

LINCOLN EDUCATIONAL SERVICES CORP
Form 10-K
March 09, 2012

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, 2011

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	Name of exchange on which registered
Common Stock, no par value per share	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

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

Large accelerated filer Accelerated filer Non-accelerated filer 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 21,505,026 shares of common stock held by non-affiliates of the registrant issued and outstanding as of June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, was \$368,811,196. This amount is based on the closing price of the common stock on the Nasdaq Global Select Market of \$17.15 per share on June 30, 2011. 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 7, 2012 was 22,703,074.

Documents Incorporated by Reference

Portions of the Proxy Statement for the Registrant's 2012 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,” “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 took 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.

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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, 2011, we operated 46 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, 2011, our health science program, our automotive technology program, our skilled trades program, our hospitality services program and our business and information technology program accounted for approximately 38%, 33%, 11%, 10%, and 8%, respectively, of our average enrollment. We had 19,204 students enrolled as of December 31, 2011 and our average enrollment for the year ended December 31, 2011 was 24,301 students, a decrease of 22.9% from average enrollment of 31,535 for the year ended December 31, 2010. For the year ended December 31, 2011, our revenues were \$512.6 million, which represented a decrease of 19.8% from the year ended December 31, 2010. 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, 2010, our revenues were \$639.5 million, which represented an increase of 15.7% from the year ended December 31, 2009.

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 a reporting unit. Our reporting units have been aggregated into one operating segment because, in our judgment, the reporting units have similar products, production processes, types of customers, methods of distribution, regulatory environment and economic characteristics.

We are a New Jersey corporation organized in 2003.

AVAILABLE INFORMATION

Our website is 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. In 2009, we acquired a property which serves 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. In 2011, we introduced seven new programs to our facilities in Colorado, Kentucky and Massachusetts. We expect to continue investing in marketing, recruiting and retention resources to increase enrollment.

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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 opened 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 Baran Institute of Technology, or 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 partnering with nationally well known brands to provide the skills needed to train our nation's workforce.

Expand Delivery of Online Programs. We offer online programs with a view towards capitalizing on the flexibility provided by online education alternatives. We believe that our online programs combined with our on-ground programs are an attractive delivery option for our students without the geographic or financial flexibility to enroll in campus-based programs and will continue to broaden our market.

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 112 weeks to complete, with tuition ranging from \$8,500 to \$37,000. Our associate's degree programs typically take between 48 to 123 weeks to complete, with tuition ranging from \$18,000 to \$55,000. Our bachelor's degree programs typically take between 132 and 284 weeks to complete, with tuition ranging from \$46,000 to \$74,000. As of December 31, 2011, all of our schools offer diploma and certificate programs, 25 of our schools are currently approved to offer associate's degree programs and four 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 classes in person, 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.

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The following table lists the programs offered as of December 31, 2011 with the average number of students enrolled in each area of study for the year ended December 31, 2011:

Area of Study	Programs Offered			Average Enrollment	Percent of Total Enrollment
	Bachelor's Degree	Associate's Degree	Diploma and Certificate		
Health Sciences	-	Medical Assisting Technology, Health Information Administration, Dental Office Management, Child Development, Health Information Technology, Medical Office Management, 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, Medical Assistant w/Basic X-ray, Basic X-Ray Technician, Surgical Technologist	9,142	38%
Automotive	-	Automotive Technology, Master Certified Auto Service Management, Collision Repair & Refinishing Service Management, Diesel Technology, Master Certified Diesel & Truck Service	Automotive Mechanics, Master Certified Automotive Technology, Master Certified Automotive Technology w/High Performance, Collision Repair & Refinishing Technology, Diesel & Truck Mechanics, Diesel Technology, Master Certified Diesel & Truck Technology, Motorcycle Technology	8,112	33%

