

LINCOLN EDUCATIONAL SERVICES CORP
Form 10-K
March 10, 2016

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, 2015

Commission File Number 000-51371

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

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

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

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

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

<u>Title of each class</u>	<u>Name of exchange on which registered</u>
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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 22,107,983 shares of common stock held by non-affiliates of the registrant issued and outstanding as of June 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, was \$44,658,126. This amount is based on the closing price of the common stock on the Nasdaq Global Select Market of \$2.02 per share on June 30, 2015. 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 8, 2016 was 23,758,509.

Documents Incorporated by Reference

Portions of the Proxy Statement for the Registrant's 2016 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;
- our ability to implement our strategic plan;
- risks associated with changes in applicable federal laws and regulations including 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 opening new campuses and closing existing campuses;
- risks associated with integration of acquired schools;
- industry competition;
- 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

Lincoln Educational Services Corporation and its subsidiaries (collectively, the “Company”, “we” “our” and “us”, as applicable) provide diversified career-oriented post-secondary education to recent high school graduates and working adults. We currently operate 31 schools in 15 states and offer programs in automotive technology, skilled trades (which include HVAC, welding and computerized numerical control and electronic systems technology, among other programs), healthcare services (which include nursing, dental assistant, medical administrative assistant and pharmacy technician, among other programs), hospitality services (which include culinary, therapeutic massage, cosmetology and aesthetics) and business and information technology (which includes information technology and criminal justice programs). Our schools operate under the Lincoln Technical Institute, Lincoln College of Technology, Lincoln College of New England, Lincoln Culinary Institute, and Euphoria Institute of Beauty Arts and Sciences brand names. Most of 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 campuses are nationally or regionally accredited and are eligible to participate in federal financial aid programs by the U.S. Department of Education (the “DOE”) and applicable state education agencies and accrediting commissions which allow students to apply for and access federal student loans as well as other forms of financial aid.

In the first quarter of 2015, we reorganized our operations into three reportable business segments: (a) Transportation and Skilled Trades, (b) Healthcare and Other Professions, and (c) Transitional which refers to businesses that are currently being phased out. In November, 2015, the Board of Directors of the Company approved a plan for the Company to divest 17 of the 18 schools included in its Healthcare and Other Professions business segment and then, in December, 2015, the Board of Directors approved a plan to cease operations of the remaining school in this segment located in Hartford, Connecticut. That school is scheduled to close in the fourth quarter of 2016. Divestiture of our Healthcare and Other Professions business segment marks a shift in our business strategy that will enable us to focus energy and resources predominantly on Transportation and Skilled Trades though some other programs will continue to be available at some campuses. For purposes of disclosure in this Annual Report on Form 10-K, the results of operations of the 17 campuses included in the Healthcare and Other Professions segment that are being divested are reflected as discontinued operations in the consolidated financial statements.

As of December 31, 2015, we had 11,881 students enrolled at 31 campuses in our programs (6,811 students enrolled at 14 campuses that are continuing operations). Our average enrollment for the year ended December 31, 2015 was 12,981 students which represented a decrease of 7.3% from average enrollment in 2014 (average enrollment of 7,553 students represented a decrease of 7.1% from average enrollment in 2014 from such continuing operations). For the year ended December 31, 2015, our revenues were \$306.1 million which represented a decrease of 5.8 % from the prior year (revenues were \$193.2 million from continuing operations which represented a decrease of 4.8% from the prior year). For the year ended December 31, 2014, our revenues were \$325.0 million which represented a decrease of 4.8% from the year ended December 31, 2013 (revenues were \$202.9 million from continuing operations, which represented a decrease of 5.9% from the year ended December 31, 2013). 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.

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.

The Company was incorporated in New Jersey in 2003 but a predecessor entity had opened its first campus in Newark, New Jersey in 1946.

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 statements on Schedule 14A and amendments to those reports and statements as soon as reasonably practicable after we electronically file or furnish such materials to the Securities and Exchange Commission (the "SEC"). 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. We will provide paper copies of such filings free of charge upon request. The public may read and copy any materials filed by us with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information regarding the operation of the SEC's Public Reference Room is available by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding us, which is available at www.sec.gov.

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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 in the Transportation and Skilled Trades segment to capitalize on demand from students and employers in our target markets. Whenever possible, we seek to replicate programs across our campuses.

Maximize Utilization of Existing Facilities. We are focused on improving capacity utilization of existing facilities through increased enrollments, the introduction of new programs and partnerships with industry.

