operations and could cause the market value of our common stock to decline.

**Failure on our part to establish and operate additional schools or campuses or effectively identify suitable expansion opportunities could reduce our ability to implement our growth strategy.**

As part of our business strategy, we anticipate opening and operating new schools or campuses. Establishing new schools or campuses poses unique challenges and requires us to make investments in management and capital expenditures, incur marketing expenses and devote financial and other resources that are different, and in some cases greater than those required with respect to the operation of acquired schools.

To open a new school or campus, we would be required to obtain appropriate state and accrediting commission approvals, which may be conditioned or delayed in a manner that could significantly affect our growth plans. In addition, to be eligible for federal Title IV Program funding, a new school or campus would have to be certified by the DOE and would require federal authorization and approvals. In the case of entirely separate, freestanding U.S. schools, a minimum of two years' operating history is required to be eligible for Title IV Program funding. We cannot be sure that we will be able to identify suitable expansion opportunities to maintain or accelerate our current growth rate or that we will be able to successfully integrate or profitably operate any new schools or campuses. A failure by us to effectively identify suitable expansion opportunities and to establish and manage the operations of newly established schools or online offerings could slow our growth and make any newly established schools or our online programs unprofitable or more costly to operate than we had planned.

**Our success depends in part on our ability to update and expand the content of existing programs and develop new programs in a cost-effective manner and on a timely basis.**

Prospective employers of our graduates increasingly demand that their entry-level employees possess appropriate technological skills. These skills are becoming more sophisticated in line with technological advancements in the automotive, diesel, information technology, or IT, skilled trades, healthcare industries and hospitality services. Accordingly, educational programs at our schools must keep pace with those technological advancements. The expansion of our existing programs and the development of new programs may not be accepted by our students, prospective employers or the technical education market. Even if we are able to develop acceptable new programs, we may not be able to introduce these new programs as quickly as our competitors or as quickly as employers demand. If we are unable to adequately respond to changes in market requirements due to financial constraints, unusually rapid technological changes or other factors, our ability to attract and retain students could be impaired, our placement rates could suffer and our revenues could be adversely affected.

In addition, if we are unable to adequately anticipate the requirements of the employers we serve, we may offer programs that do not teach skills useful to prospective employers or students seeking a technical or career-oriented education which could affect our placement rates and our ability to attract and retain students, causing our revenues to be adversely affected.



**Risks specific to our schools' online campuses could have a material adverse effect on our business.**

Our schools' online campuses intend to increase student enrollment, and more resources will be required to support this growth, including additional faculty, admissions, academic, and financial aid personnel. This growth may place a strain on the operational resources of our schools' online campuses. Our schools' online campuses' success depends, in part, on their ability to expand the content of their programs, develop new programs in a cost-effective manner, maintain good standings with their regulators and accreditors, and meet their students' needs in a timely manner. The expansion of our schools' online campuses' existing programs and the development of new programs may not be accepted by their students or the online education market, and new programs could be delayed due to current and future unforeseen regulatory restrictions. The performance and reliability of the program infrastructure at our schools' online campuses is critical to the reputation of these campuses and the campuses ability to attract and retain students. Any computer system error or failure, or a sudden and significant increase in traffic on our computer networks that host our schools' online campuses, may result in the unavailability of our schools' online campuses' computer networks. Individual, sustained, or repeated occurrences could significantly damage the reputation of our schools' online campuses and result in a loss of potential or existing students. Additionally, our schools' online campuses' computer systems and operations are vulnerable to interruption or malfunction due to events beyond our control, including natural disasters and network and telecommunications failures. Any interruption to our schools' online campuses' computer systems or operations could have a material adverse effect on the ability of our schools' online campuses to attract and retain students.

Our computer networks—either administrative network or those supporting educational programs— may also be vulnerable to unauthorized access, computer hackers, computer viruses, and other security threats. A user who circumvents security measures could misappropriate proprietary information or cause interruptions or malfunctions in our operations. Due to the sensitive nature of the information contained on our networks, such as students' grades, our networks may be targeted by hackers. As a result, we may be required to expend significant resources to protect against the threat of these security breaches or to alleviate problems caused by these breaches.

**We may not be able to retain our key personnel or hire and retain the personnel we need to sustain and grow our business.**

Our success has depended, and will continue to depend, largely on the skills, efforts and motivation of our executive officers who generally have significant experience within the post-secondary education industry. Our success also depends in large part upon our ability to attract and retain highly qualified faculty, school directors, administrators and corporate management. Due to the nature of our business, we face significant competition in the attraction and retention of personnel who possess the skill sets that we seek. In addition, key personnel may leave us and subsequently compete against us. Furthermore, we do not currently carry "key man" life insurance on any of our employees. The loss of the services of any of our key personnel, or our failure to attract and retain other qualified and experienced personnel on acceptable terms, could have an adverse effect on our ability to operate our business efficiently and to execute our growth strategy.

**If we are unable to hire, retain and continue to develop and train our employees responsible for student recruitment, the effectiveness of our student recruiting efforts would be adversely affected.**

In order to support revenue growth, we need to hire new employees dedicated to student recruitment and retain and continue to develop and train our current student recruitment personnel. Our ability to develop a strong student recruiting team may be affected by a number of factors, including our ability to integrate and motivate our student recruiters; our ability to effectively train our student recruiters; the length of time it takes new student recruiters to become productive; regulatory restrictions on the method of compensating student recruiters; the competition in hiring and retaining student recruiters; and our ability to effectively manage a multi-location educational organization. If we are unable to hire, develop or retain our student recruiters, the effectiveness of our student recruiting efforts would be adversely affected.

**Competition could decrease our market share and cause us to lower our tuition rates.**

The post-secondary education market is highly competitive. Our schools compete for students and faculty with traditional public and private two-year and four-year colleges and universities and other proprietary schools, many of which have greater financial resources than we do. Some traditional public and private colleges and universities, as well as other private career-oriented schools, offer programs that may be perceived by students to be similar to ours. Most public institutions are able to charge lower tuition than our schools, due in part to government subsidies and other financial resources not available to for-profit schools. Some of our competitors also have substantially greater financial and other resources than we have which may, among other things, allow our competitors to secure strategic relationships with some or all of our existing strategic partners or develop other high profile strategic relationships, or devote more resources to expanding their programs and their school network, or provide greater financing alternatives to their students, all of which could affect the success of our marketing programs. In addition, some of our competitors have a larger network of schools and campuses than we do, enabling them to recruit students more effectively from a wider geographic area. If we are unable to compete effectively with these institutions for students, our student enrollment and revenues will be adversely affected.

We may be required to reduce tuition or increase spending in response to competition in order to retain or attract students or pursue new market opportunities. As a result, our market share, revenues and operating margin may be decreased. We cannot be sure that we will be able to compete successfully against current or future competitors or that the competitive pressures we face will not adversely affect our revenues and profitability.

**We may experience business interruptions resulting from natural disasters, inclement weather, transit disruptions, or other events in one or more of the geographic areas in which we operate.**

We may experience business interruptions resulting from natural disasters, inclement weather, transit disruptions, or other events in one or more of the geographic areas in which we operate. These events could cause us to close schools temporarily or permanently and could affect student recruiting opportunities in those locations, causing enrollment and revenues to decline.

**Our financial performance depends in part on our ability to continue to develop awareness and acceptance of our programs among high school graduates and working adults looking to return to school.**

The awareness of our programs among high school graduates and working adults looking to return to school is critical to the continued acceptance and growth of our programs. Our inability to continue to develop awareness of our programs could reduce our enrollments and impair our ability to increase our revenues or maintain profitability. The following are some of the factors that could prevent us from successfully marketing our programs:

- Student dissatisfaction with our programs and services;
- Diminished access to high school student populations;
- Our failure to maintain or expand our brand or other factors related to our marketing or advertising practices; and
- Our inability to maintain relationships with automotive, diesel, healthcare, skilled trades, IT and hospitality services manufacturers, suppliers and employers.

**If students fail to pay their outstanding balances, our profitability will be adversely affected.**

We offer a variety of payment plans to help students pay the portion of their education expense not covered by financial aid programs. These balances are unsecured and not guaranteed. As a result of SLM Financial Corporation's, or SLM, tiered discount loan program termination, effective February 18, 2008, our internal gap financing between Title IV and tuition has increased. Although we have reserved for estimated losses related to unpaid student balances, losses in excess of the amounts we have reserved for bad debts will result in a reduction in our profitability.

**An increase in interest rates could adversely affect our ability to attract and retain students.**

Interest rates have reached historical lows in recent years, creating a favorable borrowing environment for our students. Much of the financing our students receive is tied to floating interest rates. Increases in interest rates result in a corresponding increase in the cost to our existing and prospective students of financing their education which could result in a reduction in the number of students attending our schools and could adversely affect our results of operations and revenues. Higher interest rates could also contribute to higher default rates with respect to our students' repayment of their education loans. Higher default rates may in turn adversely impact our eligibility for Title IV Program participation or the willingness of private lenders to make private loan programs available to students who attend our schools, which could result in a reduction in our student population.

**Seasonal and other fluctuations in our results of operations could adversely affect the trading price of our common stock.**

Our results of operations fluctuate as a result of seasonal variations in our business, principally due to changes in total student population. Student population varies as a result of new student enrollment, graduations and student attrition. Historically, our schools have had lower student populations in our first and second quarters and we have experienced large class starts in the third and fourth quarters and student attrition in the first half of the year. Our second half growth is largely dependent on a successful recruiting season. Our expenses, however, do not vary significantly over the course of the year with changes in our student population and net revenues. We expect quarterly fluctuations in results of operations to continue as a result of seasonal enrollment patterns. Such patterns may change, however, as a result of acquisitions, new school openings, new program introductions and increased enrollments of adult students. These fluctuations may result in volatility or have an adverse effect on the market price of our common stock.

**Our total assets include substantial intangible assets. In the event that our schools do not achieve satisfactory operating results, we may be required to write-off of a significant portion of unamortized intangible assets which would negatively affect our results of operations.**

Our total assets reflect substantial intangible assets. At December 31, 2010, goodwill and identified intangibles, net, represented approximately 27.0% of total assets. Intangible assets consist of goodwill and other identified intangible assets associated with our acquisitions. On at least an annual basis, we assess whether there has been an impairment in the value of goodwill and other intangible

assets with indefinite lives. If the carrying value of the tested asset exceeds its estimated fair value, impairment is deemed to have occurred. In this event, the amount is written down to fair value. Under current accounting rules, this would result in a charge to operating earnings. Any determination requiring the write-off of a significant portion of goodwill or unamortized identified intangible assets would negatively affect our results of operations and total capitalization, which could be material. At December 31, 2010, we tested our goodwill for impairment and determined that an impairment of approximately \$6.2 million existed for three of our reporting units.

**We cannot predict our future capital needs, and if we are unable to secure additional financing when needed, our operations and revenues would be adversely affected.**

We may need to raise additional capital in the future to fund acquisitions, working capital requirements, expand our markets and program offerings or respond to competitive pressures or perceived opportunities. We cannot be sure that additional financing will be available to us on favorable terms, or at all particularly during times of uncertainty in the financial markets similar to that which is currently being experienced. If adequate funds are not available when required or on acceptable terms, we may be forced to forego attractive acquisition opportunities, cease our operations and, even if we are able to continue our operations, our ability to increase student enrollment and revenues would be adversely affected.

**Our schools' failure to comply with environmental laws and regulations governing our activities could result in financial penalties and other costs which could adversely impact our results of operations.**

We use hazardous materials at some of our schools and generate small quantities of waste, such as used oil, antifreeze, paint and car batteries. As a result, our schools are subject to a variety of environmental laws and regulations governing, among other things, the use, storage and disposal of solid and hazardous substances and waste, and the clean-up of contamination at our facilities or off-site locations to which we send or have sent waste for disposal. In the event we do not maintain compliance with any of these laws and regulations, or are responsible for a spill or release of hazardous materials, we could incur significant costs for clean-up, damages, and fines or penalties which could adversely impact our results of operations.

**Approximately 42% of our schools are concentrated in the states of New Jersey, Connecticut and Pennsylvania and a change in the general economic or regulatory conditions in these states could increase our costs and have an adverse effect on our revenues.**

As of December 31, 2010, we operated 45 campuses in 17 states. 19 of those schools are located in the states of New Jersey, Connecticut and Pennsylvania. As a result of this geographic concentration, any material change in general economic conditions in New Jersey, Connecticut or Pennsylvania could reduce our student enrollment in our schools located in these states and thereby reduce our revenues. In addition, the legislatures in the states of New Jersey, Connecticut and/or Pennsylvania could change the laws in those states or adopt regulations regarding private, for-profit post-secondary coeducation institutions which could place additional burdens on us. If we were unable to comply with any such new legislation, we could be prohibited from operating in those jurisdictions, which could reduce our revenues.

**A substantial decrease in student financing options, or a significant increase in financing costs for our students, could have a material adverse effect on our student population, revenues and financial results.**

The consumer credit markets in the United States have recently suffered from increases in default rates and foreclosures on mortgages. Adverse market conditions for consumer and federally guaranteed student loans could result in providers of alternative loans reducing the attractiveness and/or decreasing the availability of alternative loans to post-secondary students, including students with low credit scores who would not otherwise be eligible for credit-based alternative loans. Prospective students may find that these increased financing costs make borrowing prohibitively expensive and abandon or delay enrollment in post-secondary education programs. Private lenders could also require that we pay them new or increased fees in order to provide alternative loans to prospective students. If any of these scenarios were to occur, our students' ability to finance their education could be adversely affected and our student population could decrease, which could have a material adverse effect on our financial condition, results of operations and cash flows.

In 2010, six lenders provided funding to our schools under the FFEL program. Beginning in June 2009 and continuing through June 30, 2010, we began phasing out FFEL loans and moving all students to the Federal Direct Loan Program. By June 30, 2010, the FFEL program was completely phased out and all loans for the second half of the year were processed through the Federal Direct Loan Program.

In February 2008, Sallie Mae terminated its tiered discount loan program with us. Students who obtained funding through Sallie Mae programs continue to have access to funding either through alternative lenders or through our own internal financing. However, if we opted to no longer provide financing to our students and/or were unable to obtain other alternative loan providers, our student population could decrease, which could have a material adverse effect on our financial condition, results of operations and cash flows.

In addition, any actions by the U.S. Congress or by states that significantly reduce funding for Title IV Programs or other student financial assistance programs, or the ability of our students to participate in these programs, or establish different or more stringent requirements for our schools to participate in those programs, could have a material adverse effect on our student population, results of operations and cash flows.

**Anti-takeover provisions in our amended and restated certificate of incorporation, our amended and restated bylaws and New Jersey law could discourage a change of control that our stockholders may favor, which could negatively affect our stock price.**

Provisions in our amended and restated certificate of incorporation and our amended and restated bylaws and applicable provisions of the New Jersey Business Corporation Act may make it more difficult and expensive for a third party to acquire control of us even if a change of control would be beneficial to the interests of our stockholders. These provisions could discourage potential takeover attempts and could adversely affect the market price of our common stock. For example, applicable provisions of the New Jersey Business Corporation Act may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of five years after the person becomes an interested stockholder. Furthermore, our amended and restated certificate of incorporation and amended and restated bylaws:

- Authorize the issuance of blank check preferred stock that could be issued by our board of directors to thwart a takeover attempt;
- Prohibit cumulative voting in the election of directors, which would otherwise allow holders of less than a majority of stock to elect some directors;
- Require super-majority voting to effect amendments to certain provisions of our amended and restated certificate of incorporation;
- Limit who may call special meetings of both the board of directors and stockholders;
- Prohibit stockholder action by non-unanimous written consent and otherwise require all stockholder actions to be taken at a meeting of the stockholders;
- Establish advance notice requirements for nominating candidates for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholders' meetings; and
- Require that vacancies on the board of directors, including newly created directorships, be filled only by a majority vote of directors then in office.

**We can issue shares of preferred stock without shareholder approval, which could adversely affect the rights of common stockholders.**

Our amended and restated certificate of incorporation permits us to establish the rights, privileges, preferences and restrictions, including voting rights, of future series of our preferred stock and to issue such stock without approval from our stockholders. The rights of holders of our common stock may suffer as a result of the rights granted to holders of preferred stock that may be issued in the future. In addition, we could issue preferred stock to prevent a change in control of our company, depriving common stockholders of an opportunity to sell their stock at a price in excess of the prevailing market price.

**A protracted economic slowdown and rising unemployment could harm our business if our students are unable to obtain employment upon completion of their programs, are unable to repay student loans or elect not to pursue an education with us.**

We believe that many students pursue postsecondary education to be more competitive in the job market. However, the current economic recession has adversely affected job markets and a protracted economic slowdown could further increase unemployment and diminish job prospects and placement rates. Our placement rates declined in 2009 compared to 2008, and further diminished job prospects and placement rates and heightened financial worries could affect the willingness of students to incur loans to pay for postsecondary education and to pursue postsecondary education in general. As a result, our enrollment and operating performance could suffer. The recent weakness in the job markets could also affect the prospects for long-term job growth, and there can be no assurance that the growth projected by the U.S. Bureau of Labor Statistics through 2016 will materialize.

In addition, many of our students borrow Title IV loans to pay for tuition, fees and other expenses. A protracted economic slowdown could negatively impact our students' ability to repay those loans which could negatively impact the cohort default rates of our institutions. Our 2007 cohort default rates at our institutions, including BRI and BAR, as reported by the DOE range from 0% to 22.9%. Our 2008 cohort default rates as reported by the DOE range from 4.1% to 26.3%, and were higher than the 2007 cohort default rates for most of our schools, and the weakness in the economy could continue to increase default rates. For information regarding the historical default rates for our schools, see "Business—Regulatory Environment—Federal Family Education Loan Program" in this Annual Report. An increase in our cohort default rates in excess of specified levels could cause our institutions to lose their eligibility to participate in some or all Title IV Programs which could have a material adverse effect on our operations. See "Risk Factors—Risks Related to Our Industry. Our institutions would lose eligibility to participate in Title IV Programs if their former students defaulted on repayment of their federal student loans in excess of specified levels, which could reduce our student population and revenues" in this Annual Report on Form 10-K.

**System disruptions to our technology infrastructure could impact our ability to generate revenue and could damage the reputation of our institutions.**

The performance and reliability of our technology infrastructure is critical to our reputation and to our ability to attract and retain students. We license the software and related hosting and maintenance services for our online platform and our student information system from third-party software providers. Any system error or failure, or a sudden and significant increase in bandwidth usage, could result in the

unavailability of systems to us or our students. Any such system disruptions could impact our ability to generate revenue and affect our ability to access information about our students and could also damage the reputation of our institutions.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2.        PROPERTIES**

As of December 31, 2010, we leased all of our facilities, except for our campuses in West Palm Beach, Florida, Nashville, Tennessee, Grand Prairie, Texas, Cincinnati (Tri-County), Ohio, and Suffield, Connecticut, all of which we own. Additionally we own a building in Denver, Colorado which will be occupied by our existing Denver, Colorado school once construction is complete. Four of our facilities (Union, New Jersey; Allentown, Pennsylvania; Philadelphia, Pennsylvania; and Grand Prairie, Texas) were also accounted for by us under a finance lease obligation. We continue to re-evaluate our facilities to maximize our facility utilization and efficiency and to allow us to introduce new programs and attract more students. As of December 31, 2010, all of our existing leases expire between June 2011 and October 2032.

The following table provides information relating to our facilities as of December 31, 2010, including our corporate office:

| <u>Location</u>                      | <u>Brand</u>                       | <u>Approximate Square Footage</u> |
|--------------------------------------|------------------------------------|-----------------------------------|
| Henderson, Nevada                    | Euphoria Institute                 | 18,000                            |
| Las Vegas, Nevada                    | Euphoria Institute                 | 19,000                            |
| North Las Vegas, Nevada              | Euphoria Institute                 | 12,000                            |
| Henderson, Nevada                    | Lincoln College of New England     | 7,000                             |
| Southington, Connecticut             | Lincoln College of New England     | 113,000                           |
| Columbia, Maryland                   | Lincoln College of Technology      | 110,000                           |
| Denver, Colorado*                    | Lincoln College of Technology      | 290,000                           |
| Grand Prairie, Texas                 | Lincoln College of Technology      | 146,000                           |
| Indianapolis, Indiana                | Lincoln College of Technology      | 189,000                           |
| Marietta, Georgia                    | Lincoln College of Technology      | 30,000                            |
| Melrose Park, Illinois               | Lincoln College of Technology      | 88,000                            |
| West Palm Beach, Florida             | Lincoln College of Technology      | 117,000                           |
|                                      | Lincoln College of New England and |                                   |
| Suffield, Connecticut                | Lincoln Technical Institute        | 132,000                           |
|                                      | Lincoln College of New England and |                                   |
| Hartford, Connecticut                | Lincoln Technical Institute        | 367,000                           |
| Allentown, Pennsylvania              | Lincoln Technical Institute        | 26,000                            |
| Brockton, Massachusetts              | Lincoln Technical Institute        | 22,000                            |
| Cromwell, Connecticut                | Lincoln Technical Institute        | 12,000                            |
| East Windsor, Connecticut            | Lincoln Technical Institute        | 289,000                           |
| Edison, New Jersey                   | Lincoln Technical Institute        | 64,000                            |
| Fern Park, Florida                   | Lincoln Technical Institute        | 46,000                            |
| Hamden, Connecticut                  | Lincoln Technical Institute        | 14,000                            |
| Lincoln, Rhode Island                | Lincoln Technical Institute        | 59,000                            |
| Lowell, Massachusetts                | Lincoln Technical Institute        | 21,000                            |
| Mahwah, New Jersey                   | Lincoln Technical Institute        | 79,000                            |
| Moorestown, New Jersey               | Lincoln Technical Institute        | 35,000                            |
| New Britain, Connecticut             | Lincoln Technical Institute        | 35,000                            |
| Northeast Philadelphia, Pennsylvania | Lincoln Technical Institute        | 25,000                            |
| Paramus, New Jersey                  | Lincoln Technical Institute        | 30,000                            |
| Philadelphia, Pennsylvania           | Lincoln Technical Institute        | 36,000                            |
| Philadelphia, Pennsylvania           | Lincoln Technical Institute        | 29,000                            |
| Queens, New York                     | Lincoln Technical Institute        | 48,000                            |
| Shelton, Connecticut                 | Lincoln Technical Institute        | 42,000                            |
| Somerville, Massachusetts            | Lincoln Technical Institute        | 33,000                            |
| South Plainfield, New Jersey         | Lincoln Technical Institute        | 48,000                            |
| Seminole, Florida                    | Lincoln Technical Institute        | 13,000                            |
| Union, New Jersey                    | Lincoln Technical Institute        | 56,000                            |

## Properties Continued

| <u>Location</u>               | <u>Brand</u>                  | <u>Approximate Square Footage</u> |
|-------------------------------|-------------------------------|-----------------------------------|
| Nashville, Tennessee          | Nashville Auto-Diesel College | 278,000                           |
| Cincinnati (Tri-County), Ohio | Lincoln College of Technology | 38,000                            |
| Cincinnati, Ohio              | Lincoln College of Technology | 23,000                            |
| Dayton, Ohio                  | Lincoln College of Technology | 27,000                            |
| Florence, Kentucky            | Lincoln College of Technology | 22,000                            |
| Franklin, Ohio                | Lincoln College of Technology | 14,000                            |
| Toledo, Ohio                  | Lincoln College of Technology | 28,000                            |
| Columbus, Ohio                | Lincoln College of Technology | 21,000                            |
| Cleveland, Ohio               | Lincoln College of Technology | 25,000                            |
| West Orange, New Jersey       | Corporate Office              | 52,000                            |

\*Denver, Colorado includes 212,000 square feet of space which we purchased in December 2009. We believe that our facilities are suitable for their present intended purposes.