Management

Skilled Trades	-	Electronic Engineering Technology, HVAC, Electronics Systems Service Management	Electrical Technology, Electronics Systems Technician, HVAC, Electrician, Welding Technology	2,585	11%
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Area of Study	Programs Offered (Continued)			Average Enrollment	Percent of Total Enrollment
	Bachelor's Degree	Associate's Degree	Diploma or Certificate		
Hospitality Services	Culinary Arts	Culinary Arts, Salon Management, International Baking and Pastry, Dietetic Technician, Hospitality Management	Culinary Arts, Cosmetology, Aesthetics, Therapeutic Massage & Bodywork Technician, Italian Culinary Arts, International Baking and Pastry	2,396	10%
Business and Information Technology	Business Management, Criminal Justice, Funeral Service Management, Human Resource Management	PC Systems & Networking Technology, Business Administration, Criminal Justice, 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, Business Office Technology, Computer Networking and Security	2,066	8%
Total:				24,301	100%

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Health Sciences. For the year ended December 31, 2011, health sciences was our largest area of study, representing 38% 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 assistant, 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 practical nursing, medical assistant and medical administrative assistant programs are our largest health science programs. As of December 31, 2011, we offered health science programs at 29 of our campuses.

Automotive Technology. Automotive technology represents our second largest area of study, with 33% of our total average student enrollment for the year ended December 31, 2011. Our automotive technology programs are 24 to 123 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, 2011, 13 campuses offered programs in automotive technology and most of these campuses offer other technical programs. Our campuses in East Windsor, Connecticut; Nashville, Tennessee; Grand Prairie, Texas; Indianapolis, Indiana; and Denver, Colorado are destination campuses, attracting students throughout the United States and, in some cases, from abroad.

Skilled Trades. For the year ended December 31, 2011, 11% of our total average student enrollment was in our skilled trades programs. Our skilled trades programs are 35 to 97 weeks in length, with tuition rates of \$17,000 to \$29,000. Our skilled trades programs include electrical, heating, 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, 2011, we offered skilled trades programs at 14 campuses.

Hospitality Services. For the year ended December 31, 2011, 10% 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 \$12,000 to \$46,000. Our hospitality programs include culinary, 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, 2011, we offered culinary programs at seven campuses.

Business and Information Technology. For the year ended December 31, 2011, 8% 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 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, 2011, we offered these programs at 24 of our campuses.

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 18% 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 employers who are pleased with the performance of our graduates whom they have hired.

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Recruiting. Our recruiting efforts are conducted by a group of approximately 430 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 2011, we recruited approximately 22% 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 19,204 students enrolled as of December 31, 2011 and our average enrollment for the year ended December 31, 2011 was 24,301 students, a decrease of 22.9% from December 31, 2010. 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.

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 assisting our graduates in securing employment after completing their program of study 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 more effectively assist our graduates in securing employment in their career field upon graduation. Throughout the year, we hold numerous job fairs at our facilities where we provide the opportunity for our students to meet and interact with potential employers. 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.

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As of December 31, 2011, we had approximately 3,800 employees, including 900 full-time faculty and 700 part-time instructors. At five of our campuses, the teaching professionals are represented by unions. These employees are covered by collective bargaining agreements that expire between 2012 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 graduates' success in securing employment after completing their program of study.

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, 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 attend classes from an online institution.

Our primary competition for students are 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.

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 Title IV of the Higher Education Act of 1965, as amended (“Title IV Programs”), which are administered by the DOE. For the year ended December 31, 2011, approximately 84% (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 and, in some cases, for living expenses or other costs of attendance.

In connection with the students' receipt of federal financial aid under the Title IV Programs, our schools are subject to extensive regulation by governmental agencies and licensing and accrediting bodies. In particular, the Higher Education Act of 1965, as amended, 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 Title IV 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 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.

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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 \$15.1 million.

The DOE published new regulations that took effect on July 1, 2011, and 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.

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.

In April 2011, the DOE issued a Dear Colleague Letter in which it stated that it would not initiate any action to establish repayment liabilities or limit student eligibility for distance education activities before July 1, 2014, so long as an institution is making "good faith efforts" to identify and obtain necessary state authorizations before that date. In July 2011, a Federal District Court in the District of Columbia issued an order vacating the portion of the state authorization regulation that requires an institution to meet state requirements in a state in which it has distance education students, but in which it is not physically located or otherwise subject to state jurisdiction. The DOE is

appealing the order to the United States Court of Appeals for the District of Columbia Circuit. The case is still pending and its result is unknown at this time.