Expand Market. We believe that we can enter new markets and broaden the Lincoln brand by partnering with nationally recognized brands to provide the skills needed to train our nation's workforce. We continue to expand our industry relationships both to attract new students and to offer our graduates more employment opportunities. In addition to BMW, Chrysler and Raytheon, we also established a new partnership with Audi that will enable graduates to receive higher status and thus higher wages. We expect to continue investing in marketing, recruiting and retention resources to increase enrollment.

Concentrate on Transportation and Skilled Trades. During the fourth quarter we announced our plan to sell 17 of the 18 schools in our Healthcare and Other Professions segment and also to cease operations at the remaining school. By concentrating our resources on our profitable segment we believe that we can further penetrate the market and create a more profitable Company.

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 136 weeks to complete, with tuition ranging from \$6,600 to \$38,000. Our associate's degree programs typically take between 48 to 208 weeks to complete, with tuition ranging from \$17,000 to \$80,000. Our bachelor's degree programs typically take between 104 and 208 weeks to complete, with tuition ranging from \$40,000 to \$80,000. As of December 31, 2015, all of our schools offer diploma and certificate programs, 14 of our schools are currently approved to offer associate's degree programs and two 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 per 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. 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, 2015 with the average number of students enrolled in each area of study during the year ended December 31, 2015:

Programs Offered

Area of Study	Bachelor's Degree	Associate's Degree	Diploma and Certificate	Average Enrollment	Percent of Total Enrollment
			Automotive Mechanics, Automotive Technology, Automotive Technology with BMW FastTrack, Automotive Technology with Mopar X-Press, Automotive Technology with High Performance, Collision Repair and Refinishing Technology, Diesel & Truck Mechanics, Diesel & Truck Technology, Diesel & Truck Technology with Transport Refrigeration, Diesel & Truck with Automotive Technology, Heavy Equipment Maintenance Technology, Heavy Equipment and Truck Technology, Motorcycle Technology	5,390	41 %
Auto Service Automotive Technology		Automotive Service Management, Automotive Technology, Collision Repair & Refinishing Service Management, Diesel & Truck Service Management			
		Medical Assisting Technology, Dental Office Management, Health Information Technology, Medical Office Management, Mortuary Science, Occupational Therapy Assistant, Dental Hygiene, Dental Administrative Assistant, Advanced Medical Coding & Billing, Nursing	Medical Office Assistant, Medical Assistant, Patient Care Technician, Pharmacy Technician, Medical Coding & Billing, Dental Assistant, Licensed Practical Nursing	3,712	29 %
Health Sciences	Health Information Administration, RN to BSN				
Skilled Trades	-	Electronic Engineering Technology, HVAC, Electronics Systems Service Management	Electrical Technology, Electronics Systems Technician, HVAC, Welding Technology, CNC	2,206	17 %

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Programs Offered (Continued)

Area of Study	Bachelor's Degree	Associate's Degree	Diploma or Certificate	Average Enrollment	Percent of Total Enrollment	
Hospitality Services	Culinary Management, International Baking and Pastry	Culinary Arts, Salon Management, International Baking and Pastry	Culinary Arts, Cosmetology, Aesthetics, Italian Culinary Arts, International Baking and Pastry, Nail Technology, Therapeutic Massage & Bodywork Technician	1,074	8	%
	Business Management, Criminal Justice, Funeral Service Management	Business Administration, Criminal Justice, Business Management, Broadcasting and Communications, Paralegal, Computer Networking and Support, Accounting, Human Services, Dental Hygiene	Criminal Justice, Computer Networking and Security, Computer & Network Support Technician	599	5	%
Business and Information Technology						
Total:				12,981	100	%

Automotive Technology. Automotive technology is our largest area of study, with 41% of our total average student enrollment for the year ended December 31, 2015 being in this area. Our automotive technology programs are 28 to 155 weeks in length, with tuition rates of \$11,000 to \$51,000. 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 companies, including from automotive and diesel dealers, independent auto body paint and repair shops, trucking and construction companies.

As of December 31, 2015, 13 campuses offered programs in automotive technology and most of these campuses offer other technical programs as well. 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.

Health Sciences. For the year ended December 31, 2015, health sciences was our second largest area of study, representing 29% of our total average student enrollment. Our health science programs are 32 to 208 weeks in length, with tuition rates of \$13,600 to \$80,000. Graduates of these programs are qualified to obtain positions such as licensed practical nurse, registered nurse, dental assistant, 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 and medical assistant programs are our largest health science programs. As of December 31, 2015, we offered health science programs at 16 of our campuses.