### **ITEM 3. LEGAL PROCEEDINGS**

In the ordinary conduct of our business, we are subject to periodic lawsuits, investigations and claims, including, but not limited to, claims involving students or graduates and routine employment matters. Although we cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against us, we do not believe that any currently pending legal proceeding to which we are a party will have a material adverse effect on our business, financial condition, results of operation or cash flows.

We and several executive officers have been named as defendants in two purported securities class action lawsuits. The complaints, which were both filed in the U.S. District Court for the District of New Jersey, allege that we and the other defendants made false and misleading statements and failed to disclose material adverse facts about our business and prospects in violation of federal securities laws. The plaintiff seeks damages for the purported class. The complaints were filed on August 13, 2010 and September 19, 2010, and are respectively captioned, *Donald J. and Mary S. Moreaux v. Lincoln Educational Services Corp., et al.*, and *Robert Lythaud v. Lincoln Educational Services Corp., et al.* On November 24, 2010, the Court consolidated the two actions under the caption *In re Lincoln Educational Services Corp. Securities Litigation* and appointed a lead plaintiff. A consolidated amended complaint was filed on February 14, 2011, to which defendants must answer or otherwise respond by April 15, 2011.

Certain of the Company's executive officers and directors have also been named as defendants in three purported shareholder derivative lawsuits. The first action, which was filed on December 21, 2010 in the U.S. District Court for the District of New Jersey, is captioned *Mike Schweertmann v. David F. Carney, et al.* The second, which was filed on February 14, 2011 in the Superior Court of New Jersey, Essex County, Chancery Division, is captioned *Gregory and Karen Lehner v. Shaun E. McAlmont, et al.* The third action, which was filed on March 11, 2011 in the U.S. District Court for the District of New Jersey, is captioned *Steven C. Lloyd and Paul Stone v. David F. Carney, et al.* All three complaints allege that defendants breached their fiduciary duties by allowing the Company to engage in certain allegedly improper practices and misrepresenting the Company's financial condition. On March 3, 2011, the Court entered an order staying the *Schweertmann* action pending the resolution of defendants' motion to dismiss in *In re Lincoln Educational Services Corp. Securities Litigation*. Defendants in the *Lehner* action have until March 24, 2011 to answer or otherwise respond to the complaint. Defendants in the *Lloyd* action have not yet been served.

Based on our initial review of the complaints, we believe the lawsuits are without merit and intend to vigorously defend against them.

### **ITEM 4. RESERVED**

**PART II.**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

**Market for our Common Stock**

Our common stock is quoted on the Nasdaq Global Select Market under the symbol "LINC".

The following table sets forth the range of high and low sales prices per share for our common stock, as reported by the Nasdaq Global Select Market, for the periods indicated and the cash dividends per share declared on our common stock:

|  | <b>Price Range of Common Stock</b> |            | <b>Dividend</b> |
|--|------------------------------------|------------|-----------------|
|  | <b>High</b>                        | <b>Low</b> |                 |
| <b>Fiscal Year Ended December 31, 2010</b> |                                    |            |                 |
| First Quarter                              | \$ 28.10                           | \$ 19.10   | \$ -            |
| Second Quarter                             | \$ 27.94                           | \$ 20.59   | \$ -            |
| Third Quarter                              | \$ 21.55                           | \$ 10.31   | \$ -            |
| Fourth Quarter                             | \$ 16.77                           | \$ 12.07   | \$ 0.25         |
| <b>Fiscal Year Ended December 31, 2009</b> |                                    |            |                 |
| First Quarter                              | \$ 18.32                           | \$ 10.88   | \$ -            |
| Second Quarter                             | \$ 20.93                           | \$ 14.49   | \$ -            |
| Third Quarter                              | \$ 23.50                           | \$ 18.44   | \$ -            |
| Fourth Quarter                             | \$ 24.49                           | \$ 19.66   | \$ -            |

On March 9, 2011, the last reported sale price of our common stock on the Nasdaq Global Select Market was \$16.51 per share. As of March 9, 2011, based on the information provided by Continental Stock Transfer & Trust Company, there were approximately 30 stockholders of record of our common stock.

**Dividend Policy**

We declared a \$1.00 dividend for the first time in November 2010, to be paid quarterly. We paid \$0.25 of this \$1.00 dividend on December 31, 2010. While we intend to continue paying dividends for the foreseeable future, our payment of dividends is subject to the discretion of our board of directors. Economic conditions may result in the termination of, or in changes in the timing and amount of, our payment of dividends, our results of operations, financial condition, cash requirements and, future prospects and other factors deemed relevant to the board of directors.

**Purchases of Equity Securities**

During the fourth quarter of 2010, we repurchased 5,307 shares of our common stock at an average price of \$16.77 per share. The following table presents repurchases during each month for the fourth quarter of 2010:

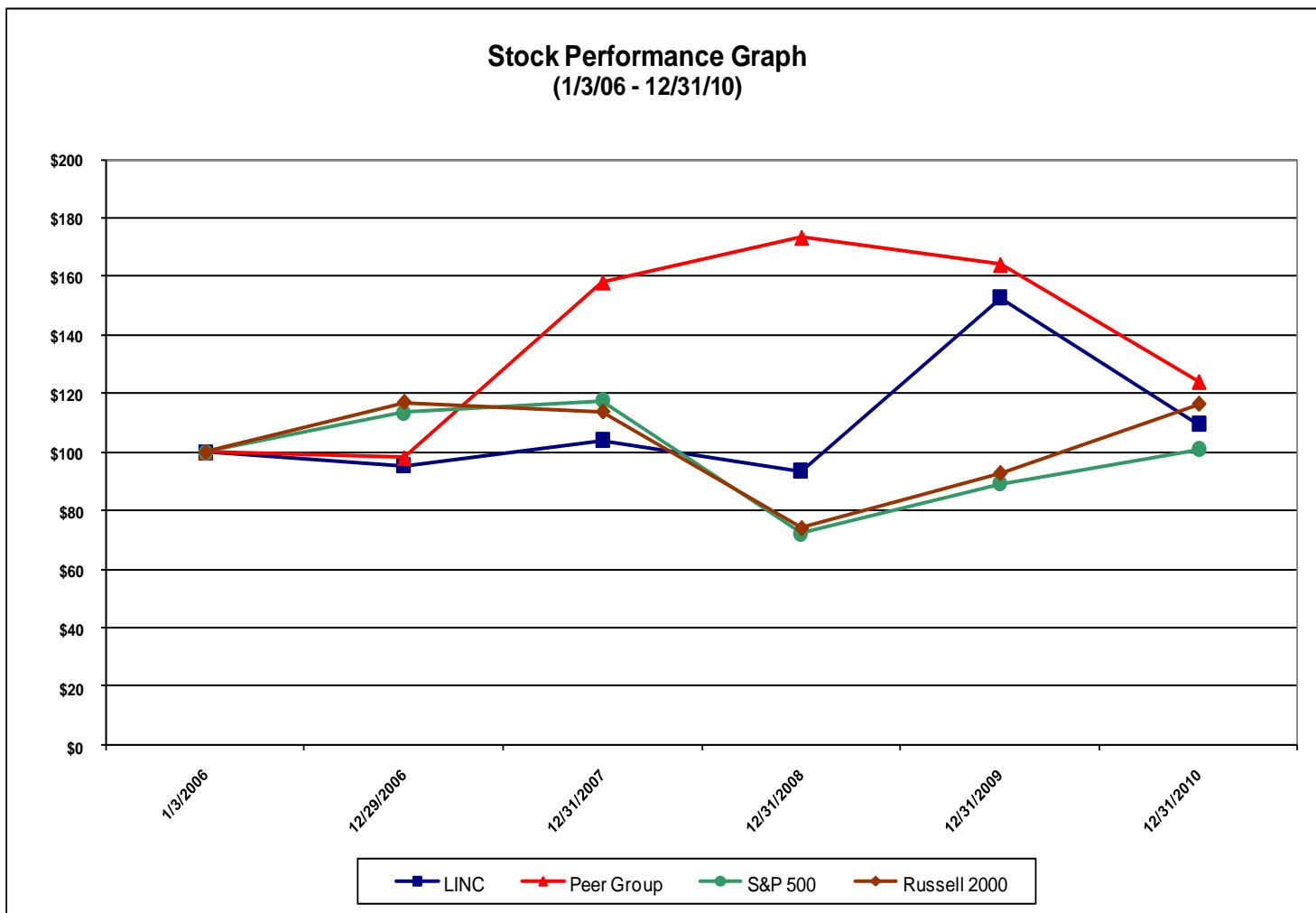
| <b>Period</b>                         | <b>Total Number of Shares Purchased</b> | <b>Average Price Paid per Share</b> | <b>Total Number of Shares Purchased</b> | <b>Maximum Number of Shares That May Yet Be Purchased</b> |
|---------------------------------------|---|-------------------------------------|---|---|
| October 1, 2010 -- October 31, 2010   | --                                      | --                                  | --                                      | N/A   |
| November 1, 2010 -- November 30, 2010 | --                                      | --                                  | --                                      | N/A   |
| December 1, 2010 -- December 31, 2010 | 5,307                                   | \$16.77                             | 5,307                                   | N/A   |
| Total                                 | 5,307                                   | \$16.77                             | 5,307                                   | N/A   |



## Stock Performance Graph

This stock performance graph compares our total cumulative stockholder return on our common stock during the period from June 23, 2005 (the date on which our common stock first traded on the Nasdaq Global Market) through December 31, 2010 with the cumulative return on the Russell 2000 Index and a Peer Issuer Group Index. The peer issuer group consists of the companies identified below, which were selected on the basis of the similar nature of their business. The graph assumes that \$100 was invested on June 23, 2005, and any dividends were reinvested on the date on which they were paid.

*The information provided under the heading "Stock Performance Graph" shall not be considered "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporates it by reference into a filing.*



Companies in the Peer Group include Apollo Group, Inc., Corinthian Colleges, Inc., Career Education Corp., DeVry, Inc., ITT Educational Services, Inc., Strayer Education, Inc. and Universal Technical Institute, Inc.

**Securities Authorized for Issuance under Equity Compensation Plans**

We have various equity compensation plans under which equity securities are authorized for issuance. Information regarding these securities as of December 31, 2010 is as follows:

| <b>Plan Category</b>                                       | <b>Number of Securities to be issued upon exercise of outstanding options, warrants and rights</b> | <b>Weighted-average exercise price of outstanding options, warrants and rights</b> | <b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column)</b> |
|--|--|--|--|
| Equity compensation plans approved by security holders     | 720,940  | \$ 14.59   | 715,184  |
| Equity compensation plans not approved by security holders | -  | -  | -  |
| Total  | <u>720,940</u>   | <u>\$ 14.59</u>  | <u>715,184</u>   |

**ITEM 6. SELECTED FINANCIAL DATA**

**SELECTED FINANCIAL INFORMATION**

The following table sets forth our selected historical consolidated financial and operating data as of the dates and for the periods indicated. You should read these data together with Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes thereto included in Part II. Item 8 of this filing. The selected historical consolidated statement of income data for each of the years in the three-year period ended December 31, 2010 and historical consolidated balance sheet data at December 31, 2010 and 2009 have been derived from our audited consolidated financial statements which are included elsewhere in this Annual Report Form 10-K. The selected historical consolidated statements of income data for the fiscal years ended December 31, 2007 and 2006 and historical consolidated balance sheet data as of December 31, 2008, 2007 and 2006 have been derived from our audited consolidated financial information not included in this Annual Report Form 10-K. Our historical results are not necessarily indicative of our future results.

|  | <u>2010</u>                              | <u>2009</u>      | <u>2008</u>      | <u>2007</u>     | <u>2006</u>      |
|--|--|------------------|------------------|-----------------|------------------|
|  | (In thousands, except per share amounts) |                  |                  |                 |                  |
| <b>Statement of Income Data, Year Ended December 31:</b> |  |                  |                  |                 |                  |
| Revenue  | \$ 639,494                               | \$ 552,536       | \$ 376,907       | \$ 327,774      | \$ 310,630       |
| Cost and expenses:                                       |  |                  |                  |                 |                  |
| Educational services and facilities                      | 239,738                                  | 211,295          | 153,530          | 139,500         | 129,311          |
| Selling, general and administrative (1)                  | 270,879                                  | 252,673          | 187,722          | 162,396         | 151,136          |
| (Gain) loss on sale of assets                            | (8)                                      | 35               | 80               | (15)            | (435)            |
| Impairment of goodwill                                   | 6,244                                    | 215              | -                | -               | -                |
| Total costs and expenses                                 | <u>516,853</u>                           | <u>464,218</u>   | <u>341,332</u>   | <u>301,881</u>  | <u>280,012</u>   |
| Operating income   | 122,641                                  | 88,318           | 35,575           | 25,893          | 30,618           |
| Other:   |  |                  |                  |                 |                  |
| Interest income  | 30                                       | 29               | 113              | 180             | 981              |
| Interest expense   | (4,533)                                  | (4,275)          | (2,152)          | (2,341)         | (2,291)          |
| Other income (loss)                                      | 45                                       | 35               | -                | 27              | (132)            |
| Income from continuing operations before income taxes    | 118,183                                  | 84,107           | 33,536           | 23,759          | 29,176           |
| Provision for income taxes                               | 48,452                                   | 34,868           | 13,341           | 9,932           | 12,092           |
| Income from continuing operations                        | 69,731                                   | 49,239           | 20,195           | 13,827          | 17,084           |
| Loss from discontinued operations, net of income taxes   | -  | -                | -                | (5,487)         | (1,532)          |
| Net income   | <u>\$ 69,731</u>                         | <u>\$ 49,239</u> | <u>\$ 20,195</u> | <u>\$ 8,340</u> | <u>\$ 15,552</u> |
| Basic  |  |                  |                  |                 |                  |
| Earnings per share from continuing operations            | \$ 2.86                                  | \$ 1.87          | \$ 0.80          | \$ 0.54         | \$ 0.67          |
| Loss per share from discontinued operations              | -  | -                | -                | (0.21)          | (0.06)           |
| Net income per share                                     | <u>\$ 2.86</u>                           | <u>\$ 1.87</u>   | <u>\$ 0.80</u>   | <u>\$ 0.33</u>  | <u>\$ 0.61</u>   |
| Diluted  |  |                  |                  |                 |                  |
| Earnings per share from continuing operations            | \$ 2.79                                  | \$ 1.82          | \$ 0.78          | \$ 0.53         | \$ 0.65          |
| Loss per share from discontinued operations              | -  | -                | -                | (0.21)          | (0.05)           |
| Net income per share                                     | <u>\$ 2.79</u>                           | <u>\$ 1.82</u>   | <u>\$ 0.78</u>   | <u>\$ 0.32</u>  | <u>\$ 0.60</u>   |
| Weighted average number of common shares outstanding:    |  |                  |                  |                 |                  |
| Basic  | 24,418                                   | 26,337           | 25,308           | 25,479          | 25,336           |
| Diluted  | 25,024                                   | 27,095           | 25,984           | 26,090          | 26,086           |
| <b>Other Data:</b>                                       |  |                  |                  |                 |                  |
| Capital expenditures                                     | \$ 42,352                                | \$ 24,018        | \$ 20,166        | \$ 24,766       | \$ 19,341        |
| Depreciation and amortization from continuing operations | 26,218                                   | 24,240           | 17,920           | 15,111          | 13,829           |
| Number of campuses                                       | 45                                       | 43               | 36               | 34              | 34               |
| Average student population                               | 31,535                                   | 27,808           | 20,006           | 17,687          | 17,397           |
| Cash dividend declared per common share                  | 1.00                                     | -                | -                | -               | -                |
| <b>Balance Sheet Data, At December 31:</b>               |  |                  |                  |                 |                  |
| Cash and cash equivalents                                | \$ 65,995                                | \$ 46,076        | \$ 15,234        | \$ 3,502        | \$ 6,461         |
| Working (deficit) capital (2)                            | (4,176)                                  | 4,494            | (19,840)         | (17,952)        | (20,943)         |
| Total assets   | 412,822                                  | 388,368          | 268,042          | 246,183         | 226,216          |
| Total debt (3)   | 56,945                                   | 57,328           | 10,174           | 15,378          | 9,860            |
| Total stockholders' equity                               | 222,485                                  | 218,636          | 174,949          | 162,467         | 151,783          |

(1) Selling, general and administrative expenses include (a) \$0.9 million of re-branding cost for the year ended December 31, 2006, and (b) \$1.4 million and \$0.9 million of acquisition costs incurred during the year ended December 31, 2009 and 2008, respectively, in connection with the acquisition of BAR which was completed on January 20, 2009.

(2) Working (deficit) capital is defined as current assets less current liabilities.

(3) Total debt consists of long-term debt including current portion, capital leases, auto loans and a finance obligation of \$9.7 million for each of the years in the five-year period ended December 31, 2010 incurred in connection with a sale-leaseback transaction as further described in Note 8 to the consolidated financial statements included in Part II. Item 8 of this Annual Report on Form 10-K.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*You should read the following discussion together with the "Selected Financial Data," "Forward Looking Statements" and the consolidated financial statements and the related notes thereto included elsewhere in this Annual Report Form 10-K. This discussion contains forward-looking statements that are based on management's current expectations, estimates and projections about our business and operations. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those we discuss under "Risk Factors," "Forward Looking Statements" and elsewhere in this Annual Report Form 10-K.*

### **GENERAL**

We are a leading provider of diversified career-oriented post-secondary education as measured by total enrollment. We offer recent high school graduates and working adults degree and diploma programs in five areas of study: health sciences, automotive technology, skilled trades, business and information technology and hospitality services. Each area of study is specifically designed to appeal to and meet the educational objectives of our student population, while also satisfying the criteria established by industry and employers. The resulting diversification limits dependence on any one industry for enrollment growth or placement opportunities and broadens potential branches for introducing new programs. As of December 31, 2010, we enrolled 29,221 students at our 45 campuses across 17 states. Of those schools, 19 are located in the states of New Jersey, Connecticut and Pennsylvania. Our campuses primarily attract students from their local communities and surrounding areas, although our five destination schools attract students from across the United States, and in some cases, from abroad.

From 1999 through 2009, we increased our geographic footprint by adding 26 additional schools through our acquisitions of: Denver Automotive & Diesel College in 2000 (one school), Career Education Institute in 2001 (two schools), Nashville Auto-Diesel College in 2003 (one school), Southwestern College in 2004 (five schools), New England Technical Institute in 2005 (four schools), Euphoria Institute of Beauty Arts and Sciences in 2005 (two schools), New England Institute of Technology at Palm Beach, Inc. in 2006 (two schools), BRI in 2008 (one school) and BAR in 2009 (seven schools). Our campuses, a majority of which serve major metropolitan markets, are located throughout the United States. Five of our campuses are destination schools, which attract students from across the United States and, in some cases, from abroad. Our other campuses primarily attract students from their local communities and surrounding areas. All of our schools are either nationally or regionally accredited and are eligible to participate in federal financial aid programs.

Our revenues consist primarily of student tuition and fees derived from the programs we offer. Our revenues are reduced by our scholarships granted to our students. We recognize revenues from tuition and one-time fees, such as application fees, ratably over the length of a program, including internships or externships that take place prior to graduation. We also earn revenues from our bookstores, dormitories, cafeterias and contract training services. These non-tuition revenues are recognized upon delivery of goods or as services are performed and represent less than 10% of our revenues.

Tuition varies by school and by program and on average we increase tuition once a year by 3% to 5%. Our ability to raise tuition is influenced by the demand for our programs, by the rate of tuition increase at other post-secondary schools and by regulatory requirements. If historical trends continue, we expect to be able to continue to raise tuition annually at comparable rates.

Historically our revenue has grown as a result of strategic acquisitions coupled with organic growth. Our revenues increased 15.7% in 2010 and 46.6% in 2009 over the prior years as we grew from 34 campuses at December 31, 2007 to 45 campuses at December 31, 2010. Our average student population increased from 27,808 for the year ended December 31, 2009 to 31,535 for the year ended December 31, 2010. The DOE has proposed regulations that place a greater focus on student outcomes. Specifically, these regulations are intended to ensure that students' debt levels can be serviced with the salary levels they can obtain after graduation and, consequently, that students are able to repay their government loans. The proposed regulations have resulted in our admissions becoming more selective. We have identified "ability to benefit" students as a high risk due to their greater likelihood to drop out and subsequently default on their loans, and we have reduced the number of "ability to benefit" students we will admit. These changes to our business model are expected to decrease our enrollments and our revenues and cause pressure on our margins as we strive to bring those students to below 10% of our population over the next two years.

Our operating expenses, while a function of our revenue growth, contain a high fixed cost component. Our educational services and facilities expenses as a percentage of revenues decreased to 37.5% in 2010 from 38.3% in 2009 and 40.7% in 2008, and selling, general and administrative expenses decreased as a percentage of revenue to 42.5% in 2010 from 45.7% in 2009 and 49.9% in 2008. The revenue increases we have experienced over the last several years have produced meaningful leverage and operating margins. As our enrollment declines, we expect that these expenses will increase as a percentage of revenue due to lower utilization at our schools.

Our revenues are directly dependent on the average number of students enrolled in our schools and the courses in which they are enrolled. Our average enrollment is impacted by the number of new students starting, re-entering, graduating and withdrawing from our schools. In addition, our diploma/certificate programs range from 22 to 105 weeks, our associate's degree programs range from 48 to 104 weeks, and our bachelor's degree programs range from 154 to 284 weeks, and students attend classes for different amounts of time per week depending on the school and program in which they are enrolled. Because we start new students every month, our total student population changes monthly. The number of students enrolling or re-entering our programs each month is driven by the demand for our programs, the effectiveness of our marketing and advertising, the availability of financial aid and other sources of funding, the number of recent high school graduates, the job market and seasonality. Our retention and graduation rates are influenced by the quality and commitment of our teachers and student services personnel, the effectiveness of our programs, the placement rate and success of our graduates and the availability of financial aid. Although similar courses have comparable tuition rates, the tuition rates vary among our numerous programs. As more of our schools receive approval to offer associate's degree and bachelor's degree programs, which are longer than our diploma degree programs, we would expect our average enrollment and the average length of stay of our students to increase.