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 continue to reduce the number of employees in, or curtail the operations of, the state education agencies that oversee 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.

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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, 2011, 19 of our campuses are accredited by the Accrediting Commission of Career Schools and Colleges, or ACCSC; 22 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 of Technology, or NEASC; and two of our campuses are accredited by the 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

School	Last Accreditation Letter	Next Accreditation	Type of Accreditation
Philadelphia, PA	December 5, 2008	May 1, 2013	National
Union, NJ	December 9, 2009	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	March 9, 2011	February 1, 2016	National
Columbia, MD	March 7, 2012	February 1, 2017	National
Grand Prairie, TX****	December 7, 2011	August 1, 2016	National
Allentown, PA	March 7, 2012	January 1, 2017	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 7, 2012	November 1, 2016	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
 **** Branch campus of main campus in Indianapolis, IN

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Accrediting Council for Independent Colleges and Schools Reaccreditation Dates

School	Last Accreditation Letter	Next Accreditation	Type of Accreditation
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
Cleveland, OH***	May 11, 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

School	Last Accreditation Letter	Comprehensive Evaluation	Type of Accreditation
Southington, CT	November 1, 2006	Fall 2011**	Regional
Suffield, CT*	November 20, 2009	Fall 2011**	Regional
Hartford, CT*	November 20, 2009	Fall 2011**	Regional

*Branch campus of main campus in Southington, CT

**The Commission did not specify a length or term of accreditation. Under NEASC policy, accreditation is viewed as a continuing status that, once confirmed, is removed only for cause. Institutions granted initial accreditation are

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required to undergo a comprehensive evaluation within five years. NEASC commenced the evaluation of the campuses in Fall 2011 and is scheduled to review the schools accreditation at the April 2012 NEASC Commission meeting.

Accrediting Bureau of Health Education Schools Reaccreditation Dates

School	Last Accreditation Letter	Next Accreditation	Type of Accreditation
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

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 loses 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. The following institutions are providing placement or retention data to ACICS: Dayton, OH, Cincinnati (Vine Street), OH, Cincinnati (Northland Blvd.), OH, Toledo, OH, Henderson (Green Valley), NV, Marietta, GA, West Palm Beach, FL, Florence, KY, Franklin, OH, Las Vegas (Aliante), NV and Philadelphia (Northeast), PA.

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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 Direct Loan, or FDL, Program, (2) the Federal Pell Grant, or Pell, program, (3) the Federal Supplemental Educational Opportunity Grant program, and (4) the Federal Perkins Loan, or Perkins, program.

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, 2011, we derived approximately 60% of our Title IV revenues (calculated based on cash receipts) from the FDL Program.

Pell. Under the Pell program, the DOE makes grants to students who demonstrate the greatest financial need. For the year ended December 31, 2011, we derived approximately 24% 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, 2011, 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 school receiving the funds. Each school 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, 2011, 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 programs administered by the U.S. Department of Veterans Affairs and 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 continue 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.

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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, or the HEA, 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 18 institutions as of December 31, 2011, collectively consisting of 18 main campuses and 28 additional locations:

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

Hartford, CT

- * This campus operates under the Lincoln College of Technology brand.
- ** These campuses operate under the Euphoria Institute of Beauty Arts & Sciences brand.
- *** This campus operates under the Nashville Auto-Diesel brand.
- **** On September 1, 2011, the DOE approved the merger of the Nashville, TN and Grand Prairie, TX institutions into the Indianapolis, IN institution to become a new Office of Postsecondary Education Identification, or OPEID, institution.

All of our main campuses, including their additional locations, are currently certified by the DOE to participate in the Title IV Programs under provisional status until September 30, 2013, except for Southington, CT, which 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 and our Denver institution, which 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.

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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 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 HEA 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 conducted several hearings in 2011 and could conduct additional hearings in the future.

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 amended, 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 had a general effective date of July 1, 2011, and 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. The 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 certain of 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.

