

LINCOLN EDUCATIONAL SERVICES CORP  
Form 10-Q  
August 06, 2010

---

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

---

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

---

Commission File Number 000-51371

---

LINCOLN EDUCATIONAL SERVICES CORPORATION

(Exact name of registrant as specified in its charter)

New Jersey  
(State or other jurisdiction of incorporation or  
organization)

57-1150621  
(IRS Employer Identification No.)

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

07052  
(Zip Code)

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

No change  
(Former name, former address and former fiscal year, if changed since last report)

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 ☐

Edgar Filing: LINCOLN EDUCATIONAL SERVICES CORP - Form 10-Q

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

As of August 4, 2010, there were 26,086,813 shares of the registrant’s common stock outstanding.

---

---

---

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

INDEX TO FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010

|          |   |    |
|----------|---|----|
| PART I.  | FINANCIAL INFORMATION   |    |
| Item 1.  | <u>Financial Statements</u>   | 1  |
|          | <u>Condensed Consolidated Balance Sheets at June 30, 2010 and December 31, 2009 (unaudited)</u>                               | 1  |
|          | <u>Condensed Consolidated Statements of Income for the three and six months ended June 30, 2010 and 2009 (unaudited)</u>      | 3  |
|          | <u>Condensed Consolidated Statement of Changes in Stockholders' Equity for the six months ended June 30, 2010 (unaudited)</u> | 4  |
|          | <u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and 2009 (unaudited)</u>            | 5  |
|          | <u>Notes to Unaudited Condensed Consolidated Financial Statements</u>   | 7  |
| Item 2.  | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                  | 14 |
| Item 3.  | <u>Quantitative and Qualitative Disclosures About Market Risk</u>   | 21 |
| Item 4.  | <u>Controls and Procedures</u>  | 21 |
| PART II. | <u>OTHER INFORMATION</u>  | 22 |
| Item 1.  | <u>Legal Proceedings</u>  | 22 |
| Item 1A. | <u>Risk Factors</u>   | 22 |
| Item 2.  | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>  | 24 |
| Item 6.  | <u>Exhibits</u>   | 24 |

Index

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In thousands, except share amounts)  
 (Unaudited)

|  | June 30,<br>2010 | December 31,<br>2009 |
|--|------------------|----------------------|
| <b>ASSETS</b>  |                  |                      |
| <b>CURRENT ASSETS:</b>   |                  |                      |
| Cash and cash equivalents  | \$28,190         | \$ 46,076            |
| Restricted cash  | 369              | 858                  |
| Accounts receivable, less allowance of \$23,896 and \$25,293 at June 30, 2010 and December 31, 2009, respectively  | 33,738           | 36,614               |
| Inventories  | 3,821            | 3,329                |
| Deferred income taxes, net   | 10,590           | 10,877               |
| Prepaid income taxes   | 10,122           | -                    |
| Prepaid expenses and other current assets  | 6,547            | 8,207                |
| Total current assets   | 93,377           | 105,961              |
| <b>PROPERTY, EQUIPMENT AND FACILITIES - At cost, net of accumulated depreciation and amortization of \$105,616 and \$97,590 at June 30, 2010 and December 31, 2009, respectively</b> |                  |                      |
|  | 163,527          | 149,310              |
| <b>OTHER ASSETS:</b>   |                  |                      |
| Noncurrent receivables, less allowance of \$1,440 and \$1,566 at June 30, 2010 and December 31, 2009, respectively   | 5,919            | 6,264                |
| Deferred finance charges, net  | 1,167            | 1,346                |
| Deferred income taxes, net   | 4,468            | 4,236                |
| Goodwill   | 112,953          | 112,953              |
| Other assets, net  | 7,849            | 8,298                |
| Total other assets   | 132,356          | 133,097              |
| <b>TOTAL</b>   | <b>\$389,260</b> | <b>\$ 388,368</b>    |

See notes to unaudited condensed consolidated financial statements.

Index

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

(Unaudited)

(Continued)

|   | June 30,<br>2010 | December 31,<br>2009 |
|---|------------------|----------------------|
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                  |                      |
| <b>CURRENT LIABILITIES:</b>   |                  |                      |
| Current portion of long-term debt and lease obligations   | \$386            | \$ 383               |
| Unearned tuition  | 47,096           | 48,087               |
| Accounts payable  | 19,909           | 19,649               |
| Accrued expenses  | 23,921           | 26,966               |
| Advanced payments from federal funds  | 122              | 667                  |
| Income taxes payable  | -                | 5,358                |
| Other short-term liabilities  | 557              | 357                  |
| Total current liabilities   | 91,991           | 101,467              |
| <b>NONCURRENT LIABILITIES:</b>  |                  |                      |
| Long-term debt and lease obligations, net of current portion  | 36,747           | 56,945               |
| Pension plan liabilities, net   | 3,485            | 3,192                |
| Accrued rent  | 6,870            | 6,282                |
| Other long-term liabilities   | 1,619            | 1,846                |
| Total liabilities   | 140,712          | 169,732              |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                  |                      |
| <b>STOCKHOLDERS' EQUITY:</b>  |                  |                      |
| Preferred stock, no par value - 10,000,000 shares authorized, no shares issued and outstanding at June 30, 2010 and December 31, 2009   | -                | -                    |
| Common stock, no par value - authorized 100,000,000 shares at June 30, 2010 and December 31, 2009, issued and outstanding 28,097,276 shares at June 30, 2010 and 27,722,471 shares at December 31, 2009 | 140,480          | 137,689              |
| Additional paid-in capital  | 16,775           | 14,161               |
| Treasury stock at cost - 2,015,796 shares at June 30, 2010 and 1,865,000 shares at December 31, 2009  | (35,920 )        | (32,771 )            |
| Retained earnings   | 132,114          | 104,458              |
| Accumulated other comprehensive loss  | (4,901 )         | (4,901 )             |
| Total stockholders' equity  | 248,548          | 218,636              |
| <b>TOTAL</b>  | <b>\$389,260</b> | <b>\$ 388,368</b>    |

See notes to unaudited condensed consolidated financial statements.

Index

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (In thousands, except per share amounts)  
 (Unaudited)

|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
|   | 2010                           | 2009      | 2010                         | 2009      |
| REVENUE   | \$152,795                      | \$128,110 | \$305,261                    | \$246,709 |
| COSTS AND EXPENSES:                                   |                                |           |                              |           |
| Educational services and facilities                   | 58,118                         | 51,120    | 116,987                      | 99,418    |
| Selling, general and administrative                   | 71,705                         | 63,573    | 139,978                      | 123,187   |
| Gain on sale of assets                                | (11 )                          | (12 )     | (7 )                         | (14 )     |
| Total costs & expenses                                | 129,812                        | 114,681   | 256,958                      | 222,591   |
| OPERATING INCOME                                      | 22,983                         | 13,429    | 48,303                       | 24,118    |
| OTHER:  |                                |           |                              |           |
| Interest income                                       | 19                             | 7         | 21                           | 9         |
| Interest expense                                      | (1,101 )                       | (1,098 )  | (2,296 )                     | (2,103 )  |
| Other income  | 48                             | 8         | 48                           | 17        |
| INCOME BEFORE INCOME TAXES                            | 21,949                         | 12,346    | 46,076                       | 22,041    |
| PROVISION FOR INCOME TAXES                            | 8,754                          | 4,920     | 18,420                       | 8,791     |
| NET INCOME  | \$13,195                       | \$7,426   | \$27,656                     | \$13,250  |
| Basic   |                                |           |                              |           |
| Net income per share                                  | \$0.51                         | \$0.28    | \$1.08                       | \$0.51    |
| Diluted   |                                |           |                              |           |
| Net income per share                                  | \$0.50                         | \$0.27    | \$1.05                       | \$0.49    |
| Weighted average number of common shares outstanding: |                                |           |                              |           |
| Basic   | 25,780                         | 26,477    | 25,670                       | 26,093    |
| Diluted   | 26,439                         | 27,217    | 26,387                       | 26,834    |

See notes to unaudited condensed consolidated financial statements.

Index

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
(In thousands, except share amounts)  
(Unaudited)

|   | Common Stock |            | Additional         | Treasury     | Retained   | Accumulated<br>Other<br>Comprehensive | Total      |
|---|--------------|------------|--------------------|--------------|------------|---------------------------------------|------------|
|   | Shares       | Amount     | Paid-in<br>Capital | Stock        | Earnings   | Loss                                  |            |
| BALANCE -<br>January 1, 2010                                | 27,722,471   | \$ 137,689 | \$ 14,161          | \$ (32,771 ) | \$ 104,458 | \$ (4,901 )                           | \$ 218,636 |
| Net income  | -            | -          | -                  | -            | 27,656     | -                                     | 27,656     |
| Stock-based<br>compensation<br>expense                      |              |            |                    |              |            |                                       |            |
| Restricted stock  | 17,624       | -          | 975                | -            | -          | -                                     | 975        |
| Stock options   | -            | -          | 272                | -            | -          | -                                     | 272        |
| Purchase of<br>treasury stock                               | -            | -          | -                  | (3,149 )     | -          | -                                     | (3,149 )   |
| Tax benefit of<br>options exercised                         | -            | -          | 1,495              | -            | -          | -                                     | 1,495      |
| Net share<br>settlement for<br>equity-based<br>compensation | (5,641 )     | -          | (128 )             | -            | -          | -                                     | (128 )     |
| Exercise of stock<br>options                                | 362,822      | 2,791      | -                  | -            | -          | -                                     | 2,791      |
| BALANCE - June<br>30, 2010                                  | 28,097,276   | \$ 140,480 | \$ 16,775          | \$ (35,920 ) | \$ 132,114 | \$ (4,901 )                           | \$ 248,548 |

See notes to unaudited condensed consolidated financial statements.