Skilled Trades. For the year ended December 31, 2015, 17% of our total average student enrollment was in our skilled trades programs. Our skilled trades programs are 36 to 97 weeks in length, with tuition rates of \$16,500 to \$32,000. Our skilled trades programs include electrical, heating and air conditioning repair, welding, computerized numerical control and electronic systems technology. Graduates of our programs are qualified to obtain entry level employment positions such as electrician, cable installer, welder and 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 companies, telecommunications installation companies and architectural firms. As of December 31, 2015, we offered skilled trades programs at 14 of our campuses.

Hospitality Services. For the year ended December 31, 2015, 8% of our total average student enrollment was in our hospitality services programs. Our hospitality services programs are 22 to 142 weeks in length, with tuition rates of \$6,600 to \$61,000. 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 three campuses and cosmetology programs at four campuses. Our culinary graduates are employed by restaurants, hotels, cruise ships and bakeries. As of December 31, 2015, we offered culinary programs at four campuses.

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Business and Information Technology. For the year ended December 31, 2015, 5% 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 40 to 208 weeks in length, with tuition rates of \$13,000 to \$80,000. We have focused our current information technology, or IT, program offerings on those that are most in demand, such as our computer networking and security and computer and network support technology. 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, 2015, we offered these programs at 12 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 prospective students who are high school graduates entering the workforce, or who are currently underemployed or unemployed and require additional training to enter or re-enter the workforce.

Marketing and Advertising. We utilize an integrated marketing approach in our admissions efforts that includes the use of traditional media such as television, radio, billboards, direct mail, various print media and event marketing campaigns. Our digital marketing efforts, including paid search, search engine optimization and online video and display advertising, have grown significantly in recent years and currently drive the majority of our new student leads and enrollments. These campaigns are enhanced by student and alumni referrals. Our website's integrated marketing campaigns direct prospective students to call or visit the Lincoln website where they may request additional information on a program or campus 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. In 2015, we launched a marketing campaign positioning Lincoln Tech as "America's Technical Institute."

Referrals. Referrals from current students, high school counselors and satisfied graduates and their employers have historically represented 17% of our new enrollments. Our school administrators actively work with our current students to encourage them to recommend our programs to prospective students. We continue to build strong relationships with high school guidance counselors and instructors by offering annual seminars at our training facilities to further familiarize 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.

Recruiting. Our recruiting efforts are conducted by a group of approximately 240 field and campus-based representatives who meet directly with prospective students during presentations conducted at high schools, in the prospective 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 prospective students in their homes. During 2015, we recruited approximately 24% of our students directly out of high school. In addition, we have launched a new comprehensive customer relationship management software via Salesforce which is designed to improve the student's experience by enhancing student engagement through continuing communication and tracking over the student's life cycle. In addition, the software provides a means to better manage productivity and communication across functional departments. Field sales continues to be a large part of our business and developing local community relationships is one of our most important functions.

Call Center. During the second half of 2015, we centralized our destination campuses salesforce representatives who now operate from a call center. This refines the process of recruiting from a distance for our destination campuses and has improved efficiencies. It is also providing call center functions for all campuses, helping to build a more cohesive

process to address prospective student inquiries expressing interest in our programs.

Campus-Inquiries. When a prospective student contacts us as a result of our marketing and outreach efforts, an admissions representative contacts the prospective 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 prospective 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. From continuing operations, we had 6,811 students enrolled as of December 31, 2015 and our average enrollment for the year ended December 31, 2015 was 7,553 students, a decrease of 7.1% in average enrollment from December 31, 2014. We had 7,628 students enrolled as of December 31, 2014 and our average enrollment for that year was 8,132 students, a decrease of 6.2% in average enrollment from December 31, 2013.

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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 become aware 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 experiencing difficulty 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 comprised 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 marketplace. 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. In addition, many of our schools 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 healthcare students are required to participate in an externship program during which they work in the field as part of their career training. We also assist students with resume writing, interviewing and other job search skills.