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On June 13, 2011, the DOE published final regulations in the Federal Register regarding gainful employment that take effect on July 1, 2012 and apply to all educational programs that are subject to the DOE requirement of preparing students for gainful employment in a recognized occupation. Such educational programs would include all of the Title IV-eligible educational programs at each of our institutions. The gainful employment regulations will, among other things, measure each educational program against threshold benchmarks in each of three debt measure categories: (1) an annual loan repayment rate, (2) an annual debt-to-annual earnings ratio, and (3) an annual debt-to-discretionary income ratio. The various formulas are calculated under complex methodologies and definitions outlined in the regulations, and are based on data that may not be readily accessible to institutions. If an educational program fails to achieve threshold rates in all three categories for one federal fiscal year (beginning with debt measures calculated for the 2012 federal fiscal year), the institution must, among other things, disclose the amount by which the program missed the minimum acceptable performance and the institution's plan to improve the program. If an educational program fails to achieve threshold rates in all three categories in two out of three federal fiscal years, the institution must, among other things, warn students in the failing program that they should expect difficulty in repaying their loans, disclose the options available to the student if the program loses eligibility for Title IV funds, and disclose resources available to research other educational options and compare program costs. If an educational program fails to achieve threshold rates in all three categories in three out of four federal fiscal years, the program loses its Title IV eligibility for a period of at least three years. We have analyzed the available data to assess the potential impact of the new gainful employment regulations on each of our institutions and educational programs. However, some of the data needed to conduct the calculation, such as graduate incomes, are not yet available to institutions and are to be collected and calculated by the DOE. Although we have not identified to date any material number of educational programs that we believe are likely to lose eligibility under the new regulations' threshold benchmarks, if the available data were to change unfavorably or the unavailable data were to be unfavorable, the new regulations could nonetheless have a material adverse effect on our business and operations by requiring us to eliminate certain educational programs, and the new disclosure requirements and related components of the new regulations could have a material adverse effect on the rate at which students enroll in our programs.

The implementation of regulatory changes published in the 2011 final regulations, 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 "90/10 Rule." Under the HEA reauthorization, a proprietary institution that derives more than 90% of its total revenue from Title IV programs, or 90/10 Rule percentage, for two consecutive fiscal years becomes immediately ineligible to participate in 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 an institution 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 2011 fiscal year, our institutions' 90/10 Rule percentages ranged from 76.5% to 89.2%. For 2011 and 2009, none of our institutions derived more than 90% of their revenues from Title IV Programs. For 2010, our Dayton institution (consisting of a main campus and six additional locations) derived 96.9% of its revenues from Title IV programs. It was our only institution with a 90/10 Rule percentage above 90%. 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 program, increased. This 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

proportion of revenues they receive from 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. 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 expired 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 Congress or the DOE were to amend the 90/10 Rule to treat other forms of federal financial aid as Title IV revenue for 90/10 purposes, to change the calculation methodology, or to make other changes, those changes could make it more difficult for our institutions to comply with the 90/10 Rule. 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.

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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 FFEL and FDL cohort default rate is 25% or greater for three consecutive federal fiscal years loses eligibility to participate in the FFEL, FDL, 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 FFEL and FDL cohort default rate for any single federal fiscal year exceeds 40% loses its eligibility to participate in the FFEL and FDL 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 the 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. The revised law changes the threshold for placement on provisional certification to 30% for two of the three most recent fiscal years for which the DOE has published official three-year cohort default rates.

In September 2011, the DOE published final two-year cohort default rates for each of our institutions for the 2009 fiscal year. The rates range from 10.5% to 35.4%. We appealed all of our 2009 rates and have subsequently received revised cohort default rates for six institutions. These revised rates range from 10.5% to 33.6% and are reflected in the table below. Subsequent to receiving the revised rates two of our institutions had a cohort default rate (as defined by the DOE) of 25% or greater for the 2009 federal fiscal year. The following table sets forth the cohort default rates for each of our 20 DOE institutions for the federal fiscal years 2009, 2008 and 2007, the three most recent years for which the DOE has published such rates:

