

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

**Form 10-Q**

(Mark One)

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

**For the quarterly period ended March 31, 2019**

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)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value per share	LINC	The NASDAQ Stock Market LLC

As of May 7, 2019, there were 25,235,257 shares of the registrant's common stock outstanding.

## INDEX TO FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2019

<b>PART I.</b>	<b>FINANCIAL INFORMATION</b>	
Item 1.	<a href="#">Financial Statements (Unaudited)</a>	1
	<a href="#">Condensed Consolidated Balance Sheets at March 31, 2019 and December 31, 2018</a>	1
	<a href="#">Condensed Consolidated Statements of Operations for the three months ended March 31, 2019 and 2018</a>	3
	<a href="#">Condensed Consolidated Statements of Comprehensive Loss for the three months ended March 31, 2019 and 2018</a>	4
	<a href="#">Condensed Consolidated Statements of Changes in Stockholders' Equity for the three months ended March 31, 2019 and 2018</a>	5
	<a href="#">Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2019 and 2018</a>	6
	<a href="#">Notes to Unaudited Condensed Consolidated Financial Statements</a>	8
Item 2.	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	21
Item 3.	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	31
Item 4.	<a href="#">Controls and Procedures</a>	31
<b>PART II.</b>	<b>OTHER INFORMATION</b>	31
Item 1.	<a href="#">Legal Proceedings</a>	31
Item 6.	<a href="#">Exhibits</a>	32
	<a href="#">SIGNATURES</a>	33

---

**PART I – FINANCIAL INFORMATION**

## Item 1. Financial Statements

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

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 5,683	\$ 17,571
Restricted cash	4,498	16,775
Accounts receivable, less allowance of \$16,421 and \$15,590 at March 31, 2019 and December 31, 2018, respectively	22,577	18,675
Inventories	1,692	1,451
Prepaid income taxes and income taxes receivable	128	178
Prepaid expenses and other current assets	3,158	2,461
<b>Total current assets</b>	<b>37,736</b>	<b>57,111</b>
<b>PROPERTY, EQUIPMENT AND FACILITIES</b> - At cost, net of accumulated depreciation and amortization of \$173,028 and \$171,109 at March 31, 2019 and December 31, 2018, respectively	<b>47,776</b>	<b>49,292</b>
<b>OTHER ASSETS:</b>		
Noncurrent restricted cash	-	11,600
Noncurrent receivables, less allowance of \$1,495 and \$1,403 at March 31, 2019 and December 31, 2018, respectively	12,972	12,175
Deferred income taxes, net	424	424
Operating lease right-of-use asset	39,323	-
Goodwill	14,536	14,536
Other assets, net	3,222	900
<b>Total other assets</b>	<b>70,477</b>	<b>39,635</b>
<b>TOTAL</b>	<b>\$ 155,989</b>	<b>\$ 146,038</b>

See notes to unaudited condensed consolidated financial statements.

**LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except share amounts)

(Unaudited)

(Continued)

	March 31, 2019	December 31, 2018
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of credit agreement	\$ 3,635	\$ 15,000
Unearned tuition	18,328	22,545
Accounts payable	14,544	14,107
Accrued expenses	11,963	10,605
Current portion of operating lease liability	9,508	-
Other short-term liabilities	1,773	2,324
Total current liabilities	<u>59,751</u>	<u>64,581</u>
<b>NONCURRENT LIABILITIES:</b>		
Long-term credit agreement and term loan	20,958	33,769
Pension plan liabilities	4,230	4,271
Long-term portion of operating lease liability	36,352	-
Accrued rent	-	3,410
Other long-term liabilities	111	141
Total liabilities	<u>121,402</u>	<u>106,172</u>
<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 March 31, 2019 and December 31, 2018	-	-
Common stock, no par value - authorized: 100,000,000 shares at March 31, 2019 and December 31, 2018; issued and outstanding: 31,025,668 shares at March 31, 2019 and 30,552,333 shares at December 31, 2018	141,377	141,377
Additional paid-in capital	29,518	29,484
Treasury stock at cost - 5,910,541 shares at March 31, 2019 and December 31, 2018	(82,860)	(82,860)
Accumulated deficit	(49,540)	(44,073)
Accumulated other comprehensive loss	(3,908)	(4,062)
Total stockholders' equity	<u>34,587</u>	<u>39,866</u>
<b>TOTAL</b>	<u>\$ 155,989</u>	<u>\$ 146,038</u>

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2019	2018
REVENUE	\$ 63,263	\$ 61,889
COSTS AND EXPENSES:		
Educational services and facilities	29,980	30,503
Selling, general and administrative	38,146	37,531
Loss on disposition of assets	1	117
Total costs & expenses	<u>68,127</u>	<u>68,151</u>
OPERATING LOSS	(4,864)	(6,262)
OTHER:		
Interest income	4	10
Interest expense	(557)	(572)
LOSS BEFORE INCOME TAXES	<u>(5,417)</u>	<u>(6,824)</u>
PROVISION FOR INCOME TAXES	50	50
NET LOSS	<u>\$ (5,467)</u>	<u>\$ (6,874)</u>
Basic		
Net loss per share	<u>\$ (0.22)</u>	<u>\$ (0.28)</u>
Diluted		
Net loss per share	<u>\$ (0.22)</u>	<u>\$ (0.28)</u>
Weighted average number of common shares outstanding:		
Basic	24,534	24,138
Diluted	24,534	24,138

See notes to unaudited condensed consolidated financial statements.

**LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Net loss	\$ (5,467)	\$ (6,874)
Other comprehensive income		
Employee pension plan adjustments	154	162
Comprehensive loss	<u>\$ (5,313)</u>	<u>\$ (6,712)</u>

See notes to unaudited condensed consolidated financial statements.

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

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount					
BALANCE - January 1, 2019	30,552,333	\$ 141,377	\$ 29,484	\$ (82,860)	\$ (44,073)	\$ (4,062)	\$ 39,866
Net loss	-	-	-	-	(5,467)	-	(5,467)
Employee pension plan adjustments	-	-	-	-	-	154	154
Stock-based compensation expense							
Restricted stock	478,853	-	52	-	-	-	52
Net share settlement for equity-based compensation	(5,518)	-	(18)	-	-	-	(18)
<b>BALANCE - March 31, 2019</b>	<b>31,025,668</b>	<b>\$ 141,377</b>	<b>\$ 29,518</b>	<b>\$ (82,860)</b>	<b>\$ (49,540)</b>	<b>\$ (3,908)</b>	<b>\$ 34,587</b>

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount					
BALANCE - January 1, 2018	30,624,407	\$ 141,377	\$ 29,334	\$ (82,860)	\$ (37,528)	\$ (4,510)	\$ 45,813
Net loss	-	-	-	-	(6,874)	-	(6,874)
Employee pension plan adjustments	-	-	-	-	-	162	162
Stock-based compensation expense							
Restricted stock	113,946	-	429	-	-	-	429
Net share settlement for equity-based compensation	(168,254)	-	(311)	-	-	-	(311)
<b>BALANCE - March 31, 2018</b>	<b>30,570,099</b>	<b>\$ 141,377</b>	<b>\$ 29,452</b>	<b>\$ (82,860)</b>	<b>\$ (44,402)</b>	<b>\$ (4,348)</b>	<b>\$ 39,219</b>

See notes to unaudited condensed consolidated financial statements.

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

(In thousands)  
(Unaudited)

	Three Months Ended March 31,	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (5,467)	\$ (6,874)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,050	2,100
Amortization of deferred finance charges	95	87
Loss on disposition of assets	1	117
Provision for doubtful accounts	4,626	3,811
Stock-based compensation expense	52	429
Deferred rent	-	(276)
(Increase) decrease in assets:		
Accounts receivable	(9,325)	(7,823)
Inventories	(241)	(253)
Prepaid income taxes and income taxes receivable	50	67
Prepaid expenses and current assets	(697)	(467)
Other assets, net	(289)	(45)
Increase (decrease) in liabilities:		
Accounts payable	582	2,980
Accrued expenses	2,326	(95)
Unearned tuition	(4,217)	(3,757)
Other liabilities	(468)	(43)
Total adjustments	<u>(5,455)</u>	<u>(3,168)</u>
Net cash used in operating activities	<u>(10,922)</u>	<u>(10,042)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(639)	(476)
Proceeds from sale of property and equipment	-	8
Net cash used in investing activities	<u>(639)</u>	<u>(468)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on borrowings	(26,600)	(32,800)
Proceeds from borrowings	2,500	2,500
Payment of deferred finance fees	(86)	(80)
Net share settlement for equity-based compensation	(18)	(311)
Net cash used in financing activities	<u>(24,204)</u>	<u>(30,691)</u>
NET DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(35,765)	(41,201)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—Beginning of period	45,946	54,554
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—End of period	<u>\$ 10,181</u>	<u>\$ 13,353</u>

See notes to unaudited condensed consolidated financial statements.