The majority of students enrolled at our schools rely on funds received under various government-sponsored student financial aid programs to pay a substantial portion of their tuition and other education-related expenses. The largest of these programs are Title IV Programs which represented approximately 83% of our cash receipts relating to revenues in 2010.

We extend credit for tuition and fees to many of our students that attend our campuses. Our credit risk is mitigated through the student's participation in federally funded financial aid programs unless students withdraw prior to the receipt by us of Title IV funds for those students. Under Title IV programs, the government funds a certain portion of a students' tuition, with the remainder, referred to as "the gap," financed by students themselves under private party loans, including credit extended by us. The gap amount has continued to increase over the last several years as we have raised tuition on average for the last several years by 3% to 5% per year, while funds received from Title IV programs have remained constant.

We entered into a tiered discount loan program agreement, effective September 1, 2007, with SLM Financial Corporation, or SLM, to provide up to \$16.0 million of private non-recourse loans to qualifying students. Under this agreement, we were required to pay SLM either 20% or 30% of all loans disbursed, depending on each student borrower's credit score. We were billed at the beginning of each month based on loans disbursed during the prior month. For the year ended December 31, 2008, \$0.5 million of loans were disbursed, resulting in a \$0.1 million loss on sale of receivables. Loss on sale of receivables is included in selling, general and administrative expenses in our financial statements.

In February 2008, SLM terminated its tiered discount loan program with us. It is our understanding that SLM also terminated its tiered discount loan programs with our peer companies. The College Cost Reduction & Access Act, which was signed into law in September 2007, cut approximately \$22 billion in subsidies to federal student lenders and guarantors as an offset to increases in federal financial aid. This resulted in significant changes to the terms that alternative lending providers including SLM were willing to make and resulted in the termination of the tiered discount loan programs described above. As a result of the costs associated with these programs and, in anticipation of additional changes, we concluded that the cost of using the tiered discount loan program was too high and would lead to significant margin erosion over time and that we would be better served by financing the gap between Title IV and tuition internally, while also examining other alternative loan sources.

SLM's termination of its tiered discount loan program had a limited impact on our business. Our current expectations are that students will continue to have access to funding either through alternative lenders or through our own internal financing.

The additional financing that we are providing to students may expose us to greater credit risk and can impact our liquidity. We believe that these risks are however somewhat mitigated due to:

- Annual federal Title IV loan limits, including grants have increased. Title IV funds represented 83% of our 2010 revenue on a cash basis;
- Our internal financing is provided to students only after all other funding resources have been exhausted; thus, by the time this funding is available, students have completed approximately two-thirds of their curriculum and are more likely to graduate;
- Funding for students who interrupt their education is typically covered by Title IV funds as long as they have been properly packaged for financial aid; and
- We have an excellent collection history with our graduates. Historically, 86% of all of our graduates have repaid their balances in full.

For the year ended December 31, 2010, approximately 83% of our revenue on a cash basis was derived from Title IV funds, approximately 9% was derived from state grants and cash payments made by students, and approximately 1% was funded under third-party private loan programs. For the year ended December 31, 2009, approximately 81% of our revenue on a cash basis was derived from Title IV funds, approximately 10% was derived from state grants and cash payments made by students, and approximately 3% was funded under third-party private loan programs, which included SLM programs. The credit crisis that has impacted the financial markets has had a limited impact on our ability to finance our creditworthy students. However, no assurance can be given that the worsening of the current economic downturn or tightening of the credit markets would not have a negative impact on our ability to continue to finance our

creditworthy students. We have several alternative lenders that will provide private party loans to creditworthy students. In addition, commencing in late 2007, we decided to assist students in financing the gap in student tuition for which students are unable to obtain third-party financing. As of December 31, 2010, we had outstanding loan commitments to our students of \$17.3 million as compared to \$28.9 million at December 31, 2009. Loan commitments, net of interest that would be due on the loans through maturity, were \$15.4 million at December 31, 2010 as compared to \$20.5 million at December 31, 2009. Commitments at December 31, 2010 represented an average commitment balance, including interest of approximately \$5,800.

Our bad debt expense as a percentage of revenue decreased to 6.1% for 2010 from 6.7% in 2009, such amount was 5.7% in 2008. The decrease in 2010 as compared to 2009 was attributable to improved cash collections as well as our continuing efforts to further centralize the administration of our financial aid department. This decrease was attributable to several factors, including:

- a decrease in student starts of 0.9% for the year allowed our financial aid representatives to spend more time with each student and ensure more timely financial aid packaging and draw down of financial aid; and
- annual Title IV received increased to 83% in 2010 from 81% in 2009. The increase in federal aid resulted in less accounts receivable defaulting from other sources.

All institutions participating in Title IV Programs must satisfy specific standards of financial responsibility. The DOE evaluates institutions for compliance with these standards each year, based on the institution's annual audited financial statements, as well as following a change in ownership resulting in a change of control of the institution.

The most significant financial responsibility measurement is the institution's composite score, which is calculated by the DOE based on three ratios:

- the equity ratio, which measures the institution's capital resources, ability to borrow and financial viability;
- the primary reserve ratio, which measures the institution's ability to support current operations from expendable resources; and
- the net income ratio, which measures the institution's ability to operate at a profit.

The DOE assigns a strength factor to the results of each of these ratios on a scale from negative 1.0 to positive 3.0, with negative 1.0 reflecting financial weakness and positive 3.0 reflecting financial strength. The DOE then assigns a weighting percentage to each ratio and adds the weighted scores for the three ratios together to produce a composite score for the institution. The composite score must be at least 1.5 for the institution to be deemed financially responsible without the need for further oversight. If an institution's composite score is below 1.5, but is at least 1.0, it is in a category denominated by the DOE as "the zone." Under the DOE regulations, institutions that are in the zone are deemed to be financially responsible for a period of up to three years but are required to accept payment of Title IV Program funds under the cash monitoring or reimbursement method of payment and to provide to the DOE timely information regarding various oversight and financial events.

Based on audited financial statements for the 2010, 2009 and 2008 fiscal years our calculations resulted in a composite score of 1.8, 2.0 and 1.8, respectively.

The operating expenses associated with an existing school do not increase or decrease proportionally as the number of students enrolled at the school increases or decreases. We categorize our operating expenses as:

- *Educational services and facilities.* Major components of educational services and facilities expenses include faculty compensation and benefits, expenses of books and tools, facility rent, maintenance, utilities, depreciation and amortization of property and equipment used in the provision of education services and other costs directly associated with teaching our programs and providing educational services to our students.
- *Selling, general and administrative.* Selling, general and administrative expenses include compensation and benefits of employees who are not directly associated with the provision of educational services (such as executive management and school management, finance and central accounting, legal, human resources and business development), marketing and student enrollment expenses (including compensation and benefits of personnel employed in sales and marketing and student admissions), costs to develop curriculum, costs of professional services, bad debt expense, rent for our corporate headquarters, depreciation and amortization of property and equipment that is not used in the provision of educational services and other costs that are incidental to our operations. All marketing and student enrollment expenses are recognized in the period incurred.

We use advertising to attract a substantial portion of our yearly student enrollment. We utilize a mix of different advertising mediums, including television, internet and direct mail.

## **ACQUISITIONS**

Acquisitions have been, and are expected to continue to be, a component of our growth strategy. We have a team of professionals who conduct financial, operational and regulatory due diligence as well as a team that integrates acquisitions with our policies, procedures and systems.

On January 20, 2009, we completed the acquisition of six of the seven schools comprising BAR, for approximately \$24.9 million in cash, net of cash acquired. BAR consists of seven schools and offers associate's degree and diploma programs in the fields of automotive, skilled trades, health sciences and culinary arts. On April 20, 2009, we acquired the seventh BAR school, Clemens, for \$2.7 million, in cash, net of cash acquired. In connection with these acquisitions, we incurred approximately \$1.4 million of transaction expenses for the year ended December 31, 2009.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our discussions of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. 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, we evaluate our estimates and assumptions, including those related to revenue recognition, bad debts, fixed assets, goodwill and other intangible assets, income taxes and certain accruals. Actual results could differ from those estimates. The critical accounting policies discussed herein are not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not result in significant management judgment in the application of such principles. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result from the result derived from the application of our critical accounting policies. We believe that the following accounting policies are most critical to us in that they represent the primary areas where financial information is subject to the application of management's estimates, assumptions and judgment in the preparation of our consolidated financial statements.

**Revenue recognition.** Revenues are derived primarily from programs taught at our schools. Tuition revenues and one-time fees, such as nonrefundable application fees, and course material fees are recognized on a straight-line basis over the length of the applicable program, which is the period of time from a student's start date through his or her graduation date, including internships or externships that take place prior to graduation. If a student withdraws from a program prior to a specified date, any paid but unearned tuition is refunded. Refunds are calculated and paid in accordance with federal, state and accrediting agency standards. Other revenues, such as textbook sales, tool sales and contract training revenues are recognized as services are performed or goods are delivered. On an individual student basis, tuition earned in excess of cash received is recorded as accounts receivable, and cash received in excess of tuition earned is recorded as unearned tuition.

**Allowance for uncollectible accounts.** Based upon experience and judgment, we establish an allowance for uncollectible accounts with respect to tuition receivables. We use an internal group of collectors, augmented by third-party collectors as deemed appropriate, in our collection efforts. In establishing our allowance for uncollectible accounts, we consider, among other things, a student's status (in-school or out-of-school), whether or not additional financial aid funding will be collected from Title IV Programs or other sources, whether or not a student is currently making payments, and overall collection history. Changes in trends in any of these areas may impact the allowance for uncollectible accounts. The receivables balances of withdrawn students with delinquent obligations are reserved for based on our collection history. Although we believe that our reserves are adequate, if the financial condition of our students deteriorates, resulting in an impairment of their ability to make payments, additional allowances may be necessary, which will result in increased selling, general and administrative expenses in the period such determination is made.

Our bad debt expense as a percentage of revenues for the years ended December 31, 2010, 2009 and 2008 was 6.1%, 6.7% and 5.7%, respectively. Our exposure to changes in our bad debt expense could impact our operations. A 1% increase in our bad debt expense as a percentage of revenues for the years ended December 31, 2010, 2009 and 2008 would have resulted in an increase in bad debt expense of \$6.4 million, \$5.5 million and \$3.8 million, respectively.

We do not believe that there is any direct correlation between tuition increases, the credit we extend to students and our loan commitments. Our loan commitments to our students are made on a student-by-student basis and are predominantly a function of the specific student's financial condition. We only extend credit to the extent there is a financing gap between the tuition charged for the program and the amount of grants, loans and parental loans each student receives. Each student's funding requirements are unique. Factors that determine the amount of aid available to a student are student status (whether they are dependent or independent students), Pell grants awarded, Plus loans awarded or denied to parents and family contributions. As a result, it is extremely difficult to predict the number of students that will need us to extend credit to them. Our tuition increases have ranged historically from 3% to 5% annually and have not meaningfully impacted overall funding requirements, since the amount of financial aid funding available to students in recent years has increased at greater rates than our tuition increases.



We reserve for bad debt based upon our experience and judgment. In establishing our reserve, we consider, among other things, current and expected economic conditions, a student's status (in-school or out-of-school), whether or not additional financial aid funding will be collected from Title IV Programs or other sources, whether or not a student is currently making payments, and overall collection history. Our analysis is updated quarterly to ensure that our reserves are aligned with current market conditions. Changes in trends in any of these areas may impact bad debt expense.

Because a substantial portion of our revenues are derived from Title IV Programs, any legislative or regulatory action that significantly reduces the funding available under Title IV Programs or the ability of our students or schools to participate in Title IV Programs could have a material effect on the realizability of our receivables.

**Goodwill.** We test our goodwill for impairment annually, or whenever events or changes in circumstances indicate an impairment may have occurred, by comparing its fair value to its carrying value. Impairment may result from, among other things, deterioration in the performance of the acquired business, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of the acquired business, and a variety of other circumstances. If we determine that impairment has occurred, we are required to record a write-down of the carrying value and charge the impairment as an operating expense in the period the determination is made. In evaluating the recoverability of the carrying value of goodwill and other indefinite-lived intangible assets, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the acquired assets. Changes in strategy or market conditions could significantly impact these judgments in the future and require an adjustment to the recorded balances.

Goodwill represents a significant portion of our total assets. As of December 31, 2010, goodwill was approximately \$106.7 million, or 25.8%, of our total assets.

We test our goodwill for impairment using a two-step approach. The first step is conducted utilizing the multiple of earnings approach and comparing the carrying value of our reporting units to their implied fair value. If necessary, the second step is conducted utilizing a discounted cash flow approach and comparing the carrying value of our reporting units to their implied fair value.

At December 31, 2010, we tested our goodwill for impairment and determined that an impairment of approximately \$6.2 million existed for three of our reporting units. At December 31, 2009, we tested our goodwill for impairment and determined that an impairment of approximately \$215,000 existed for one of our reporting units. No other reporting unit's carrying goodwill amount exceeded or approximated its implied value. At December 31, 2008, we tested our goodwill and determined we did not have an impairment.

**Stock-based compensation.** We currently account for stock-based employee compensation arrangements by using the Black-Scholes valuation model and utilize straight-line amortization of compensation expense over the requisite service period of the grant. We make an estimate of expected forfeitures at the time options are granted.

The fair value of the stock options used to compute stock-based compensation is the estimated present value at the date of grant using the Black-Scholes option pricing model. The weighted average fair values of options granted during 2010, 2009, and 2008 were \$8.48, \$8.75, and \$6.69, respectively, using the following weighted average assumptions for grants:

|   | <b>At December 31,</b> |             |             |
|---|------------------------|-------------|-------------|
|   | <b>2010</b>            | <b>2009</b> | <b>2008</b> |
| Expected volatility                             | 45.00%                 | 51.95%      | 57.23%      |
| Expected dividend yield                         | 0%                     | 0%          | 0%          |
| Expected life (term)                            | 4.82 years             | 4.8-6 Years | 6 Years     |
| Risk-free interest rate                         | 1.95%                  | 2.29-2.36%  | 2.76-3.29%  |
| Weighted-average exercise price during the year | \$20.78                | \$18.48     | \$11.97     |

The expected volatility considers the volatility of our common stock that has been traded for a period commensurate with the expected life. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate used is based on the published U.S. Treasury yield curve in effect at the time of grant for instruments with a similar life. The dividend yield is 0% because at the time the options were granted we had not intended to declare or pay dividends on our common stock.

## Results of Continuing Operations for the Three Years Ended December 31, 2010

The following table sets forth selected consolidated statements of continuing operations data as a percentage of revenues for each of the periods indicated:

|   | <u>Year Ended December 31,</u> |              |              |
|---|--------------------------------|--------------|--------------|
|   | <u>2010</u>                    | <u>2009</u>  | <u>2008</u>  |
| Revenue   | 100.0%                         | 100.0%       | 100.0%       |
| Costs and expenses:                                   |                                |              |              |
| Educational services and facilities                   | 37.5%                          | 38.3%        | 40.7%        |
| Selling, general and administrative                   | 42.3%                          | 45.7%        | 49.9%        |
| Impairment of goodwill                                | 1.0%                           | 0.0%         | 0.0%         |
| Total costs and expenses                              | <u>80.8%</u>                   | <u>84.0%</u> | <u>90.6%</u> |
| Operating income                                      | 19.2%                          | 16.0%        | 9.4%         |
| Interest expense, net                                 | -0.7%                          | -0.8%        | -0.6%        |
| Other income  | 0.0%                           | 0.0%         | 0.0%         |
| Income from continuing operations before income taxes | 18.5%                          | 15.2%        | 8.8%         |
| Provision for income taxes                            | 7.6%                           | 6.3%         | 3.5%         |
| Income from continuing operations                     | <u>10.9%</u>                   | <u>8.9%</u>  | <u>5.3%</u>  |

### Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

**Revenue.** Revenue increased by \$87.0 million, or 15.7%, to \$639.5 million for 2010 from \$552.5 million for 2009. The increase in revenue was primarily attributable to a 13.4% increase in average student population, which increased to 31,535 for the year ended December 31, 2010 from 27,808 for the year ended December 31, 2009. Average revenue per student increased 2.1% for the year ended December 31, 2010 from the year ended December 31, 2009, primarily from tuition increases which ranged from 3% to 5% annually offset by shifts in program mix.

**Educational services and facilities expenses.** Our educational services and facilities expenses increased by \$28.4 million, or 13.5%, to \$239.7 million for the year ended December 31, 2010 from \$211.3 million for the year ended December 31, 2009. The increase in educational services and facilities expenses was primarily due to instructional expenses, which increased by \$21.6 million, or 20.2%, and books and tools expenses, which increased by \$1.0 million, or 2.8%, respectively, over 2009. The increase in instructional expenses resulted from increases in our instructional staff and compensation and general instructional tools and materials necessary to serve a larger student population, as well as higher tool sales during the year ended December 31, 2010 compared to 2009. We began 2010 with approximately 7,670 more students than at the start of 2009. Also contributing to the increase in educational services and facilities expenses were higher facilities expenses, which increased by approximately \$5.9 million over 2009. The most significant increase resulted from facility expansions and related expenses including rent, utilities and property taxes. Educational services and facilities expenses as a percentage of revenues decreased to 37.5% for the year ended December 31, 2010 from 38.3% for the year ended December 31, 2009.

**Selling, general and administrative expenses.** Our selling, general and administrative expenses for the year ended December 31, 2010 were \$270.9 million, an increase of \$18.2 million, or 7.2%, from \$252.7 million for the year ended December 31, 2009. The increase was primarily due to: (a) a \$13.5 million, or 15.5%, increase in sales and marketing; (b) a \$4.3 million, or 19.5%, increase in student services, and (c) a \$0.5 million, or 0.3%, increase in administrative expenses as compared to 2009.

The increase in sales and marketing expense during the year ended December 31, 2010 as compared to 2009 was primarily due to annual compensation increases for admissions personnel and an increased number of admissions personnel in order to facilitate our growth. In addition, we continued to invest in marketing initiatives in an effort to continue to increase our student population.

The increase in student services was primarily the result of an addition of approximately 100 employees within the career services, default management and financial aid departments throughout 2010. We increased our career services personnel to further assist our students with their job placement efforts as a result of a continually challenging job market. The current economic environment has also resulted in increases in our cohort default rates. As a result, we added default management personnel to help enhance the financial literacy of our students and graduates, with the goal of helping students remain current in their loan payments. We also increased the number of personnel in our financial aid department in an effort to improve the timing of our financial aid processing.

The increase in administrative expenses for the year ended December 31, 2010 as compared to the year ended December 31, 2009 was primarily due to a \$2.1 million increase in bad debt expense and a \$3.3 million increase in software maintenance in connection with our student management system as well as the costs associated with a new financial accounting system. These higher expenses were partially offset by decreased expenses in 2010 compared to 2009. Expenses in 2009 included (a) \$1.9 million in incentive compensation; (b) \$1.4 million of acquisition costs in connection with our acquisition of BAR on January 20, 2009; and (c) expenses incurred in connection with a

sale of stock by our largest shareholder. As a percentage of revenues, selling, general and administrative expenses for the year ended December 31, 2010 decreased to 42.3% from 45.7% for the year ended December 31, 2009.

For the year ended December 31, 2010, our bad debt expense as a percentage of revenue was 6.1% as compared to 6.7% for 2009. This decrease was primarily a result of improved cash collections as well as our continuing efforts to further centralize the administration of our financial aid department. Our number of days revenue outstanding for the year ended December 31, 2010 were 23.1 days, compared to 28.3 days for the year ended December 31, 2009. As of December 31, 2010, we had outstanding loan commitments to our students of \$17.3 million as compared to \$28.9 million at December 31, 2009. Loan commitments, net of interest that would be due on the loans through maturity, were \$15.4 million at December 31, 2010 as compared to \$20.5 million at December 31, 2009.

**Impairment of goodwill.** At December 31, 2010, we tested our goodwill for impairment and determined that an impairment of approximately \$6.2 million existed for three of our reporting units.

**Net interest expense.** Our net interest expense for the year ended December 31, 2010 was \$4.5 million, an increase of \$0.3 million, from \$4.2 million for the same period in 2009. This increase was attributable to higher interest rate on the unused portion of our credit facility, effective December 1, 2009, which increased \$15.0 million from our prior credit facility agreement.

**Income taxes.** Our provision for income taxes for the year ended December 31, 2010 was \$48.5 million, or 41.0% of pretax income, compared to \$34.9 million, or 41.5% of pretax income for the year ended December 31, 2009. The decrease in our effective tax rate for the year ended December 31, 2010 was primarily attributable to shifts in state taxable income among various states partially offset by a nondeductible goodwill impairment charge.

### **Year Ended December 31, 2009 Compared to Year Ended December 31, 2008**

**Revenue.** Revenue increased by \$175.6 million, or 46.6%, to \$552.5 million for 2009 from \$376.9 million for 2008. Approximately \$57.0 million of this increase was a result of our acquisitions of BRI on December 1, 2008, six of the seven schools comprising BAR on January 20, 2009 and Clemens on April 20, 2009, which we refer to collectively as the "Acquisitions". The remainder of the increase in revenue was primarily attributable to a 26.5% increase in average student population, which increased to 25,277 for the year ended December 31, 2009 from 19,983 for the year ended December 31, 2008. Average revenue per student on a same school basis increased 4.0% for the year ended December 31, 2009 from the year ended December 31, 2008, primarily from tuition increases which ranged from 3% to 5% annually and from a shift from lower to higher tuition programs.

**Educational services and facilities expenses.** Our educational services and facilities expenses increased by \$57.8 million, or 37.6%, to \$211.3 million for the year ended December 31, 2009 from \$153.5 million for the year ended December 31, 2008. The Acquisitions accounted for \$32.0 million of this increase. The remainder of the increase in educational services and facilities expenses was primarily due to instructional expenses, which increased by \$15.3 million, or 19.2%, and books and tools expenses, which increased by \$7.2 million, or 34.2%, respectively, over 2008. These increases were attributable to a 26.7% increase in student starts for the year ended December 31, 2009 as compared to 2008 coupled with a 26.5% increase in average student population and higher tool sales during the year ended December 31, 2009 compared to 2008. On a same school basis, we began 2009 with approximately 3,000 more students than we had on January 1, 2008, and as of December 31, 2009, our population on a same school basis was approximately 5,300 higher than as of December 31, 2008. Also contributing to the increase in educational services and facilities expenses were higher facilities expenses, which increased by approximately \$3.2 million over 2008. Educational services and facilities expenses as a percentage of revenues decreased to 38.3% from 40.7% for the year ended December 31, 2009 compared to 2008.