Institution	2009	2008	2007
Union, NJ	23.8%	14.3%	12.6%
Indianapolis, IN***	18.8%	12.0%	13.0%
Philadelphia, PA	30.2%	20.9%	19.8%
Columbia, MD	17.9%	13.7%	12.5%
Allentown, PA	17.4%	11.2%	10.3%
Melrose Park, IL	22.6%	16.0%	18.1%
Grand Prairie, TX***	33.6%	26.3%	21.9%
Edison, NJ	19.8%	17.4%	16.3%
Denver, CO	20.9%	11.6%	10.9%
Nashville, TN***	14.1%	7.7%	7.1%
Lincoln, RI	19.5%	14.0%	12.9%
Somerville, MA	20.2%	11.7%	12.2%
Dayton, OH	23.4%	20.2%	13.5%

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New Britain, CT	15.0%	9.0%	9.1%
West Palm Beach, FL	19.3%	14.2%	10.3%
Southington, CT*	10.5%	18.6%	22.9%
South Plainfield, NJ**	13.0%	4.6%	9.4%
Fern Park, FL**	13.3%	7.0%	5.9%
Hartford, CT**	10.7%	4.1%	6.5%
East Windsor, CT**	12.3%	6.3%	9.5%

* This institution was acquired on December 1, 2008.

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

*** On September 1, 2011, the DOE approved the merger of the Nashville, TN and Grand Prairie, TX institutions into the Indianapolis, IN institution to become a new OPEID institution.

On February 27, 2012, the DOE issued draft two-year cohort default rates for the 2010 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 2012. The draft 2010 rates ranged from 12.2% to 33.7%. Our Philadelphia, PA institution was the only institution with a cohort default rate over 25%. We plan to appeal all of our 2010 draft rates. The weighted average cohort default rate for 2010 was 19.1% as compared to the revised 2009 rate of 20.1%

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On March 5, 2012, the DOE released draft three-year cohort default rates for federal fiscal year 2009. The rates for the 2009 federal fiscal year under the new methodology ranged from 17.7% to 49.8%. For the 2009 federal fiscal year, 10 of our institutions had draft three-year cohort default rates of at least 30%. One of these institutions had a rate above 40%. We plan to appeal all of our 2009 draft rates.

In December 2009, the DOE released unofficial trial three-year cohort default rates for the 2005, 2006, and 2007 federal fiscal years. In February 2011, the DOE released unofficial trial three-year cohort rates for the 2008 federal fiscal year. The unofficial 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 14.8% to 42.8% for the 2008 federal fiscal year. The DOE stated in its electronic announcements that the publication of these unofficial rates is for informational purposes only and that no sanctions will be imposed based on these unofficial rates.

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 the 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 and our New Britain, Connecticut institution are our only institutions participating in the Perkins program. The Perkins cohort default rate at our Denver institution was 42.0% for students scheduled to begin repayment in the 2009-2010 federal award year. The DOE did not provide any additional Federal Capital Contribution Funds for Perkins loans to the institution. Our Denver institution continues to make loans out of its existing Perkins loan fund. It 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. The Perkins cohort default rate at our New Britain institution was 14.3% for students scheduled to begin repayment in the 2009-2010 federal award year. The institution is provisionally certified by the DOE as a result of 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.

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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 2010 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 2011 fiscal year, we have calculated our composite score to be 2.1. However, this is subject to determination by the DOE once it receives and reviews our audited financial statements for the 2011 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 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.

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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 and state oversight agencies, 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 or placement data to the ACICS may be required to obtain prior permission from the ACICS for the initiation of any new program. 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 FFEL and FDL 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 FFEL and FDL cohort default rate above 25% for the 2008 and 2009 federal fiscal years. We appealed all of the 2009 rates and two of our institutions had a FFEL and FDL cohort default rate above 25% for the 2009 federal fiscal year. Our Denver institution's Perkins Loan cohort default rate was 42.0% 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".

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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 2011, the following schools were authorized to enroll "ability to benefit" applicants: Dayton, Toledo, Cincinnati (Vine St.), Cincinnati (Tri-County), Franklin, Florence, 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, Henderson (Green Valley), Las Vegas (Aliante), Lincoln, East Windsor and South Plainfield.

On December 23, 2011, the Consolidated Appropriations Act, Public Law 112-74, among other things, eliminated federal student aid eligibility, with certain exceptions, for all students who first enroll on or after July 1, 2012 and who do not have a certificate of graduation from a school providing secondary education or the recognized equivalent of such a certificate. As a result, many of these students who would have qualified to receive Title IV funds as ability-to-benefit students will not be eligible for Title IV assistance under the new law. As of December 31, 2011, approximately 5.5% of our total student population were ability-to-benefit students.