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

(In thousands)

(Unaudited)

(Continued)

Three Months Ended  
March 31,

2019                      2018

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:**

Cash paid for:

Interest	\$ 518	\$ 421
Income taxes	\$ -	\$ 1

**SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:**

Liabilities accrued for or noncash purchases of fixed assets	\$ 110	\$ 128
--	--------	--------

See notes to unaudited condensed consolidated financial statements.

**LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE MONTHS ENDED MARCH 31, 2019 AND 2018**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Business Activities**— Lincoln Educational Services Corporation and its subsidiaries (collectively, the “Company”, “we”, “our” and “us”, as applicable) provide diversified career-oriented post-secondary education to recent high school graduates and working adults. The Company, which currently operates 22 schools in 14 states, offers programs in automotive technology, skilled trades (which include HVAC, welding and computerized numerical control and electrical and electronic systems technology, among other programs), healthcare services (which include nursing, dental assistant, medical administrative assistant, among other programs), hospitality services (which include culinary, therapeutic massage, cosmetology and aesthetics) and information technology programs. The schools operate under Lincoln Technical Institute, Lincoln College of Technology, Lincoln Culinary Institute, and Euphoria Institute of Beauty Arts and Sciences and associated brand names. Most of the campuses serve major metropolitan markets and each typically offers courses in multiple areas of study. Five of the campuses are destination schools, which attract students from across the United States and, in some cases, from abroad. The Company’s other campuses primarily attract students from their local communities and surrounding areas. All of the campuses are nationally or regionally accredited and are eligible to participate in federal financial aid programs managed by the U.S. Department of Education (the “DOE”) and applicable state education agencies and accrediting commissions, which allow students to apply for and access federal student loans as well as other forms of financial aid.

The Company’s business is organized into three reportable business segments: (a) Transportation and Skilled Trades, (b) Healthcare and Other Professions (“HOPS”), and (c) Transitional, which refers to businesses that have been or are currently being taught out.

On July 9, 2018, New England Institute of Technology at Palm Beach, Inc. (“NEIT”), a wholly-owned subsidiary of the Company, entered into a commercial contract (the “Sale Agreement”) with Elite Property Enterprise, LLC, pursuant to which NEIT agreed to sell to Elite Property Enterprise, LLC the real property owned by NEIT located at 1126 53rd Court North, Mangonia Park, Palm Beach County, Florida and the improvements and certain personal property located thereon (the “Mangonia Park Property”), for a cash purchase price of \$2,550,000. On August 23, 2018, NEIT, consummated the sale of the Mangonia Park Property. At the closing, NEIT paid a real estate brokerage fee equal to 5% of the gross sales price and other customary closing costs and expenses. Pursuant to the provisions of the Company’s Credit Agreement with its lender, Sterling National Bank, the net cash proceeds of the sale of the Mangonia Park Property were deposited into an account with the lender to serve as additional security for loans and other financial accommodations provided to the Company and its subsidiaries under the credit facility. In December 2018, the funds were used to repay the outstanding principal balance of the loans outstanding under the credit facility and such repayment permanently reduced the loan outstanding under the credit facility designated as Facility 1 under the Company’s Credit Agreement to a \$22.7 million term loan.

Effective December 31, 2018, the Company completed the teach-out and ceased operation of its Lincoln College of New England (“LCNE”) campus at Southington, Connecticut. The decision to close the LCNE campus followed the previously reported placement of LCNE on probation by the college’s institutional accreditor, the New England Association of Schools and Colleges (“NEASC”). After evaluating alternative options, the Company concluded that teaching out and closing the campus was in the best interest of the Company and its students. Subsequent to formalizing the LCNE closure decision in August 2018, the Company partnered with Goodwin College, another NEASC- accredited institution in the region, to assist LCNE students to complete their programs of study. The majority of the LCNE students will continue their education at Goodwin College thereby limiting some of the Company’s closing costs. The revenue, net loss and ending population of LCNE, as of December 31, 2017, were \$8.4 million, \$1.6 million and 397 students, respectively. The Company recorded closing costs associated with the closure of the LCNE campus in 2018 of approximately \$1.6 million in connection with the termination of the LCNE campus lease, which is the net present value of the remaining obligation, to be paid in equal monthly installments through January 2020 and approximately \$0.7 million of severance payments. LCNE results, previously reported in the HOPS segment, were included in the Transitional segment as of December 31, 2018.

**Liquidity**— For the last several years, the Company and the proprietary school sector have faced deteriorating earnings. Government regulations have negatively impacted earnings by making it more difficult for potential students to obtain loans, which, when coupled with the overall economic environment, have discouraged potential students from enrolling in post-secondary schools. In light of these factors, the Company has incurred significant operating losses as a result of lower student population. Despite these challenges, the Company believes that its likely sources of cash should be sufficient to fund operations for the next twelve months and thereafter for the foreseeable future. At March 31, 2019, the Company’s sources of cash primarily included cash and cash equivalents of \$10.2 million (of which \$4.5 million is restricted). The Company is also continuing to take actions to improve cash flow by aligning its cost structure to its student population.

**Basis of Presentation** – The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial statements. Certain information and footnote disclosures normally included in annual financial statements have been omitted or condensed pursuant to such regulations. These statements, which should be read in conjunction with the December 31, 2018 consolidated financial statements and related disclosures of the Company included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2018, reflect all adjustments, consisting of normal recurring adjustments and impairments necessary to present fairly the consolidated financial position, results of operations and cash flows for such periods. The results of operations for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the full fiscal year ending December 31, 2019.

The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All significant 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, impairments, fixed assets, discount rate for lease liabilities, income taxes, benefit plans and certain accruals. Actual results could materially differ from those estimates.

**New Accounting Pronouncements** – In August 2018, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2018-14, “*Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans.*” This ASU adds, modifies and clarifies several disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance is effective for fiscal years ending after December 15, 2020. Early adoption is permitted. We are currently assessing the effect that this ASU will have on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-13, “*Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*”, which eliminates, adds and modifies certain fair value measurement disclosure requirements of Accounting Standards Codification 820, *Fair Value Measurement*. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The adoption of ASU No. 2018-13 is not expected to have a material impact on the Company’s consolidated financial statements.

In June 2018, FASB issued ASU No. 2018-07, “*Improvements to Nonemployee Share-Based Payment Accounting,*” intended to reduce cost and complexity and to improve financial reporting for share-based payments issued to nonemployees. This ASU expands the scope of Topic 718, “*Compensation - Stock Compensation*”, to include share-based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost. The Company adopted ASU No. 2018-07 on January 1, 2019. The adoption of the standard did not have a material impact on the Company’s consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, “*Income Statement-Reporting Comprehensive Income (Topic 220)*”. The updated guidance allows entities to reclassify stranded income tax effects resulting from the Tax Cuts and Jobs Act (the “Tax Act”) from accumulated other comprehensive income to retained earnings in their consolidated financial statements. Under the Tax Act, deferred taxes were adjusted to reflect the reduction of the historical corporate income tax rate to the newly enacted corporate income tax rate, which left the tax effects on items within accumulated other comprehensive income stranded at an inappropriate tax rate. The updated guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those years. Early adoption is permitted in any interim period and should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. The Company adopted ASU No. 2018-02 on January 1, 2019 and it did not have a material impact on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “*Leases.*” This guidance amends the existing accounting considerations and treatments for leases through the creation of Topic 842, *Leases*, to increase transparency and comparability among organizations by requiring the recognition of right-of-use (“ROU”) assets and lease liabilities on the balance sheet. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from such leases.

In July 2018, FASB issued ASU No. 2018-10, “*Codification Improvements to Topic 842, Leases*” to further clarify, correct and consolidate various areas previously discussed in ASU 2016-02. FASB also issued ASU No. 2018-11, “*Leases: Targeted Improvements*” to provide entities another option for transition and lessors with a practical expedient. The transition option allows entities to not apply ASU No. 2016-02 in comparative periods in the financial statements in the year of adoption. The practical expedient offers lessors an option to not separate non-lease components from the associated lease components when certain criteria are met.