**Selling, general and administrative expenses.** Our selling, general and administrative expenses for the year ended December 31, 2009 were \$252.7 million, an increase of \$65.0 million, or 34.6%, from \$187.7 million for the year ended December 31, 2008. Approximately \$29.9 million of this increase was attributable to the Acquisitions. The remainder of the increase in our selling, general and administrative expenses for the year ended December 31, 2009 was primarily due to: (a) a \$2.9 million, or 17.9%, increase in student services; (b) a \$7.5 million, or 10.7%, increase in sales and marketing; and (c) a \$24.6 million, or 24.2%, increase in administrative expenses as compared to 2008.

The increase in student services during the year ended December 31, 2009 as compared to 2008 was primarily due to annual increases in compensation and benefit expenses to our financial aid and career services personnel. Additionally, during 2009, we slightly increased the number of financial aid personnel as a result of a larger student population during the year ended December 31, 2009 as compared to 2008. We also increased by 31.2% the number of career service personnel during 2009 to further aid our students in obtaining job placement during these difficult economic times.

The increase in sales and marketing expense during the year ended December 31, 2009 as compared to 2008 was primarily due to: (a) annual compensation increases to sales representatives; (b) additional sales representatives to facilitate our recent and anticipated growth; and (c) increased call center personnel as compared to 2008. In addition, we continued to invest in marketing initiatives in an effort to continue to grow our student population.

The increase in administrative expenses during the year ended December 31, 2009 as compared to 2008 was due to: (a) a \$9.0 million increase in personnel costs relating to (i) annual compensation increases and an increase in the number of personnel needed to serve the needs of a higher student population during the year ended December 31, 2009 as compared to 2008, (ii) an increase in accruals for incentive compensation and increased cost of benefits provided to employees; (b) a \$11.3 million increase in bad debt expense; (c) \$0.5 million increase in stationary and supplies due to our re-branding; (d) \$0.3 million incurred due to the re-branding of our Florida Culinary Institute in West Palm Beach, Florida; (e) \$0.4 million in connection with our acquisition of BAR on January 20, 2009; and (f) a \$1.0 million increase in our net periodic benefit cost of our defined benefit pension plan.

For the year ended December 31, 2009, including the Acquisitions, our bad debt expense as a percentage of revenue was 6.7% as compared to 5.7% for 2008. This increase was primarily attributable to a slight deterioration in the performance of our loan portfolio, due to the current economic environment. During 2009, we considered the current economic environment which has produced high unemployment rates and concluded to increase our reserve on graduate receivables to 17% from 10% in 2008. Our number of days revenue outstanding for the fourth quarter of 2009 were 25.0 days, compared to 22.4 days for the fourth quarter of 2008. As of December 31, 2009, we had outstanding loan commitments to our students of \$28.9 million as compared to \$24.0 million at December 31, 2008. Loan commitments, net of interest that would be due on the loans through maturity, were \$20.5 million at December 31, 2009 as compared to \$16.5 million at December 31, 2008.

As a percentage of revenues, selling, general and administrative expenses decreased to 45.7% of revenues for 2009 from 49.9% for 2008.

**Net interest expense.** Our net interest expense for the year ended December 31, 2009 was \$4.2 million, an increase of \$2.2 million, from \$2.0 million for the same period in 2008. This increase was attributable to real estate capital leases assumed in connection with the Acquisitions.

**Income taxes.** Our provision for income taxes for the year ended December 31, 2009 was \$34.9 million, or 41.5% of pretax income, compared to \$13.3 million, or 39.8% of pretax income for the year ended December 31, 2009. The increase in our effective tax rate for the year ended December 31, 2009 was primarily attributable to nondeductible acquisition costs.

## **LIQUIDITY AND CAPITAL RESOURCES**

Our primary capital requirements are for facilities expansion and maintenance, acquisitions and the development of new programs. Our principal sources of liquidity have been cash provided by operating activities and borrowings under our credit agreement. The following chart summarizes the principal elements of our cash flow for each of the three years in the period ended December 31, 2010:

|   | <b>Cash Flow Summary</b>       |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>Year Ended December 31,</b> |             |             |
|   | <b>2010</b>                    | <b>2009</b> | <b>2008</b> |
|   | <b>(In thousands)</b>          |             |             |
| Net cash provided by operating activities           | \$ 114,464                     | \$ 73,169   | \$ 54,176   |
| Net cash used in investing activities               | \$ (42,111)                    | \$ (51,593) | \$ (31,205) |
| Net cash (used in) provided by financing activities | \$ (52,434)                    | \$ 9,266    | \$ (11,239) |

As of December 31, 2010, we had cash and cash equivalents of \$66.0 million, representing an increase of approximately \$19.9 million as compared to \$46.1 million as of December 31, 2009. During the first quarter of 2010, we repaid \$20.0 million outstanding under our credit facility. During the fourth quarter of 2010, we borrowed \$20.0 million, which was subsequently repaid in January 2011. During 2010, we used cash generated from operations to make \$42.4 million in capital expenditures, repurchase \$50.1 million of our common stock and pay dividends of \$5.6 million. Historically, we have financed our operating activities and organic growth primarily through cash generated from operations. We have financed acquisitions primarily through borrowings under our credit facility and cash generated from operations. We currently anticipate that we will be able to meet both our short-term cash needs, as well as our need to fund operations and meet our obligations beyond the next twelve months with cash generated from operations, existing cash balances and, if necessary, borrowings under our credit facility. In addition, we may also consider accessing the financial markets in the future as a source of liquidity for capital requirements, acquisitions and general corporate purposes to the extent such requirements are not satisfied by cash on hand, borrowings under our credit facility or operating cash flows. However, we cannot assure you that we will be able to raise additional capital on favorable terms, if at all. At December 31, 2010, we had net borrowings available under our \$115 million credit agreement of approximately \$93.1 million, including a \$23.1 million sub-limit on letters of credit. The credit agreement matures on December 1, 2012.

Our primary source of cash is tuition collected from the students. The majority of students enrolled at our schools rely on funds received under various government-sponsored student financial aid programs to pay a substantial portion of their tuition and other education-related expenses. The largest of these programs are Title IV Programs which represented approximately 83% of our cash receipts relating to revenues in 2010. Students must apply for a new loan for each academic period. Federal regulations dictate the timing of disbursements of funds under Title IV Programs and loan funds are generally provided by lenders in two disbursements for each academic year. The first disbursement is usually received approximately 31 days after the start of a student's academic year and the second disbursement is typically received at the beginning of the sixteenth week from the start of the student's academic year. Certain types of grants and other

funding are not subject to a 30-day delay. Our programs range from 22 to 284 weeks. In certain instances, if a student withdraws from a program prior to a specified date, any paid but unearned tuition or prorated Title IV financial aid is refunded according to state and federal regulations.

As a result of the significance of the Title IV funds received by our students, we are highly dependent on these funds to operate our business. Any reduction in the level of Title IV funds that our students are eligible to receive or any impact on our ability to be able to receive Title IV funds would have a significant impact on our operations and our financial condition.

### **Operating Activities**

***Year Ended December 31, 2010 Compared to Year Ended December 31, 2009.*** Net cash provided by operating activities was \$114.5 million for the year ended December 31, 2010 as compared to \$73.2 million for the year ended December 31, 2009. The \$41.3 million increase in net cash provided by operating activities was driven by an increase in net income of approximately \$20.5 million and by a decrease in net accounts receivable of \$14.3 million. This decrease is representative of a decrease in days revenue outstanding to 23.1 days for 2010 from 28.3 days for 2009. The decrease in days revenue outstanding was attributable to our continuing efforts to further centralize the administration of our financial aid department and improved cash collections. The remainder of the increase was attributable to cash provided by other working capital items.

***Year Ended December 31, 2009 Compared to Year Ended December 31, 2008.*** Net cash provided by operating activities was \$73.2 million for the year ended December 31, 2009 as compared to \$54.2 million for the year ended December 31, 2008. The \$19.0 million increase in net cash provided by operating activities was driven by an increase in net income of approximately \$29.0 million offset by \$23.2 million of higher tax payments and by the increase in net accounts receivable of \$51.1 million which represented 28.3 days revenue outstanding for 2009 as compared to 25.4 days revenue outstanding for 2008. The increase in days revenues outstanding is attributable to the increase in loans that we provided to our students. The remainder of the increase was attributable to cash provided by other working capital items.

The increase in loans to our students adversely impacted our accounts receivable, our allowance for doubtful accounts and our cash flow from operations. Although we reserved for estimated losses related to unpaid student balances, losses in excess of the amounts we have reserved for bad debts will result in a reduction in our profitability and can have an adverse impact on the results of our operations.

### **Investing Activities**

Our cash used in investing activities during 2010 was primarily related to capital expenditures of \$42.4 million. Our capital expenditures included facility expansion, leasehold improvements, including classrooms renovations, furniture and shop training equipment, and the purchase of our Suffield, Connecticut campus as well the continuing construction of our new Denver, Colorado campus. On January 20, 2009 and April 20, 2009, we acquired the schools comprising BAR for approximately \$27.6 million in cash, net of cash acquired. On December 1, 2008 we acquired all the rights, title and interest in the assets of BRI for \$10.6 million in cash, net of cash acquired.

We currently lease a majority of our campuses. We own our campuses in Grand Prairie, Texas; West Palm Beach, Florida; Nashville, Tennessee; Cincinnati (Tri-County), Ohio; and Suffield, Connecticut. In addition, we purchased a building in Denver, Colorado in 2009 which will be occupied by our existing Denver, Colorado campus once construction is complete during the third quarter of 2011. As we execute our growth strategy, strategic acquisitions of campuses may be considered. In addition, although our current growth strategy is to continue our organic growth, strategic acquisitions of operations will be considered. To the extent that these potential strategic acquisitions are large enough to require financing beyond available cash from operations and borrowings under our credit facilities, we may incur additional debt or issue additional debt or equity securities.

***Year Ended December 31, 2010 Compared to the Year Ended December 31, 2009.*** Net cash used in investing activities decreased \$9.5 million to \$42.1 million for the year ended December 31, 2010 from \$51.6 million for the year ended December 31, 2009. This decrease was primarily attributable to a \$27.6 million decrease in cash used in acquisitions offset by \$18.3 million increase in capital expenditures for the year ended December 31, 2010 from the year ended December 31, 2009. Our capital expenditures primarily resulted from facility expansion, leasehold improvements, and investments in classroom and shop technology.

***Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008.*** Net cash used in investing activities increased \$20.4 million to \$51.6 million for the year ended December 31, 2009 from \$31.2 million for the year ended December 31, 2008. This increase was primarily attributable to a \$17.0 million increase in cash used in acquisitions and a \$3.9 million increase in capital expenditures for the year ended December 31, 2009 from the year ended December 31, 2008. Our capital expenditures primarily resulted from facility expansion, leasehold improvements, investments in classroom and shop technology, and the purchase of the building in Denver, Colorado.

## *Financing Activities*

**Year Ended December 31, 2010 Compared to the Year Ended December 31, 2009.** Net cash used in financing activities was \$52.4 million for the year ended December 31, 2010, as compared to net cash provided by financing activities of \$9.3 million for the year ended December 31, 2009. The decrease of \$61.7 million was primarily attributable to (a) \$20.0 million of net proceeds received under our credit facility in 2009; (b) additional repurchase of \$23.9 million of our common stock during 2010 over 2009; (c) \$5.6 million of dividends paid during the fourth quarter of 2010; and (d) \$14.9 million of net proceeds received from our issuance of our common stock in 2009; which were offset by \$1.9 million of stock options proceeds and related tax benefits for 2010 over 2009.

**Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008.** Net cash provided by financing activities was \$9.3 million for the year ended December 31, 2009, as compared to net cash used in financing activities of \$11.2 million for the year ended December 31, 2008. This increase of \$20.5 million was primarily due to: (a) \$14.9 million received from our sale of common stock in a public offering during the year ended December 31, 2009; (b) a \$25.0 million increase in net borrowings under our credit agreement; (c) \$1.9 million increase in proceeds from the exercise of stock options; offset by (d) \$6.6 million in repurchases of our common stock during the year ended December 31, 2008 as compared to \$26.2 million repurchases of our common stock during the year ended December 31, 2009; (e) offset by \$0.8 increase in capital lease payments and (f) \$1.0 million increase in payments on deferred finance fees.

On December 15, 2009, we entered into a definitive stock repurchase agreement with BTS, relating to our repurchase of 1,250,000 shares of our common stock owned by BTS at a purchase price of \$20.95 per share or an aggregate purchase price of \$26.2 million. The repurchased shares represent approximately 4.6% of our total shares of common stock outstanding on December 15, 2009. In accordance with the terms of the repurchase agreement, consummation of the share repurchase was conditioned upon the completion of the sale by BTS of an additional 750,000 shares of our common stock in a block trade pursuant to Rule 144 under the Securities Act of 1933, as amended. The completion of the block trade and the concurrent closing of the share repurchase occurred on December 21, 2009. We used cash on hand to pay the purchase price for the repurchased shares. Approximately 25.9 million shares of our common stock remained outstanding after the completion of the share repurchase. The sale of stock by BTS in the share repurchase and the block trade have resulted in the reduction of BTS's beneficial ownership interest in us from approximately 37.9% to approximately 31.8% as of December 31, 2009.

On April 1, 2008, our Board of Directors approved the repurchase of up to 1,000,000 shares of our common stock over the period of one year. In 2008, we repurchased 615,000 shares of our common stock for approximately \$6.6 million.

On December 1, 2009, we, as borrower, and all of our wholly-owned subsidiaries, as guarantors, entered into a secured revolving credit agreement with a syndicate of seven lenders led by Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer, for an aggregate principal amount of up to \$115 million, which we refer to as the "Credit Facility". Banc of America Securities LLC acted as sole lead arranger and book manager under the credit agreement. The Credit Facility replaces our prior \$100 million credit facility with Harris N.A. and other lenders which was due to expire on February 15, 2010. The prior facility was terminated concurrently with the effective date of the credit agreement.

Amounts borrowed as revolving loans under the Credit Facility will bear interest, at our option, at either (i) an interest rate based on LIBOR and adjusted for any reserve percentage obligations under Federal Reserve Bank regulations, or the "Euro Dollar Rate," for specified interest periods or (ii) the Base Rate (as defined in the credit agreement), in each case, plus an applicable margin rate as determined under the credit agreement. The "Base Rate," as defined under the credit agreement, is the highest of (a) the prime rate, (b) the Federal Funds rate plus 0.50% and (c) a daily rate equal to one-month of the Euro Dollar Rate plus 1.0%. Under the credit agreement, the margin interest rate is subject to adjustment within a range of 1.50% to 3.25% based upon changes in our consolidated leverage ratio and depending on whether we have chosen the Euro Dollar Rate or the Base Rate option. Swing line loans will bear interest at the Base Rate plus the applicable margin rate. Letters of credit will require a fee equal to the applicable margin rate multiplied by the daily amount available to be drawn under each issued letter of credit plus a fronting fee of 0.125% of the amount available to be drawn and customary issuance, presentation, amendment and other processing fees associated with letters of credit. At December 31, 2010, we had outstanding letters of credit aggregating \$1.9 million which is primarily comprised of letters of credit for the DOE matters and security deposits in connection with certain of our real estate leases.

The credit agreement contains customary representations, warranties and covenants including consolidated adjusted net worth, consolidated leverage ratio, consolidated fixed charge coverage ratio, minimum financial responsibility composite score, cohort default rate and other financial covenants, certain restrictions on capital expenditures as well as affirmative and negative covenants and events of default customary for facilities of this type. In addition, we are paying fees to the lenders that are customary for facilities of this type. As of December 31, 2010, the Company was in compliance with the financial covenants contained in the credit agreement.

|   | <b>As of December 31,</b> |                  |
|---|---------------------------|------------------|
|   | <b>2010</b>               | <b>2009</b>      |
| Credit agreement  | \$ 20,000                 | \$ 20,000        |
| Finance obligation  | 9,672                     | 9,672            |
| Note payable  | -                         | 11               |
| Capital lease-property (with a rate of 8.0%)                    | 26,986                    | 27,202           |
| Capital leases-equipment (with rates ranging from 5.0% to 8.5%) | 287                       | 443              |
| Subtotal  | 56,945                    | 57,328           |
| Less current maturities   | (437)                     | (383)            |
| Total long-term debt  | <u>\$ 56,508</u>          | <u>\$ 56,945</u> |

We believe that our cash flow from operations and borrowings available under our credit agreement will provide us with adequate resources for our ongoing operations through 2011 and our currently identified and planned capital expenditures.

### **Climate Change**

Climate change has not had and is not expected to have a significant effect on our operations.

### **Contractual Obligations**

**Long-Term Debt and Lease Commitments.** As of December 31, 2010, our long-term debt consisted of amounts borrowed under our credit agreement, the finance obligation in connection with our sale-leaseback transaction in 2001, notes payable, and amounts due under capital lease obligations. We lease offices, educational facilities and various equipment for varying periods through the year 2032 at basic annual rentals (excluding taxes, insurance, and other expenses under certain leases).

The following table contains supplemental information regarding our total contractual obligations as of December 31, 2010:

|                                       | <b>Payments Due by Period</b> |                             |                  |                  |                              |
|---------------------------------------|-------------------------------|-----------------------------|------------------|------------------|------------------------------|
|                                       | <b>Total</b>                  | <b>Less than<br/>1 year</b> | <b>1-3 years</b> | <b>3-5 years</b> | <b>More than<br/>5 years</b> |
| Credit agreement (including interest) | \$ 20,002                     | \$ -                        | \$ 20,002        | \$ -             | \$ -                         |
| Capital leases (including interest)   | 58,498                        | 2,823                       | 5,117            | 5,007            | 45,551                       |
| Uncertain income taxes                | 100                           | 100                         | -                | -                | -                            |
| Operating leases                      | 188,132                       | 23,063                      | 45,114           | 40,039           | 79,916                       |
| Rent on finance obligation            | 8,564                         | 1,427                       | 2,855            | 2,855            | 1,427                        |
| Total contractual cash obligations    | <u>\$ 275,296</u>             | <u>\$ 27,413</u>            | <u>\$ 73,088</u> | <u>\$ 47,901</u> | <u>\$ 126,894</u>            |

**Capital Expenditures.** We have entered into commitments to expand or renovate campuses. These commitments are in the range of \$12.0 to \$15.0 million in the aggregate and are due within the next 12 months. We expect to fund these commitments from cash generated from operations.

### **OFF-BALANCE SHEET ARRANGEMENTS**

We had no off-balance sheet arrangements as of December 31, 2010, except for our letters of credit of \$1.9 million which are primarily comprised of letters of credit for the DOE and security deposits in connection with certain of our real estate leases. These off-balance sheet arrangements do not adversely impact our liquidity or capital resources.

### **RELATED PARTY TRANSACTIONS**

On December 9, 2010, we purchased 5,307 shares of our common stock from our Executive Chairman in connection with his exercise of 60,000 stock options on the same date.

On December 15, 2009, we entered into a definitive stock repurchase agreement with BTS, relating to our repurchase of 1,250,000 shares of our common stock owned by BTS at a purchase price of \$20.95 per share or an aggregate purchase price of \$26.2 million. The repurchased shares represent approximately 4.6% of our total shares of common stock outstanding on December 15, 2009. In accordance with the terms of the repurchase agreement, consummation of the share repurchase was conditioned upon the completion of the sale by BTS of an additional 750,000 shares of our common stock in a block trade pursuant to Rule 144 under the Securities Act of 1933, as amended. The completion of the block trade and the concurrent closing of the share repurchase occurred on December 21, 2009.

## **SEASONALITY AND TRENDS**

Our net revenues and operating results normally fluctuate as a result of seasonal variations in our business, principally due to changes in total student population. Student population varies as a result of new student enrollments, graduations and student attrition. Historically, our schools have had lower student populations in our first and second quarters and we have experienced large class starts in the third and fourth quarters and student attrition in the first half of the year. Our second half growth is largely dependent on a successful high school recruiting season. We recruit our high school students several months ahead of their scheduled start dates, and thus, while we have visibility on the number of students who have expressed interest in attending our schools, we cannot predict with certainty the actual number of new student enrollments and the related impact on revenue. Our expenses, however, do not vary significantly over the course of the year with changes in our student population and net revenues. During the first half of the year, we make significant investments in marketing, staff, programs and facilities to ensure that we meet our second half of the year targets and, as a result, such expenses do not fluctuate significantly on a quarterly basis. To the extent new student enrollments, and related revenues, in the second half of the year fall short of our estimates, our operating results could suffer. We expect quarterly fluctuations in operating results to continue as a result of seasonal enrollment patterns. Such patterns may change as a result of new school openings, new program introductions, and increased enrollments of adult students and/or acquisitions.

### **Effect of Inflation**

Inflation has not had and is not expected to have a significant effect on our operations.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to certain market risks as part of our on-going business operations. We have a credit agreement with a syndicate of banks. Our obligations under the credit agreement are secured by a lien on substantially all of our assets and our subsidiaries and any assets that we or our subsidiaries may acquire in the future, including a pledge of substantially all of our subsidiaries' common stock. Outstanding borrowings bear interest at the rate of 4.75% (as calculated in the credit agreement) as of December 31, 2010. As of December 31, 2010, we had \$20.0 million outstanding under our credit agreement.

Based on our outstanding debt balance as of December 31, 2010, a change of one percent in the interest rate would have caused a change in our interest expense of approximately \$0.2 million, or less than \$0.01 per basic share, on an annual basis. Changes in interest rates could have an impact however on our operations, which are greatly dependent on students' ability to obtain financing. Any increase in interest rates could greatly impact our ability to attract students and have an adverse impact on the results of our operations. The remainder of our interest rate risk is associated with miscellaneous capital equipment leases, which is not significant.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

See "Index to Consolidated Financial Statements" on page F-1 on this Annual Report on Form 10-K.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. DISCLOSURE CONTROLS AND PROCEDURES**

### **Evaluation of disclosure controls and procedures**

Our Chief Executive Officer and Chief Financial Officer, after evaluating, together with management, the effectiveness of our disclosure controls and procedures (as defined in Securities Exchange Act Rule 13a-15(e)) as of December 31, 2010, have concluded that our disclosure controls and procedures are effective to reasonably ensure that material information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended is recorded, processed, summarized and reported within the time periods specified by Securities and Exchange Commissions' Rules and Forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

### **Internal Control Over Financial Reporting**

During the quarter ended December 31, 2010, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



## Management's Annual Report on Internal Control over Financial Reporting

The management of Lincoln Educational Services Corporation (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Based on its assessment, management believes that, as of December 31, 2010, the Company's internal control over financial reporting is effective.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's independent auditors, Deloitte & Touche LLP, an independent registered public accounting firm, audited the Company's internal control over financial reporting as of December 31, 2010, as stated in their report included in this Form 10-K that follows.