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. On October 29, 2010, the DOE adopted final rules that took effect on July 1, 2011 and 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 required 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.

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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:

Institution	Expiration Date of Current Program Participation Agreement
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*
Somerville, MA	September 30, 2013*
Edison, NJ	September 30, 2013*
Union, NJ	September 30, 2013*
Indianapolis, IN	December 31, 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 Perkins program in excess of 30%.

***Provisionally certified as a result of our then largest shareholder's sale of a portion of its ownership in our company during 2010 and 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 10, 2011, the DOE notified our Philadelphia, PA 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, and the DOE issued a Program Review Report on February 24, 2011. On April 14, 2011, the DOE issued a Final Program Determination, or FPRD, letter. There were no liabilities asserted in the FPRD letter.

On February 28, 2011, the DOE notified our Dayton, OH campus that an on-site Program Review was scheduled to begin on March 28, 2011. The Program Review assessed the institution's administration of the Title IV, HEA programs in which it participates for the 2009-2010 and 2010-2011 award years. On June 3, 2011, the DOE issued an Expedited Final Program Determination, or EFPRD, letter. There were no liabilities asserted in the EFPRD letter.

On July 11, 2011, the DOE notified our Grand Prairie, TX campus that an on-site Program Review was scheduled to begin on July 25, 2011. The Program Review assessed the institution's administration of the Title IV, HEA Program in which it participates for the 2010-2011 award year. On August 31, 2011, the DOE issued an EFPRD letter. There were no liabilities asserted in the EFPRD letter.

On August 17, 2011, the DOE notified our Philadelphia, PA (Center City) campus that an on-site Program Review was scheduled to begin on September 7, 2011. The Program Review assessed the administration of the Title IV, HEA programs in which the campus participates for the 2009-2010 and 2010-2011 award years. On November 28, 2011, the DOE issued an FPRD letter. There were no liabilities asserted in the FPRD letter.

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If one of our schools fails 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 HEA 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 audited financial statements;
 - 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 the institution by any means, including by declaring a dividend; or
 - Any extraordinary losses, as defined under Accounting Standards Codification 220-20.

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.

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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 HEA 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 2011, we derived approximately 84% 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 HEA 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 HEA 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 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 conducted several hearings in 2011 and could conduct more hearings in the future.

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.

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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, had a general effective date of July 1, 2011, and 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.

On June 13, 2011, the DOE published final regulations in the Federal Register regarding gainful employment that take effect on July 1, 2012 and apply to all educational programs that are subject to the DOE requirement of preparing students for gainful employment in a recognized occupation. Such educational programs would include all of the Title IV-eligible educational programs at each of our institutions. The gainful employment regulations will, among other things, measure each educational program against threshold benchmarks in each of three debt measure categories: (1) an annual loan repayment rate, (2) an annual debt-to-annual earnings ratio, and (3) an annual debt-to-discretionary income ratio. The various formulas are calculated under complex methodologies and definitions outlined in the regulations, and are based on data that may not be readily accessible to institutions. If an educational program fails to achieve threshold rates in all three categories for one federal fiscal year (beginning with debt measures calculated for the 2012 federal fiscal year), the institution must, among other things, disclose the amount by which the program missed the minimum acceptable performance and the institution's plan to improve the program. If an educational program fails to achieve threshold rates in all three categories in two out of three federal fiscal years, the institution must, among other things, warn students in the failing program that they should expect difficulty in repaying their loans, disclose the options available to the student if the program loses eligibility for Title IV funds, and disclose resources available to research other educational options and compare program costs. If an educational program fails to achieve threshold rates in all three categories in three out of four federal fiscal years, the program loses its Title IV eligibility for a period of at least three years. We have analyzed the available data to assess the potential impact of the new gainful employment regulations on each of our institutions and educational programs. However, some of the data needed to conduct the calculation, such as graduate incomes, are not available to institutions and are to be collected and calculated by the DOE. Although we have not identified to date any material number of educational programs that we believe are likely to lose eligibility under the new regulations' threshold benchmarks, if the available data were to change unfavorably or the unavailable data were to be unfavorable, the new regulations could nonetheless have a material adverse effect on our business and operations by requiring us to eliminate certain educational programs, and

the new disclosure requirements and related components of the new regulations could have a material adverse effect on the rate at which students enroll in our programs.