The amendments in ASU No. 2016-02, ASU No. 2018-10 and ASU No. 2018-11 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and allow for modified retrospective adoption with early adoption permitted. The Company adopted the amendments on January 1, 2019 using the modified retrospective approach and elected the transition relief package of practical expedients by applying previous accounting conclusions under ASC 840 to all leases that existed prior to the transition date. As a result, the Company did not reassess (1) whether existing or expired contracts contain leases, (2) lease classification for any existing or expired leases or (3) whether lease origination costs qualified as initial direct costs. The Company did not elect the practical expedient to use hindsight in determining a lease term and impairment of the right-of-use (“ROU”) assets at the adoption date. The Company did not separate lease components from non-lease components for the specified asset classes. The election applies to all operating leases where fixed rent payments incorporate common area maintenance. For leases where the election does not apply, the common area maintenance is billed by the landlord separately. Additionally, the Company did not apply the recognition requirements under ASC 842 to short-term leases, generally defined as leases with terms of less than one year. The Company has operating leases for its corporate office and schools. The Company does not have any finance leases.

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

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

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

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

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

During the three months ended March 31, 2019 and 2018, the Company did not recognize any interest and penalties expense associated with uncertain tax positions.

## 2. WEIGHTED AVERAGE COMMON SHARES

The weighted average number of common shares used to compute basic and diluted loss per share for the three months ended March 31, 2019 and 2018 was as follows:

	Three Months Ended March 31,	
	2019	2018
Basic shares outstanding	24,534,207	24,137,577
Dilutive effect of stock options	-	-
Diluted shares outstanding	<u>24,534,207</u>	<u>24,137,577</u>

For the three months ended March 31, 2019 and 2018, options to acquire 175,675 and 127,973 shares were excluded from the above table because the Company reported a net loss for each period and, therefore, their impact on reported loss per share would have been antidilutive. For the three months ended March 31, 2019 and 2018, options to acquire 139,000 and 147,667 shares, respectively, were excluded from the above table because they have an exercise price that is greater than the average market price of the Company's common stock and, therefore, their impact on reported loss per share would have been antidilutive.

## 3. REVENUE RECOGNITION

Substantially all of our revenues are considered to be revenues from contracts with students. The related accounts receivable balances are recorded in our balance sheets as student accounts receivable. We do not have significant revenue recognized from performance obligations that were satisfied in prior periods, and we do not have any transaction price allocated to unsatisfied performance obligations other than in our unearned tuition. We record revenue for students who withdraw from one of our schools only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Unearned tuition represents contract liabilities primarily related to our tuition revenue. We have elected not to provide disclosure about transaction prices allocated to unsatisfied performance obligations if contract durations are less than one-year, or if we have the right to consideration from a student in an amount that corresponds directly with the value provided to the student for performance obligations completed to date. We have assessed the costs incurred to obtain a contract with a student and determined them to be immaterial.

Unearned tuition in the amount of \$18.3 million and \$22.5 million is recorded in the current liabilities section of the accompanying condensed consolidated balance sheets as of March 31, 2019 and December 31, 2018, respectively. The change in the contract liability balance during the period ended March 31, 2019 is the result of payments received in advance of satisfying performance obligations, offset by revenue recognized during that period. Revenue recognized for the three month period ended March 31, 2019 that was included in the contract liability balance at the beginning of the year was \$19.1 million.

The following table depicts the timing of revenue recognition:

	Transportation and Skilled Trades Segment	Healthcare and Other Professions Segment	Transitional Segment	Consolidated
<b>Three months ended March 31, 2019</b>				
<b>Timing of Revenue Recognition</b>				
Services transferred at a point in time	\$ 2,081	\$ 1,075	\$ -	\$ 3,156
Services transferred over time	42,244	17,863	-	60,107
Total revenues	<u>\$ 44,325</u>	<u>\$ 18,938</u>	<u>\$ -</u>	<u>\$ 63,263</u>
	Transportation and Skilled Trades Segment	Healthcare and Other Professions Segment	Transitional Segment	Consolidated
<b>Three months ended March 31, 2018</b>				
<b>Timing of Revenue Recognition</b>				
Services transferred at a point in time	\$ 2,048	\$ 732	\$ 3	\$ 2,783
Services transferred over time	40,699	16,009	2,398	59,106
Total revenues	<u>\$ 42,747</u>	<u>\$ 16,741</u>	<u>\$ 2,401</u>	<u>\$ 61,889</u>

#### 4. LEASES

The Company determines if an arrangement is a lease at inception. The Company considers any contract where there is an identified asset and that it has the right to control the use of such asset in determining whether the contract contains a lease. An operating lease ROU asset represents the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are to be recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's operating leases do not provide an implicit rate, the Company uses an incremental borrowing rate based on the information available on the adoption date in determining the present value of lease payments. We estimate the incremental borrowing rate based on a yield curve analysis, utilizing the interest rate derived from the fair value analysis of our Credit Facility and adjusting it for factors that appropriately reflect the profile of secured borrowing over the expected term of the lease. The operating lease ROU assets include any lease payments made prior to the rent commencement date and exclude lease incentives. Our leases have remaining lease terms of one year to 11 years, some of which include options to extend the lease term for up to five years. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments are recognized on a straight-line basis over the lease term for operating leases.

The following table present the cumulative effect of the changes made to the condensed consolidated balance sheets as of January 1, 2019, as a result of the adoption of ASC 842:

	<u>December 31, 2018</u>	<u>Adjustments due to ASC 842</u>	<u>January 1, 2019</u>
Operating lease right-of-use asset	\$ -	\$ 37,993	\$ 37,993
Current portion of operating lease liability	\$ -	\$ 8,999	\$ 8,999
Other short-term liabilities	\$ 968	\$ (968)	\$ -
Long-term portion of operating lease liability	\$ -	\$ 33,372	\$ 33,372
Accrued rent	\$ 3,410	\$ (3,410)	\$ -

Our operating lease cost for the three months ended March 31, 2019 was \$3.6 million.

Supplemental cash flow information and non-cash activity related to our operating leases are as follows:

	<u>For the Three Months Ended March 31, 2019</u>
<b>Operating cash flow information:</b>	
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 3,782
<b>Non-cash activity:</b>	
Lease liabilities arising from obtaining right-of-use assets*	\$ 47,977

\* Includes a new lease entered into on January 1, 2019 of \$5.606 million.

Weighted-average remaining lease term and discount rate for our operating leases are as follows:

	<u>Three Months Ended March 31, 2019</u>
Weighted-average remaining lease term	5.79 years
Weighted-average discount rate	14.45%

Maturities of lease liabilities by fiscal year for our operating leases are as follows:

Year ending December 31,

2019 (excluding the three months ended March 31, 2019)	\$	11,621
2020		14,087
2021		10,664
2022		8,180
2023		5,811
2024		4,460
Thereafter		13,150
Total lease payments		<u>67,973</u>
Less: imputed interest		<u>(22,113)</u>
Present value of lease liabilities	\$	<u>45,860</u>

As of December 31, 2018, minimum lease payments under non-cancelable operating leases by period were expected to be as follows:

2019	\$	16,939
2020		14,183
2021		10,708
2022		8,180
2023		5,811
Thereafter		17,610
	\$	<u>73,431</u>

## 5. GOODWILL AND LONG-LIVED ASSETS

The Company reviews long-lived assets for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. There were no long-lived asset impairments during the three months ended March 31, 2019 and 2018.

The Company reviews goodwill and intangible assets for impairment when indicators of impairment exist. Annually, or more frequently if necessary, the Company evaluates goodwill and intangible assets with indefinite lives for impairment, with any resulting impairment reflected as an operating expense. The Company concluded that, as of March 31, 2019 and 2018, there was no indicator of potential impairment and, accordingly, the Company did not test goodwill for impairment.

The carrying amount of goodwill at March 31, 2019 and 2018 is as follows:

	Gross Goodwill Balance	Accumulated Impairment Losses	Net Goodwill Balance
Balance as of January 1, 2019	\$ 117,176	\$ (102,640)	\$ 14,536
Adjustments	-	-	-
Balance as of March 31, 2019	<u>\$ 117,176</u>	<u>\$ (102,640)</u>	<u>\$ 14,536</u>
	Gross Goodwill Balance	Accumulated Impairment Losses	Net Goodwill Balance
Balance as of January 1, 2018	\$ 117,176	\$ (102,640)	\$ 14,536
Adjustments	-	-	-
Balance as of March 31, 2018	<u>\$ 117,176</u>	<u>\$ (102,640)</u>	<u>\$ 14,536</u>

As of March 31, 2019 and 2018, the goodwill balance is related to the Transportation and Skilled Trades segment.