FACULTY AND EMPLOYEES

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

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

As of December 31, 2015, we had approximately 2,398 employees, including 570 full-time faculty and 492 part-time instructors. At six of our campuses, the teaching professionals are represented by unions. These employees are covered by collective bargaining agreements that expire between 2017 and 2019. We believe that we have good relationships with these unions and with 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 like us 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 school, 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 funding under the federal programs of student financial aid authorized by Title IV of the Higher Education Act of 1965, as amended ("Title IV Programs"). 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, healthcare and skilled trades programs will have a different group of competitors than a school offering healthcare, 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 education, the number of competitors in each market has increased because students can now attend classes from an online institution.

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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 and higher quality instructional equipment. 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 impact 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 Title IV Programs, which are administered by the DOE. For the year ended December 31, 2015, approximately 80% (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.

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. 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 significant impact on our business and results of operations. Currently, each of our schools is authorized by the applicable state education agencies in the states in which the school is physically located and in which it recruits students.

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

The DOE published regulations that took effect on July 1, 2011, that expanded 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 required 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.

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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, or failed to comply with the DOE's state authorization requirements, that school would lose its eligibility to participate in Title IV Programs, the Title IV eligibility of its related additional locations could be affected, the impacted schools would be unable to offer its programs, and we could be forced to close the schools. 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 significant impact on our business and results of operations.

Accreditation

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

Accreditation by an accrediting commission recognized by the DOE is required for an institution to be certified to participate in Title IV Programs. In order to be recognized by the DOE, accrediting commissions must adopt specific standards for their review of educational institutions. As of December 31, 2015, 16 of our campuses are accredited by the Accrediting Commission of Career Schools and Colleges, or ACCSC; 12 of our campuses are accredited by the Accrediting Council for Independent Colleges and Schools, or ACICS; one of our campuses is accredited by the New England Association of Schools and Colleges of Technology, or NEASC; and one of our campuses is 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 ²	September 30, 2013	May 1, 2018	National
Union, NJ ¹	May 29, 2014	February 1, 2019	National
Mahwah, NJ ¹	March 11, 2015	August 1, 2019	National
Melrose Park, IL ²	March 13, 2015	November 1, 2019	National
Denver, CO ¹	March 9, 2011	February 1, 2016 ³	National
Columbia, MD	March 7, 2012	February 1, 2017	National
Grand Prairie, TX ¹	December 7, 2011	August 1, 2016 ³	National
Allentown, PA ¹	March 7, 2012	January 1, 2017	National
Nashville, TN ¹	November 30, 2012	May 1, 2017	National
Indianapolis, IN	November 30, 2012	November 1, 2017	National
New Britain, CT	June 5, 2014	January 1, 2018	National
Shelton, CT ²	March 5, 2014	September 1, 2018	National
Queens, NY ¹	June 4, 2013	June 1, 2018	National

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Hartford, CT	March 11, 2015	November 1, 2019	National
East Windsor, CT ²	December 4, 2013	February 1, 2018	National
South Plainfield, NJ ¹	September 2, 2014	August 1, 2019	National

¹ Branch campus of main campus in Indianapolis, IN

² Branch campus of main campus in New Britain, CT

³ Campus undergoing re-accreditation. Each campus has received written confirmation that it remains accredited pending consideration of its application for reaccreditation.

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Accrediting Council for Independent Colleges and Schools Reaccreditation Dates

School	Last Accreditation Letter	Next Accreditation	Type of Accreditation
Brockton, MA ¹	August 28, 2014	December 31, 2020	National
Lincoln, RI ¹	August 28, 2014	December 31, 2019	National
Lowell, MA ¹	January 5, 2015	December 31, 2019	National
Somerville, MA ¹	August 28, 2014	December 31, 2019	National
Philadelphia (Center City), PA ¹	April 26, 2013	December 31, 2016 ²	National
Edison, NJ	April 26, 2013	December 31, 2016 ²	National
Marietta, GA ¹	August 28, 2014	December 31, 2019	National
Moorestown, NJ ¹	April 26, 2013	December 31, 2016 ²	National
Paramus, NJ ¹	April 26, 2013	December 31, 2016 ²	National
Philadelphia (Northeast), PA ¹	April 26, 2013	December 31, 2016 ²	National
West Palm Beach, FL ¹	August 28, 2014	December 31, 2019	National
Las Vegas (Summerlin), NV ¹	August 29, 2014	December 31, 2019	National
Henderson (Green Valley), NV ¹	January 5, 2015	December 31, 2019	National

¹ Branch campus of main campus in Edison, NJ

² Campus undergoing re-accreditation.