The implementation of regulatory changes published in the 2011 final regulations, 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.

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.

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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% 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 2011 and 2010 consolidated financial statements reflect a composite score for the Company of 2.1 and 1.8, respectively. However, our 2011 composite score is subject to confirmation by the DOE once it receives and reviews our audited financial statements for the 2011 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 FFEL and FDL 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 an FFEL and FDL cohort default rate above 25% for the 2009 and 2008 federal fiscal years. Three of our institutions had an FFEL and FDL cohort default rate above 25% for the 2009 federal fiscal year. Our Denver institution's Perkins Loan cohort default rate was 42.0% 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 84% of our revenue (calculated based on cash receipts) from Title IV Programs in 2011, 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 regulations established 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 required 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.

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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 that took effect on July 1, 2011 and 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. 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.

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, and we may be unable to recruit students or operate in that state, 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 HEA 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, which could have a material adverse effect on our business and operations.

Our institutions would lose eligibility to participate in Title IV Programs if the percentage of their revenues derived from those programs are 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 Title IV programs for two consecutive fiscal years becomes immediately ineligible to participate in 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 an institution 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 2011 fiscal year, our institutions' 90/10 Rule percentages ranged from 76.5% to 89.2%. For 2011 and 2009, none of our institutions derived more than 90% of their revenues from Title IV Programs. For 2010, 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%. 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.

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Effective July 1, 2008, the annual Stafford loans available for undergraduate students under the FFEL program, increased. This 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. 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 expired 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 Congress or the DOE were to amend the 90/10 Rule to treat other forms of federal financial aid as Title IV revenue for 90/10 purposes, to change the calculation methodology, or to make other changes, those changes could make it more difficult for our institutions to comply with the 90/10 Rule. 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.

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 FFEL and FDL cohort default rate is 25% or greater for three consecutive federal fiscal years loses eligibility to participate in the FFEL, FDL, 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 FFEL and FDL cohort default rate for any single federal fiscal year exceeds 40% loses its eligibility to participate in the FFEL and FDL 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 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. The revised law changes

the threshold for placement on provisional certification to 30% for two of the three most recent fiscal years for which the DOE has published official three-year cohort default rates

In September 2011, the DOE published the final cohort default rate for each of our institutions for the 2009 fiscal year. The rates range from 10.5% to 35.4%. We appealed all of our 2009 rates and have subsequently received revised cohort default rates for six institutions. These revised rates range from 10.5% to 33.6%. Subsequent to receiving the revised rates, two of our institutions had a cohort default rate (as defined by the DOE) of 25% or greater for any of the federal fiscal years 2009, 2008 and 2007, the three most recent years for which the DOE has published such rates. See “Regulatory Environment – Student Default Rates.”

On February 27, 2012, the DOE issued draft two-year cohort default rates for the 2010 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 2012. The draft 2010 rates ranged from 12.2% to 33.7%. Our Philadelphia, PA institution was the institution with a cohort default rate over 25%. We plan to appeal all of our 2010 draft rates. If the final 2010 fiscal year cohort default rate for Philadelphia, PA is 25% or greater, then the rate would be the institution’s second consecutive fiscal year cohort default rate of 25% or greater. The weighted average cohort default rate for 2010 was 19.1% as compared to the revised 2009 rate of 20.1%

On March 5, 2012, the DOE released draft three-year cohort default rates for federal fiscal year 2009. The rates for the 2009 federal fiscal year under the new methodology ranged from 17.7% to 49.8%. For the 2009 federal fiscal year, 10 of our institutions had draft three-year cohort default rates of at least 30%. One of these institutions had a rate above 40%. We plan to appeal all of our 2009 draft rates.