**6. LONG-TERM DEBT**

Long-term debt consist of the following:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Credit agreement and term loan	\$ 25,201	\$ 49,301
Deferred Financing Fees	(608)	(532)
	<u>24,593</u>	<u>48,769</u>
Less current maturities	(3,635)	(15,000)
	<u>\$ 20,958</u>	<u>\$ 33,769</u>

On March 31, 2017, the Company obtained a secured credit facility (the “Credit Facility”) from Sterling National Bank (the “Bank”) pursuant to a Credit Agreement dated March 31, 2017 among the Company, the Company’s subsidiaries and the Bank, which was subsequently amended on November 29, 2017, February 23, 2018, July 11, 2018 and, most recently, on March 6, 2019 (as amended, the “Credit Agreement”). Prior to the most recent amendment of the Credit Agreement (the “Fourth Amendment”), the financial accommodations available to the Borrowers under the Credit Agreement consisted of (a) a \$25 million revolving loan facility designated as “Facility 1”, (b) a \$25 million revolving loan facility (including a sublimit amount for letters of credit of \$10 million) designated as “Facility 2” and (c) a \$15 million revolving credit loan designated as “Facility 3”.

Pursuant to the terms of the Fourth Amendment and upon its effectiveness, Facility 1 was converted into a term loan (the “Term Loan”) in the original principal amount of \$22.7 million (such amount being the entire unpaid principal and accrued interest outstanding under Facility 1 as of the effective date of the Fourth Amendment), which matures on March 31, 2024 (the “Term Loan Maturity Date”). The Term Loan is being repaid in monthly installments as follows: (a) on April 1, 2019 and on the same day of each month thereafter through and including June 30, 2019, accrued interest only; (b) on July 1, 2019 and on the same day of each month thereafter through and including December 31, 2019, the principal amount of \$0.2 million plus accrued interest; (c) on January 1, 2020 and on the same day of each month thereafter through and including June 30, 2020, accrued interest only; (d) on July 1, 2020 and on the same day of each month thereafter through and including December 31, 2020, the principal amount of \$0.6 million plus accrued interest; (e) on January 1, 2021 and on the same day of each month thereafter through and including June 30, 2021, accrued interest only; (f) on July 1, 2021 and on the same day of each month thereafter through and including December 31, 2021, the principal amount of \$0.4 million plus accrued interest; (g) on January 1, 2022 and on the same day of each month thereafter through and including June 30, 2022, accrued interest only; (h) on July 1, 2022 and on the same day of each month thereafter through and including December 31, 2022, the principal amount of \$0.4 million plus accrued interest; (i) on January 1, 2023 and on the same day of each month thereafter through and including June 30, 2023, accrued interest only; (j) on July 1, 2023 and on the same day of each month thereafter through and including December 31, 2023, the principal amount of \$0.4 million plus accrued interest; (k) on January 1, 2024 and on the same day of each month thereafter through and including the Term Loan Maturity Date, accrued interest only; and (l) on the Term Loan Maturity Date, the remaining outstanding principal amount of the Term Loan, together with accrued interest, will be due and payable. In the event of a sale of any campus, school or business of the Borrowers permitted under the Credit Agreement, 25% of the net proceeds of any such sale must be used to pay down the outstanding principal amount of the Term Loan in inverse order of maturity.

The maturity date of Facility 2 is April 30, 2020. The maturity date of Facility 3 is May 31, 2019.

Under the terms of the Credit Agreement, all draws under Facility 2 for letters of credit or revolving loans and all draws under Facility 3 must be secured by cash collateral in an amount equal to 100% of the aggregate stated amount of the letters of credit issued and revolving loans outstanding through the proceeds of the Term Loan or other available cash of the Company. Notwithstanding such requirement, pursuant to the terms of the Fourth Amendment, a \$2.5 million revolving loan was advanced under Facility 2 at the closing of the Fourth Amendment on March 6, 2019 without any requirement for cash collateral and, in the Bank’s sole discretion, an additional \$2.5 million of revolving loans may be advanced under Facility 2 without any requirement for cash collateral, consisting of (a) a \$1.25 million revolving loan within 15 days after the Bank’s receipt of the Company’s financial statements for the fiscal quarter ending March 31, 2019 and (b) a \$1.25 million revolving loan within 15 days after the Bank’s receipt of the Company’s financial statements for the fiscal quarter ending June 30, 2019. The \$2.5 million revolving loan advanced under Facility 2 at the closing of the Fourth Amendment and the additional \$2.5 million of revolving loans that may be advanced under Facility 2 in the discretion of the Bank, in each case without any requirement for cash collateral, must be repaid on November 1, 2019 and, prior to their repayment, the Borrowers are required to make monthly payments of accrued interest only on such revolving loans.

The Term Loan bears interest at a rate per annum equal to the greater of (x) the Bank's prime rate plus 2.85% and (y) 6.00%. Revolving loans advanced under Facility 2 that are cash collateralized will bear interest at a rate per annum equal to the greater of (x) the Bank's prime rate and (y) 3.50%. Pursuant to the Fourth Amendment, revolving loans advanced under Facility 2 that are not secured by cash collateral will bear interest at a rate per annum equal to the greater of (x) the Bank's prime rate plus 2.85% and (y) 6.00%. Revolving loans under Facility 3 bear interest at a rate per annum equal to the greater of (x) the Bank's prime rate and (y) 3.50%.

The Bank is entitled to receive an unused facility fee on the average daily unused balance of Facility 2 at a rate per annum equal to 0.50%, which fee is payable quarterly in arrears.

In the event the Bank's prime rate is greater than or equal to 6.50% while any loans are outstanding, the Borrowers may be required to enter into a hedging contract in form and content satisfactory to the Bank.

The Borrowers are required to give the Bank the first opportunity to provide any and all traditional banking services required by the Borrowers, including, but not limited to, treasury management, loans and other financing services, on terms mutually acceptable to the Borrowers and the Bank, in accordance with the terms set forth in the Fourth Amendment. In the event that loans provided under the Credit Agreement are repaid through replacement financing, the Borrowers must pay to the Bank an exit fee in an amount equal to 1.25% of the total amount repaid and the face amount of all letters of credit replaced in connection with the replacement financing; provided, however, that no exit fee will be required in the event the Bank or the Bank's affiliate arranges or provides the replacement financing or the payoff of the applicable loans occurs after March 5, 2021.

In connection with the effectiveness of the Fourth Amendment, the Borrowers paid to the Bank a one-time modification fee in the amount of \$50,000.

Pursuant to the Credit Agreement, in December 2018, the net proceeds of the sale of the Mangonia Park Property, which were held in a non-interest bearing cash collateral account at and by the Bank as additional collateral for the loans outstanding under the Credit Agreement, were applied to the outstanding principal balance of revolving loans outstanding under Facility 1 and, as a result of such repayment, the loan availability under Facility 1 was permanently reduced to a \$22.7 million term loan.

The Credit Facility is secured by a first priority lien in favor of the Bank on substantially all of the personal property owned by the Company and mortgages on four parcels of real property owned by the Company in Colorado, Tennessee and Texas, at which three of the Company's schools are located, as well as a former school property owned by the Company located in Connecticut.

At the closing of the Credit Facility, the Company drew \$25 million under Facility 1, which was used to repay the Company's previous credit facility and to pay transaction costs associated with closing the Credit Facility.

Each issuance of a letter of credit under Facility 2 will require the payment of a letter of credit fee to the Bank equal to a rate per annum of 1.75% on the daily amount available to be drawn under the letter of credit, which fee shall be payable in quarterly installments in arrears. Letters of credit totaling \$6.2 million that were outstanding under a \$9.5 million letter of credit facility previously provided to the Company by the Bank, which letter of credit facility was set to mature on April 1, 2017, are treated as letters of credit under Facility 2.

The terms of the Credit Agreement require the Company to maintain, on deposit in one or more non-interest bearing accounts, a minimum of \$5 million in quarterly average aggregate balances, which, if not maintained, results in a fee of \$12,500 payable to the Bank for that quarter.

In addition to the foregoing, the Credit Agreement contains customary representations, warranties and affirmative and negative covenants. The Credit Agreement also contains events of default customary for facilities of this type. As of March 31, 2019, the Company is in compliance with all covenants, including financial covenants that (i) restrict capital expenditures tested on a fiscal year end basis; (ii) prohibit the incurrence of a net loss commencing on December 31, 2019; and (iii) require a minimum adjusted EBITDA tested quarterly on a rolling twelve month basis. The Fourth Amendment (i) modifies the minimum adjusted EBITDA required; (ii) eliminates the requirement for a minimum funded debt to adjusted EBITDA ratio; and (iii) requires the maintenance of a maximum funded debt to adjusted EBITDA ratio tested quarterly on a rolling twelve month basis.