/s/ Shaun McAlmont  
Shaun McAlmont  
President and Chief Executive Officer  
March 14, 2011

/s/ Cesar Ribeiro  
Cesar Ribeiro  
Chief Financial Officer  
March 14, 2011

### ITEM 9B. OTHER INFORMATION

None.

## PART III.

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

#### Directors and Executive Officers

The information required by this item is incorporated herein by reference to our definitive Proxy Statement to be filed in connection with our 2011 Annual Meeting of Shareholders.

#### Code of Ethics

We have adopted a Code of Conduct and Ethics applicable to our directors, officers and employees and certain other persons, including our Chief Executive Officer and Chief Financial Officer. A copy of our Code of Ethics is available on our website at [www.lincolnedu.com](http://www.lincolnedu.com). If any amendments to or waivers from the Code of Conduct are made, we will disclose such amendments or waivers on our website.

### ITEM 11. EXECUTIVE COMPENSATION

Information required by Item 11 of Part III is incorporated by reference to our definitive Proxy Statement to be filed in connection with our 2011 Annual Meeting of Shareholders.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by Item 12 of Part III is incorporated by reference to our definitive Proxy Statement to be filed in connection with our 2011 Annual Meeting of Shareholders.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required by Item 13 of Part III is incorporated by reference to our definitive Proxy Statement to be filed in connection with our 2011 Annual Meeting of Shareholders.

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by Item 14 of Part III is incorporated by reference to our definitive Proxy Statement to be filed in connection with our 2011 Annual Meeting of Shareholders.

## PART IV.

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

#### 1. Financial Statements

See “Index to Consolidated Financial Statements” on page F-1 of this Annual Report on Form 10-K.

#### 2. Financial Statement Schedule

See “Index to Consolidated Financial Statements” on page F-1 of this Annual Report on Form 10-K.

#### 3. Exhibits Required by Securities and Exchange Commission Regulation S-K

| <u>Exhibit Number</u> | <u>Description</u>   |
|-----------------------|--|
| 3.1                   | Amended and Restated Certificate of Incorporation of the Company (1).  |
| 3.2                   | Amended and Restated By-laws of the Company (2).   |
| 4.1                   | Management Stockholders Agreement, dated as of January 1, 2002, by and among Lincoln Technical Institute, Inc., Back to School Acquisition, L.L.C. and the Stockholders and other holders of options under the Management Stock Option Plan listed therein (1).                              |
| 4.2                   | Assumption Agreement and First Amendment to Management Stockholders Agreement, dated as of December 20, 2007, by and among Lincoln Educational Services Corporation, Lincoln Technical Institute, Inc., Back to School Acquisition, L.L.C. and the Management Investors parties therein (3). |
| 4.3                   | Registration Rights Agreement, dated as of June 27, 2005, between the Company and Back to School Acquisition, L.L.C. (2).  |
| 4.4                   | Specimen Stock Certificate evidencing shares of common stock (1).  |
| 10.1                  | Credit Agreement, dated as of December 1, 2009, among the Company, the Guarantors from time to time parties thereto, the Lenders from time to time parties thereto and Bank of America, N.A., as Administrative Agent (5).   |
| 10.2                  | Consulting Agreement, dated December 9, 2010, between the Company and David F. Carney (7).   |
| 10.3                  | Employment Agreement, dated as of January 17, 2011, between the Company and Scott M. Shaw (8).   |
| 10.4                  | Employment Agreement, dated as of January 17, 2011, between the Company and Cesar Ribeiro (8).   |
| 10.5                  | Employment Agreement, dated as of January 17, 2011, between the Company and Shaun E. McAlmont (10).  |
| 10.6                  | Lincoln Educational Services Corporation 2005 Long Term Incentive Plan (1).  |
| 10.7                  | Lincoln Educational Services Corporation 2005 Non Employee Directors Restricted Stock Plan (1).  |
| 10.8                  | Lincoln Educational Services Corporation 2005 Deferred Compensation Plan (1).  |
| 10.9                  | Lincoln Technical Institute Management Stock Option Plan, effective January 1, 2002 (1).   |
| 10.10                 | Form of Stock Option Agreement, dated January 1, 2002, between Lincoln Technical Institute, Inc. and certain participants (1).   |

- 10.11 Form of Stock Option Agreement under our 2005 Long Term Incentive Plan (4).
- 10.12 Form of Restricted Stock Agreement under our 2005 Long Term Incentive Plan (4).
- 10.13 Management Stock Subscription Agreement, dated January 1, 2002, among Lincoln Technical Institute, Inc. and certain management investors (1).
- 10.14 Stock Purchase Agreement, dated as of January 20, 2009, among Lincoln Technical Institute, Inc., NN Acquisition, LLC, Brad Baran, Barbara Baran, UGP Education Partners, LLC, UGPE Partners Inc. and Merion Investment Partners, L.P (6).
- 10.15 Stock Purchase Agreement, dated as of January 20, 2009, among Lincoln Technical Institute, Inc., NN Acquisition, LLC, Brad Baran, Barbara Baran, UGP Education Partners, LLC, Merion Investment Partners, L.P. and, for certain limited purposes only, UGPE Partners Inc (6).
- 10.16 Stock Purchase Agreement, dated as of December 15, 2009, among Lincoln Educational Services Corporation and Back to School Acquisition, L.L.C (6).
- 21.1 \* Subsidiaries of the Company.
- 23 \* Consent of Independent Registered Public Accounting Firm.
- 31.1 \* Certification of Chairman & Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 \* Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 \* Certification of Chairman & Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- 
- (1) Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-123664).
  - (2) Incorporated by reference to the Company's Form 8-K dated June 28, 2005.
  - (3) Incorporated by reference to the Company's Registration Statement on Form S-3 (Registration No. 333-148406).
  - (4) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2007.
  - (5) Incorporated by reference to the Company's Form 8-K dated December 1, 2009.
  - (6) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2009.
  - (7) Incorporated by reference to the Company's Form 8-K dated December 9, 2010.
  - (8) Incorporated by reference to the Company's Form 8-K dated January 21, 2011.
  - \* Filed herewith.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 14, 2011

### LINCOLN EDUCATIONAL SERVICES CORPORATION

By: /s/ Cesar Ribeiro  
Cesar Ribeiro  
Senior Vice President, Chief Financial Officer and Treasurer  
(Principal Accounting and Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Signature</u>                                      | <u>Title</u>  | <u>Date</u>    |
|---|---|----------------|
| <u>/s/ Shaun McAlmont</u><br>Shaun McAlmont           | President and Chief Executive Officer   | March 14, 2011 |
| <u>/s/ Cesar Ribeiro</u><br>Cesar Ribeiro             | Senior Vice President, Chief Financial Officer and Treasurer (Principal Accounting and Financial Officer) | March 14, 2011 |
| <u>/s/ Alvin O. Austin</u><br>Alvin O. Austin         | Director  | March 14, 2011 |
| <u>/s/ Peter S. Burgess</u><br>Peter S. Burgess       | Director  | March 14, 2011 |
| <u>/s/ James J. Burke, Jr.</u><br>James J. Burke, Jr. | Director  | March 14, 2011 |
| <u>/s/ Celia H. Currin</u><br>Celia H. Currin         | Director  | March 14, 2011 |
| <u>/s/ Paul E. Glaske</u><br>Paul E. Glaske           | Director  | March 14, 2011 |
| <u>/s/ Charles F. Kalmbach</u><br>Charles F. Kalmbach | Director  | March 14, 2011 |
| <u>/s/ Alexis P. Michas</u><br>Alexis P. Michas       | Director  | March 14, 2011 |
| <u>/s/ J. Barry Morrow</u><br>J. Barry Morrow         | Director  | March 14, 2011 |

**Subsidiaries of the Company**

The following is a list of Lincoln Educational Services Corporation's subsidiaries as of December 31, 2010:

| <b><u>Name</u></b>   | <b><u>Jurisdiction</u></b> |
|--|----------------------------|
| Lincoln Technical Institute, Inc. (wholly owned)   | New Jersey                 |
| New England Acquisition LLC (wholly owned through Lincoln Technical Institute, Inc.)                             | Delaware                   |
| Southwestern Acquisition LLC (wholly owned through Lincoln Technical Institute, Inc.)                            | Delaware                   |
| Nashville Acquisition, LLC (wholly owned through Lincoln Technical Institute, Inc.)                              | Delaware                   |
| Euphoria Acquisition, LLC (wholly owned through Lincoln Technical Institute, Inc.)                               | Delaware                   |
| New England Institute of Technology at Palm Beach, Inc. (wholly owned through Lincoln Technical Institute, Inc.) | Florida                    |
| LTI Holdings, LLC (wholly owned through Lincoln Technical Institute, Inc.)                                       | Colorado                   |
| LCT Acquisition, LLC (wholly owned through Lincoln Technical Institute, Inc.)                                    | Delaware                   |
| ComTech Services Group Inc. (wholly owned through Lincoln Technical Institute, Inc.)                             | New Jersey                 |

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in Registration Statement No. 333-126066, 333-132749, 333-138715 and 333-158923 on Form S-8 and in Registration Statement No. 333-148406 and 333-152854 on Form S-3 of our reports dated March 14, 2011, relating to the consolidated financial statements and financial statement schedule of Lincoln Educational Services Corporation and subsidiaries, and the effectiveness of internal control over financial reporting appearing in this Annual Report on Form 10-K of Lincoln Educational Services Corporation for the year ended December 31, 2010.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey  
March 14, 2011

## CERTIFICATION

I, Shaun McAlmont, certify that:

1. I have reviewed this Annual Report on Form 10-K of Lincoln Educational Services Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2011

/s/ Shaun McAlmont  
Shaun McAlmont  
President and Chief Executive Officer



## CERTIFICATION

I, Cesar Ribeiro, certify that:

1. I have reviewed this Annual Report on Form 10-K of Lincoln Educational Services Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2011

/s/ Cesar Ribeiro

Cesar Ribeiro  
Chief Financial Officer

**CERTIFICATION**

**Pursuant to 18 U.S.C. 1350 as adopted by  
Section 906 of the Sarbanes-Oxley Act of 2002**

Each of the undersigned, Shaun McAlmont, President and Chief Executive Officer of Lincoln Educational Services Corporation (the "Company"), and Cesar Ribeiro, Chief Financial Officer of the Company, has executed this certification in connection with the filing with the Securities and Exchange Commission of the Company's Annual Report on Form 10-K for the fiscal year ended December 31 2010 (the "Report").

Each of the undersigned hereby certifies that, to his respective knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 14, 2011

/s/ Shaun McAlmont  
Shaun McAlmont  
President and Chief Executive Officer

/s/ Cesar Ribeiro  
Cesar Ribeiro  
Chief Financial Officer

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Lincoln Educational Services Corporation  
West Orange, New Jersey

We have audited the accompanying consolidated balance sheets of Lincoln Educational Services Corporation and subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Lincoln Educational Services Corporation and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2011 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey  
March 14, 2011

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Lincoln Educational Services Corporation  
West Orange, New Jersey

We have audited the internal control over financial reporting of Lincoln Educational Services Corporation and subsidiaries (the "Company") as of December 31, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's consolidated balance sheet as of December 31, 2010 and the related consolidated statements of income, stockholders' equity, cash flows and financial statement schedule for the year ended December 31, 2010, and our report dated March 14, 2011 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey  
March 14, 2011

**LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**(In thousands, except share amounts)**

|   | <b>December 31,</b> |                   |
|---|---------------------|-------------------|
|   | <b>2010</b>         | <b>2009</b>       |
| <b>ASSETS</b>   |                     |                   |
| <b>CURRENT ASSETS:</b>  |                     |                   |
| Cash and cash equivalents   | \$ 65,995           | \$ 46,076         |
| Restricted cash   | 694                 | 858               |
| Accounts receivable, less allowance of \$24,960 and \$25,293 at December 31, 2010 and 2009, respectively  | 33,697              | 36,614            |
| Inventories   | 3,555               | 3,329             |
| Deferred income taxes, net  | 11,057              | 10,877            |
| Prepaid expenses and other current assets   | 2,494               | 8,207             |
| Total current assets  | 117,492             | 105,961           |
| <b>PROPERTY, EQUIPMENT AND FACILITIES</b> - At cost, net of accumulated depreciation and amortization of \$111,164 and \$97,590 at December 31, 2010 and 2009, respectively | 172,431             | 149,310           |
| <b>OTHER ASSETS:</b>  |                     |                   |
| Noncurrent receivables, less allowance of \$2,033 and \$1,566 at December 31, 2010 and 2009, respectively   | 6,807               | 6,264             |
| Deferred finance charges  | 987                 | 1,346             |
| Deferred income taxes, net  | 1,524               | 4,236             |
| Goodwill  | 106,709             | 112,953           |
| Other assets, net of accumulated amortization of \$7,310 and \$5,086 at December 31, 2010 and 2009  | 6,872               | 8,298             |
| Total other assets  | 122,899             | 133,097           |
| <b>TOTAL</b>  | <b>\$ 412,822</b>   | <b>\$ 388,368</b> |

See notes to consolidated financial statements.

**LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**(In thousands, except share amounts)**

**(Continued)**

|  | <b>December 31,</b> |                   |
|--|---------------------|-------------------|
|  | <b>2010</b>         | <b>2009</b>       |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                     |                   |
| <b>CURRENT LIABILITIES:</b>  |                     |                   |
| Current portion of long-term debt and lease obligations  | \$ 437              | \$ 383            |
| Unearned tuition   | 50,944              | 48,087            |
| Accounts payable   | 25,617              | 19,649            |
| Accrued expenses   | 26,071              | 26,966            |
| Dividends payable  | 16,650              | -                 |
| Advanced payments from federal funds   | 578                 | 667               |
| Income taxes payable   | 1,044               | 5,358             |
| Other short-term liabilities   | 327                 | 357               |
| Total current liabilities  | 121,668             | 101,467           |
| <b>NONCURRENT LIABILITIES:</b>   |                     |                   |
| Long-term debt and lease obligations, net of current portion   | 56,508              | 56,945            |
| Pension plan liabilities, net  | 2,816               | 3,192             |
| Accrued rent   | 7,758               | 6,282             |
| Other long-term liabilities  | 1,587               | 1,846             |
| Total liabilities  | 190,337             | 169,732           |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |                     |                   |
| <b>STOCKHOLDERS' EQUITY:</b>   |                     |                   |
| Preferred stock, no par value - 10,000,000 shares authorized, no shares issued and outstanding at December 31, 2010 and 2009   | -                   | -                 |
| Common stock, no par value - authorized 100,000,000 shares at December 31, 2010 and 2009, issued and outstanding 28,109,987 shares at December 31, 2010 and 27,722,471 shares at December 31, 2009 | 140,726             | 137,689           |
| Additional paid-in capital   | 17,378              | 14,161            |
| Treasury stock at cost - 5,910,541 shares at December 31, 2010 and 1,865,000 shares at December 31, 2009   | (82,860)            | (32,771)          |
| Retained earnings  | 151,989             | 104,458           |
| Accumulated other comprehensive loss   | (4,748)             | (4,901)           |
| Total stockholders' equity   | 222,485             | 218,636           |
| <b>TOTAL</b>   | <b>\$ 412,822</b>   | <b>\$ 388,368</b> |

See notes to consolidated financial statements.

**LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per share amounts)

|   | Year Ended December 31, |            |            |
|---|-------------------------|------------|------------|
|   | 2010                    | 2009       | 2008       |
| REVENUE   | \$ 639,494              | \$ 552,536 | \$ 376,907 |
| COSTS AND EXPENSES:                                   |                         |            |            |
| Educational services and facilities                   | 239,738                 | 211,295    | 153,530    |
| Selling, general and administrative                   | 270,879                 | 252,673    | 187,722    |
| (Gain) loss on sale of assets                         | (8)                     | 35         | 80         |
| Impairment of goodwill                                | 6,244                   | 215        | -          |
| Total costs & expenses                                | 516,853                 | 464,218    | 341,332    |
| OPERATING INCOME                                      | 122,641                 | 88,318     | 35,575     |
| OTHER:  |                         |            |            |
| Interest income                                       | 30                      | 29         | 113        |
| Interest expense                                      | (4,533)                 | (4,275)    | (2,152)    |
| Other income  | 45                      | 35         | -          |
| INCOME BEFORE INCOME TAXES                            | 118,183                 | 84,107     | 33,536     |
| PROVISION FOR INCOME TAXES                            | 48,452                  | 34,868     | 13,341     |
| NET INCOME  | \$ 69,731               | \$ 49,239  | \$ 20,195  |
| Basic   |                         |            |            |
| Net income per share                                  | \$ 2.86                 | \$ 1.87    | \$ 0.80    |
| Diluted   |                         |            |            |
| Net income per share                                  | \$ 2.79                 | \$ 1.82    | \$ 0.78    |
| Weighted average number of common shares outstanding: |                         |            |            |
| Basic   | 24,418                  | 26,337     | 25,308     |
| Diluted   | 25,024                  | 27,095     | 25,984     |

See notes to consolidated financial statements



**LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

(In thousands, except share amounts)

|  | Common Stock |            | Additional      | Deferred     | Treasury    | Retained   | Accumulated              | Total      |
|--|--------------|------------|-----------------|--------------|-------------|------------|--------------------------|------------|
|  | Shares       | Amount     | Paid-in Capital | Compensation | Stock       | Earnings   | Other Comprehensive Loss |            |
| BALANCE - January 1, 2008                          | 25,888,348   | \$ 120,379 | \$ 12,378       | \$ (3,228)   | \$ -        | \$ 35,024  | \$ (2,086)               | \$ 162,467 |
| Net income   | -            | -          | -               | -            | -           | 20,195     | -                        | 20,195     |
| Employee pension plan, net of taxes                | -            | -          | -               | -            | -           | -          | (3,697)                  | (3,697)    |
| Stock-based compensation expense                   |              |            |                 |              |             |            |                          |            |
| Restricted stock                                   | 123,477      | -          | 1,487           | (391)        | -           | -          | -                        | 1,096      |
| Stock options                                      | -            | -          | 1,105           | -            | -           | -          | -                        | 1,105      |
| Purchase of treasury stock                         | -            | -          | -               | -            | (6,584)     | -          | -                        | (6,584)    |
| Tax benefit of options exercised                   | -            | -          | 331             | -            | -           | -          | -                        | 331        |
| Net share settlement for equity-based compensation | (13,512)     | -          | (182)           | -            | -           | -          | -                        | (182)      |
| Exercise of stock options                          | 89,948       | 218        | -               | -            | -           | -          | -                        | 218        |
| BALANCE - December 31, 2008                        | 26,088,261   | 120,597    | 15,119          | (3,619)      | (6,584)     | 55,219     | (5,783)                  | 174,949    |
| Net income   | -            | -          | -               | -            | -           | 49,239     | -                        | 49,239     |
| Employee pension plan, net of taxes                | -            | -          | -               | -            | -           | -          | 882                      | 882        |
| Stock-based compensation expense                   |              |            |                 |              |             |            |                          |            |
| Restricted stock                                   | 144,288      | -          | 410             | 798          | -           | -          | -                        | 1,208      |
| Stock options                                      | -            | -          | 1,169           | -            | -           | -          | -                        | 1,169      |
| Purchase of treasury stock                         | -            | -          | -               | -            | (26,187)    | -          | -                        | (26,187)   |
| Sale of common stock, net of expenses              | 1,150,000    | 14,932     | -               | -            | -           | -          | -                        | 14,932     |
| Tax benefit of options exercised                   | -            | -          | 578             | -            | -           | -          | -                        | 578        |
| Net share settlement for equity-based compensation | (16,206)     | -          | (294)           | -            | -           | -          | -                        | (294)      |
| Other  | -            | -          | (2,821)         | 2,821        | -           | -          | -                        | -          |
| Exercise of stock options                          | 356,128      | 2,160      | -               | -            | -           | -          | -                        | 2,160      |
| BALANCE - December 31, 2009                        | 27,722,471   | 137,689    | 14,161          | -            | (32,771)    | 104,458    | (4,901)                  | 218,636    |
| Net income   | -            | -          | -               | -            | -           | 69,731     | -                        | 69,731     |
| Employee pension plan, net of taxes                | -            | -          | -               | -            | -           | -          | 153                      | 153        |
| Stock-based compensation expense                   |              |            |                 |              |             |            |                          |            |
| Restricted stock                                   | 17,624       | -          | 2,036           | -            | -           | -          | -                        | 2,036      |
| Stock options                                      | -            | -          | 629             | -            | -           | -          | -                        | 629        |
| Purchase of treasury stock                         | -            | -          | -               | -            | (50,089)    | -          | -                        | (50,089)   |
| Tax benefit of options exercised                   | -            | -          | 1,484           | -            | -           | -          | -                        | 1,484      |
| Net share settlement for equity-based compensation | (52,214)     | (112)      | (932)           | -            | -           | -          | -                        | (1,044)    |
| Cash dividend of \$ 1.00 per common share          | -            | -          | -               | -            | -           | (22,200)   | -                        | (22,200)   |
| Exercise of stock options                          | 422,106      | 3,149      | -               | -            | -           | -          | -                        | 3,149      |
| BALANCE - December 31, 2010                        | 28,109,987   | \$ 140,726 | \$ 17,378       | \$ -         | \$ (82,860) | \$ 151,989 | \$ (4,748)               | \$ 222,485 |

See notes to consolidated financial statements.

**LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

|   | Year Ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 2010                    | 2009      | 2008      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                         |           |           |
| Net income  | \$ 69,731               | \$ 49,239 | \$ 20,195 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |           |           |
| Depreciation and amortization   | 26,218                  | 24,240    | 17,920    |
| Amortization of deferred finance charges  | 359                     | 248       | 195       |
| Deferred income taxes   | 2,431                   | (2,677)   | (298)     |
| (Gain) loss on disposition of assets  | (8)                     | 35        | 80        |
| Impairment of goodwill  | 6,244                   | 215       | 0         |
| Impairment long-lived assets  | 0                       | 280       | 0         |
| Provision for doubtful accounts   | 39,106                  | 36,982    | 21,642    |
| Stock-based compensation expense  | 2,665                   | 2,377     | 2,201     |
| Tax benefit associated with exercise of stock options                             | (1,484)                 | (578)     | (331)     |
| Deferred rent   | 1,566                   | 334       | 412       |
| (Increase) decrease in assets, net of acquisitions:                               |                         |           |           |
| Accounts receivable   | (36,732)                | (51,073)  | (22,775)  |
| Inventories   | (226)                   | 188       | (824)     |
| Prepaid expenses and current assets   | 4,511                   | (1,477)   | (338)     |
| Other assets  | (798)                   | (153)     | 306       |
| Increase (decrease) in liabilities, net of acquisitions:                          |                         |           |           |
| Accounts payable  | 2,338                   | 358       | 818       |
| Income taxes payable  | (2,830)                 | 2,673     | 2,134     |
| Accrued expenses  | (984)                   | 7,509     | 6,103     |
| Pension plan liabilities  | (822)                   | (692)     | 0         |
| Advance from federal funds  | (89)                    | 1,495     | 5,259     |
| Unearned tuition  | 2,857                   | 3,194     | 3,010     |
| Other liabilities   | 411                     | 452       | (1,533)   |
| Total adjustments   | 44,733                  | 23,930    | 33,981    |
| Net cash provided by operating activities   | 114,464                 | 73,169    | 54,176    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      | 0                       | 0         | 0         |
| Restricted cash   | 164                     | (113)     | (383)     |
| Capital expenditures  | (42,352)                | (24,018)  | (20,166)  |
| Proceeds from sale of property and equipment                                      | 77                      | 90        | 46        |
| Net share settlement for equity-based compensation                                | 0                       | 0         | (182)     |
| Acquisitions, net of cash acquired, including restricted cash                     | 0                       | (27,552)  | (10,520)  |
| Net cash used in investing activities   | (42,111)                | (51,593)  | (31,205)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      | 0                       | 0         | 0         |
| Proceeds from borrowings  | 20,000                  | 64,000    | 23,000    |
| Payments on borrowings  | (20,000)                | (44,000)  | (28,000)  |
| Payment of deferred finance fees  | 0                       | (962)     | 0         |
| Proceeds from exercise of stock options   | 3,149                   | 2,160     | 218       |
| Tax benefit associated with exercise of stock options                             | 1,484                   | 578       | 331       |
| Net share settlement for equity-based compensation                                | (1,044)                 | (294)     | 0         |
| Dividends paid  | (5,550)                 | 0         | 0         |
| Principal payments under capital lease obligations                                | (384)                   | (961)     | (204)     |
| Purchase of treasury stock  | (50,089)                | (26,187)  | (6,584)   |
| Proceeds from issuance of common stock, net of issuance costs                     | 0                       | 14,932    | 0         |
| Net cash (used in) provided by financing activities                               | (52,434)                | 9,266     | (11,239)  |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                       | 19,919                  | 30,842    | 11,732    |
| <b>CASH AND CASH EQUIVALENTS—Beginning of year</b>                                | 46,076                  | 15,234    | 3,502     |
| <b>CASH AND CASH EQUIVALENTS—End of year</b>                                      | \$ 65,995               | \$ 46,076 | \$ 15,234 |

See notes to consolidated financial statements.

**LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In thousands)**

**(Continued)**

|   | <b>Year Ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2010</b>                    | <b>2009</b> | <b>2008</b> |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>                   |                                |             |             |
| Cash paid during the year for:  |                                |             |             |
| Interest  | \$ 4,180                       | \$ 4,007    | \$ 1,998    |
| Income taxes  | \$ 49,331                      | \$ 35,355   | \$ 12,137   |
| <b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b> |                                |             |             |
| Capital leases acquired in acquisition                                      | \$ -                           | \$ 26,828   | \$ -        |
| Fixed assets acquired in capital lease transactions                         | \$ -                           | \$ 75       | \$ -        |
| Liabilities accrued for the purchase of fixed assets                        | \$ 5,962                       | \$ 2,005    | \$ 1,430    |
| Dividend payable  | \$ 16,650                      | \$ -        | \$ -        |

See notes to consolidated financial statements.

**LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2010 AND 2009 AND FOR THE THREE YEARS ENDED DECEMBER 31, 2010**

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

**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. We currently have 45 schools in 17 states across the United States.

**Principles of Consolidation**—The accompanying consolidated financial statements include the accounts of Lincoln Educational Services Corporation and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

**Revenue Recognition**—Revenue is derived primarily from programs taught at the schools. Tuition revenue and one-time fees, such as nonrefundable application fees, registration fees, and course material fees are recognized on a straight-line basis over the length of the applicable program. If a student withdraws from a program prior to a specified date, any paid but unearned tuition is refunded. Other revenues, such as textbook sales, tool sales and contract training revenues are recognized as services are performed or goods are delivered. On an individual student basis, tuition earned in excess of cash received is recorded as accounts receivable, and cash received in excess of tuition earned is recorded as unearned tuition. Refunds are calculated and paid in accordance with federal, state and accrediting agency standards.

**Comprehensive Income**

|                                     | <b>December 31,</b> |                  |                  |
|-------------------------------------|---------------------|------------------|------------------|
|                                     | <b>2010</b>         | <b>2009</b>      | <b>2008</b>      |
| Net income                          | \$ 69,731           | \$ 49,239        | \$ 20,195        |
| Employee pension plan, net of taxes | 153                 | 882              | (3,697)          |
| Comprehensive income                | <u>\$ 69,884</u>    | <u>\$ 50,121</u> | <u>\$ 16,498</u> |

**Cash and Cash Equivalents**—Cash and cash equivalents include all cash balances and highly liquid short-term investments, which mature within three months of purchase.

**Restricted Cash**—Restricted cash represents amounts received from the federal and state governments under various student aid grant and loan programs. These funds are either received prior to the completion of the authorization and disbursement process for the benefit of the student or immediately prior to that authorization. Restricted funds are held in separate bank accounts. Once the authorization and disbursement process is completed and authorization obtained, the funds are transferred to unrestricted accounts, and these funds then become available for use in the Company's current operations. As of December 31, 2010 and 2009, the Company had restricted cash of \$0.4 million and \$0.5 million, respectively, related to state grants and \$0.3 million and \$0.4 million, respectively, related to the acquisition of Baran Institute of Technology ("BAR").

**Accounts Receivable**—The Company reports accounts receivable at net realizable value, which is equal to the gross receivable less an estimated allowance for uncollectible accounts. Noncurrent accounts receivable represent amounts due from graduates in excess of 12 months from the balance sheet date.

**Allowance for uncollectible accounts**—Based upon experience and judgment, we establish an allowance for uncollectible accounts with respect to tuition receivables. In establishing our allowance for uncollectible accounts, we consider, among other things, current and expected economic conditions, a student's status (in-school or out-of-school), whether or not additional financial aid funding will be collected from Title IV Programs or other sources, whether or not a student is currently making payments, and overall collection history. Changes in trends in any of these areas may impact the allowance for uncollectible accounts. The receivables balances of withdrawn students with delinquent obligations are reserved for based on our collection history.

**Inventories**—Inventories consist mainly of textbooks, tools and supplies. Inventories are valued at the lower of cost or market on a first-in, first-out basis.

**Property, Equipment and Facilities—Depreciation and Amortization**—Property, equipment and facilities are stated at cost. Major renewals and improvements are capitalized, while repairs and maintenance are expensed when incurred. Upon the retirement, sale or other disposition of assets, costs and related accumulated depreciation are eliminated from the accounts and any gain or loss is reflected in operating income. For financial statement purposes, depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets, and amortization of leasehold improvements is computed over the lesser of the term of the lease or its estimated useful life.

**Rent Expense**—Rent expense related to operating leases where scheduled rent increases exist, is determined by expensing the total amount of rent due over the life of the operating lease on a straight-line basis. The difference between the rent paid under the terms of the lease and the rent expensed on a straight-line basis is included in accrued rent and other long-term liabilities on the accompanying consolidated balance sheets.

**Deferred Finance Charges**—Deferred finance charges were \$1.0 million and \$1.3 million as of December 31, 2010 and 2009, respectively, related to costs incurred in refinancing our credit facility and \$0.4 million as of December 31, 2010 and 2009, related to the finance obligation. These amounts are being amortized as an increase in interest expense on a straight-line basis, which approximates the effective yield method, over the respective life of the debt or finance obligation.

**Advertising Costs**—Costs related to advertising are expensed as incurred and approximated \$46.7 million, \$40.9 million and \$33.8 million for the years ended December 31, 2010, 2009 and 2008, respectively. These amounts are included in selling, general and administrative expenses in the consolidated statement of income.

**Goodwill and Other Intangible Assets**— The Company tests its goodwill for impairment annually, or whenever events or changes in circumstances indicate an impairment may have occurred, by comparing its reporting unit's carrying value to its implied fair value. Impairment may result from, among other things, deterioration in the performance of the acquired business, adverse market conditions, adverse changes in applicable laws or regulations, reductions in market value of the Company, including changes that restrict the activities of the acquired business, and a variety of other circumstances. If the Company determines that an impairment has occurred, it is required to record a write-down of the carrying value and charge the impairment as an operating expense in the period the determination is made. In evaluating the recoverability of the carrying value of goodwill and other indefinite-lived intangible assets, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the acquired assets. Changes in strategy or market conditions could significantly impact these judgments in the future and require an adjustment to the recorded balances.

At December 31, 2010, we tested our goodwill for impairment and determined that an impairment of approximately \$6.2 million existed for three of our reporting units. At December 31, 2009, we tested our goodwill for impairment and determined that an impairment of approximately \$0.2 million existed for one of our reporting units. No other reporting unit's carrying goodwill amount exceeded or approximated its implied value. At December 31, 2008, we tested our goodwill and determined we did not have an impairment.

**Concentration of Credit Risk**—Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments.

The Company places its cash and cash equivalents with high credit quality financial institutions. The Company's cash balances with financial institutions typically exceed the Federal Deposit Insurance limit of \$0.1 million. The Emergency Economic Stabilization Act of 2008 that was enacted October 3, 2008 temporarily raised the FDIC insurance coverage to the first \$0.25 million of funds at member banks. This temporary increase is scheduled to expire December 31, 2013. The Company's cash balances on deposit at December 31, 2010, exceeded the balance insured by the FDIC by approximately \$63.6 million. The Company has not experienced any losses to date on its invested cash.

The Company extends credit for tuition and fees to many of its students. The credit risk with respect to these accounts receivable is mitigated through the students' participation in federally funded financial aid programs unless students withdraw prior to the receipt of federal funds for those students. In addition, the remaining tuition receivables are primarily comprised of smaller individual amounts due from students.

With respect to student receivables, the Company had no significant concentrations of credit risk as of December 31, 2010, and 2009.

**Use of Estimates in the Preparation of Financial Statements**—The preparation of financial statements in conformity with generally accepted accounting principles in the United States (“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, income taxes, benefit plans and certain accruals. Actual results could differ from those estimates.

**Stock Based Compensation Plans**—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 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 restricted stock utilizing straight-line amortization of compensation expense over the requisite service period of the grant.

**Income Taxes**—Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in income in the period that includes the enactment date.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. During the years ended December 31, 2010 and 2009, the interest and penalties expense associated with uncertain tax positions are not significant to our results of operations or financial position.

**Impairment of Long-Lived Assets**—The Company reviews the carrying value of our long-lived assets and identifiable intangibles for possible impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Company evaluates long-lived assets for impairment by examining estimated future cash flows. These cash flows are evaluated by using weighted probability techniques as well as comparisons of past performance against projections. Assets may also be evaluated by identifying independent market values. If the Company determines that an asset’s carrying value is impaired, it will record a write-down of the carrying value of the asset and charge the impairment as an operating expense in the period in which the determination is made.

During 2009 the Company changed the name of its Florida Culinary Institute to Lincoln Culinary Institute and wrote-off approximately \$0.3 million associated with the previous trade name.

**Start-up Costs**—Costs related to the start of new campuses are expensed as incurred.

### ***New Accounting Pronouncements***

In June 2009, the Financial Accounting Standards Board issued an accounting standard on variable interest entities to address the elimination of the concept of a qualifying special purpose entity. This standard also replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity and the obligation to absorb losses of the entity or the right to receive benefits from the entity. Additionally, it provides more timely and useful information about an enterprise’s involvement with a variable interest entity. The standard became effective for the Company on January 1, 2010. The adoption of this standard had no effect on the Company’s consolidated financial statements.

## **2. FINANCIAL AID AND REGULATORY COMPLIANCE**

### **Financial Aid**

The Company’s schools and students participate in a variety of government-sponsored financial aid programs that assist students in paying the cost of their education. The largest source of such support is the federal programs of student financial assistance under Title IV of the Higher Education Act of 1965, as amended, commonly referred to as the Title IV Programs, which are administered by the U.S. Department of Education (or "DOE"). During the years ended December 31, 2010, 2009 and 2008, approximately 83%, 81% and 79%, respectively, of net revenues on a cash basis were indirectly derived from funds distributed under Title IV Programs.

For the years ended December 31, 2009 and 2008, the Company was in compliance with the standards established by the DOE requiring that no individual DOE reporting entity can receive more than 90% of its revenue, determined on a cash basis, from Title IV, HEA Program Funds. For the year ended December 31, 2010, the Company determined that one of its institutions received

approximately 97% of its revenue, determined on a cash basis, from Title IV, HEA Program Funds. A proprietary institution that derives more than 90% of its total revenue from the Title IV programs for two consecutive fiscal years becomes immediately ineligible to participate in the Title IV programs and may not reapply for eligibility until the end of two fiscal years. An institution with revenues exceeding 90% for a single fiscal year ending after August 14, 2008 will be placed on provisional certification and may be subject to other enforcement measures. If one of our institutions violated the 90/10 Rule and became ineligible to participate in Title IV Programs but continued to disburse Title IV Program funds, the DOE would require the institution to repay all Title IV Program funds received by the institution after the effective date of the loss of eligibility.

### Regulatory Compliance

To participate in Title IV Programs, a school must be authorized to offer its programs of instruction by relevant state education agencies, be accredited by an accrediting commission recognized by the DOE and be certified as an eligible institution by the DOE. For this reason, the schools are subject to extensive regulatory requirements imposed by all of these entities. After the schools receive the required certifications by the appropriate entities, the schools must demonstrate their compliance with the DOE regulations of the Title IV Programs on an ongoing basis. Included in these regulations is the requirement that the Company must satisfy specific standards of financial responsibility. The DOE evaluates institutions for compliance with these standards each year, based upon the institution's annual audited financial statements, as well as following a change in ownership of the institution. Under regulations which took effect July 1, 1998, the DOE calculates the institution's composite score for financial responsibility based on its (i) equity ratio, which measures the institution's capital resources, ability to borrow and financial viability; (ii) primary reserve ratio, which measures the institution's ability to support current operations from expendable resources; and (iii) net income ratio, which measures the institution's ability to operate at a profit. This composite score can range from -1 to +3.

The DOE has evaluated the financial responsibility of the Company's institutions on a consolidated basis. The Company has submitted to the DOE its audited financial statements for the 2008 and 2009 fiscal year reflecting a composite score of 1.8 and 2.0, respectively, based upon its calculations, and that its schools meet the DOE standards of financial responsibility. For the 2010 fiscal year, the Company has calculated its composite score to be 1.8. However, this is subject to determination by the DOE once it receives and reviews the Company's audited financial statements for the 2010 fiscal year.

### 3. WEIGHTED AVERAGE COMMON SHARES

The weighted average numbers of common shares used to compute basic and diluted income per share for the years ended December 31, 2010, 2009 and 2008, respectively were as follows:

|                                  | <b>Year Ended December 31,</b> |                   |                   |
|----------------------------------|--------------------------------|-------------------|-------------------|
|                                  | <b>2010</b>                    | <b>2009</b>       | <b>2008</b>       |
| Basic shares outstanding         | 24,418,460                     | 26,337,172        | 25,308,144        |
| Dilutive effect of stock options | 605,713                        | 757,926           | 675,852           |
| Diluted shares outstanding       | <u>25,024,173</u>              | <u>27,095,098</u> | <u>25,983,996</u> |

For the years ended December 31, 2010, 2009 and 2008, options to acquire 201,500, 186,500, and 546,708 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 earnings per share would have been antidilutive.

### 4. BUSINESS ACQUISITIONS

On January 20, 2009, the Company completed the acquisition of six of the seven schools comprising BAR, for approximately \$24.9 million in cash, net of cash acquired. BAR consisted of seven schools and offers associate's degree and diploma programs in the fields of automotive, skilled trades, health sciences and culinary arts. On April 20, 2009, the Company acquired the seventh BAR school, Clemens College ("Clemens"), for \$2.7 million, in cash, net of cash acquired. In connection with these acquisitions, the Company incurred approximately \$1.4 million of transaction expenses for the year ended December 31, 2009.

The consolidated financial statements include the results of operations from the respective acquisition dates. The purchase price allocations for BAR were finalized in 2010.

The following table summarizes the reported fair value of assets acquired and liabilities assumed related to acquisitions:

|   | <b>BAR</b>                  |
|---|-----------------------------|
|   | <b>January 20, 2009</b>     |
|   | <b>and Clemens</b>          |
|   | <b>April 20, 2009</b>       |
|   | <u>                    </u> |
| Restricted cash                             | \$ 362                      |
| Current assets, excluding cash acquired (1) | 8,063                       |
| Property, equipment and facilities          | 36,739                      |
| Goodwill                                    | 20,462                      |
| Identified intangibles:                     |                             |
| Student contracts                           | 2,162                       |
| Trade name                                  | 509                         |
| Accreditation                               | 1,040                       |
| Curriculum                                  | 410                         |
| Non-compete                                 | 1,980                       |
| Other long-term assets                      | 731                         |
| Current liabilities assumed                 | (16,688)                    |
| Long-term liabilities assumed               | (28,218)                    |
| Cost of acquisition, net of cash acquired   | <u>\$ 27,552</u>            |

(1) Current assets, excluding cash acquired for BAR includes reported amounts due from the seller in accordance with the stock purchase agreement.

## 5. GOODWILL AND OTHER INTANGIBLES

Changes in the carrying amount of goodwill during the years ended December 31, 2010 and 2009 are as follows:

|  |                   |
|--|-------------------|
| Balance as of January 1, 2009:                         |                   |
| Goodwill   | \$ 93,595         |
| Accumulated impairment losses                          | (2,135)           |
|  | <u>91,460</u>     |
| Goodwill adjustments (1)                               | 1,246             |
| Goodwill impairment                                    | (215)             |
| Goodwill acquired pursuant to business acquisition-BAR | <u>20,462</u>     |
| Balance as of December 31, 2009:                       |                   |
| Goodwill   | 115,303           |
| Accumulated impairment losses                          | (2,350)           |
|  | <u>112,953</u>    |
| Goodwill impairment                                    | <u>(6,244)</u>    |
| Balance as of December 31, 2010:                       |                   |
| Goodwill   | 115,303           |
| Accumulated impairment losses                          | (8,594)           |
|  | <u>\$ 106,709</u> |

(1) Goodwill adjustments are related to the finalization of the purchase price allocation of BRI.



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

|  | <b>Student<br/>Contracts</b> | <b>Indefinite<br/>Trade<br/>Name</b> | <b>Trade<br/>Name</b> | <b>Accreditation</b> | <b>Curriculum</b> | <b>Non-compete</b> | <b>Total</b>    |
|--|------------------------------|--------------------------------------|-----------------------|----------------------|-------------------|--------------------|-----------------|
| Gross carrying amount at                     |                              |                                      |                       |                      |                   |                    |                 |
| December 31, 2008                            | \$ 2,563                     | \$ 1,270                             | \$ -                  | \$ 1,307             | \$ 2,000          | \$ 201             | \$ 7,341        |
| Acquisitions (1)                             | 2,162                        | -                                    | 509                   | 1,040                | 410               | 1,980              | 6,101           |
| BRI adjustment (2)                           | 102                          | -                                    | -                     | (40)                 | (1,260)           | -                  | (1,198)         |
| Write-off (3)                                | -                            | (280)                                | -                     | -                    | -                 | -                  | (280)           |
| Gross carrying amount at                     |                              |                                      |                       |                      |                   |                    |                 |
| December 31, 2009                            | 4,827                        | 990                                  | 509                   | 2,307                | 1,150             | 2,181              | 11,964          |
| Accumulated amortization at                  |                              |                                      |                       |                      |                   |                    |                 |
| December 31, 2008                            | 2,230                        | -                                    | -                     | -                    | 289               | 105                | 2,624           |
| Amortization                                 | 1,604                        | -                                    | 84                    | -                    | 101               | 673                | 2,462           |
| Accumulated amortization at                  |                              |                                      |                       |                      |                   |                    |                 |
| December 31, 2009                            | 3,834                        | -                                    | 84                    | -                    | 390               | 778                | 5,086           |
| Net carrying amount at                       |                              |                                      |                       |                      |                   |                    |                 |
| December 31, 2009                            | <u>\$ 993</u>                | <u>\$ 990</u>                        | <u>\$ 425</u>         | <u>\$ 2,307</u>      | <u>\$ 760</u>     | <u>\$ 1,403</u>    | <u>\$ 6,878</u> |
| Weighted average amortization period (years) | 2                            | Indefinite                           | 6                     | Indefinite           | 10                | 3                  |                 |
|  |                              |                                      |                       |                      |                   |                    |                 |
|  | <b>Student<br/>Contracts</b> | <b>Indefinite<br/>Trade<br/>Name</b> | <b>Trade<br/>Name</b> | <b>Accreditation</b> | <b>Curriculum</b> | <b>Non-compete</b> | <b>Total</b>    |
| Gross carrying amount at                     |                              |                                      |                       |                      |                   |                    |                 |
| December 31, 2009                            | \$ 4,827                     | \$ 990                               | \$ 509                | \$ 2,307             | \$ 1,150          | \$ 2,181           | \$ 11,964       |
| Reclassification (4)                         | -                            | (330)                                | 330                   | -                    | -                 | -                  | -               |
| Gross carrying amount at                     |                              |                                      |                       |                      |                   |                    |                 |
| December 31, 2010                            | 4,827                        | 660                                  | 839                   | 2,307                | 1,150             | 2,181              | 11,964          |
| Accumulated amortization at                  |                              |                                      |                       |                      |                   |                    |                 |
| December 31, 2009                            | 3,834                        | -                                    | 84                    | -                    | 390               | 778                | 5,086           |
| Amortization                                 | 990                          | -                                    | 419                   | -                    | 115               | 700                | 2,224           |
| Accumulated amortization at                  |                              |                                      |                       |                      |                   |                    |                 |
| December 31, 2010                            | 4,824                        | -                                    | 503                   | -                    | 505               | 1,478              | 7,310           |
| Net carrying amount at                       |                              |                                      |                       |                      |                   |                    |                 |
| December 31, 2010                            | <u>\$ 3</u>                  | <u>\$ 660</u>                        | <u>\$ 336</u>         | <u>\$ 2,307</u>      | <u>\$ 645</u>     | <u>\$ 703</u>      | <u>\$ 4,654</u> |
| Weighted average amortization period (years) | 2                            | Indefinite                           | 6                     | Indefinite           | 10                | 3                  |                 |

(1) The acquisitions related to the acquisitions of six of the BAR schools on January 20, 2009 and Clemens on April 20, 2009.

(2) The adjustments are related to the finalization of the purchase price of BRI.

(3) During the second quarter of 2009, the Company wrote-off the value of the trade name of Florida Culinary Institute in West Palm Beach, Florida due to rebranding.