In December 2009, the DOE released unofficial trial three-year cohort default rates for the 2005, 2006, and 2007 federal fiscal years. In February 2011, the DOE released unofficial trial three-year cohort rates for the 2008 federal fiscal year. The unofficial 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 14.8% to 42.8% for the 2008 federal fiscal year. The DOE stated in its electronic announcements that the publication of these unofficial rates is for informational purposes only and that no sanctions will be imposed based on these unofficial rates.

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

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 are 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.”

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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, 2011, approximately 84% (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, 2011, only 19.5% 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. Beginning July 1, 2012, "ability to benefit" students will no longer be eligible to receive federal student aid. Therefore, our institutions will be unable to enroll "ability to benefit" students requiring federal student aid starting July 1, 2012. 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.

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Changes in the laws applicable to Title IV Programs could reduce our student population, revenues and profit margin.

On April 15, 2011, President Obama signed H.R. 1473, the Full-Year Continuing Resolution which funds the federal government for the remainder of the 2011 fiscal year. This Continuing Resolution, among other things, permanently repeals the year-round Pell Grant beginning with the 2011-2012 award year. The year-round program had allowed students in accelerated programs to obtain two Pell Grants in a single award year. As a result of the repeal, students may obtain only one Pell Grant per award year. This change may impact our students' ability to finance their education and/or affect their decision to attend our institutions, which could have a material adverse effect on our business and results of operations.

The Consolidated Appropriations Act for 2012 eliminates the ability of "ATB" students who first enroll after July 1, 2012 to participate in federal student financial aid programs and makes changes to the Pell Grant program, both of which could adversely affect our business.

On December 23, 2011, President Obama signed into law the Consolidated Appropriations Act, 2012 (Public Law 112-74) (the "Appropriations Act"). The new law significantly impacts the federal student aid programs authorized under Title IV of the Higher Education Act of 1965, as amended ("HEA").

Auto-Zero EFC Income Threshold — The Appropriations Act amended the HEA to reduce the income threshold for an automatic zero "expected family contribution" to \$23,000 for the 2012-2013 award year for both dependent and independent students. The threshold for 2012-2013 was scheduled to be \$32,000, but now will be \$23,000. For students whose families make between \$23,000 and \$32,000 per year, this will decrease the amount of Pell grants such students will receive.

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Ability-to-Benefit — The Appropriations Act also eliminated federal student aid eligibility for all students without a “certificate of graduation from a school providing secondary education or the recognized equivalent of such a certificate.” The Appropriations Act makes an exception for students who have completed a secondary school education in a home school setting that is treated as a home school or private school under state law. Therefore, students who do not have a high school diploma or a recognized equivalent (e.g., a GED), or do not meet the home school requirements, and who first enroll in a program of study on or after July 1, 2012, will not be eligible to receive Title IV student aid. Students will qualify for Title IV student aid under one of the ability-to-benefit (ATB) alternatives if the student was enrolled in a Title IV eligible program prior to July 1, 2012. Those alternatives include the student passing an independently-administered, approved ATB test or successfully completing at least six credit hours or 225 clock hours of postsecondary education. A student who does not possess a high school diploma, or a recognized equivalent, but who is enrolled in a Title IV eligible program any time prior to July 1, 2012 may be eligible to receive Title IV student assistance after July 1, 2012. As of December 31, 2011, approximately 5.5% of our total student population were ATB students.

Federal Pell Grant Duration of Eligibility — The Appropriations Act also amended the HEA to reduce the duration of a student’s eligibility to receive a federal Pell Grant from 18 semesters (or its equivalent) to 12 semesters (or its equivalent). This provision applies to all federal Pell Grant eligible students effective with the 2012-13 award year. This may eliminate the ability of some of our students to continue to receive Pell Grants, depending on their prior receipt of Pell Grants from our institutions and from other institutions prior to enrolling in our schools.

We are unable to predict the ultimate financial impact on the Company of these changes. However, our institutions will be unable to accept ATB students starting on July 1, 2012, and the financial aid for some of our other students may be reduced or eliminated starting on that date. If we are not able to effectively recruit additional new students to make up for those ATB students we will be unable to enroll, or if the reduction or elimination of financial aid after that date deters some students from enrolling, it would negatively affect our business, results of operations and financial condition, perhaps materially.

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RISKS RELATED TO OUR BUSINESS

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.