Index

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

Six Months Ended  
June 30,  
2010                  2009

**CASH FLOWS FROM OPERATING ACTIVITIES:**

|   |           |           |
|---|-----------|-----------|
| Net income  | \$27,656  | \$13,250  |
| Adjustments to reconcile net income to net cash provided by operating activities: |           |           |
| Depreciation and amortization   | 13,220    | 11,374    |
| Amortization of deferred finance charges  | 179       | 99        |
| Deferred income taxes   | 55        | (1,643 )  |
| Gain on disposition of assets   | (7 )      | (14 )     |
| Provision for doubtful accounts   | 18,469    | 15,890    |
| Write-off of trade name   | -         | 280       |
| Stock-based compensation expense  | 1,247     | 1,064     |
| Tax benefit associated with exercise of stock options                             | (1,495 )  | (122 )    |
| Deferred rent   | 659       | 194       |
| (Increase) decrease in assets, net of acquisitions:                               |           |           |
| Accounts receivable   | (15,248 ) | (19,113 ) |
| Inventories   | (492 )    | (144 )    |
| Prepaid expenses and current assets   | 1,058     | (82 )     |
| Due from federal programs   | (545 )    | 903       |
| Other assets  | (1,054 )  | (236 )    |
| Increase (decrease) in liabilities, net of acquisitions:                          |           |           |
| Accounts payable  | (941 )    | (2,434 )  |
| Other liabilities   | 410       | (113 )    |
| Income taxes payable/prepaid  | (13,985 ) | (6,769 )  |
| Accrued expenses  | (3,116 )  | 1,601     |
| Pension plan contribution   | (144 )    | -         |
| Unearned tuition  | (991 )    | (4,153 )  |
| Total adjustments   | (2,721 )  | (3,418 )  |
| Net cash provided by operating activities   | 24,935    | 9,832     |

**CASH FLOWS FROM INVESTING ACTIVITIES:**

|   |           |           |
|---|-----------|-----------|
| Restricted cash   | 489       | 377       |
| Capital expenditures  | (24,135 ) | (5,828 )  |
| Proceeds from sale of property and equipment                  | 11        | 90        |
| Acquisitions, net of cash acquired, including restricted cash | -         | (27,552 ) |
| Net cash used in investing activities                         | (23,635 ) | (32,913 ) |

**CASH FLOWS FROM FINANCING ACTIVITIES:**

|   |           |           |
|---|-----------|-----------|
| Proceeds from borrowings                              | -         | 44,000    |
| Payments on borrowings                                | (20,000 ) | (39,000 ) |
| Proceeds from exercise of stock options               | 2,791     | 1,172     |
| Tax benefit associated with exercise of stock options | 1,495     | 122       |
| Net share settlement for equity-based compensation    | (128 )    | (55 )     |
| Principal payments under capital lease obligations    | (195 )    | (686 )    |

Edgar Filing: LINCOLN EDUCATIONAL SERVICES CORP - Form 10-Q

|   |                  |                 |
|---|------------------|-----------------|
| Purchase of treasury stock                                    | (3,149 )         | -               |
| Proceeds from issuance of common stock, net of issuance costs | -                | 14,932          |
| Net cash (used in) provided by financing activities           | (19,186 )        | 20,485          |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>              | <b>(17,886 )</b> | <b>(2,596 )</b> |
| CASH AND CASH EQUIVALENTS—Beginning of period                 | 46,076           | 15,234          |
| CASH AND CASH EQUIVALENTS—End of period                       | \$28,190         | \$12,638        |

See notes to unaudited condensed consolidated financial statements.

Index

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

(Continued)

Six Months Ended  
June 30,  
2010                      2009

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:

Cash paid during the year for:

|              |          |          |
|--------------|----------|----------|
| Interest     | \$1,978  | \$2,025  |
| Income taxes | \$32,594 | \$17,786 |

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING  
ACTIVITIES:

|   |         |       |
|---|---------|-------|
| Fixed assets acquired in noncash transactions | \$3,162 | \$656 |
|---|---------|-------|

See notes to unaudited condensed consolidated financial statements.

Index

LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009  
(In thousands, except share and per share amounts and unless otherwise stated)  
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Business Activities** – Lincoln Educational Services Corporation and subsidiaries (the “Company”) is a provider of diversified career-oriented post-secondary education. The Company offers recent high school graduates and working adults degree and diploma programs in five areas of study: health sciences, automotive technology, skilled trades, hospitality services and business and information technology. The Company currently has 43 schools in 17 states across the United States.

**Basis of Presentation** – The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Certain information and footnote disclosures normally included in annual financial statements have been omitted or condensed pursuant to such regulations. These statements which should be read in conjunction with the December 31, 2009 consolidated financial statements of the Company reflect all adjustments, consisting solely of normal recurring adjustments, necessary to present fairly the consolidated financial position, results of operations, and cash flows for such periods. The results of operations for the three and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2010.

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

**Use of Estimates in the Preparation of Financial Statements** – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. On an ongoing basis, the Company evaluates the estimates and assumptions, including those related to revenue recognition, bad debts, fixed assets, goodwill and other intangible assets, stock-based compensation, income taxes, benefit plans and certain accruals. Actual results could differ from those estimates.

**Stock Based Compensation** – The accompanying condensed consolidated statements of operations include stock based compensation expense of approximately \$0.6 million and \$0.5 million for the three months ended June 30, 2010 and 2009, respectively, and \$1.2 million and \$1.1 million for the six months ended June 30, 2010 and 2009, respectively. The Company uses the Black-Scholes valuation model and utilizes straight-line amortization of compensation expense over the requisite service period of the grant. The Company makes an estimate of expected forfeitures at the time options are granted.

**New Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board issued an accounting standard on variable interest entities to address the elimination of the concept of a qualifying special purpose entity. This standard also replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity and the obligation to absorb losses of the entity or the right to receive benefits

from the entity. Additionally, it provides more timely and useful information about an enterprise's involvement with a variable interest entity. The standard became effective for the Company on January 1, 2010. The adoption of this standard had no effect on the Company's condensed consolidated financial statements.

Index

## 2. WEIGHTED AVERAGE COMMON SHARES

The weighted average number of common shares used to compute basic and diluted income per share for the three and six months ended June 30, 2010 and 2009, respectively, was as follows:

|                                  | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|----------------------------------|--------------------------------|------------|------------------------------|------------|
|                                  | 2010                           | 2009       | 2010                         | 2009       |
| Basic shares outstanding         | 25,779,597                     | 26,476,957 | 25,669,611                   | 26,092,785 |
| Dilutive effect of stock options | 659,604                        | 739,912    | 717,819                      | 741,710    |
| Diluted shares outstanding       | 26,439,201                     | 27,216,869 | 26,387,430                   | 26,834,495 |

For the three months ended June 30, 2010 and 2009, options to acquire 46,000 and 202,500 shares, respectively, and for the six months ended June 30, 2010 and 2009, options to acquire 46,000 and 229,000 shares, respectively, were excluded from the above table as the effect of their inclusion on reported earnings per share would have been antidilutive.