(4) Reclassification due to the Company's plan to rebrand a group of schools.

Amortization of intangible assets for the years ended December 31, 2010, 2009 and 2008 was approximately \$2.2 million, \$2.5 million and \$0.1 million, respectively.

The following table summarizes the estimated future amortization expense:

| <b>Year Ending December 31,</b> |                 |
|---------------------------------|-----------------|
| 2010                            | \$ 883          |
| 2011                            | 232             |
| 2012                            | 181             |
| 2013                            | 160             |
| 2014                            | 91              |
| Thereafter                      | <u>140</u>      |
|                                 | <u>\$ 1,687</u> |

## 6. PROPERTY, EQUIPMENT AND FACILITIES

Property, equipment and facilities consist of the following:

|  | <b>Useful life<br/>(years)</b> | <b>At December 31,</b> |                   |
|--|--------------------------------|------------------------|-------------------|
|  |                                | <b>2010</b>            | <b>2009</b>       |
| Land   | -                              | \$ 18,363              | \$ 17,563         |
| Buildings and improvements                     | 1-25                           | 182,795                | 159,882           |
| Equipment, furniture and fixtures              | 1-12                           | 73,958                 | 64,887            |
| Vehicles                                       | 1-7                            | 1,282                  | 1,363             |
| Construction in progress                       | -                              | <u>7,197</u>           | <u>3,205</u>      |
|  |                                | 283,595                | 246,900           |
| Less accumulated depreciation and amortization |                                | <u>(111,164)</u>       | <u>(97,590)</u>   |
|  |                                | <u>\$ 172,431</u>      | <u>\$ 149,310</u> |

Included above in buildings and improvements are buildings acquired under capital leases as of December 31, 2010 and 2009 of \$26.8 million, respectively, net of accumulated depreciation of \$3.4 million and \$1.6 million, respectively.

Included above in equipment, furniture and fixtures are assets acquired under capital leases as of December 31, 2010 and 2009 of \$1.2 million, respectively, net of accumulated depreciation of \$0.9 million and \$0.8 million, respectively.

Included above in buildings and improvements is capitalized interest as of December 31, 2010 and 2009 of \$0.6 million, respectively, net of accumulated depreciation of \$0.3 million and \$0.2 million, respectively.

Depreciation and amortization expense of property, equipment and facilities was \$23.4 million, \$21.1 million and \$17.2 million for the years ended December 31, 2010, 2009 and 2008, respectively.

## 7. ACCRUED EXPENSES

Accrued expenses consist of the following:

|                                   | <b>At December 31,</b> |                  |
|-----------------------------------|------------------------|------------------|
|                                   | <b>2010</b>            | <b>2009</b>      |
| Accrued compensation and benefits | \$ 18,659              | \$ 19,231        |
| Other accrued expenses            | <u>7,412</u>           | <u>7,735</u>     |
|                                   | <u>\$ 26,071</u>       | <u>\$ 26,966</u> |

## 8. LONG-TERM DEBT AND LEASE OBLIGATIONS

Long-term debt and lease obligations consist of the following:

|   | At December 31,  |                  |
|---|------------------|------------------|
|   | 2010             | 2009             |
| Credit agreement (a)  | \$ 20,000        | \$ 20,000        |
| Finance obligation (b)  | 9,672            | 9,672            |
| Note payable  | -                | 11               |
| Capital lease-property (with a rate of 8.0%) (c)                | 26,986           | 27,202           |
| Capital leases-equipment (with rates ranging from 5.0% to 8.5%) | 287              | 443              |
|   | <u>56,945</u>    | <u>57,328</u>    |
| Less current maturities   | <u>(437)</u>     | <u>(383)</u>     |
|   | <u>\$ 56,508</u> | <u>\$ 56,945</u> |

(a) On December 1, 2009, the Company, as borrower, and all of its wholly-owned subsidiaries, as guarantors, entered into a secured revolving credit agreement (the "Credit Agreement") with a syndicate of seven lenders led by Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer, for an aggregate principal amount of up to \$115 million (the "Credit Facility"). The credit agreement expires December 1, 2012.

Amounts borrowed as revolving loans under the Credit Facility will bear interest, at the Company's option, at either (i) an interest rate based on LIBOR and adjusted for any reserve percentage obligations under Federal Reserve Bank regulations (the "Euro Dollar Rate") for specified interest periods or (ii) the Base Rate (as defined in the Credit Agreement), in each case, plus an applicable margin rate as determined under the Credit Agreement. The "Base Rate", as defined under the Credit Agreement, is the highest of (a) the prime rate, (b) the Federal Funds rate plus 0.50% and (c) a daily rate equal to one-month of the Euro Dollar Rate plus 1.0%. Under the Credit Agreement, the margin interest rate is subject to adjustment within a range of 1.50% to 3.25% based upon changes in the Company's consolidated leverage ratio and depending on whether the Company has chosen the Euro Dollar Rate or the Base Rate option. Swing line loans will bear interest at the Base Rate plus the applicable margin rate. Letters of credit will require a fee equal to the applicable margin rate multiplied by the daily amount available to be drawn under each issued letter of credit plus a fronting fee of 0.125% of the amount available to be drawn and customary issuance, presentation, amendment and other processing fees associated with letters of credit. At December 31, 2010, the Company had outstanding letters of credit aggregating \$1.9 million which was primarily comprised of letters of credit for the Department of Education matters and real estate leases.

The Credit Agreement contains customary representations, warranties and covenants including consolidated adjusted net worth, consolidated leverage ratio, consolidated fixed charge coverage ratio, minimum financial responsibility composite score, cohort default rate and other financial covenants, certain restrictions on capital expenditures as well as affirmative and negative covenants and events of default customary for facilities of this type. In addition, the Company is paying fees to the lenders that are customary for facilities of this type. As of December 31, 2010, the Company was in compliance with the financial covenants contained in the credit agreement.

During 2010, the Company borrowed a total of \$20.0 million and repaid \$20.0 million and had \$20.0 million outstanding as of December 31, 2010, under its credit agreement. Interest rates on borrowing under the credit agreement during the year ended December 31, 2010 was 4.75%.

The Company previously had a credit agreement with a syndicate of banks, which was terminated on December 1, 2009. Under the terms of the agreement, the syndicate provided the Company with a \$100 million credit facility. During 2009, the Company borrowed a total of \$44.0 million and repaid \$44.0 million under its old credit agreement. Interest rates on borrowing under the prior credit agreement during the year ended December 31, 2009 ranged from 1.31% to 3.25%.

(b) The Company completed a sale and a leaseback of several facilities on December 28, 2001. The Company retained a continuing involvement in the lease and as a result it is prohibited from utilizing sale-leaseback accounting. Accordingly, the Company has treated this transaction as a finance lease. Rent payments under this obligation for the three years in the period ended December 31, 2010 were \$1.4 million, respectively. These payments have been reflected in the accompanying consolidated income statement as interest expense for all periods presented since the effective interest rate on the obligation is greater than the scheduled payments. The lease expiration date is January 25, 2017.

(c) As part of the acquisition of BAR, the Company assumed real estate capital leases related to Americare School of Nursing in Seminole, Florida and Connecticut Culinary Institute in Hartford, Connecticut. These leases bear interest at 8% and expire in 2032 and 2031, respectively.

Scheduled maturities of long-term debt and lease obligations at December 31, 2010 are as follows:

| <u>Year ending December 31,</u> |                  |
|---------------------------------|------------------|
| 2011                            | \$ 437           |
| 2012                            | 20,481           |
| 2013                            | 412              |
| 2014                            | 435              |
| 2015                            | 471              |
| Thereafter                      | <u>34,709</u>    |
|                                 | <u>\$ 56,945</u> |

## 9. STOCKHOLDERS' EQUITY

The Company has two stock incentive plans: a Long-Term Incentive Plan (the "LTIP") and a Non-Employee Directors Restricted Stock Plan (the "Non-Employee Directors Plan").

Under the LTIP, certain employees received awards of restricted shares of common stock. The number of shares granted to each employee is based on the fair market value of a share of common stock on the date of grant. As of December 31, 2010, there were a total of 421,000 restricted shares awarded and 190,600 shares vested under the LTIP. The restricted shares vest ratably on the first through fifth anniversary of the grant date; however, there is no vesting period on the right to vote or the right to receive dividends on these restricted shares. The recognized restricted stock expense for the years ended December 31, 2010, 2009 and 2008 was \$1.4 million, \$0.9 million and \$0.8 million, respectively. The deferred compensation or unrecognized restricted stock expense under the LTIP as of December 31, 2010, 2009 and 2008 was \$3.4 million, \$4.8 million and \$3.2 million, respectively.

Pursuant to the Non-Employee Directors Plan, each non-employee director of the Company receives an annual award of restricted shares of common stock on the date of the Company's annual meeting of shareholders. The number of shares granted to each non-employee director is based on the fair market value of a share of common stock on that date. The restricted shares vest ratably on the first through third anniversary of the grant date; however, there is no vesting period on the right to vote or the right to receive dividends on these restricted shares. Beginning in 2010, all new awards of common stock granted under the Non-Employee Directors Plan vest on the first anniversary of the grant date. As of December 31, 2010, there were a total of 126,901 shares awarded less 5,035 shares canceled and 84,954 shares vested under the Non-Employee Directors Plan. The recognized restricted stock expense for the years ended December 31, 2010, 2009 and 2008 was \$0.6 million, \$0.3 million and \$0.3 million, respectively. The deferred compensation or unrecognized restricted stock expense under the Non-Employee Directors Plan as of December 31, 2010, 2009 and 2008 was \$0.3 million, \$0.4 million and \$0.4 million, respectively.

In 2010 and 2009, the Company completed a net share settlement for 32,339 and 16,206 restricted shares, respectively, on behalf of some employees that participate in the LTIP upon the vesting of the restricted shares pursuant to the terms of the LTIP. The net share settlement was in connection with income taxes incurred on restricted shares that vested and were transferred to the employee during 2010 and/or 2009, creating taxable income for the employee. The Company has agreed to pay these taxes on behalf of the employees in return for the employee returning an equivalent value of restricted shares to the Company. This transaction resulted in a decrease of approximately \$0.5 million and \$0.3 million in 2010 and 2009, respectively, to equity on the consolidated balance sheets as the cash payment of the taxes effectively was a repurchase of the restricted shares granted in previous years.

On February 18, 2009, the Company issued 1.15 million shares of common stock in a public offering and received net proceeds of approximately \$14.9 million, after deducting underwriting commissions and offering costs of approximately \$0.3 million. In addition, in connection with the same public offering, the Company also expensed \$1.2 million of costs associated with the sale of stock by certain selling shareholders.

On December 15, 2009, the Company entered into a definitive stock repurchase agreement (the "Repurchase Agreement") with Back to School Acquisition, L.L.C., ("BTS") relating to the Company's repurchase of 1,250,000 shares of the Company's common stock (the "Repurchase Shares") owned by BTS at a purchase price of \$20.95 per share or an aggregate purchase price of \$26,187,500 (the "Share Repurchase"). In accordance with the terms of the Repurchase Agreement, consummation of the Share Repurchase was conditioned upon the completion of the sale by BTS of an additional 750,000 shares of the Company's common stock in a block trade pursuant to Rule 144 under the Securities Act of 1933, as amended (the "Block Trade"). The completion of the Block Trade and the

concurrent closing of the Share Repurchase occurred on December 21, 2009. The Company used cash on hand to pay the purchase price for the Repurchase Shares.

On June 9, 2010, the Company's Board of Directors approved the repurchase of up to \$50.0 million of its common stock over the period of one year. As of December 31, 2010, the Company had repurchased 4,040,234 shares of its common stock for approximately \$50.0 million at an average price of \$12.38 per share. In addition, during 2010, the Company's Board of Directors approved the repurchase of 5,307 shares of its common stock, which was repurchased at an average price of \$16.77 per share.

The fair value of the stock options used to compute stock-based compensation is the estimated present value at the date of grant using the Black-Scholes option pricing model. The weighted average fair values of options granted during 2010, 2009, and 2008 were \$8.48, \$8.75, and \$6.69, respectively, using the following weighted average assumptions for grants:

|   | <b>At December 31,</b> |             |             |
|---|------------------------|-------------|-------------|
|   | <b>2010</b>            | <b>2009</b> | <b>2008</b> |
| Expected volatility                             | 45.00%                 | 51.95%      | 57.23%      |
| Expected dividend yield                         | 0%                     | 0%          | 0%          |
| Expected life (term)                            | 4.82 years             | 4.8-6 Years | 6 Years     |
| Risk-free interest rate                         | 1.95%                  | 2.29-2.36%  | 2.76-3.29%  |
| Weighted-average exercise price during the year | \$20.78                | \$18.48     | \$11.97     |

The expected volatility considers the volatility of the Company common stock that has been traded for a period commensurate with the expected life. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate used is based on the published U.S. Treasury yield curve in effect at the time of grant for instruments with a similar life. The 2010 dividend yield is 0% because at the time the options were granted the Company had not intended to declare or pay dividends on its common stock.

The following is a summary of transactions pertaining to the option plans:

|  | <b>Shares</b>    | <b>Weighted<br/>Average<br/>Exercise Price<br/>Per Share</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term</b> | <b>Aggregate<br/>Intrinsic Value</b> |
|--|------------------|--|--|--------------------------------------|
| Outstanding December 31, 2007                      | 1,512,163        | 9.65   | 5.83 years   | \$ 9,156                             |
| Granted  | 145,500          | 11.97  |  |                                      |
| Cancelled  | (93,500)         | 15.01  |  |                                      |
| Exercised  | <u>(89,948)</u>  | 2.43   |  | 1,018                                |
| Outstanding December 31, 2008                      | 1,474,215        | 9.98   | 5.25 years   | 6,808                                |
| Granted  | 101,000          | 18.48  |  |                                      |
| Cancelled  | (35,166)         | 14.81  |  |                                      |
| Exercised  | <u>(356,128)</u> | 6.07   |  | 4,760                                |
| Outstanding December 31, 2009                      | 1,183,921        | 11.74  | 4.95 years   | 11,934                               |
| Granted  | 68,000           | 20.78  |  |                                      |
| Cancelled  | (108,875)        | 15.15  |  |                                      |
| Exercised  | <u>(422,106)</u> | 7.46   |  | 5,668                                |
| Outstanding December 31, 2010                      | <u>720,940</u>   | 14.59  | 5.14 years   | 2,095                                |
| Vested or expected to vest as of December 31, 2010 | <u>693,509</u>   | 14.45  | 4.99 years   | 2,071                                |
| Exercisable as of December 31, 2010                | <u>583,786</u>   | 13.74  | 4.29 years   | \$ 1,977                             |

As of December 31, 2010, unrecognized pre-tax compensation expense for all unvested stock option awards is approximately \$0.7 million which will be expensed over the weighted-average period of approximately 2.1 years.

The following table presents a summary of options outstanding at December 31, 2010:

| <b>At December 31, 2010</b>     |                                  |  |                                   |                                  |                                    |
|---------------------------------|----------------------------------|--|-----------------------------------|----------------------------------|------------------------------------|
| <u>Range of Exercise Prices</u> | <u>Stock Options Outstanding</u> |  |                                   | <u>Stock Options Exercisable</u> |                                    |
|                                 | <u>Shares</u>                    | <u>Contractual<br/>Weighted<br/>Average life<br/>(years)</u> | <u>Weighted<br/>Average Price</u> | <u>Shares</u>                    | <u>Weighted<br/>Exercise Price</u> |
| \$3.10                          | 106,397                          | 1.07   | \$ 3.10                           | 106,397                          | \$ 3.10                            |
| \$4.00-\$13.99                  | 160,960                          | 6.61   | 11.96                             | 130,468                          | 11.96                              |
| \$14.00-\$19.99                 | 306,083                          | 5.26   | 16.39                             | 261,421                          | 15.97                              |
| \$20.00-\$25.00                 | 147,500                          | 6.21   | 22.00                             | 85,500                           | 22.88                              |
|                                 | <u>720,940</u>                   | 5.14   | 14.59                             | <u>583,786</u>                   | 13.74                              |

During 2009, the Company transferred the \$2.8 million balance in deferred compensation to additional paid-in-capital. The Company concluded that this transfer should have been made concurrently with its previous change in accounting for stock based compensation. The Company determined the effect of this error on its prior financial statements is immaterial.

#### 10. PENSION PLAN

The Company sponsors a noncontributory defined benefit pension plan covering substantially all of the Company's union employees. Benefits are provided based on employees' years of service and earnings. This plan was frozen on December 31, 1994 for non-union employees.

The following table sets forth the plan's funded status and amounts recognized in the consolidated financial statements:

|  | <b>Year Ended December 31,</b> |                   |
|--|--------------------------------|-------------------|
|  | <u>2010</u>                    | <u>2009</u>       |
| <b>CHANGES IN BENEFIT OBLIGATIONS:</b>                           |                                |                   |
| Benefit obligation-beginning of year                             | \$ 16,326                      | \$ 14,994         |
| Service cost   | 91                             | 98                |
| Interest cost  | 918                            | 917               |
| Actuarial (gain) loss  | 1,210                          | 900               |
| Benefits paid  | (642)                          | (583)             |
| Benefit obligation at end of year                                | <u>17,903</u>                  | <u>16,326</u>     |
| <b>CHANGE IN PLAN ASSETS:</b>                                    |                                |                   |
| Fair value of plan assets-beginning of year                      | 13,134                         | 10,659            |
| Actual return (loss) on plan assets                              | 1,773                          | 2,366             |
| Employer contributions   | 822                            | 692               |
| Benefits paid  | (642)                          | (583)             |
| Fair value of plan assets-end of year                            | <u>15,087</u>                  | <u>13,134</u>     |
| <b>BENEFIT OBLIGATION IN EXCESS OF FAIR VALUE FUNDED STATUS:</b> | <u>\$ (2,816)</u>              | <u>\$ (3,192)</u> |

Amounts recognized in the consolidated balance sheets consist of:

|                        | <b>At December 31,</b> |             |
|------------------------|------------------------|-------------|
|                        | <u>2010</u>            | <u>2009</u> |
| Noncurrent liabilities | \$ (2,816)             | \$ (3,192)  |

Amounts recognized in accumulated other comprehensive loss consist of:

|                                      | <b>Year Ended December 31,</b> |                   |
|--------------------------------------|--------------------------------|-------------------|
|                                      | <b>2010</b>                    | <b>2009</b>       |
| Accumulated loss                     | \$ (7,903)                     | \$ (8,157)        |
| Deferred income taxes                | 3,155                          | 3,256             |
| Accumulated other comprehensive loss | <u>\$ (4,748)</u>              | <u>\$ (4,901)</u> |

The accumulated benefit obligation was \$17.8 million and \$16.2 million at December 31, 2010 and 2009, respectively.

The following table provides the components of net periodic cost for the plan:

|  | <b>Year Ended December 31,</b> |               |
|--|--------------------------------|---------------|
|  | <b>2010</b>                    | <b>2009</b>   |
| <b>COMPONENTS OF NET PERIODIC BENEFIT COST</b> |                                |               |
| Service cost                                   | \$ 91                          | \$ 98         |
| Interest cost                                  | 918                            | 917           |
| Expected return on plan assets                 | (1,041)                        | (864)         |
| Recognized net actuarial loss                  | 732                            | 807           |
| Net periodic benefit cost                      | <u>\$ 700</u>                  | <u>\$ 958</u> |

The estimated net loss, transition obligation and prior service cost for the plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next year are \$0.7 million.

The following table presents our plan assets using the fair value hierarchy as of December 31, 2010. The fair value hierarchy has three levels based on the reliability of inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using significant other observable inputs, while Level 3 includes the fair values estimated using significant non-observable inputs. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

|                              | <b>Quoted Prices in<br/>Active Markets<br/>for Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant Other<br/>Observable Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> | <b>Total</b>     |
|------------------------------|---|--|--|------------------|
| Equity securities            | \$ 7,202  | \$ -   | \$ -   | \$ 7,202         |
| Fixed income                 | 5,598   | -  | -  | 5,598            |
| International equities       | 2,252   | -  | -  | 2,252            |
| Cash and equivalents         | 35  | -  | -  | 35               |
| Balance at December 31, 2010 | <u>\$ 15,087</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ 15,087</u> |

Fair value of total plan assets by major asset category as of December 31:

|                        | <b>2010</b> | <b>2009</b> |
|------------------------|-------------|-------------|
| Equity securities      | 48%         | 46%         |
| Fixed income           | 37%         | 38%         |
| International equities | 15%         | 15%         |
| Cash and equivalents   | 0%          | 1%          |
| Total                  | <u>100%</u> | <u>100%</u> |

Weighted-average assumptions used to determine benefit obligations as of December 31:

|                               | <u>2010</u> | <u>2009</u> |
|-------------------------------|-------------|-------------|
| Discount rate                 | 5.75%       | 5.75%       |
| Rate of compensation increase | 4.00%       | 4.00%       |

Weighted-average assumptions used to determine net periodic pension cost for years ended December 31:

|                               | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|-------------------------------|-------------|-------------|-------------|
| Discount rate                 | 5.18%       | 6.27%       | 6.37%       |
| Rate of compensation increase | 4.00%       | 4.00%       | 4.00%       |
| Long-term rate of return      | 8.00%       | 8.00%       | 8.00%       |

As this plan was frozen to non-union employees on December 31, 1994, the difference between the benefit obligation and accumulated benefit obligation is not significant in any year.

The Company invests plan assets based on a total return on investment approach, pursuant to which the plan assets include a diversified blend of equity and fixed income investments toward a goal of maximizing the long-term rate of return without assuming an unreasonable level of investment risk. The Company determines the level of risk based on an analysis of plan liabilities, the extent to which the value of the plan assets satisfies the plan liabilities and the plan's financial condition. The investment policy includes target allocations ranging from 30% to 70% for equity investments, 20% to 60% for fixed income investments and 0% to 10% for cash equivalents. The equity portion of the plan assets represents growth and value stocks of small, medium and large companies. The Company measures and monitors the investment risk of the plan assets both on a quarterly basis and annually when the Company assesses plan liabilities.

The Company uses a building block approach to estimate the long-term rate of return on plan assets. This approach is based on the capital markets assumption that the greater the volatility, the greater the return over the long term. An analysis of the historical performance of equity and fixed income investments, together with current market factors such as the inflation and interest rates, are used to help make the assumptions necessary to estimate a long-term rate of return on plan assets. Once this estimate is made, the Company reviews the portfolio of plan assets and makes adjustments thereto that the Company believes are necessary to reflect a diversified blend of equity and fixed income investments that is capable of achieving the estimated long-term rate of return without assuming an unreasonable level of investment risk. The Company also compares the portfolio of plan assets to those of other pension plans to help assess the suitability and appropriateness of the plan's investments.