As of March 31, 2019, the Company had \$25.2 million outstanding under the Credit Facility; offset by \$0.6 million of deferred finance fees. As of December 31, 2018, the Company had \$49.3 million outstanding under the Credit Facility, offset by \$0.5 million of deferred finance fees, which were written-off. As of March 31, 2019 and December 31, 2018, letters of credit in the aggregate outstanding principal amount of \$4.5 million and \$1.8 million, respectively, were outstanding under the Credit Facility.

Scheduled maturities of long-term debt including the short-term portion at March 31, 2019 are as follows:

Year ending December 31,	
2019	\$ 3,635
2020	3,405
2021	2,270
2022	2,270
2023	2,270
Thereafter	11,351
	<u>\$ 25,201</u>

## 7. STOCKHOLDERS' EQUITY

### *Restricted Stock*

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 receive awards of restricted shares of common stock based on service and performance. 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.

On February 28, 2019, restricted shares were granted to certain employees of the Company, which shares ratably vest over three years. There is no restriction on the right to vote or the right to receive dividends with respect to any of such restricted shares.

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 on the first anniversary of the grant date. There is no restriction on the right to vote or the right to receive dividends with respect to any of such restricted shares.

For the three months ended March 31, 2019 and 2018, the Company completed a net share settlement for 5,518 and 168,254 restricted shares, respectively, on behalf of certain 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 employees during 2019 and/or 2018, creating taxable income for the employees. At the employees' request, the Company will pay these taxes on behalf of the employees in exchange for the employees returning an equivalent value of restricted shares to the Company. These transactions resulted in a decrease of less than \$0.1 million and \$0.3 million for each of the three months ended March 31, 2019 and 2018, respectively, to equity on the condensed consolidated balance sheets as the cash payment of the taxes effectively was a repurchase of the restricted shares granted in previous years.

The following is a summary of transactions pertaining to restricted stock:

	Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested restricted stock outstanding at December 31, 2018	35,908	\$ 2.23
Granted	478,853	3.17
Canceled	-	-
Vested	(14,286)	2.80
Nonvested restricted stock outstanding at March 31, 2019	<u>500,475</u>	3.11

The restricted stock expense for each of the three months ended March 31, 2019 and 2018 was \$0.1 million and \$0.4 million, respectively. The unrecognized restricted stock expense as of March 31, 2019 and December 31, 2018 was \$1.5 million and \$0.1 million, respectively. As of March 31, 2019, outstanding restricted shares under the LTIP had aggregate intrinsic value of \$1.6 million.

**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 following is a summary of transactions pertaining to stock options:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2018	139,000	\$ 12.14	2.53 years	\$ -
Granted/Canceled/Vested	-	-		-
Outstanding at March 31, 2019	<u>139,000</u>	12.14	2.29 years	-
Vested as of March 31, 2019	<u>139,000</u>	12.14	2.29 years	-
Exercisable as of March 31, 2019	<u>139,000</u>	12.14	2.29 years	-

As of March 31, 2019, there was no unrecognized pre-tax compensation expense.

The following table presents a summary of stock options outstanding:

Range of Exercise Prices	At March 31, 2019				
	Stock Options Outstanding			Stock Options Exercisable	
	Shares	Contractual Weighted Average Life (years)	Weighted Average Price	Shares	Weighted Average Exercise Price
\$4.00-\$13.99	91,000	2.92	\$ 7.79	91,000	\$ 7.79
\$14.00-\$19.99	17,000	0.59	19.98	17,000	19.98
\$20.00-\$25.00	<u>31,000</u>	1.35	20.62	<u>31,000</u>	20.62
	<u>139,000</u>	2.29	12.14	<u>139,000</u>	12.14

**8. INCOME TAXES**

The provision for income taxes for the three months ended March 31, 2019 and 2018 was less than \$0.1 million, or 0.9% of pretax loss, and less than \$0.1 million, or 0.7% of pretax loss, respectively.

The Company assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to recover the existing deferred tax assets. In this regard, a significant objective negative evidence was the cumulative losses incurred by the Company in recent years. On the basis of this evaluation, the realization of the Company's deferred tax assets was not deemed to be more likely than not and, thus, the Company maintained a full valuation allowance on its net deferred tax assets as of March 31, 2019.

**9. CONTINGENCIES**

In the ordinary conduct of its business, the Company is subject to certain 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 proceedings to which it is a party will have a material adverse effect on the Company's business, financial condition, and results of operations or cash flows.

In connection with the foregoing, as previously reported, on July 6, 2018, the Company received an administrative subpoena from the Office of the Attorney General of the State of New Jersey (“NJ OAG”). Pursuant to the subpoena, the NJ OAG requested certain documents and detailed information relating to the November 21, 2012 Civil Investigative Demand letter addressed to the Company by the Massachusetts Office of the Attorney General (“MOAG”) that resulted in a previously reported Final Judgment by Consent between the Company and the MOAG dated July 13, 2015. The Company responded to this request and, by letter dated April 11, 2019, the NJ OAG issued a supplemental subpoena requesting additional information for the time period from April 11, 2014 to the present. The Company is preparing its response and continuing to cooperate with the NJ OAG.

Also, on February 12, 2019, the Company received a notification from the State of Colorado Department of Law (“CDOL”) advising that it was initiating a compliance examination of one of its subsidiaries, Lincoln Technical Institute, Inc. The examination seeks to review a fixed number of company transactions. The Company is preparing its response and cooperating with the CDOL.

## 10. SEGMENTS

The for-profit education industry has been impacted by numerous regulatory changes, a changing economy and an onslaught of negative media attention. As a result of these challenges, student populations have declined and operating costs have increased. Over the past few years, the Company has closed over ten locations and exited its online business. In 2017, the Company completed the teach-out of its Center City Philadelphia, Pennsylvania; Northeast Philadelphia, Pennsylvania; West Palm Beach, Florida; Brockton, Massachusetts; and Lowell, Massachusetts schools. All of these schools were previously included in our HOPS segment and as of December 31, 2017, they have all been closed.

In August 2018, the Company decided to cease operations, effective December 31, 2018, of its Lincoln College of New England (“LCNE”) campus at Southington, Connecticut. LCNE results, which was previously reported in the HOPS segment, is now included in the Transitional segment for all periods presented. The Company completed the teach-out and exited the LCNE campus on December 31, 2018.

In the past, we offered any combination of programs at any campus. We have shifted our focus to program offerings that create greater differentiation among campuses and promote attainment of excellence to attract more students and gain market share. Also, strategically, we began offering continuing education training to select employers who hire our graduates and this is best achieved at campuses focused on the applicable profession.

As a result of the regulatory environment, market forces and our strategic decisions, we now operate our business in three reportable segments: (a) the Transportation and Skilled Trades segment; (b) the Healthcare and Other Professions segment; and (c) the Transitional segment. Our reportable segments have been determined based on a method by which we now evaluate performance and allocate resources. Each reportable segment represents a group of post-secondary education providers that offer a variety of degree and non-degree academic programs. These segments are organized by key market segments to enhance operational alignment within each segment to more effectively execute our strategic plan. Each of the Company’s schools is a reporting unit and an operating segment. Our operating segments are described below.

**Transportation and Skilled Trades** – The Transportation and Skilled Trades segment offers academic programs mainly in the career-oriented disciplines of transportation and skilled trades (e.g. automotive, diesel, HVAC, welding and manufacturing).

**Healthcare and Other Professions** – The Healthcare and Other Professions segment offers academic programs in the career-oriented disciplines of health sciences, hospitality and business and information technology (e.g. dental assistant, medical assistant, practical nursing, culinary arts and cosmetology).

**Transitional** – The Transitional segment refers to campuses that are being taught-out and closed and operations that are being phased out. The schools in the Transitional segment employ a gradual teach-out process that enables the schools to continue to operate to allow their current students to complete their course of study. These schools are no longer enrolling new students.

The Company continually evaluates each campus for profitability, earning potential, and customer satisfaction. This evaluation takes several factors into consideration, including the campus’s geographic location and program offerings, as well as skillsets required of our students by their potential employers. The purpose of this evaluation is to ensure that our programs provide our students with the best possible opportunity to succeed in the marketplace with the goals of attracting more students to our programs and, ultimately, to provide our shareholders with the maximum return on their investment. Campuses in the Transitional segment have been subject to this process and have been strategically identified for closure.

We evaluate segment performance based on operating results. Adjustments to reconcile segment results to consolidated results are included under the caption “Corporate,” which primarily includes unallocated corporate activity.