## 3. BUSINESS ACQUISITIONS

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

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

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

|  | BAR<br>January 20,<br>2009 and<br>Clemens<br>April 20,<br>2009 |
|--|--|
| Restricted cash                                | \$ 362   |
| Current assets, excluding<br>cash acquired (1) | 8,063  |
| Property, equipment and<br>facilities          | 36,739   |
| Goodwill                                       | 20,462   |
| Identified intangibles:                        |  |
| Student contracts                              | 2,162  |
| Trade name                                     | 510  |
| Accreditation                                  | 1,040  |

|   |           |
|---|-----------|
| Curriculum                                | 410       |
| Non-compete                               | 1,980     |
| Other long-term assets                    | 730       |
| Current liabilities assumed               | (16,688 ) |
| Long-term liabilities assumed             | (28,218 ) |
| Cost of acquisition, net of cash acquired | \$ 27,552 |

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

Index

## 4. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company reviews intangible assets for impairment when indicators of impairment exist. Annually, or more frequently if necessary, the Company evaluates goodwill for impairment, with any resulting impairment reflected as an operating expense. There have been no changes in the carrying amount of goodwill from December 31, 2009 through June 30, 2010. Intangible assets, which are included in other assets in the accompanying condensed consolidated balance sheets, consist of the following:

|  | Student<br>Contracts | Indefinite<br>Trade Name | Trade<br>Name | Accreditation | Curriculum | Non-compete | Total     |
|--|----------------------|--------------------------|---------------|---------------|------------|-------------|-----------|
| Gross carrying amount at<br>December 31, 2009    | \$ 4,827             | \$ 990                   | \$ 509        | \$ 2,307      | \$ 1,150   | \$ 2,181    | \$ 11,964 |
| Reclassification (1)                             | -                    | (330 )                   | 330           | -             | -          | -           | -         |
| Gross carrying amount at<br>June 30, 2010        | 4,827                | 660                      | 839           | 2,307         | 1,150      | 2,181       | 11,964    |
| Accumulated amortization<br>at December 31, 2009 | 3,834                | -                        | 84            | -             | 390        | 778         | 5,086     |
| Amortization                                     | 831                  | -                        | 265           | -             | 58         | 350         | 1,504     |
| Accumulated amortization<br>at June 30, 2010     | 4,665                | -                        | 349           | -             | 448        | 1,128       | 6,590     |
| Net carrying amount at<br>June 30, 2010          | \$ 162               | \$ 660                   | \$ 490        | \$ 2,307      | \$ 702     | \$ 1,053    | \$ 5,374  |
| Weighted average<br>amortization period (years)  | 2                    | Indefinite               | 4             | Indefinite    | 10         | 3           |           |

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

Amortization of intangible assets was approximately \$0.8 million for the three months ended June 30, 2010 and 2009, and approximately \$1.5 million and \$1.2 million for the six months ended June 30, 2010 and 2009, respectively.

The following table summarizes the estimated future amortization expense:

|   |          |
|---|----------|
| Year<br>Ending<br>December<br>31,<br>Remaining<br>of 2010 | \$ 720   |
| 2011  | 883      |
| 2012  | 232      |
| 2013  | 181      |
| 2014  | 160      |
| Thereafter  | 231      |
|   | \$ 2,407 |



Index

## 5. LONG-TERM DEBT AND LEASE OBLIGATIONS

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

|  | June 30,<br>2010 | December 31,<br>2009 |
|--|------------------|----------------------|
| Credit agreement (a)                                       | \$ -             | \$ 20,000            |
| Finance obligation (b)                                     | 9,672            | 9,672                |
| Note payable   | -                | 11                   |
| Capital lease-property (rate of 8.0%) (c)                  | 27,096           | 27,202               |
| Capital leases-equipment (rates ranging from 5.0% to 8.5%) | 365              | 443                  |
|  | 37,133           | 57,328               |
| Less current maturities                                    | (386 )           | (383 )               |
|  | \$ 36,747        | \$ 56,945            |

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

Amounts borrowed as revolving loans under the Credit Facility will bear interest, at the Company's option, at either (i) an interest rate based on LIBOR and adjusted for any reserve percentage obligations under Federal Reserve Bank regulations (the "Euro Dollar Rate") for specified interest periods or (ii) the Base Rate (as defined in the Credit Agreement), in each case, plus an applicable margin rate as determined under the Credit Agreement. The "Base Rate," as defined under the Credit Agreement, is the highest of (a) the prime rate, (b) the Federal Funds rate plus 0.50% and (c) a daily rate equal to one month of the Euro Dollar Rate plus 1.0%. Under the Credit Agreement, the margin interest rate is subject to adjustment within a range of 1.50% to 3.25% based upon changes in the Company's consolidated leverage ratio and depending on whether the Company has chosen the Euro Dollar Rate or the Base Rate option. Swing line loans will bear interest at the Base Rate plus the applicable margin rate. Letters of credit will require a fee equal to the applicable margin rate multiplied by the daily amount available to be drawn under each issued letter of credit plus a fronting fee of 0.125% of the amount available to be drawn and customary issuance, presentation, amendment and other processing fees associated with letters of credit. At June 30, 2010 and December 31, 2009, the Company had outstanding letters of credit aggregating \$4.7 million and \$6.8 million, respectively, which were primarily comprised of letters of credit for the Department of Education matters and real estate leases.

The Credit Agreement contains customary representations, warranties and covenants including consolidated adjusted net worth, consolidated leverage ratio, consolidated fixed charge coverage ratio, minimum financial responsibility composite score, cohort default rate and other financial covenants, certain restrictions on capital expenditures as well as affirmative and negative covenants and events of default customary for facilities of this type. In addition, the Company is paying fees to the lenders that are customary for facilities of this type. As of June 30, 2010, the Company was in compliance with the covenants contained in the credit agreement.

As of June 30, 2010, the Company had no amounts outstanding under the Credit Agreement. As of December 31, 2009, the Company had a total of \$20.0 million outstanding under its Credit Agreement. During the six months ended June 30, 2010 the Company repaid \$20.0 million under its Credit Facility. The interest rate on borrowings under the Credit Facility during the three and six months ended June 30, 2010 was 5.00%.

The credit agreement expires December 1, 2012.

(b) The Company completed a sale and a leaseback of several facilities on December 28, 2001. The Company retains a continuing involvement in the lease and as a result it is prohibited from utilizing sale-leaseback accounting. Accordingly, the Company has treated this transaction as a finance lease. The lease expiration date is December 31, 2016.

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

Index

6. EQUITY

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

Under the LTIP, certain employees received awards of restricted shares of common stock. The number of shares granted to each employee is based on the fair market value of a share of common stock on the date of grant. As of June 30, 2010, there were a total of 421,000 restricted shares awarded and 118,400 shares vested under the LTIP. The restricted shares vest ratably on the first through fifth anniversary of the grant date; however, there is no vesting period on the right to vote or the right to receive dividends on these restricted shares. The recognized restricted stock expense for the three months ended June 30, 2010 and 2009 was \$0.3 million and \$0.2 million, respectively, and for the six months ended June 30, 2010 and 2009 was \$0.7 million and \$0.4 million, respectively. The unrecognized restricted stock expense under the LTIP as of June 30, 2010 and December 31, 2009 was \$4.2 million and \$4.8 million, respectively.

Pursuant to the Non-Employee Directors Plan, each non-employee director of the Company receives an annual award of restricted shares of common stock on the date of the Company’s annual meeting of shareholders. The number of shares granted to each non-employee director is based on the fair market value of a share of common stock on that date. The restricted shares vest ratably on the first through third anniversary of the grant date; however, there is no vesting period on the right to vote or the right to receive dividends on these restricted shares. Beginning in 2010, all new awards of common stock granted under the Non-Employee Directors Plan vest on the first anniversary of the grant date. As of June 30, 2010, there were a total of 126,901 shares awarded less 5,035 shares canceled and 83,624 shares vested under the Non-Employee Directors Plan. The recognized restricted stock expense for the three months ended June 30, 2010 and 2009 was \$0.1 million, and for the six months ended June 30, 2010 and 2009 was \$0.3 million and \$0.2 million, respectively. The unrecognized restricted stock expense under the Non-Employee Directors Plan as of June 30, 2010 and December 31, 2009 was \$0.6 million and \$0.4 million, respectively.

For the six months ended June 30, 2010 and 2009, the Company completed a net share settlement for 5,641 and 5,013 restricted shares, respectively, on behalf of some employees that participate in the LTIP upon the vesting of the restricted shares pursuant to the terms of the LTIP. The net share settlement was in connection with income taxes incurred on restricted shares that vested and were transferred to the employee during 2010 and/or 2009, creating taxable income for the employee. The Company has agreed to pay these taxes on behalf of the employees in return for the employee returning an equivalent value of restricted shares to the Company. This transaction resulted in a decrease of approximately \$0.1 million for the six months ended June 30, 2010 and 2009, to equity on the consolidated balance sheets as the cash payment of the taxes effectively was a repurchase of the restricted shares granted in previous years.

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

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

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

On June 9, 2010, the Company's Board of Directors approved the repurchase of up to \$50.0 million of its common stock over the period of one year. During the three months ended June 30, 2010, the Company repurchased 150,796 shares of its common stock for approximately \$3.1 million at an average price of \$20.89 per share.