New England Association of Schools and Colleges of Technology Reaccreditation Dates

School	Last Accreditation Letter	Comprehensive Evaluation	Type of Accreditation
Southington, CT	June 29, 2012	Fall 2017	Regional

Accrediting Bureau of Health Education Schools Reaccreditation Dates

School	Last Accreditation Letter	Next Accreditation	Type of Accreditation
Fern Park, FL	August 2, 2015	March 31, 2016	National

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 or may be placed on probation or a special monitoring or reporting status which, if the noncompliance with accrediting commission requirements is not resolved, could result in 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. Our school in Fern Park, Florida received a letter from ABHES on February 9, 2015 notifying the school that ABHES had deferred action on the school's application for a continued grant of accreditation and directing the school to show cause why its accreditation should not be withdrawn. ABHES is the institutional accreditor for the Fern Park school. The February 9, 2015 correspondence from ABHES identified two findings of alleged noncompliance with certain ABHES accreditation requirements related to financial standards and program outcomes. On February 27, 2015, our Board of Directors approved a plan to cease operations at the Fern Park, Florida school, which is scheduled to close in the first quarter of 2016 following the completion of a teach-out of currently enrolled students. We notified ABHES of the planned teach-out and, in response, at its August 2015 meeting, ABHES extended the accreditation of the institution through March 31, 2016.

Programmatic accreditation is the process through which specific programs are reviewed and approved by industry and program-specific accrediting entities. Although programmatic accreditation is not generally necessary for Title IV eligibility, such accreditation may be required to allow students to sit for certain licensure exams or to work in a particular profession or career or to meet other requirements. Failure to obtain or maintain such programmatic

accreditation may lead to a decline in enrollments in such programs. Under new gainful employment or GE regulations issued by the DOE, institutions may be required to certify that they have programmatic accreditation under certain circumstances. See “—Regulatory Environment – DOE Development of New Regulations.”

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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 and must meet other applicable eligibility requirements for the receipt of Title IV funds. 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 (“FSEOG”) 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, 2015, we derived approximately 56% 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, 2015, we derived approximately 21% of our revenues (calculated based on cash receipts) from the Pell program.

Federal Supplemental Educational Opportunity Grant. Under the FSEOG 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, 2015, we received less than 1% of our revenues (calculated based on cash receipts) from the FSEOG 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. All of our schools ceased awarding loans under the Perkins program effective 2014; therefore, for the years ended December 31, 2015 and 2014, we did not derive any of our revenues (calculated based on cash receipts) from the Perkins program. One of our schools continues to receive repayments of prior Perkins loans from students.

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 of these states have reduced the level of state financial aid available to 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. Federal budgetary shortfalls and constraints, or decisions by federal lawmakers to limit or prohibit access by our institutions or their students to federal financial aid, could result in a decrease in the level of federal financial aid for our students.

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.

We also extend credit for tuition and fees to many of our students that attend our campuses.

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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 reviewing and approving an institution's application to participate in the Title IV Programs. 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 7 institutions as of December 31, 2015, collectively consisting of 7 main campuses and 24 additional locations:

Main Instituion/Campus(es)	Additional Location(s)
Edison, NJ	Moorestown, NJ Paramus, NJ Philadelphia, PA (Center City) Philadelphia, PA (Northeast) Somerville, MA Lowell, MA Brockton, MA Lincoln, RI Marietta, GA West Palm Beach, FL Henderson, NV (Green Valley) Las Vegas, NV (Summerlin)
Hartford, CT New Britain, CT	Shelton, CT Philadelphia, PA East Windsor, CT Melrose Park, IL
Fern Park, FL	
Indianapolis, IN	Grand Prairie, TX Nashville, TN Denver, CO Union, NJ Mahwah, NJ Queens, NY Allentown, PA South Plainfield, NJ
Columbia, MD	
Southington, CT	

The DOE typically provides provisional certification to an institution following a change in ownership resulting in a change of control and also may provisionally certify an institution for other reasons, including, but not limited to, noncompliance with certain standards of administrative capability and financial responsibility. Two of our seven institutions (Edison and Indianapolis), which generates the majority of the Company's revenues, are provisionally certified based on the existence of pending program reviews with DOE. An institution that is provisionally certified receives fewer due process rights than those received by other institutions in the event the DOE takes certain adverse actions against the institution, is required to obtain prior DOE approvals of new campuses and educational programs, and may be subject to heightened scrutiny by the DOE. However, provisional certification does not otherwise limit an

institution's access to Title IV Program funds.