Summary financial information by reporting segment is as follows:

	For the Three Months Ended March 31,					
	Revenue				Operating Income (Loss)	
	2019	% of Total	2018	% of Total	2019	2018
Transportation and Skilled Trades	\$ 44,325	70.1%	\$ 42,747	69.1%	\$ 1,817	\$ 675
Healthcare and Other Professions	18,938	29.9%	16,741	27.1%	972	374
Transitional	-	0.0%	2,401	3.9%	-	(131)
Corporate	-	0.0%	-	0.0%	(7,653)	(7,180)
<b>Total</b>	<b>\$ 63,263</b>	<b>100.0%</b>	<b>\$ 61,889</b>	<b>100.0%</b>	<b>\$ (4,864)</b>	<b>\$ (6,262)</b>

	Total Assets	
	March 31, 2019	December 31, 2018
Transportation and Skilled Trades	\$ 110,715	\$ 92,070
Healthcare and Other Professions	27,848	14,078
Transitional	-	527
Corporate	17,426	39,363
<b>Total</b>	<b>\$ 155,989</b>	<b>\$ 146,038</b>

## 11. FAIR VALUE

The carrying amount and estimated fair value of the Company's financial instrument assets and liabilities, which are not measured at fair value on the Condensed Consolidated Balance Sheet, are listed in the table below:

	March 31, 2019				
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Financial Assets:</b>					
Cash and cash equivalents	\$ 5,683	\$ 5,683	\$ -	\$ -	\$ 5,683
Restricted cash	4,498	4,498	-	-	4,498
Prepaid expenses and other current assets	3,158	-	3,158	-	3,158
<b>Financial Liabilities:</b>					
Accrued expenses	\$ 11,963	\$ -	\$ 11,963	\$ -	\$ 11,963
Other short term liabilities	1,773	-	1,773	-	1,773
Credit facility and term loan	24,593	-	24,593	-	24,593

We estimate that the carrying value of the Credit Facility approximates the fair value due to the fact that the Credit Facility was amended in close proximity to March 31, 2019.

The carrying amounts reported on the Consolidated Balance Sheets for Cash and cash equivalents, Restricted cash and Noncurrent restricted cash approximate fair value because they are highly liquid.

The carrying amounts reported on the Consolidated Balance Sheets for Prepaid expenses and other current assets, Accrued expenses and Other short term liabilities approximate fair value due to the short-term nature of these items.

**12. RELATED PARTY**

The Company has an agreement with MATCO Tools whereby MATCO provides the Company, on an advance commission basis, credits in MATCO branded tools, tool storage, equipment, and diagnostics products. The chief executive officer of the parent Company of MATCO is considered an immediate family member of one of the Company's board members. The amount of the Company's purchases from this third party was \$0.6 million for the three months ended March 31, 2019. Management believes that its agreement with MATCO is an arm's length transaction and on similar terms as would have been obtained from unaffiliated third parties.

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

The following discussion may contain forward-looking statements regarding the Company, 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, 2018, as filed with the Securities and Exchange Commission (the "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 and related notes thereto filed in 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, 2018, as filed with the SEC, which includes audited consolidated financial statements for our three fiscal years ended December 31, 2018.

### General

Lincoln Educational Services Corporation and its subsidiaries (collectively, the "Company", "we", "our" and "us", as applicable) provide diversified career-oriented post-secondary education to recent high school graduates and working adults. The Company, which currently operates 22 schools in 14 states, offers programs in automotive technology, skilled trades (which include HVAC, welding and computerized numerical control and electrical and electronic systems technology, among other programs), healthcare services (which include nursing, dental assistant and medical administrative assistant, among other programs), hospitality services (which include culinary, therapeutic massage, cosmetology and aesthetics) and information technology programs. The schools operate under Lincoln Technical Institute, Lincoln College of Technology, Lincoln Culinary Institute, and Euphoria Institute of Beauty Arts and Sciences and associated brand names. Most of the campuses serve major metropolitan markets and each typically offers courses in multiple areas of study. Five of the campuses are destination schools, which attract students from across the United States and, in some cases, from abroad. The Company's other campuses primarily attract students from their local communities and surrounding areas. All of the campuses are nationally or regionally accredited and are eligible to participate in federal financial aid programs by the U.S. Department of Education (the "DOE") and applicable state education agencies and accrediting commissions which allow students to apply for and access federal student loans as well as other forms of financial aid.

Our business is organized into three reportable business segments: (a) Transportation and Skilled Trades, (b) Healthcare and Other Professions ("HOPS"), and (c) Transitional, which refers to businesses that have been or are currently being taught out.

On July 9, 2018, New England Institute of Technology at Palm Beach, Inc. ("NEIT"), a wholly-owned subsidiary of the Company, entered into a commercial contract (the "Sale Agreement") with Elite Property Enterprise, LLC, pursuant to which NEIT agreed to sell to Elite Property Enterprise, LLC the real property owned by NEIT located at 1126 53rd Court North, Mangonia Park, Palm Beach County, Florida and the improvements and certain personal property located thereon (the "Mangonia Park Property"), for a cash purchase price of \$2,550,000. On August 23, 2018, NEIT, consummated the sale of the Mangonia Park Property. At the closing, NEIT paid a real estate brokerage fee equal to 5% of the gross sales price and other customary closing costs and expenses. Pursuant to the provisions of the Company's credit facility with its lender, Sterling National Bank, the net cash proceeds of the sale of the Mangonia Park Property were deposited into an account with the lender to serve as additional security for loans and other financial accommodations provided to the Company and its subsidiaries under the credit facility. In December 2018, the funds were used to repay the outstanding principal balance of the loans outstanding under the credit facility and such repayment permanently reduced the revolving loan availability under the credit facility designated as Facility 1 under the Company's Credit Agreement to \$22.7 million.

Effective December 31, 2018, the Company completed the teach-out and ceased operation of its Lincoln College of New England ("LCNE") campus at Southington, Connecticut. The decision to close the LCNE campus followed the previously reported placement of LCNE on probation by the college's institutional accreditor, the New England Association of Schools and Colleges ("NEASC"). After evaluating alternative options, the Company concluded that teaching out and closing the campus was in the best interest of the Company and its students. Subsequent to formalizing the LCNE closure decision in August 2018, the Company partnered with Goodwin College, another NEASC-accredited institution in the region, to assist LCNE students to complete their programs of study. The majority of the LCNE students will continue their education at Goodwin College thereby limiting some of the Company's closing costs. The revenue, net loss and ending population of LCNE, as of December 31, 2017, were \$8.4 million, \$1.6 million and 397 students, respectively. The Company recorded net costs associated with the closure of the LCNE campus in 2018 of approximately \$4.3 million, including (i) \$1.6 million in connection with the termination of the LCNE campus lease, which is the net present value of the remaining obligation, to be paid in equal monthly installments through January 2020, (ii) approximately \$700,000 of severance payments and (iii) \$2.0 million of additional operating losses related to no longer enrolling additional students during 2018. LCNE results, previously reported in the HOPS segment, are now included in the Transitional segment as of December 31, 2018.

As of March 31, 2019, we had 10,680 students enrolled at 22 campuses in our programs.

### Critical Accounting Policies and Estimates

For a description of our critical accounting policies and estimates, refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates” and Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 and Note 1 to the consolidated financial statements included in this Form 10-Q for the quarter ended March 31, 2019.

### Effect of Inflation

Inflation has not had a material effect on our operations.

### Results of Continuing Operations for the Three Months Ended March 31, 2019

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

	Three Months Ended March 31,	
	2019	2018
Revenue	100.0%	100.0%
Costs and expenses:		
Educational services and facilities	47.4%	49.3%
Selling, general and administrative	60.3%	60.6%
Loss on sale of assets	0.0%	0.2%
Total costs and expenses	107.7%	110.1%
Operating loss	-7.7%	-10.1%
Interest expense, net	-0.9%	-0.9%
Loss from operations before income taxes	-8.6%	-11.0%
Provision for income taxes	0.1%	0.1%
Net Loss	-8.7%	-11.1%

### Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

#### Consolidated Results of Operations

**Revenue.** Revenue increased by \$1.4 million, or 2.2%, to \$63.3 million for the three months ended March 31, 2019 from \$61.9 million in the prior year comparable period. Excluding the Transitional segment, which had revenue of zero and \$2.4 million for the three months ended March 31, 2019 and 2018 respectively, revenue would have increased by \$3.8 million, or 6.4%. The increase in revenue was a result of beginning the year with approximately 760 more students than the prior year, which increased average population by 6.3% and 11.6% for the Transportation and Skilled Trades segment and Healthcare and Other Professions segment, respectively.

Total student starts increased by 2.6% for the three months ended March 31, 2019 as compared to the prior year comparable period. Excluding the Transitional segment student starts would have increased 5.6% quarter over quarter. We attribute this growth to our improved processes in marketing and admissions as evidenced by a slight reduction in cost per start.

For a general discussion of trends in our student enrollment, see “Seasonality and Outlook” below.