Index

## Fair Value of Stock Options

The fair value of the stock options used to compute stock-based compensation is the estimated present value at the date of grant using the Black-Scholes option pricing model. The weighted average fair values of options granted during 2010 were \$8.92 per share using the following weighted average assumptions for grants:

| June 30, 2010                                   |            |
|---|------------|
| Expected volatility                             | 45.00%     |
| Expected dividend yield                         | 0%         |
| Expected life (term)                            | 4.82 years |
| Risk-free interest rate                         | 2.38%      |
| Weighted-average exercise price during the year | \$ 21.51   |

The following is a summary of transactions pertaining to the stock options:

|                                 | Shares     | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Term | Aggregate intrinsic Value |
|---------------------------------|------------|---|---|---------------------------|
| Outstanding December 31, 2009   | 1,183,921  | 11.74                                     | 4.95 years                                  | \$ 11,934                 |
| Granted                         | 12,000     | 21.51                                     |   |                           |
| Canceled                        | (21,000 )  | 19.65                                     |   |                           |
| Exercised                       | (362,822 ) | 7.69                                      |   | 5,248                     |
| Outstanding June 30, 2010       | 812,099    | 13.49                                     | 5.04 years                                  | 5,989                     |
| Exercisable as of June 30, 2010 | 689,609    | 12.82                                     | 4.36 years                                  | 5,571                     |

As of June 30, 2010, the unrecognized pre-tax compensation expense for all unvested stock option awards was \$0.6 million. This amount will be expensed over the weighted-average period of approximately 2.2 years.

The following table presents a summary of stock options outstanding:

| At June 30, 2010         |                           |                               |                        |                           |                         |
|--------------------------|---------------------------|-------------------------------|------------------------|---------------------------|-------------------------|
| Range of Exercise Prices | Stock Options Outstanding |                               |                        | Stock Options Exercisable |                         |
|                          | Shares                    | Weighted Average life (years) | Weighted Average Price | Shares                    | Weighted Exercise Price |
| \$3.10                   | 155,723                   | 1.55                          | \$3.10                 | 155,723                   | \$3.10                  |

|                 |         |      |       |         |       |
|-----------------|---------|------|-------|---------|-------|
| \$4.00-\$13.99  | 172,793 | 7.16 | 11.96 | 137,969 | 11.96 |
| \$14.00-\$19.99 | 386,083 | 5.51 | 16.04 | 310,417 | 15.31 |
| \$20.00-\$25.00 | 97,500  | 4.98 | 22.71 | 85,500  | 22.88 |
|                 | 812,099 | 5.04 | 13.49 | 689,609 | 12.82 |

7. INCOME TAXES

The effective tax rate for the three months ended June 30, 2010 and 2009 was 39.9%, and for the six months ended June 30, 2010 and 2009 was 40.0% and 39.9%, respectively.

Index

8. CONTINGENCIES

In the ordinary conduct of its business, the Company is subject to lawsuits, investigations and claims, including, but not limited to, claims involving students or graduates and routine employment matters. Although the Company cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against it, the Company does not believe that any currently pending legal proceeding to which it is a party will have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

9. PENSION PLAN

The Company sponsors a noncontributory defined benefit pension plan covering substantially all of the Company's union employees. Benefits are provided based on employees' years of service and earnings. This plan was frozen on December 31, 1994 for non-union employees. The total amount of the Company's contributions paid under its pension plan was \$0.1 million and \$0.6 million for the six months ended June 30, 2010 and 2009, respectively. The net periodic benefit cost was \$0.2 million for the three months ended June 30, 2010 and 2009 and \$0.4 million and \$0.5 million for the six months ended June 30, 2010 and 2009, respectively.

10. RELATED PARTY TRANSACTIONS

As discussed in Note 6, on December 15, 2009, the Company entered into a Repurchase Agreement with BTS, the Company's largest shareholder, relating to the Company's repurchase of 1,250,000 shares of the Company's common stock owned by BTS at a purchase price of \$20.95 per share or an aggregate purchase price of \$26.2 million.

On April 6, 2010, BTS sold 3,000,000 shares of the Company's common stock in a registered public offering at a sale price of \$25.50. The Company incurred expenses of \$0.5 million related to the sale of shares by BTS as a result of the Company's obligation to register the BTS shares pursuant to a registration rights agreement with BTS. The Company did not issue any new shares and the Company did not receive any proceeds from the sale of the shares by BTS.

Index

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion may contain forward-looking statements regarding us, our business, prospects and our results of operations that are subject to certain risks and uncertainties posed by many factors and events that could cause our actual business, prospects and results of operations to differ materially from those that may be anticipated by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those described in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the Securities and Exchange Commission ("SEC") and in our other filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may subsequently arise. Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the SEC that advise interested parties of the risks and factors that may affect our business.

The interim financial statements filed on this Form 10-Q and the discussions contained herein should be read in conjunction with the annual financial statements and notes included in our Form 10-K for the year ended December 31, 2009, as filed with the SEC, which includes audited consolidated financial statements for our three fiscal years ended December 31, 2009.

General

We are a leading provider of diversified career-oriented post-secondary education. We offer recent high school graduates and working adults degree and diploma programs in five areas of study: health sciences, automotive technology, skilled trades, hospitality services and business and information technology. Each area of study is specifically designed to appeal to and meet the educational objectives of our student population, while also satisfying the criteria established by industry and employers. The resulting diversification limits dependence on any one industry for enrollment growth or placement opportunities and broadens our opportunities for introducing new programs. As of June 30, 2010, 29,934 students were enrolled at our 43 campuses across 17 states. Our campuses primarily attract students from their local communities and surrounding areas, although our seven destination campuses attract students from across the United States, and in some cases, from abroad.

Critical Accounting Policies and Estimates

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

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

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

## Index

Our bad debt expense as a percentage of revenues for the three months ended June 30, 2010 and 2009 was 6.6% and 6.7%, respectively, and for the six months ended June 30, 2010 and 2009 was 6.1% and 6.4%, respectively. Our exposure to changes in our bad debt expense could impact our operations. A 1% increase in our bad debt expense as a percentage of revenues for the three months ended June 30, 2010 and 2009 would have resulted in an increase in bad debt expense of \$1.5 million and \$1.3 million, respectively, and for the six months ended June 30, 2010 and 2009 would have resulted in an increase in bad debt expense of \$3.1 million and \$2.5 million, respectively.

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

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

Goodwill represents a significant portion of our total assets. As of June 30, 2010, goodwill represented approximately \$113.0 million, or 29.0%, of our total assets. We test our goodwill for impairment using a two-step approach. The first step is conducted utilizing the multiple of earnings approach and comparing the carrying value of our reporting units to their implied fair value; if necessary, the second step is conducted utilizing a discounted cash flow approach and comparing the carrying value of our reporting units to their implied fair value. At December 31, 2009, we tested our goodwill for impairment and determined that an impairment of approximately \$215,000 existed for one of our reporting units. No other reporting unit's carrying goodwill amount exceeded its implied value. No events have occurred subsequently that would have required retesting since that evaluation took place.

**Bonus costs.** We accrue the estimated cost of our bonus programs using current financial and statistical information as compared to targeted financial achievements and key performance objectives. Although we believe our estimated liability recorded for bonuses is reasonable, actual results could differ and require adjustment of the recorded balance.

## Effect of Inflation

Inflation has not had a material effect on our operations.

Index

## Results of Operations

Certain reported amounts in our analysis have been rounded for presentation purposes.

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

|                                     | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |        |
|-------------------------------------|--------------------------------|--------|------------------------------|--------|
|                                     | 2010                           | 2009   | 2010                         | 2009   |
| Revenue                             | 100.0%                         | 100.0% | 100.0%                       | 100.0% |
| Costs and expenses:                 |                                |        |                              |        |
| Educational services and facilities | 38.0%                          | 39.9%  | 38.3%                        | 40.3%  |
| Selling, general and administrative | 46.9%                          | 49.6%  | 45.9%                        | 49.9%  |
| Total costs and expenses            | 85.0%                          | 89.5%  | 84.2%                        | 90.2%  |
| Operating income                    | 15.0%                          | 10.5%  | 15.8%                        | 9.8%   |
| Interest expense, net               | -0.7%                          | -0.9%  | -0.7%                        | -0.8%  |
| Income before income taxes          | 14.4%                          | 9.6%   | 15.1%                        | 9.0%   |
| Provision for income taxes          | 5.7%                           | 3.8%   | 6.0%                         | 3.6%   |
| Net income                          | 8.6%                           | 5.8%   | 9.1%                         | 5.4%   |

## Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

**Revenue.** Revenue increased by \$24.7 million, or 19.3%, to \$152.8 million for the quarter ended June 30, 2010 from \$128.1 million for the quarter ended June 30, 2009. This increase was primarily attributable to a 17.6% increase in average student population, which increased to 30,965 for the quarter ended June 30, 2010, from 26,333 for the quarter ended June 30, 2009. Average revenue per student increased 1.4% for the quarter ended June 30, 2010 from the quarter ended June 30, 2009, primarily from tuition increases which ranged from 3% to 5% annually and from a shift in program mix. For a general discussion of trends in our student enrollment, see “Seasonality and Trends” below.