The Company expects to make \$0.3 million in contributions to the plan in 2011. However after considering the funded status of the plan, movements in the discount rate, investment performance and related tax consequences, the Company may choose to make additional contributions to the plan in any given year.

The total amount of the Company's contributions paid under its pension plan was \$0.8 million for 2010 and \$0.7 million for the year ended December 31, 2009.

Information about the expected benefit payments for the plan is as follows:

| <u>Year Ending December 31,</u> |        |
|---------------------------------|--------|
| 2011                            | \$ 867 |
| 2012                            | 906    |
| 2013                            | 981    |
| 2014                            | 1,033  |
| 2015                            | 1,118  |
| Years 2016-2020                 | 6,448  |

The Company has a 401(k) defined contribution plan for all eligible employees. Employees may contribute up to 25% of their compensation into the plan. The Company will contribute an additional 30% of the employee's contributed amount up to 6% of compensation. For the years ended December 31, 2010, 2009 and 2008, the Company's expense for the 401(k) plan amounted to \$2.2 million, \$1.7 million and \$1.4 million, respectively.



## 11. INCOME TAXES

Components of the provision for income taxes from continuing operations were as follows:

|                 | Year Ended December 31, |                  |                  |
|-----------------|-------------------------|------------------|------------------|
|                 | 2010                    | 2009             | 2008             |
| Current:        |                         |                  |                  |
| Federal         | \$ 37,320               | \$ 29,817        | \$ 10,960        |
| State           | 8,701                   | 8,187            | 2,679            |
| Total           | <u>46,021</u>           | <u>38,004</u>    | <u>13,639</u>    |
| Deferred:       |                         |                  |                  |
| Federal         | 2,742                   | (1,651)          | (159)            |
| State           | (311)                   | (1,485)          | (139)            |
| Total           | <u>2,431</u>            | <u>(3,136)</u>   | <u>(298)</u>     |
| Total provision | <u>\$ 48,452</u>        | <u>\$ 34,868</u> | <u>\$ 13,341</u> |

The components of the deferred tax assets are as follows:

|  | At December 31,  |                  |
|--|------------------|------------------|
|  | 2010             | 2009             |
| Deferred tax assets                      |                  |                  |
| Current:                                 |                  |                  |
| Accrued vacation                         | \$ 126           | \$ 114           |
| Net operating loss carryforwards         | 420              | 430              |
| Allowance for bad debts                  | 10,511           | 10,084           |
| Other                                    | -                | 249              |
| Total current deferred tax assets        | <u>11,057</u>    | <u>10,877</u>    |
| Deferred tax assets                      |                  |                  |
| Noncurrent:                              |                  |                  |
| Allowance for bad debts                  | 186              | 625              |
| Accrued rent                             | 3,311            | 2,686            |
| Stock-based compensation                 | 1,728            | 2,353            |
| Depreciation                             | 3,549            | 3,610            |
| Prepaid pension asset                    | 1,124            | 1,274            |
| Net operating loss carryforwards         | 2,890            | 3,641            |
| Sale leaseback-deferred gain             | 2,318            | 2,203            |
| Other                                    | 165              | -                |
| Total noncurrent deferred tax assets     | <u>15,271</u>    | <u>16,392</u>    |
| Deferred tax liabilities                 |                  |                  |
| Noncurrent:                              |                  |                  |
| Other intangibles                        | (2,333)          | (3,043)          |
| Goodwill                                 | (11,414)         | (9,113)          |
| Total deferred tax liabilities           | <u>(13,747)</u>  | <u>(12,156)</u>  |
| Total net noncurrent deferred tax assets | <u>1,524</u>     | <u>4,236</u>     |
| Total net deferred tax assets            | <u>\$ 12,581</u> | <u>\$ 15,113</u> |

The difference between the actual tax provision and the tax provision that would result from the use of the Federal statutory rate is as follows:

|  | <b>Year Ended December 31,</b> |              |                  |              |                  |              |
|--|--------------------------------|--------------|------------------|--------------|------------------|--------------|
|  | <b>2010</b>                    |              | <b>2009</b>      |              | <b>2008</b>      |              |
| Income from continuing operations before taxes | \$ 118,183                     |              | \$ 84,107        |              | \$ 33,536        |              |
| Expected tax                                   | \$ 41,364                      | 35.0%        | \$ 29,438        | 35.0%        | \$ 11,737        | 35.0%        |
| State tax expense (net of federal benefit)     | 5,454                          | 4.6          | 4,356            | 5.2          | 1,651            | 4.9          |
| Permanent impairment                           | 2,185                          | 1.9          | -                | -            | -                | -            |
| Other  | (551)                          | (0.5)        | 1,074            | 1.3          | (47)             | (0.1)        |
| Total  | <u>\$ 48,452</u>               |              | <u>\$ 34,868</u> |              | <u>\$ 13,341</u> |              |
|  |                                | <u>41.0%</u> |                  | <u>41.5%</u> |                  | <u>39.8%</u> |

The Company has net operating loss (“NOL”) carryforwards at December 31, 2010 of approximately \$9.4 million for federal income tax purposes, which begin expiring in 2025. These NOLs are limited in the amount that can be utilized in a given year due to a Section 382 limitation. The Company has determined based upon its history of profits and its forecasted financial information that it will be able to fully utilize these NOLs prior to their expiration. As such, a valuation allowance is not required.

The following table summarizes the activity related to the Company’s unrecognized tax benefits:

|  | <b>Year Ended December 31,</b> |               |               |
|--|--------------------------------|---------------|---------------|
|  | <b>2010</b>                    | <b>2009</b>   | <b>2008</b>   |
| Balance at January 1,  | \$ 200                         | \$ 100        | \$ 100        |
| Gross (decreases) increases for tax positions of prior years | (100)                          | 100           | -             |
| Balance at December 31,                                      | <u>\$ 100</u>                  | <u>\$ 200</u> | <u>\$ 100</u> |

Included in the balance of unrecognized tax benefits at December 31, 2010 and 2009 are unrecognized tax benefits of \$0.1 million and \$0.2 million, of which \$0.1 million and \$0.2 million, would be reflected as an adjustment to income tax expense if recognized, respectively. It is expected that the amount of unrecognized tax benefits will change in the next 12 months; however, the Company does not expect the change to have a significant impact on its results of operations or financial position.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states. The Company is no longer subject to U.S. federal income tax examinations for years before 2008 and generally, is no longer subject to state and local income tax examinations by tax authorities for years before 2006.

The Company was under examination by the Internal Revenue Service for tax years 2006 through 2008. The examination was completed and there were no material adjustments. The Company is not subject to U.S. federal or state income tax audits at this time.

## 12. SEGMENT REPORTING

Each of the Company’s schools is an operating segment. The Company’s operating segments have been aggregated into one reportable segment because, in the Company’s judgment, the operating segments have similar products, production processes, types of customers, methods of distribution, regulatory environment and economic characteristics.

## 13. RELATED PARTY TRANSACTIONS

On December 9, 2010, the Company purchased 5,307 shares of its common stock from our Executive Chairman in connection with his exercise of 60,000 stock options on the same date.

As discussed in Note 9, on December 15, 2009, the Company entered into a Repurchase Agreement with BTS relating to the Company’s repurchase of 1,250,000 shares of the Company’s common stock owned by BTS at a purchase price of \$20.95 per share or an aggregate purchase price of \$26,187,500. The Repurchase Shares represented approximately 4.6% of the Company’s total shares of common stock outstanding on December 15, 2009.

## 14. COMMITMENTS AND CONTINGENCIES

**Lease Commitments**—The Company leases office premises, educational facilities and various equipment for varying periods through the year 2032 at basic annual rentals (excluding taxes, insurance, and other expenses under certain leases) as follows:

| Year Ending December 31,          | Finance<br>Obligation | Operating<br>Leases | Capital<br>Leases |
|-----------------------------------|-----------------------|---------------------|-------------------|
| 2011                              | \$ 1,427              | \$ 23,064           | \$ 2,823          |
| 2012                              | 1,427                 | 23,095              | 2,611             |
| 2013                              | 1,427                 | 22,018              | 2,506             |
| 2014                              | 1,427                 | 20,756              | 2,496             |
| 2015                              | 1,427                 | 19,283              | 2,497             |
| Thereafter                        | 1,427                 | 79,916              | 45,127            |
|                                   | 8,562                 | 188,132             | 58,060            |
| Less amount representing interest | (8,562)               | -                   | (30,787)          |
|                                   | \$ -                  | \$ 188,132          | \$ 27,273         |

On December 28, 2001, the Company completed a sale and a leaseback of four owned facilities to a third party for net proceeds of approximately \$8.8 million. The initial term of the lease is 15 years with two ten-year extensions. The lease is an operating lease that starts at \$1.2 million in the first year and increases annually by the consumer price index. The lease includes an option near the end of the initial lease term to purchase the facilities at fair value, as defined. This transaction is being accounted for as a lease obligation. The net proceeds received have been reflected in the consolidated balance sheet as a finance obligation. The lease payments are included as a component of interest expense.

Rent expense, included in operating expenses in the accompanying consolidated financial statements for the three years ended December 31, 2010 is \$24.7 million, \$23.1 million, and \$17.2 million, respectively. Interest expense related to the financing obligation in the accompanying financial statements for the years ended December 31, 2010, 2009 and 2008 is \$1.4 million, respectively.

**Credit Facility**—As of December 31, 2010, the Company had a total of \$20.0 million outstanding under its Credit Agreement. Interest rates on borrowing under the Credit Agreement during the year ended December 31, 2010 was 4.75%. The Credit Facility expires December 1, 2012.

**Capital Expenditures**—The Company has entered into commitments to expand or renovate campuses. These commitments are in the range of \$12.0 to \$15.0 million in the aggregate and are due within the next 12 months.

**Litigation and Regulatory Matters**—In the ordinary conduct of our business, we are subject to periodic lawsuits, investigations and claims, including, but not limited to, claims involving students or graduates and routine employment matters. Although we cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against us, we do not believe that any currently pending legal proceeding to which we are a party will have a material adverse effect on our business, financial condition, results of operation or cash flows.

The Company and several executive officers have been named as defendants in two purported securities class action lawsuits. The complaints, which were both filed in the U.S. District Court for the District of New Jersey, allege that the Company and the other defendants made false and misleading statements and failed to disclose material adverse facts about the Company's business and prospects in violation of federal securities laws. The plaintiff seeks damages for the purported class. The complaints were filed on August 13, 2010 and September 19, 2010, and are respectively captioned, *Donald J. and Mary S. Moreaux v. Lincoln Educational Services Corp., et al.*, and *Robert Lythaud v. Lincoln Educational Services Corp., et al.* On November 24, 2010, the Court consolidated the two actions under the caption *In re Lincoln Educational Services Corp. Securities Litigation* and appointed a lead plaintiff. A consolidated amended complaint was filed on February 14, 2011, to which defendants must answer or otherwise respond by April 15, 2011.

Certain of the Company's executive officers and directors have also been named as defendants in three purported shareholder derivative lawsuits. The first action, which was filed on December 21, 2010 in the U.S. District Court for the District of New Jersey, is captioned *Mike Schweertmann v. David F. Carney, et al.* The second, which was filed on February 14, 2011 in the Superior Court of New Jersey, Essex County, Chancery Division, is captioned *Gregory and Karen Lehner v. Shaun E. McAlmont, et al.* The third action, which was filed on March 11, 2011 in the U.S. District Court for the District of New Jersey, is captioned *Steven C. Lloyd and*

*Paul Stone v. David F. Carney, et al.* All three complaints allege that defendants breached their fiduciary duties by allowing the Company to engage in certain allegedly improper practices and misrepresenting the Company's financial condition. On March 3, 2011, the Court entered an order staying the *Schweertmann* action pending the resolution of defendants' motion to dismiss in *In re Lincoln Educational Services Corp. Securities Litigation*. Defendants in the *Lehner* action have until March 24, 2011 to answer or otherwise respond to the complaint. Defendants in the *Lloyd* action have not yet been served.

Based on its initial review of the complaints, the Company believes the lawsuits are without merit and intend to vigorously defend against them.

**Student Loans**—At December 31, 2010, the Company had outstanding net loan commitments to its students to assist them in financing their education of approximately \$15.4 million.

**Vendor Relationship**—On April 1, 2006, the Company entered into an agreement with Snap-on Industrial ("Snap-on") which expires on March 31, 2011. The Company has agreed to grant Snap-on exclusive rights to our certain automotive campuses to display advertising and to train our students with the exception of one pre-existing vendor contract. The Company earns credits that are redeemable for tools and equipment based on the number of automotive graduates quarterly. In addition, credits are earned on our purchases as well as purchases made by students enrolled in our automotive programs. Snap-on receivable for credits not redeemed for the years ended December 31, 2010 and 2009 was \$0.7 million, respectively.

On October 1, 2005, the Company entered into an agreement with Snap-on exclusively for our Queens, NY campus opened March 27, 2006 which expires on November 30, 2011. We have agreed to grant Snap-on exclusive rights to in school advertising and supplying all student training tools and equipment, as well as our automotive equipment purchases. In exchange, Snap-on agreed to advance tools and equipment needed to build out the school, not to exceed \$1.0 million at list price. The equipment advance is offset by credits earned through purchases by the Queens campus and their students. Snap-on liability resulting from advanced equipment received in excess of credits earned for the years ended December 31, 2010 and 2009, was \$0.3 million and \$0.4 million, respectively.

As part of the acquisition of BAR in January 2009, the Company assumed an agreement with Snap-on exclusively for our East Windsor, Connecticut campus which expires on December 31, 2011. We have agreed to grant Snap-on exclusive rights to promote and sell to East Windsor students' equipment offered by Snap-on. In exchange, Snap-on agreed to initially advance tools and equipment up to \$0.5 million of the equipment to East Windsor as agreed upon by the parties. Snap-on may at its discretion advance additional amounts for equipment according to the agreement Snap-on liability resulting from advanced equipment received in excess of credits earned for years ended December 31, 2010 was \$0.2 million.

**Executive Employment Agreements**—The Company entered into employment contracts with key executives that provide for continued salary payments if the executives are terminated for reasons other than cause, as defined in the agreements. The future employment contract commitments for such employees were approximately \$6.4 million at December 31, 2010.

**Change in Control Agreements**—In the event of a change of control several key executives will receive continue salary payments based on their employment agreements.

**Surety Bonds**—Each of our campuses must be authorized by the applicable state education agency in which the campus is located to operate and to grant degrees, diplomas or certificates to its students. The campuses are subject to extensive, ongoing regulation by each of these states. In addition, our campuses are required to be authorized by the applicable state education agencies of certain other states in which our campuses recruit students. The Company is required to post surety bonds on behalf of our campuses and education representatives with multiple states to maintain authorization to conduct our business. At December 31, 2010, we have posted surety bonds in the total amount of approximately \$14.9 million.

## 15. UNAUDITED QUARTERLY FINANCIAL INFORMATION

Quarterly financial information for 2010 and 2009 is as follows:

| 2010                 | Quarter    |            |            |            |
|----------------------|------------|------------|------------|------------|
|                      | First      | Second     | Third      | Fourth     |
| Revenues             | \$ 152,466 | \$ 152,795 | \$ 167,211 | \$ 167,022 |
| Operating income     | 25,320     | 22,983     | 32,376     | 41,962     |
| Net income           | 14,460     | 13,195     | 18,881     | 23,195     |
| Income per share:    |            |            |            |            |
| Basic                |            |            |            |            |
| Net income per share | \$ 0.57    | \$ 0.51    | \$ 0.77    | \$ 1.06    |
| Diluted              |            |            |            |            |
| Net income per share | \$ 0.55    | \$ 0.50    | \$ 0.76    | \$ 1.04    |

| 2009                 | Quarter    |            |            |            |
|----------------------|------------|------------|------------|------------|
|                      | First      | Second     | Third      | Fourth     |
| Revenues             | \$ 118,599 | \$ 128,110 | \$ 148,368 | \$ 157,459 |
| Operating income     | 10,690     | 13,429     | 24,151     | 40,048     |
| Net income           | 5,823      | 7,426      | 13,656     | 22,334     |
| Income per share:    |            |            |            |            |
| Basic                |            |            |            |            |
| Net income per share | \$ 0.23    | \$ 0.28    | \$ 0.51    | \$ 0.84    |
| Diluted              |            |            |            |            |
| Net income per share | \$ 0.22    | \$ 0.27    | \$ 0.50    | \$ 0.82    |

## 16. DIVIDENDS

On November 3, 2010 the Company's Board of Directors declared an annual dividend of \$1.00 per share of common stock outstanding, payable quarterly. The dividend of \$22.2 million was recorded as a reduction to retained earnings as of December 31, 2010. The record date for the first quarterly payment of \$5.6 million was December 15, 2010 and the payment date was December 31, 2010. The establishment of future record and payment dates are subject to the final determination of the Company's Board of Directors.

**LINCOLN EDUCATIONAL SERVICES CORPORATION**

**Schedule II—Valuation and Qualifying Accounts**

| <u>Description</u>                                | <u>(in thousands)</u><br><b>Balance at<br/>Beginning<br/>of Period</b> | <b>Charged to<br/>Expense</b> | <b>Accounts<br/>Written-off</b> | <b>Balance at<br/>End of<br/>Period</b> |
|---|--|-------------------------------|---------------------------------|---|
| <b>Allowance accounts for the year ended:</b>     |  |                               |                                 |   |
| December 31, 2010<br>student receivable allowance | <u>\$ 26,859</u>   | <u>\$ 39,106</u>              | <u>\$ (38,972)</u>              | <u>\$ 26,993</u>                        |
| December 31, 2009<br>student receivable allowance | <u>\$ 14,738</u>   | <u>\$ 36,982</u>              | <u>\$ (24,861)</u>              | <u>\$ 26,859</u>                        |
| December 31, 2008<br>student receivable allowance | <u>\$ 11,403</u>   | <u>\$ 21,642</u>              | <u>\$ (18,307)</u>              | <u>\$ 14,738</u>                        |

# Corporate Information



**LINCOLN**  
EDUCATIONAL SERVICES

## Board of Directors

Alexis P. Michas  
Non-Executive Chairman  
of the Board of Directors

Shaun E. McAlmont  
President and  
Chief Executive Officer

James J. Burke, Jr.  
Managing Member  
J. Burke Capital Partners

Paul E. Glaske <sup>(2) (3) (4)</sup>  
Former Chairman and  
Chief Executive Officer  
Blue Bird Corporation

Peter S. Burgess <sup>(1) (4)</sup>  
Former Partner  
Arthur Andersen LLP

Celia H. Currin <sup>(1) (3) (4)</sup>  
Founder and Principal  
BenchStrength Marketing

J. Barry Morrow <sup>(2) (3) (4)</sup>  
Former President  
Chase Education Finance

Charles F. Kalmbach <sup>(1) (2) (4)</sup>  
Former Global Managing Partner  
Accenture, Ltd.

Alvin O. Austin, Ph.D. <sup>(1) (4)</sup>  
Former President and Chancellor  
of LeTourneau University

## Executive Team

Shaun E. McAlmont  
President and  
Chief Executive Officer

Scott M. Shaw  
Executive Vice President and  
Chief Administrative Officer

Cesar Ribeiro  
Senior Vice President,  
Chief Financial Officer  
and Treasurer

Thomas F. McHugh  
Senior Vice President and  
Chief Compliance Officer

Piper P. Jameson  
Senior Vice President and  
Chief Marketing Officer

John J. King, Ed.D.  
Senior Vice President and  
Chief Academic Officer

Edward B. Abrams  
President  
Lincoln Education Group

Deborah M. Ramentol  
President  
Lincoln Technical Group

Julie R. Smith  
President  
Lincoln Collegiate Group

## Corporate Headquarters

200 Executive Drive, Suite 340  
West Orange, NJ 07052  
973.736.9340  
[www.lincolnedu.com](http://www.lincolnedu.com)

## Auditors

Deloitte & Touche LLP  
Parsippany, NJ

## Transfer Agent

Continental Stock Transfer  
& Trust Company  
17 Battery Place  
New York, NY 10014  
212.509.4000

## Common Stock

Traded on the NASDAQ  
Global Select Market under  
the symbol "LINC"

## Annual Meeting Stockholders

The annual meeting of  
stockholders of Lincoln  
Educational Services  
Corporation will be held  
on April 29, 2011 in  
West Orange, NJ.

## Reports and Publications

Copies of Lincoln's Form  
10-Ks and Form 10-Qs and  
other reports filed with  
the Securities Exchange  
Commission may be obtained  
without charge by accessing  
the SEC's Web site at  
[www.sec.gov](http://www.sec.gov), or the  
Company's Web site at  
[www.lincolnedu.com](http://www.lincolnedu.com).

(1) Member of Audit Committee

(2) Member of Compensation  
Committee

(3) Member of Nominating and  
Corporate Governance  
Committee

(4) Independent Director

# THE LINCOLN GROUP OF SCHOOLS

## **Lincoln Technical Institute** [www.lincolntech.com](http://www.lincolntech.com)

Allentown, PA  
Brockton, MA  
Center City Philadelphia, PA  
Cromwell, CT  
East Windsor, CT  
Edison, NJ  
Fern Park, FL  
Hamden, CT  
Lincoln, RI  
Lowell, MA  
Mahwah, NJ  
Moorestown, NJ  
New Britain, CT  
NE Philadelphia, PA  
Paramus, NJ  
Philadelphia, PA  
Queens, NY  
Shelton, CT  
Somerville, MA  
South Plainfield, NJ  
Seminole, FL  
Union, NJ

## **Lincoln College of Technology** [www.lincolncollegeoftechnology.com](http://www.lincolncollegeoftechnology.com)

Central Cincinnati, OH  
Cleveland, OH\*  
Columbia, MD  
Columbus, OH\*  
Dayton, OH  
Denver, CO  
Florence, KY  
Franklin, OH  
Grand Prairie, TX  
Indianapolis, IN  
Marietta, GA  
Melrose Park, IL  
North Cincinnati, OH  
Toledo, OH  
West Palm Beach, FL

## **Nashville Auto Diesel College** [www.nadcedu.com](http://www.nadcedu.com)

Nashville, TN

## **Lincoln College Online** [www.lincolncollegeonline.com](http://www.lincolncollegeonline.com)

## **Euphoria Institute of Beauty Arts & Sciences** [www.euphoriainstitute.com](http://www.euphoriainstitute.com)

Alianté, NV  
Henderson, NV  
Las Vegas, NV  
Lincoln, RI  
West Palm Beach, FL

## **Lincoln Culinary Institute** [www.lincolnculinary.com](http://www.lincolnculinary.com)

Columbia, MD  
Cromwell, CT  
Hartford, CT  
Shelton, CT  
Suffield, CT  
West Palm Beach, FL

## **Lincoln College of New England** [www.lincolncollegeNE.edu](http://www.lincolncollegeNE.edu)

Hartford, CT\*  
Southington, CT  
Suffield, CT

*\*Opening 2011*