The DOE is responsible 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 Higher Education Act of 1965, as amended ("HEA") and other laws governing Title IV Programs. On August 14, 2008, the Higher Education Opportunity Act, Public Law 110-315, reauthorized the HEA's Title IV Programs through at least September 30, 2014. Later, the HEA was automatically extended through September 30, 2015. Congress is currently considering reauthorization of Title IV Programs, but it is unknown when Congress will complete that process or what changes will be made to the HEA or other laws affecting federal student aid.

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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. For example, changes to the HEA 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. See “– Regulatory Environment – Ability to Benefit Regulations.”

We cannot predict what, if any, legislative or other actions will be taken or proposed by Congress in connection with the reauthorization of the HEA or other activities of 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 issued final regulations on October 29, 2010, with a general effective date of July 1, 2011, which included, but were 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; 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 Program 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 these regulations also included a new federal definition of a “credit hour” for federal student aid purposes. The new definition has resulted 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. We were required to change certain of our practices to comply with the requirements of these final regulations. The changes to our practices have had and may continue to have, and any inability by us to comply with these regulations could have, a significant impact on our business and results of operations.

On June 13, 2011, the DOE published final regulations in the Federal Register regarding gainful employment that were scheduled to take effect on July 1, 2012 and would apply to all educational programs that are subject to the DOE requirement of preparing students for gainful employment in a recognized occupation. Such educational programs include all of the Title IV-eligible educational programs at each of our institutions.

On June 30, 2012, the United States District Court for the District of Columbia issued a decision that vacated most of the gainful employment regulations and remanded those regulations to the DOE for further action. On July 6, 2012, the DOE issued an electronic announcement acknowledging that the District Court had vacated the repayment rate metric as well as the debt-to-income gainful employment metrics that would have gone into effect on July 1, 2012. The DOE also noted that institutions are not required to comply with related regulations relating to gainful employment reporting requirements and adding new educational programs, but are required to comply with requirements to disclose certain information about educational programs.

In June 2013, the DOE announced its intention to establish a negotiated rulemaking committee to prepare new gainful employment regulations, which would replace those vacated by the District Court. The DOE held negotiating sessions with the committee beginning in September 2013 and concluding in December 2013. In October 2014, the DOE issued final regulations on gainful employment requiring each educational program to achieve threshold rates in two debt measure categories related to an annual debt to annual earnings ratio and an annual debt to discretionary income ratio. The various formulas are calculated under complex methodologies and definitions outlined in the final regulations and, in some cases, are based on data that may not be readily accessible to institutions. The regulations outline various scenarios under which programs could lose Title IV eligibility for failure to achieve threshold rates in one or more measures over certain periods of time ranging from two to four years. The regulations also require an institution to provide warnings to students in programs that may lose Title IV eligibility at the end of an award year. The final regulations also contain other provisions that, among other things, include disclosure, reporting, new program approval, and certification requirements. The certification requirements will require each institution to certify to the DOE that each gainful employment program is programmatically accredited, if such accreditation is required by a Federal governmental entity or by a governmental entity in the state in which the institution is physically located.

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The final regulations were effective on July 1, 2015. The DOE has stated that it plans to issue the first rates calculated under the new regulation in draft later in 2016 and in final in late 2016 or early 2017. We cannot predict with certainty the rates for our programs or the extent to which our programs may be adversely impacted by the rates. The implementation of these new gainful employment regulations could require us to eliminate certain educational programs, could result in the loss of our students' access to Title IV Program funds for the affected programs, and could have a significant impact on the rate at which students enroll in our programs and on our business and results of operations.

The DOE published new regulations in 2014 on other topics, including regulations related to adverse credit for borrowers of PLUS loans and related to certain campus safety and security requirements. The DOE also considered during negotiated rulemaking sessions in 2014, but did not publish, regulations on other topics including: clock to credit hour conversion for programs offered in credit hours that do not transfer into degree programs and are subject to the federal conversion formula for determining credit hours; state authorization for programs offered through distance education or correspondence education; and state authorization for foreign locations of institutions located in a state.

On October 30, 2015, the DOE published new regulations related to cash management including the marketing of financial accounts to students and the requirements related to holding and paying student credit balances, the measurement of the length of certain educational programs, the enrollment status of students retaking coursework, and the appealing or challenging of cohort default rates. The regulations have a general effective date of July 1, 2016, although some of the regulations provide for a later implementation date.