**Educational services and facilities expenses.** Our educational services and facilities expenses increased by \$7.0 million, or 13.7%, to \$58.1 million for the quarter ended June 30, 2010 from \$51.1 million for the quarter ended June 30, 2009. This increase in educational services and facilities expenses was primarily due to instructional expenses which increased by \$5.3 million, or 20.0%, and books and tools expenses, which increased by \$0.3 million, or 4.3%, respectively, over the same quarter in 2009. The increase in instructional expenses was attributable to a 17.6% increase in average student population as we began the second quarter of 2010 with approximately 5,800, or 22.7%, more students than we had on April 1, 2009. Also contributing to the increase in educational services and facilities expenses were higher facilities expenses, which increased by approximately \$1.4 million, or 7.9%, over the same quarter in 2009. This increase was primarily attributable to expenses incurred in connection with the relocation of two of our campuses, facility expansions and related rent and dormitory maintenance costs. The remainder of this increase was due to an increase in depreciation expense of \$0.4 million due to higher capital expenditures for the quarter ended June 30, 2010 compared to the quarter ended June 30, 2009. Educational services and facilities expenses, as a percentage of revenue, decreased to 38.0% for the quarter ended June 30, 2010 from 39.9% for to the quarter ended June 30, 2009.

**Selling, general and administrative expenses.** Our selling, general and administrative expenses for the quarter ended June 30, 2010 were \$71.7 million, an increase of \$8.1 million, or 12.8%, from \$63.6 million for the quarter ended June 30, 2009. This increase in our selling, general and administrative expenses for the quarter ended June 30, 2010 was primarily due to: (a) a \$5.0 million, or 23.7%, increase in sales and marketing; (b) a \$1.2 million, or 21.6%,

increase in student services expenses; and (c) a \$1.9 million, or 5.2%, increase in administrative expenses.

The increase in sales and marketing expenses during the quarter ended June 30, 2010 as compared to the quarter ended June 30, 2009 was attributable to annual compensation increases to admissions personnel, coupled with an increase in the number of admissions personnel. We also increased our marketing expenses to enhance our growth.

The increase in student services was primarily the result of an addition of 60 employees within the career services, financial aid and default management departments. We increased our career services personnel to further assist our students with their job placement efforts as a result of a difficult job market. The economic environment has also resulted in increases in our cohort default rates. As a result, we added default management personnel to help enhance the financial literacy of our students and graduates, with the goal of helping students stay current in their loan payments. We also increased the number of personnel in our financial aid department in an effort to improve our processing timing and reduce our bad debt expense.

## Index

The increase in administrative expenses during the quarter ended June 30, 2010 as compared to the quarter ended June 30, 2009 was primarily due to annual compensation increases and increases in the cost of benefits provided to our employees as well as a \$1.4 million increase in bad debt expense. As a percentage of revenues, selling, general and administrative expenses for the quarter ended June 30, 2010 decreased to 46.9% from 49.6% for the quarter ended June 30, 2009.

For the quarter ended June 30, 2010, our bad debt expense as a percentage of revenue was 6.6% as compared to 6.7% for the quarter ended June 30, 2009. The number of days sales outstanding at June 30, 2010 increased to 23.6 days, compared to 22.7 days at June 30, 2009. As of June 30, 2010, we had outstanding loan commitments to our students of \$20.5 million as compared to \$24.1 million at March 31, 2010. Loan commitments, net of interest that would be due on the loans through maturity, were \$16.3 million at June 30, 2010 as compared to \$18.1 million at March 31, 2010.

**Net interest expense.** Our net interest expense for the quarter ended June 30, 2010 and June 30, 2009 was \$1.1 million.

**Income taxes.** Our provision for income taxes for the quarter ended June 30, 2010 was \$8.8 million, or 39.9% of pretax income, compared to \$4.9 million, or 39.9% of pretax income for the quarter ended June 30, 2009. The effective tax rate for the quarter ended June 30, 2010 was essentially flat as compared to the quarter ended June 30, 2009.

## Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009

**Revenue.** Revenue increased by \$58.6 million, or 23.7%, to \$305.3 million for the six months ended June 30, 2010 from \$246.7 million for the six months ended June 30, 2009. This increase was primarily attributable to a 21.2% increase in average student population, which increased to 30,919 for the six months ended June 30, 2010 from 25,507 for the six months ended June 30, 2009. Average revenue per student increased 2.1% for the six months ended June 30, 2010, from the six months ended June 30, 2009, primarily from tuition increases which ranged from 3% to 5% annually and from a shift in program mix. For a general discussion of trends in our student enrollment, see "Seasonality and Trends" below.

**Educational services and facilities expenses.** Our educational services and facilities expenses increased by \$17.6 million, or 17.7%, to \$117.0 million for the six months ended June 30, 2010 from \$99.4 million for the six months ended June 30, 2009. This increase in educational services and facilities expenses was primarily due to instructional expenses which increased by \$12.1 million, or 23.5%, and books and tools expenses, which increased by \$1.1 million, or 7.6%, respectively, over the same period in 2009. These increases were attributable to a 9.2% increase in student starts for the six months ended June 30, 2010 as compared to the six months ended June 30, 2009 coupled with a 21.2% increase in average student population and higher tool sales during the six months ended June 30, 2010 compared to the same period in 2009. We began 2010 with approximately 7,700, or 35.4%, more students than we had on January 1, 2009, and as of June 30, 2010 our student population was approximately 3,900 higher than as of June 30, 2009. Also contributing to the increase in educational services and facilities expenses were higher facilities expenses, which increased by approximately \$4.5 million, or 13.1%, over the same period in 2009. This increase was primarily due to expenses incurred in connection with the relocation of two of our campuses, facility expansions and related rent and property taxes. In addition, general repairs and maintenance costs increased as we strive to continue providing our students high standard educational facilities. The remainder of this increase was mainly due to an increase in depreciation expense of \$1.4 million due to higher capital expenditures in 2010 compared to 2009. Educational services and facilities expenses, as a percentage of revenue, decreased to 38.3% for the six months ended June 30, 2010 from 40.3% for the six months ended June 30, 2009.

Selling, general and administrative expenses. Our selling, general and administrative expenses for the six months ended June 30, 2010 were \$140.0 million, an increase of \$16.8 million, or 13.6%, from \$123.2 million for the six months ended June 30, 2009. The increase in our selling, general and administrative expenses for the six months ended June 30, 2010 was primarily due to: (a) a \$9.3 million, or 22.0%, increase in sales and marketing; (b) a \$2.6 million, or 25.4%, increase in student services expenses; and (c) a \$4.9 million, or 6.9%, increase in administrative expenses.

The increase in sales and marketing expense during the six months ended June 30, 2010 as compared to the same period in 2009 can be attributable to annual compensation increases to admissions personnel, coupled with a 12.3% increase in the number of admissions personnel. In addition, during the six months ended June 30, 2010 we also increased our marketing expenses to enhance our growth.

The increase in student services was primarily the result of an addition of 81 employees within the career services, financial aid and default management departments. We increased our career services personnel to further assist our students with their job placement efforts as a result of a difficult job market. The economic environment has also resulted in increases in our cohort default rates. As a result, we added default management personnel to help enhance the financial literacy of our students and graduates, with the goal of helping students stay current in their loan payments. We also increased the number of personnel in our financial aid department in an effort to improve our processing timing and reduce our bad debt expense.

Index

The increase in administrative expenses during the six months ended June 30, 2010 as compared to the same period in 2009 was primarily due to annual compensation increases and increases in the cost of benefits provided to our employees. Other items that contributed to the increase were: (a) a \$2.6 million increase in bad debt expense; (b) a \$0.5 million increase in software maintenance expense resulting from increased software licenses for our student management system; and (c) a \$0.4 million increase in depreciation expense. As a percentage of revenues, selling, general and administrative expenses for the six months of 2010 decreased to 45.9% from 49.9% for the six months of 2009.

For the six months June 30, 2010, our bad debt expense as a percentage of revenue was 6.1% as compared to 6.4% for the same period in 2009. The reduction in bad debt expense as a percentage of revenue reflects our improved financial aid packaging process, which resulted in timelier processing of financial aid and greater cash collections. The number of days sales outstanding was unchanged at 23.5 days at June 30, 2010 and 2009. As of June 30, 2010, we had outstanding loan commitments to our students of \$20.5 million as compared to \$28.9 million at December 31, 2009. Loan commitments, net of interest that would be due on the loans through maturity, were \$16.3 million at June 30, 2010 as compared to \$20.5 million at December 31, 2009.

Net interest expense. Our net interest expense for the six months ended June 30, 2010 was \$2.3 million, an increase of \$0.2 million, from \$2.1 million for the six months ended June 30, 2009. This increase was attributable to an increase in interest expenses related to capital leases.

Income taxes. Our provision for income taxes for the six months ended June 30, 2010 was \$18.4 million, or 40.0% of pretax income, compared to \$8.8 million, or 39.9% of pretax income for the six months ended June 30, 2009. The effective tax rate for the six months ended June 30, 2010 was essentially flat as compared to the six months ended June 30, 2009.

### Liquidity and Capital Resources

Our primary capital requirements are for facility expansion and maintenance, acquisitions and the development of new programs. Our principal sources of liquidity have been cash provided by operating activities and borrowings under our credit facility.