**Educational services and facilities expense.** Our educational services and facilities expense decreased by \$0.5 million, or 1.7%, to \$30 million for the three months ended March 31, 2019 from \$30.5 million in the prior year comparable period. The expense reductions were primarily due to the Transitional segment, which accounted for \$1.5 million in cost savings partially offset by \$1.2 million of increased instructional expenses directly related to our increased student population. Educational services and facilities expense, as a percentage of revenue, decreased to 47.4% for the three months ended March 31, 2019 from 49.3% in the prior year comparable period.

**Selling, general and administrative expense.** Our selling general and administrative expense increased by \$0.6 million, or 1.6%, to \$38.1 million for the three months ended March 31, 2019 from \$37.5 million in the prior year comparable period. Excluding the Transitional segment, which had cost reductions of \$1 million, selling, general and administrative expenses would have increased by \$1.6 million. This increase was due to additional costs incurred related to increases in student population, in addition to corporate expenses incurred in connection with the evaluation of strategic initiatives intended to increase shareholder value.

**Net interest expense.** Net interest expense remained essentially flat at \$0.6 million for the three months ended March 31, 2019 and 2018 respectively.

**Income taxes.** Our provision for income taxes was \$0.1 million, or 0.9% of pretax loss, for the three months ended March 31, 2019, compared to a provision for income taxes of \$0.1 million, or 0.7% of pretax loss, in the prior year comparable period.

No federal or state income tax benefit was recognized for the current period loss due to the recognition of a full valuation allowance. Income tax expense resulted from various minimal state tax expenses.

### **Segment Results of Operations**

The for-profit education industry has been impacted by numerous regulatory changes, a changing economy and an onslaught of negative media attention. As a result of these challenges, student populations have declined and operating costs have increased. Over the past few years, the Company has closed over ten locations and exited its online business. In 2017, the Company completed the teach-out of its Center City Philadelphia, Pennsylvania; Northeast Philadelphia, Pennsylvania; West Palm Beach, Florida, Brockton, Massachusetts and Lowell, Massachusetts schools. All of these schools were previously included in our HOPS segment and, as of December 31, 2017, they have all been closed. As of March 31, 2019, no campuses have been categorized in the Transitional segment.

In the past, we offered any combination of programs at any campus. We have shifted our focus to program offerings that create greater differentiation among campuses and promote attainment of excellence to attract more students and gain market share. Also, strategically, we began offering continuing education training to select employers who hire our graduates and this is best achieved at campuses focused on the applicable profession.

As a result of the regulatory environment, market forces and our strategic decisions, we now operate our business in three reportable segments: (a) the Transportation and Skilled Trades segment; (b) the Healthcare and Other Professions segment; and (c) the Transitional segment. Our reportable segments have been determined based on a method by which we now evaluate performance and allocate resources. Each reportable segment represents a group of post-secondary education providers that offer a variety of degree and non-degree academic programs. These segments are organized by key market segments to enhance operational alignment within each segment to more effectively execute our strategic plan. Each of the Company's schools is a reporting unit and an operating segment. Our operating segments are described below.

**Transportation and Skilled Trades** – The Transportation and Skilled Trades segment offers academic programs mainly in the career-oriented disciplines of transportation and skilled trades (e.g. automotive, diesel, HVAC, welding and manufacturing).

**Healthcare and Other Professions** – The Healthcare and Other Professions segment offers academic programs in the career-oriented disciplines of health sciences, hospitality and business and information technology (e.g. dental assistant, medical assistant, practical nursing, culinary arts and cosmetology).

**Transitional** – The Transitional segment refers to campuses that are being taught-out and closed and operations that are being phased out. The schools in the Transitional segment employ a gradual teach-out process that enables the schools to continue to operate to allow their current students to complete their course of study. These schools are no longer enrolling new students.

The Company continually evaluates each campus for profitability, earning potential, and customer satisfaction. This evaluation takes several factors into consideration, including the campus's geographic location and program offerings, as well as skillsets required of our students by their potential employers. The purpose of this evaluation is to ensure that our programs provide our students with the best possible opportunity to succeed in the marketplace with the goals of attracting more students to our programs and, ultimately, to provide our shareholders with the maximum return on their investment. Campuses classified in the Transitional segment have been subject to this process and have been strategically identified for closure. As of March 31, 2019, no campuses have been categorized in the Transitional segment.

We evaluate segment performance based on operating results. Adjustments to reconcile segment results to consolidated results are included under the caption “Corporate,” which primarily includes unallocated corporate activity.

The following table present results for our three reportable segments for the three months ended March 31, 2019 and 2018:

	<b>Three Months Ended March 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>% Change</b>
<b>Revenue:</b>			
Transportation and Skilled Trades	\$ 44,325	\$ 42,747	3.7%
HOPS	18,938	16,741	13.1%
Transitional	-	2,401	-100.0%
Total	<u>\$ 63,263</u>	<u>\$ 61,889</u>	<u>2.2%</u>
<b>Operating Income (Loss):</b>			
Transportation and Skilled Trades	\$ 1,817	\$ 675	169.2%
Healthcare and Other Professions	972	374	159.9%
Transitional	-	(131)	100.0%
Corporate	(7,653)	(7,180)	-6.6%
Total	<u>\$ (4,864)</u>	<u>\$ (6,262)</u>	<u>22.3%</u>
<b>Starts:</b>			
Transportation and Skilled Trades	1,821	1,806	0.8%
Healthcare and Other Professions	1,038	901	15.2%
Transitional	-	79	-100.0%
Total	<u>2,859</u>	<u>2,786</u>	<u>2.6%</u>
<b>Average Population:</b>			
Transportation and Skilled Trades	7,044	6,627	6.3%
Healthcare and Other Professions	3,545	3,176	11.6%
Transitional	-	410	-100.0%
Total	<u>10,589</u>	<u>10,213</u>	<u>3.7%</u>
<b>End of Period Population:</b>			
Transportation and Skilled Trades	7,016	6,736	4.2%
Healthcare and Other Professions	3,664	3,329	10.1%
Transitional	-	419	-100.0%
Total	<u>10,680</u>	<u>10,484</u>	<u>1.9%</u>

### Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

#### ***Transportation and Skilled Trades***

Student starts for the quarter increased approximately 1% for the three months ended March 31, 2019 when compared to the prior year comparable period.

Operating income increased by \$1.1 million, to \$1.8 million for the three months ended March 31, 2019 from \$0.7 million in the prior year comparable period mainly due to the following factors:

- Revenue increased by \$1.6 million, or 3.7%, to \$44.3 million for the three months ended March 31, 2019, as compared to \$42.7 million in the prior year comparable period. The increase in revenue is due to a 6.3% increase in average student population, which is attributed to consistent student start growth over the last year and a half.

- Educational services and facilities expense decreased by \$0.1 million, or 0.6%, to \$20.6 million for the three months ended March 31, 2019 from \$20.7 million in the prior year comparable period. The decrease in expense was a result of reduced real estate costs of \$0.3 million derived from the successful renegotiation of lease terms at a campus, partially offset by additional instructional expense resulting from an increased student population quarter over quarter.
- Selling, general and administrative expenses increased by \$0.5 million, or 2.6%, to \$21.9 million for the three months ended March 31, 2019 from \$21.3 million in the prior year comparable period.

#### **Healthcare and Other Professions**

Student starts increased by 15.2% for the three months ended March 31, 2019 when compared to the prior year comparable period.

Operating income increased by \$0.6 million, to \$1 million for the three months ended March 31, 2019 from \$0.4 million in the prior year comparable period mainly due to the following factors:

- Revenue increased by \$2.2 million, or 13.1%, to \$18.9 million for the three months ended March 31, 2019, as compared to \$16.7 million in the prior year comparable period. The increase in revenue was mainly due to an 11.6% increase in average student population, which is attributed to consistent start growth over the last year and a half.
- Educational services and facilities expense increased by \$1.1 million, or 13.3%, to \$9.4 million for the three months ended March 31, 2019, from \$8.3 million in the prior year comparable period. The increase in expense was primarily driven by increased instructional expense and books and tools expense due to an 11.6% increase in average student population quarter over quarter.
- Selling general and administrative expense increased by \$0.5 million, or 6.2%, to \$8.6 million for the three months ended March 31, 2019 from \$8.1 million in the prior year comparable period.

#### **Transitional**

During the year ended December 31, 2018, one campus, the LCNE campus at Southington, Connecticut was categorized in the Transitional segment. This campus has been fully taught out of as of December 31, 2018 and financial information for this campus has been included in the Transitional segment for the period ending March 31, 2019. As of March 31, 2019, no campuses have been categorized in the Transitional segment.