In January 2016, the DOE began negotiated rulemaking to develop proposed regulations regarding a borrower's ability to allege acts or omissions by an institution as a defense to the repayment of certain Title IV loans and the consequences to the borrower, the DOE, and the institution. The DOE stated prior to beginning the negotiated rulemaking that it intended to develop proposed regulations to address (1) the procedures to be used for a borrower to establish a defense to repayment; (2) the criteria that the DOE will use to identify the acts or omissions of an institution that constitute a defenses to repayment, including the creation of a federal standard; (3) the standards and procedures that the DOE will use to determine the liability of the institution for amounts based on borrower defenses; (4) the effect of borrower defenses on institutional administrative capability assessments; and (5) other loan discharges. The negotiated rulemaking meetings are expected to conclude in March 2016.

Any new regulations typically would be subject to a notice and comment period during which the public comments on proposed regulations and the DOE responds to comments and publishes final regulations. We cannot predict the ultimate content of any new regulations that may emerge from the negotiated rulemaking process in 2016, or any other regulations the DOE may propose and implement in the future, or the potential impact of such regulations on us or our institutions. The final regulations could result in rules for assessing liabilities to institutions for loan discharges and for imposing other sanctions on institutions. The implementation of any new regulations by the DOE could have a significant impact 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 (its "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 at least 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 2015 fiscal year, our seven institutions' 90/10 Rule percentages ranged from 77% to 85%. For 2014 and 2013, none of our existing institutions derived more than 90% of their revenues from Title IV

Programs. We regularly monitor compliance with this requirement to minimize the risk that any of our institutions would derive more than the maximum percentage of its revenues from Title IV Programs for any fiscal year. Our calculations are subject to review by the DOE.

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 Rule purposes or, lower the 90% threshold, or otherwise change the calculation methodology (each of which has been proposed by some Congressional members in proposed legislation), or make other changes to the 90/10 Rule, 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 adversely affect our students' access to various government-sponsored student financial aid programs and have a significant impact on the rate at which our students enroll in our programs and on our business and results of operations.

Student Loan Defaults. The HEA limits participation in Title IV Programs by institutions whose former students defaulted on the repayment of federally guaranteed or funded student loans above a prescribed rate (the "cohort default rate"). The DOE calculates these rates based on the number of students who have defaulted, not the dollar amount of such defaults. The cohort default rate is calculated on a federal fiscal year basis and measures the percentage of students who enter repayment of a loan during the federal fiscal year and default on the loan on or before the end of the federal fiscal year or the subsequent two federal fiscal years.

Under the HEA, an institution whose Federal Family Education Loan, or FFEL, and Federal Direct Loan, or FDL, cohort default rate is 30% 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 three-year cohort default rate equals or exceeds 30% in two of the three most recent federal fiscal years for which the DOE has issued cohort default rates, the institution may be placed on provisional certification status.

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In September 2015, the DOE released the final cohort default rates for the 2012 federal fiscal year. These are the most recent final rates published by the DOE. The rates for our existing institutions for the 2012 federal fiscal year range from 11.9% to 18.8%. None of our institutions had a cohort default rate equal to or greater than 30% for the 2012 federal fiscal year or for the 2011 or 2010 federal fiscal years.

In February 2016, the DOE released draft three-year cohort default rates for the 2013 federal fiscal year. The draft cohort default rates are subject to change pending receipt of the final cohort default rates, which the DOE is expected to publish in September 2016. The draft rates for our institutions for the 2013 federal fiscal year range from 9.9% to 15.4%. None of our institutions had draft cohort default rates of 30% or more.

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 typically may be permitted by the DOE to continue to participate in the Title IV Programs by choosing one of two alternatives: 1) the "Zone Alternative" under which an institution is required to make disbursements to students under the Heightened Cash Monitoring 1 (HCM1) payment method and to notify the DOE within 10 days after the occurrence of certain oversight and financial events or 2) submit a letter of credit to the DOE in an amount determined by the DOE and equal to at least 50 percent of the Title IV Program funds received by the institution during its most recent fiscal year. Under the HCM1 payment method, the institution is required to make Title IV disbursements to eligible students and parents before it requests or receives funds for the amount of those disbursements from the DOE. As long as the student accounts are credited before the funding requests are initiated, an institution is permitted to draw down funds through the DOE's electronic system for grants management and payments for the amount of disbursements made to eligible students. Unlike the Heightened Cash Monitoring 2 (HCM2) and reimbursement payment methods, the HCM1 payment method typically does not require schools to submit documentation to the DOE and wait for DOE approval before drawing down Title IV Program funds. Effective July 1, 2016, a school under HCM1, HCM2 or reimbursement payment methods must also pay any credit balances due to a student before drawing down funds for the amount of those disbursements from the DOE, even if the student or parent provides written authorization for the school to hold the credit balance. This requirement may have a material adverse effect on our cash flows, results of operations and financial condition.