The following chart summarizes the principal elements of our cash flows:

|   | Six Months Ended<br>June 30, |             |
|---|------------------------------|-------------|
|   | 2010                         | 2009        |
|   | (In thousands)               |             |
| Net cash provided by operating activities           | \$ 24,935                    | \$ 9,832    |
| Net cash used in investing activities               | \$ (23,635)                  | \$ (32,913) |
| Net cash (used in) provided by financing activities | \$ (19,186)                  | \$ 20,485   |

At June 30, 2010, we had cash and cash equivalents of \$28.2 million, representing a decrease of approximately \$17.9 million as compared to \$46.1 million as of December 31, 2009. Historically, we have financed our operating activities and organic growth primarily through cash generated from operations. We have financed acquisitions primarily through borrowings under our credit facility and cash generated from operations. During the first quarter of

2010, we repaid \$20.0 million representing all outstanding debt under our credit facility. We currently anticipate that we will be able to meet both our short-term cash needs, as well as our need to fund operations and meet our obligations beyond the next twelve months with cash generated by operations, existing cash balances and, if necessary, borrowings under our credit facility. In addition, we may also consider accessing the financial markets in the future as a source of liquidity for capital requirements, acquisitions and general corporate purposes to the extent such requirements are not satisfied by cash on hand, borrowings under our credit facility or operating cash flows. However, we cannot assure you that we will be able to raise additional capital on favorable terms, if at all. At June 30, 2010, we had net borrowings available under our \$115 million credit agreement of approximately \$110.3 million, including a \$20.3 million sub-limit on letters of credit. The credit agreement matures on December 1, 2012.

Our primary source of cash is tuition collected from our students. The majority of students enrolled at our schools rely on funds received under various government-sponsored student financial aid programs to pay a substantial portion of their tuition and other education-related expenses. The largest of these programs are Title IV Programs which represented approximately 81% of our cash receipts relating to revenues in 2009. Students must apply for a new loan for each academic period. Federal regulations dictate the timing of disbursements of funds under Title IV Programs and loan funds are generally provided by lenders in two disbursements for each academic year. The first disbursement is usually received approximately 31 days after the start of a student's academic year and the second disbursement is typically received at the beginning of the sixteenth week from the start of the student's academic year. Certain types of grants and other funding are not subject to a 30-day delay. Our programs range from 16 to 193 weeks. In certain instances, if a student withdraws from a program prior to a specified date, any paid but unearned tuition or prorated Title IV financial aid is refunded according to state and federal regulations.

## Index

As a result of the significance of the Title IV funds received by our students, we are highly dependent on these funds to operate our business. Any reduction in the level of Title IV funds that our students are eligible to receive or any impact on our ability to be able to receive Title IV funds would have a significant impact on our operations and our financial condition. See “Risk Factors” in Item 1A, included in our Annual Report on Form 10-K for the year ended December 31, 2009.

### Operating Activities

Net cash provided by operating activities was \$24.9 million for the six months ended June 30, 2010 as compared to \$9.8 million for six months ended June 30, 2009. The \$15.1 million increase in net cash provided by operating activities primarily resulted from an increase in net income of approximately \$14.4 million. The remainder of the increase was attributable to cash provided by other working capital items during the six months ended June 30, 2010 as compared to the six months ended June 30, 2009.

### Investing Activities

Net cash used in investing activities decreased by \$9.3 million to \$23.6 million for the six months ended June 30, 2010 from \$32.9 million for the six months ended June 30, 2009. This decrease was primarily attributable to a \$27.6 million decrease in cash used for acquisitions offset by an \$18.3 million increase in capital expenditures for the six months ended June 30, 2010 as compared to the same period in 2009. Our 2010 capital expenditures mainly resulted from a facility purchase, leasehold improvements, facility expansions and relocations as well as investments in campus classroom furniture and shop technology.

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

Capital expenditures are expected to continue to increase in the remainder of 2010 as we continue to construct our new Denver, Colorado facility, open a new start-up campus, upgrade and expand current equipment and facilities and expand new facilities to meet increased student enrollment. We anticipate capital expenditures to range from 8% to 9% of revenues in 2010 and expect to fund these capital expenditures with cash generated from operating activities and, if necessary, with borrowings under our credit facility.

### Financing Activities

Net cash used in financing activities was \$19.2 million for the six months ended June 30, 2010, as compared to net cash provided by financing activities of \$20.5 million for the six months ended June 30, 2009. This decrease was primarily attributable to \$14.9 million received from our sale of common stock in a public offering during the first quarter of 2009 and a decrease in net borrowings of \$25.0 million.

On December 1, 2009, we, as borrower, and all of our wholly-owned subsidiaries, as guarantors, entered into a secured revolving credit facility with a syndicate of seven lenders led by Bank of America, N.A., as administrative agent, swing line lender and letter of credit issuer, for an aggregate principal amount of up to \$115 million.

Amounts borrowed as revolving loans under the credit facility will bear interest, at our option, at either (i) an interest rate based on LIBOR and adjusted for any reserve percentage obligations under Federal Reserve Bank regulations, or the "Euro Dollar Rate," for specified interest periods or (ii) the Base Rate (as defined in the credit agreement), in each case, plus an applicable margin rate as determined under the credit agreement. The "Base Rate," as defined under the credit agreement, is the highest of (a) the prime rate, (b) the Federal Funds rate plus 0.50% and (c) a daily rate equal to one-month of the Euro Dollar Rate plus 1.0%. Under the credit agreement, the margin interest rate is subject to adjustment within a range of 1.50% to 3.25% based upon changes in our consolidated leverage ratio and depending on whether we have chosen the Euro Dollar Rate or the Base Rate option. Swing line loans will bear interest at the Base Rate plus the applicable margin rate. Letters of credit will require a fee equal to the applicable margin rate multiplied by the daily amount available to be drawn under each issued letter of credit plus a fronting fee of 0.125% of the amount available to be drawn and customary issuance, presentation, amendment and other processing fees associated with letters of credit. At June 30, 2010, we had outstanding letters of credit aggregating \$4.7 million which is primarily comprised of letters of credit for the DOE matters and security deposits in connection with certain of our real estate leases.

Index

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

The following table sets forth our long-term debt (in thousands):

|   | June 30,<br>2010 | December 31,<br>2009 |
|---|------------------|----------------------|
| Credit agreement  | \$ -             | \$ 20,000            |
| Finance obligation  | 9,672            | 9,672                |
| Note payable  | -                | 11                   |
| Capital lease-property<br>(a rate of 8.0%)                          | 27,096           | 27,202               |
| Capital<br>leases-equipment<br>(rates ranging from<br>5.0% to 8.5%) | 365              | 443                  |
| Subtotal  | 37,133           | 57,328               |
| Less current<br>maturities  | (386 )           | (383 )               |
| Total long-term debt  | \$ 36,747        | \$ 56,945            |

We believe that our working capital, cash flows from operations, access to operating leases and borrowings available from our credit agreement will provide us with adequate resources for our ongoing operations through 2010 as well as our currently identified and planned capital expenditures.

## Contractual Obligations

**Long-term Debt.** As of June 30, 2010, our long-term debt consisted of the finance obligation in connection with our sale-leaseback transaction in 2001 and amounts due under capital lease obligations.

**Lease Commitments.** We lease offices, educational facilities and equipment for varying periods through the year 2031 at base annual rentals (excluding taxes, insurance, and other expenses under certain leases).

The following table contains supplemental information regarding our total contractual obligations as of June 30, 2010, measured from the end of our fiscal year, December 31, 2009 (in thousands):

|  | Payments Due by Period |                     |           |           |                  |
|--|------------------------|---------------------|-----------|-----------|------------------|
|  | Total                  | Less than 1<br>year | 2-3 years | 4-5 years | After 5<br>years |
| Capital leases<br>(including interest) | \$ 59,041              | \$ 2,569            | \$ 5,186  | \$ 4,989  | \$ 46,297        |
| Uncertain income taxes                 | 100                    | 100                 | -         | -         | -                |
| Operating leases                       | 189,293                | 22,127              | 43,501    | 39,253    | 84,412           |
| Rent on finance<br>obligation          | 9,278                  | 1,427               | 2,855     | 2,855     | 2,141            |
|  | \$ 257,712             | \$ 26,223           | \$ 51,542 | \$ 47,097 | \$ 132,850       |

Total contractual cash  
obligations

#### Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of June 30, 2010, except for our letters of credit of \$4.7 million which are primarily comprised of letters of credit for the DOE and security deposits in connection with certain of our real estate leases. These off-balance sheet arrangements do not adversely impact our liquidity or capital resources.

Index

Seasonality and Trends

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks as part of our on-going business operations. We have a credit agreement with a syndicate of banks. Our obligations under the credit agreement are secured by a lien on substantially all of our assets and our subsidiaries and any assets that we or our subsidiaries may acquire in the future, including a pledge of substantially all of our subsidiaries' common stock. Outstanding borrowings bear interest at the rate of 5% (as calculated in the credit agreement) as of June 30, 2010. As of June 30, 2010, we had no outstanding borrowings under our credit agreement.

Our interest rate risk is associated with miscellaneous capital equipment leases, which is not significant.

Item 4. CONTROLS AND PROCEDURES

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

(b) Changes in Internal Control Over Financial Reporting. There were no changes made during our most recently completed fiscal quarter in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Index

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

Part 1, Item 1A, "Risk Factors," of our Annual Report on Form 10-K includes a detailed discussion of our risk factors. The information presented below updates, and should be read in conjunction with, the risk factors and information disclosed in our Annual Report on Form 10-K and subsequent quarterly and current reports filed with the SEC. The risks described in this report and in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, also may materially adversely affect our business, financial condition, prospects and future results.

The sale of shares by our largest stockholder on April 6, 2010 constituted a change in control of each of our schools under the DOE standards and the standards of certain institutional accrediting agencies requiring each of our schools to apply for recertification for continued ability to participate in Title IV Programs and reaffirm certain accreditations. The failure to obtain the required recertifications and reaffirmations could have a material adverse effect on our results of operations.

The disposition of our common stock by our largest stockholder on April 6, 2010 in a secondary offering resulted in a change in control under the standards of the DOE and the standards of certain of our institutional accrediting commissions. The DOE, most state education agencies and our accrediting commissions each have standards pertaining to a change in control of schools that are not uniform and are subject to interpretation by these respective agencies. A change in control under the definition of one of these agencies requires the affected school to reaffirm the applicable DOE approval, state authorization or accreditation. Each school that undergoes a change in control under the standards of the DOE must apply for recertification for continued ability to participate in Title IV Programs. Some agencies would require approval prior to a sale or disposition that would result in a change in control in order to maintain authorization or accreditation. The requirements to obtain such reaffirmation from the states and our accrediting commissions vary widely.

DOE regulations describe some transactions that constitute a change in 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 in ownership resulting in 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 in control or (b) if the corporation has a stockholder that owns at least 25% of the total outstanding voting stock of the corporation and is the largest stockholder of the corporation, and that stockholder ceases to own at least 25% of such stock or ceases to be the largest stockholder. The sale by our largest stockholder of the shares of common stock on April 6, 2010 caused them to own less than 25% of our total outstanding voting stock. As a result, the sale on April 6, 2010 constituted a change in ownership resulting in a change of control of each of our institutions under the DOE regulations. The DOE regulations state that an institution that undergoes a change in ownership that results in a change in control ceases to qualify as an institution eligible to participate in the Title IV programs upon the change in ownership and control; however, the DOE regulations provide that the DOE may continue the institution's participation in the Title IV

programs on a provisional basis provided that the institution submits to the DOE a materially complete application (as defined in the DOE regulations) for approval to participate in the Title IV programs no later than 10 business days after the change in ownership occurs. We submitted a materially complete application to the DOE for each of our institutions prior to the deadline and the DOE subsequently provided our institutions with a Temporary Provisional Program Participation Agreement, or Temporary PPPA, which extended the terms and conditions of the Program Participation Agreements that were in effect for each of our institutions before the sale of common stock by the selling stockholder, pending the DOE's consideration of each of our institution's applications for approval to participate in the Title IV programs. The Temporary PPPA for each institution issued by the DOE would have expired on the last day of the month following the month in which the change in ownership resulting in a change of control occurred if we had not provided to the DOE, on behalf of our institutions, documentation outlined by the DOE on or before that date. We provided the required documentation for each of our institutions to the DOE within the required DOE timeframe and therefore, understand the expiration date of each Temporary PPPA to be extended on a month-to-month basis until the DOE completes its review of the application for approval to participate in the Title IV programs. Upon completing its review of each institution, the DOE will either issue a new Provisional Program Participation Agreement to the institutions or notify the institution that its application is denied. If a Temporary PPPA were to expire, an institution would become ineligible to participate in the Title IV programs until the DOE completed its review of the institution's application for approval to participate in the Title IV programs. If the DOE denies the application of one or more of our institutions, each such institution, including its main campus and all of its additional locations, would be ineligible to participate in the Title IV programs. In addition, we are awaiting approval from the DOE of a recent merger of two of our institutions, Briarwood College, or Briarwood, and Clemens College, or Clemens, which merged into one institution under a new name, Lincoln College of New England in January 2010. We have received approvals of the merger and name change from the Connecticut Department of Higher Education and from the New England Association of Schools and Colleges, or NEASC. We received correspondence from the DOE confirming that the merger does not constitute a change in ownership resulting in a change of control and that Briarwood and Clemens may continue to provide Title IV funds to students as they did prior to the merger until receiving approval of the merger. However, the DOE will not issue a final approval of the merger until it has completed the review of our financial statements for the 2009 fiscal year. We expect that the DOE will review the merger application during, or as part of, its review of the change of control applications that we submitted in connection with the sale of shares by our largest stockholder on April 6, 2010. We cannot assure you that the DOE will approve each of our institutions to participate in the Title IV programs. If the DOE approves each of our institution's applications to participate in the Title IV programs, each of our institutions would receive a provisional Program Participation Agreement and would be placed on provisional certification for a period that typically extends for three years, although the DOE could select a different duration.

## Index

We have received written confirmation from all state education agencies that license our institutions to operate in the states in which those institutions are physically located that the sale of shares of our common stock by our largest stockholder on April 6, 2010 would not constitute a change in control requiring agency approval provided that no other stockholder will own more than 25% of our outstanding voting stock following the sale and that the sale will not result in a change in our board of directors. If one of those circumstances had occurred, one or more state education agencies could have determined that the sale would result in a change in ownership and require us to obtain approval of the sale or to obtain a new license (for example, the Maryland Higher Education Commission notified us that if the sale of shares results in a new majority owner, the change in ownership would be subject to its approval); however, neither of those circumstances occurred as a result of the sale. The sale constituted a change in ownership under the standards of the Accrediting Commission of Career Schools and Colleges, or ACCSC, which is one of our four institutional accrediting agencies. ACCSC standards require each school to obtain approval of the transfer of accreditation that would result from the change of ownership and control by submitting an Application for a Change of Ownership—Part I. In connection with the sale, we submitted applications for each of our ACCSC-accredited schools, and ACCSC issued a letter approving the transfer of accreditation for each of these ACCSC-accredited schools. Under ACCSC standards, we were required to obtain further approval from ACCSC for each of our ACCSC-accredited schools by submitting to ACCSC an Application for a Change of Ownership—Part II for each school within 45 days after the completion of the sale. We submitted this application to the ACCSC for each of our ACCSC-accredited schools prior to this deadline and received approval on April 27, 2010. The Accrediting Council for Independent Colleges and Schools, or ACICS, which is another of our institutional accrediting agencies, informed us in writing that the sale did not constitute a change in ownership under its standards. We also received written confirmation from NEASC that the sale did not constitute a substantive change and therefore does not require NEASC approval. We were required to notify the Accrediting Bureau of Health Education Schools, or ABHES, another of our four accrediting agencies, of the sale on April 6, 2010. ABHES determined that the sale was not a change in ownership. We cannot assure you that each of the aforementioned state and accrediting agencies and the DOE would approve any applications they will or may require in connection with the sale. If such approvals are not received, it may have a material impact on the operation of our schools and our results of operations.

In addition, future sales of our stock may result in a change in control under any of the DOE or state authorization and accreditation standards. For more information, see “Business—Regulatory Environment—Change of Control” and “Risk Factors—Risks Related to Our Industry” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

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

The DOE published two notices of proposed rulemaking (“NPRMs”) in the Federal Register on June 18, 2010 and July 26, 2010 which, respectively, propose new regulations related to Title IV program integrity issues. The first NPRM contains proposed regulations on the following topics: incentive compensation, institutional submission of information to the DOE on programs that prepare students for gainful employment in a recognized occupation, misrepresentation of information provided to students and prospective students, state authorization as a component of institutional eligibility, the definition of a credit hour, the definition of high school diploma for the purpose of establishing student eligibility to receive Title IV aid, ability to benefit students, agreements between institutions of higher education, verification of information included on student aid applications, satisfactory academic progress, monitoring grade point averages, retaking coursework, return of Title IV funds with respect to term-based programs with modules or compressed courses and with respect to taking attendance, and the timeliness and method of disbursements of Title IV funds. The second NPRM contains proposed regulations that would impose additional eligibility requirements on educational programs that are subject to the DOE requirement of preparing students for

gainful employment in a recognized occupation.

The proposed regulations for incentive compensation would eliminate the 12 existing “safe harbors” in the current regulations that permit certain types of activities related to the compensation of individuals engaged in student recruiting or admission activities or in making decisions regarding the awarding of Title IV program funds. The DOE states in the Federal Register that, among other things, the proposed regulations would: (1) continue to authorize merit-based compensation for financial aid or admissions staff, but not permit consideration of the employee’s success in securing student enrollments or financial aid, nor consideration of institutional goals based on that success among those factors; (2) apply all the way to the top of an institution or organization; and (3) prohibit bonuses based upon students who complete their programs of instruction.