The DOE typically permits an institution to participate under the "Zone Alternative" for a period of up to three consecutive fiscal years; however, this determination is made solely by the DOE. If an institution's composite score is between 1.0 and 1.4 after three or more consecutive years with a composite score below 1.5, it may be required to

meet alternative requirements for continuing to participate in Title IV programs by submitting a letter of credit, complying with monitoring requirements, disbursing Title IV funds under the HCM1, HCM2, or reimbursement payment methods, and complying with other requirements and conditions.

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 determined by the DOE and 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 determined by the DOE and 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

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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 2014 and 2013 fiscal year reflecting a composite score of 1.3 and 1.4, respectively, based upon our calculations. We chose the "Zone Alternative" option described above because, among other things, it does not require us to submit a letter of credit to the DOE and because the HCM1 payment method is less burdensome than the HCM2 or reimbursement methods of payment that the DOE has the authority to impose. We believe that, prior to moving to the HCM1 payment method on October 22, 2014, our procedures for processing Title IV payments were similar to those now required under the HCM1 payment method. As of this date, we have not identified any impact on our ability to make disbursements of Title IV funds to our students or to receive funds for the amount of those disbursements from the DOE. If we remain on the HCM1 payment method on or after July 1, 2016, we may have to modify our procedures for payment of credit balances to students to comply with the aforementioned new requirements to pay credit balances before drawing down funds from the DOE.

For the 2015 fiscal year, we have calculated our composite score to be 1.9. This number is subject to determination by the DOE once it receives and reviews our audited financial statements for the 2015 fiscal year. If the DOE determines that our composite score is 1.5 or higher, our composite score would be high enough for our institutions to be deemed financially responsible and could result in the DOE no longer requiring us to comply with the Zone Alternative requirements or the requirement to use the HCM1 payment method. Such determination would be subject to DOE determination and the absence of other factors supporting these requirements.

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 may be required to 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 Program 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 our schools are involved. Some corporate reorganizations and some changes in the board of directors of the Company or a subsidiary that owns one of our institutions 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.

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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, unless otherwise required by the DOE, 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. Institutions that are provisionally certified may be required to obtain approval of certain educational programs. Two of our institutions (Edison and Indianapolis) are provisionally certified and required to obtain prior DOE approval of new degree, non-degree, and short-term training educational programs. Under the new gainful employment regulations that took effect on July 1, 2015, institutions that are provisionally certified or that are subject to other requirements, including, but not limited to, for example, receiving Title IV funds under the cash monitoring or reimbursement methods, may be required to obtain approval of all new educational programs. Each of our institutions is required to disburse Title IV funds under the HCM1 payment method and, therefore, may be required to obtain the DOE's prior approval before adding a new educational program. 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.

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 requirements;
- have capable and sufficient personnel to administer the Title IV Programs;
- administer Title IV Programs with adequate checks and balances in its system of internal controls over financial reporting;
- divide 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, third party servicer or other 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 adequate 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 be subject to sanctions or other actions by the DOE or to lose its eligibility to participate in Title IV Programs, which would have a significant impact on our business and results of operations.

Ability to Benefit Regulations. Under certain circumstances, an institution is permitted to admit non-high school graduates, or "ability to benefit," students, into certain of its programs of study and allow those students to receive Title IV Program funds to the extent eligible. 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. Changes to the HEA eliminated federal student aid eligibility, with certain exceptions, for 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. These changes to the HEA resulted in a substantial decrease in enrollments at our institutions.

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Restrictions on Payment of Commissions, Bonuses and Other Incentive Payments. An institution participating in Title IV Programs may not provide any commission, bonus or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any person or entity engaged in any student recruiting or admission activities or in making decisions regarding the awarding of Title IV Program funds. The DOE's 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 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 (thereby reducing the scope of permissible compensatory payments under the rule) and expanding the scope of compensatory 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 has had and will continue to have a significant impact 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.