The proposed regulations regarding gainful employment would apply to all educational programs that are subject to the DOE requirement of preparing students for gainful employment in a recognized occupation, which includes all of the Title IV-eligible educational programs at each of our institutions. The proposed regulations would require each educational program to achieve threshold rates in each of two categories: (1) an annual loan repayment rate and (2) an annual student debt measure comparing the median annual student loan payment by program to average annual earnings and to discretionary income. The various formulas are calculated under complex methodologies and definitions outlined in the proposed regulations, and would be based on data that may not be readily accessible to institutions. An educational program that does not achieve threshold rates in either or both category could (1) lose its Title IV eligibility, (2) be placed on restricted status, (3) be required to provide annual employer affirmations that the program aligns with recognized occupations at their businesses and that there are projected job vacancies or expected demand for those occupations at those businesses, (4) be subject to limits on enrollment of Title IV recipients, and/or (5) be required to provide disclosures and warnings to current and prospective students that they may have difficulty repaying loans obtained for attending that program. An institution with one or more ineligible programs or programs on restricted status would be subject to provisional certification. All institutions subject to the proposed regulation would be required to obtain DOE approval of new programs and, as part of that process, would be required to provide to the DOE projected student enrollments for the next five years for each location at which the program will be offered and to provide an appropriate number of employer affirmations for the program. The DOE could deny or delay these program approvals or could restrict the approval of a program for an initial period based on projected growth estimates and the ability to offer the program.

The two NPRMs also propose other requirements regarding incentive compensation, gainful employment, and other topics referenced above. The implementation of regulatory changes in any of these areas, or any other changes the DOE may propose and implement, could require us to change our compensation or other practices, could require us to change or eliminate certain educational programs, and could have a material adverse effect on the rate at which students enroll in our programs and on our business and results of operations.

The regulations proposed in the two NPRMs are not final regulations and remain subject to further review and change pending publication of the final regulations in the Federal Register. The DOE has stated that its intention is to publish final regulations by November 1, 2010, which would result in a general effective date of July 1, 2011. We are closely monitoring and continuing to evaluate the regulatory changes which may result from the rulemaking process.

Index

## Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On June 9, 2010, our Board of Directors approved the repurchase of up to \$50.0 million of our common stock over the period of one year. The following table outlines repurchases of our common stock during the quarter ended June 30, 2010:

| Period                          | Total Number<br>of Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total Number<br>of Shares<br>Purchased | Maximum<br>Dollar Value of<br>Shares That<br>May Yet Be<br>Purchased |
|---------------------------------|--|------------------------------------|--|--|
| April 1, 2010 -- April 30, 2010 | --                                     | --                                 | --                                     | \$ 50,000,000  |
| May 1, 2010 -- May 31, 2010     | --                                     | --                                 | --                                     | \$ 50,000,000  |
| June 1, 2010 -- June 30, 2010   | 150,796                                | \$ 20.89                           | 150,796                                | \$ 46,850,555  |
| Total                           | 150,796                                | \$ 20.89                           | 150,796                                | \$ 46,850,555  |

## Item 6. EXHIBITS

## EXHIBIT INDEX

The following exhibits are filed with or incorporated by reference into this Form 10-Q.

| Exhibit<br>Number | Description  |
|-------------------|--|
| 3.1               | Amended and Restated Certificate of Incorporation of the Company (1).  |
| 3.2               | Amended and Restated By-laws of the Company (2).   |
| 4.1               | Letter agreement, dated August 9, 2000, by Back to School Acquisition, L.L.C., amending the Stockholders' Agreement (1).   |
| 4.2               | Letter agreement, dated August 9, 2000, by Lincoln Technical Institute, Inc., amending the Stockholders' Agreement (1).  |
| 4.3               | Management Stockholders Agreement, dated as of January 1, 2002, by and among Lincoln Technical Institute, Inc., Back to School Acquisition, L.L.C. and the Stockholders and other holders of options under the Management Stock Option Plan listed therein (1).                              |
| 4.4               | Assumption Agreement and First Amendment to Management Stockholders Agreement, dated as of December 20, 2007, by and among Lincoln Educational Services Corporation, Lincoln Technical Institute, Inc., Back to School Acquisition, L.L.C. and the Management Investors parties therein (5). |
| 4.5               | Registration Rights Agreement between the Company and Back to School Acquisition, L.L.C. (2).  |
| 4.6               | Specimen Stock Certificate evidencing shares of common stock (1).  |
| 10.1              |  |

Credit Agreement, dated as of December 1, 2009, among the Company, the Guarantors from time to time parties thereto, the Lenders from time to time parties thereto and Bank of America, N.A., as Administrative Agent (7).

Index

|       |   |
|-------|---|
| 10.2  | Amended and Restated Employment Agreement, dated as of February 1, 2007, between the Company and David F. Carney (3).   |
| 10.3  | Amendment to Amended and Restated Employment Agreement, dated as of January 14, 2009, between the Company and David F. Carney (9).  |
| 10.4  | Separation and Release Agreement, dated as of October 15, 2007, between the Company and Lawrence E. Brown (4).  |
| 10.5  | Amended and Restated Employment Agreement, dated as of February 1, 2007, between the Company and Scott M. Shaw (3).   |
| 10.6  | Amendment to Amended and Restated Employment Agreement, dated as of January 14, 2009, between the company and Scott M. Shaw (9).  |
| 10.7  | Amended and Restated Employment Agreement, dated as of February 1, 2007, between the Company and Cesar Ribeiro (3).   |
| 10.8  | Amendment to Amended and Restated Employment Agreement, dated as of January 14, 2009, between the company and Cesar Ribeiro (9).  |
| 10.9  | Amended and Restated Employment Agreement, dated as of February 1, 2007, between the Company and Shaun E. McAlmont (3).   |
| 10.10 | Amendment to Amended and Restated Employment Agreement, dated as of January 14, 2009, between the company and Shaun E. McAlmont (9).  |
| 10.11 | Lincoln Educational Services Corporation 2005 Long Term Incentive Plan (1).   |
| 10.12 | Lincoln Educational Services Corporation 2005 Non Employee Directors Restricted Stock Plan (1).   |
| 10.13 | Lincoln Educational Services Corporation 2005 Deferred Compensation Plan (1).   |
| 10.14 | Lincoln Technical Institute Management Stock Option Plan, effective January 1, 2002 (1).  |
| 10.15 | Form of Stock Option Agreement, dated January 1, 2002, between Lincoln Technical Institute, Inc. and certain participants (1).  |
| 10.16 | Form of Stock Option Agreement under our 2005 Long Term Incentive Plan (6).   |
| 10.17 | Form of Restricted Stock Agreement under our 2005 Long Term Incentive Plan (6).   |
| 10.18 | Management Stock Subscription Agreement, dated January 1, 2002, among Lincoln Technical Institute, Inc. and certain management investors (1).   |
| 10.19 | Stock Purchase Agreement, dated as of January 20, 2009, among Lincoln Technical Institute, Inc., NN Acquisition, LLC, Brad Baran, Barbara Baran, UGP Education Partners, LLC, UGPE Partners Inc. and Merion Investment Partners, L.P (9). |

|               |   |
|---------------|---|
| 10.20         | Stock Purchase Agreement, dated as of January 20, 2009, among Lincoln Technical Institute, Inc., NN Acquisition, LLC, Brad Baran, Barbara Baran, UGP Education Partners, LLC, Merion Investment Partners, L.P. and, for certain limited purposes only, UGPE Partners Inc (9). |
| 10.21         | Stock Purchase Agreement, dated as of December 15, 2009 between Lincoln Educational Services Corporation and Back to School Acquisition, L.L.C.   |
| <u>31.1</u> * | Certification of President & Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| <u>31.2</u> * | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |

Index

|             |  |
|-------------|--|
| <u>32</u> * | Certification of President & Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
|-------------|--|

---

- (1) Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-123664).
- (2) Incorporated by reference to the Company's Form 8-K dated June 28, 2005.
- (3) Incorporated by reference to the Company's Form 10-K for the year ended December 31, 2006.
- (4) Incorporated by reference to the Company's Form 8-K dated October 15, 2007.
- (5) Incorporated by reference to the Company's Registration Statement on Form S-3 (Registration No. 333-148406).
- (6) Incorporated by reference to the Company's Form 10-K for the year ended December 31, 2007.
- (7) Incorporated by reference to the Company's Form 8-K dated December 1, 2009.
- (8) Incorporated by reference to the Company's Form 8-K dated December 15, 2009.
- (9) Incorporated by reference to the Company's Form 10-K for the year ended December 31, 2009.

\* Filed herewith.

Index

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

LINCOLN EDUCATIONAL SERVICES  
CORPORATION

Date: August 6, 2010

By: /s/ Cesar Ribeiro  
Cesar Ribeiro  
Chief Financial Officer  
(Duly Authorized Officer, Principal Accounting and  
Financial Officer)