Revenue was zero and \$2.4 million for the three months ended March 31, 2019 and 2018 respectively.

Operating loss was zero and \$0.1 million for the three months ended March 31, 2019 and 2018, respectively.

#### **Corporate and Other**

This category includes unallocated expenses incurred on behalf of the entire Company. Corporate and other expenses were \$7.7 million for the three months ended March 31, 2019 as compared to \$7.2 million in the prior year comparable period. The \$0.5 million increase was primarily driven by costs incurred in connection with the evaluation of strategic initiatives intended to increase shareholder value.

#### **LIQUIDITY AND CAPITAL RESOURCES**

Our primary capital expenditures are for facilities expansion and maintenance, 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 flow for each of the three months ended March 31, 2019 and 2018:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2019</b>	<b>2018</b>
Net cash used in operating activities	\$ (10,922)	\$ (10,042)
Net cash used in investing activities	(639)	(468)
Net cash used in financing activities	(24,204)	(30,691)

As of March 31, 2019, the Company had a net debt balance of \$15.0 million compared to a net debt balance of \$3.4 million as of December 31, 2018. The decrease in cash position can mainly be attributed to the repayment of \$26.6 million in borrowings under our line of credit facility; a net loss during the three months ended March 31, 2019; and seasonality of the business. Management believes that the Company has adequate resources in place to execute its 2019 operating plan.

For the last several years, the Company and the proprietary school sector generally have faced deteriorating earnings growth. Government regulations have negatively impacted earnings by making it more difficult for prospective students to obtain loans, which when coupled with the overall economic environment have hindered prospective students from enrolling in our schools. In light of these factors, we have incurred significant operating losses as a result of lower student population. However, our financial and population results continue to improve as evidenced by our start growth for the last four consecutive quarters. As a result, we believe that our likely sources of cash should be sufficient to fund operations for the next twelve months and thereafter for the foreseeable future.

To fund our business plans, including any anticipated future losses, purchase commitments, capital expenditures and principal and interest payments on borrowings, we leveraged our owned real estate. We are also continuing to take actions to improve cash flow by aligning our cost structure to our student population, in addition to our current sources of capital that provide short term liquidity.

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 most significant source of student financing is Title IV Programs, which represented approximately 78% of our cash receipts relating to revenues in 2018. Pursuant to applicable regulations, 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 31-day delay. In certain instances, if a student withdraws from a program prior to a specified date, any paid but unearned tuition or prorated Title IV Program financial aid is refunded according to federal, state and accrediting agency standards.

As a result of the significant amount of Title IV Program funds received by our students, we are highly dependent on these funds to operate our business. Any reduction in the level of Title IV Program funds that our students are eligible to receive or any restriction on our eligibility to receive Title IV Program funds would have a significant impact on our operations and our financial condition. See "Risk Factors" in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

### ***Operating Activities***

Net cash used in operating activities was \$10.9 million for the three months ended March 31, 2019 compared to \$10.0 million in the prior year comparable period. The increase in cash used in operating activities for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018 is primarily due to a net loss from operations as well as changes in other working capital such as accounts receivable, accounts payable, accrued expenses and unearned tuition.

### ***Investing Activities***

Net cash used in investing activities remained essentially flat at \$0.6 million for the three months ended March 31, 2019 and 2018 respectively.

One of our primary uses of cash in investing activities was capital expenditures associated with investments in training technology, classroom furniture, and new program buildouts.

We currently lease a majority of our campuses. We own our schools in Grand Prairie, Texas; Nashville, Tennessee; and Denver, Colorado and our former school property located in Suffield, Connecticut.

Capital expenditures are expected to approximate 2% of revenues in 2019. We expect to fund future capital expenditures with cash generated from operating activities, borrowings under our credit facility, and cash from our real estate monetization.

### ***Financing Activities***

Net cash used in financing activities was \$24.2 million for the three months ended March 31, 2019 as compared to \$30.7 million in the prior year comparable period. The decrease of \$6.5 million was primarily due to decreased net borrowings of \$24.1 million for the three months ended March 31, 2019 as compared to \$30.3 million in the prior year comparable period.

Net payments on borrowings consisted of: (a) total borrowing to date under our secured credit facility of \$2.5 million; and (b) \$26.6 million in total repayments made by the Company.

## Credit Agreement

On March 31, 2017, the Company obtained a secured credit facility (the “Credit Facility”) from Sterling National Bank (the “Bank”) pursuant to a Credit Agreement dated March 31, 2017 among the Company, the Company’s subsidiaries and the Bank, which was subsequently amended on November 29, 2017, February 23, 2018, July 11, 2018 and, most recently, on March 6, 2019 (as amended, the “Credit Agreement”). Prior to the most recent amendment of the Credit Agreement (the “Fourth Amendment”), the financial accommodations available to the Borrowers under the Credit Agreement consisted of (a) a \$25 million revolving loan facility designated as “Facility 1”, (b) a \$25 million revolving loan facility (including a sublimit amount for letters of credit of \$10 million) designated as “Facility 2” and (c) a \$15 million revolving credit loan designated as “Facility 3”.

Pursuant to the terms of the Fourth Amendment and upon its effectiveness, Facility 1 was converted into a term loan (the “Term Loan”) in the original principal amount of \$22.7 million (such amount being the entire unpaid principal and accrued interest outstanding under Facility 1 as of the effective date of the Fourth Amendment), which matures on March 31, 2024 (the “Term Loan Maturity Date”). The Term Loan is being repaid in monthly installments as follows: (a) on April 1, 2019 and on the same day of each month thereafter through and including June 30, 2019, accrued interest only; (b) on July 1, 2019 and on the same day of each month thereafter through and including December 31, 2019, the principal amount of \$0.2 million plus accrued interest; (c) on January 1, 2020 and on the same day of each month thereafter through and including June 30, 2020, accrued interest only; (d) on July 1, 2020 and on the same day of each month thereafter through and including December 31, 2020, the principal amount of \$0.6 million plus accrued interest; (e) on January 1, 2021 and on the same day of each month thereafter through and including June 30, 2021, accrued interest only; (f) on July 1, 2021 and on the same day of each month thereafter through and including December 31, 2021, the principal amount of \$0.4 million plus accrued interest; (g) on January 1, 2022 and on the same day of each month thereafter through and including June 30, 2022, accrued interest only; (h) on July 1, 2022 and on the same day of each month thereafter through and including December 31, 2022, the principal amount of \$0.4 million plus accrued interest; (i) on January 1, 2023 and on the same day of each month thereafter through and including June 30, 2023, accrued interest only; (j) on July 1, 2023 and on the same day of each month thereafter through and including December 31, 2023, the principal amount of \$0.4 million plus accrued interest; (k) on January 1, 2024 and on the same day of each month thereafter through and including the Term Loan Maturity Date, accrued interest only; and (l) on the Term Loan Maturity Date, the remaining outstanding principal amount of the Term Loan, together with accrued interest, will be due and payable. In the event of a sale of any campus, school or business of the Borrowers permitted under the Credit Agreement, 25% of the net proceeds of any such sale must be used to pay down the outstanding principal amount of the Term Loan in inverse order of maturity.

The maturity date of Facility 2 is April 30, 2020. The maturity date of Facility 3 is May 31, 2019.

Under the terms of the Credit Agreement, all draws under Facility 2 for letters of credit or revolving loans and all draws under Facility 3 must be secured by cash collateral in an amount equal to 100% of the aggregate stated amount of the letters of credit issued and revolving loans outstanding through the proceeds of the Term Loan or other available cash of the Company. Notwithstanding such requirement, pursuant to the terms of the Fourth Amendment, a \$2.5 million revolving loan was advanced under Facility 2 at the closing of the Fourth Amendment on March 6, 2019 without any requirement for cash collateral and, in the Bank’s sole discretion, an additional \$2.5 million of revolving loans may be advanced under Facility 2 without any requirement for cash collateral, consisting of (a) a \$1.25 million revolving loan within 15 days after the Bank’s receipt of the Company’s financial statements for the fiscal quarter ending March 31, 2019 and (b) a \$1.25 million revolving loan within 15 days after the Bank’s receipt of the Company’s financial statements for the fiscal quarter ending June 30, 2019. The \$2.5 million revolving loan advanced under Facility 2 at the closing of the Fourth Amendment and the additional \$2.5 million of revolving loans that may be advanced under Facility 2 in the discretion of the Bank, in each case without any requirement for cash collateral, must be repaid on November 1, 2019 and, prior to their repayment, the Borrowers are required to make monthly payments of accrued interest only on such revolving loans.

The Term Loan bears interest at a rate per annum equal to the greater of (x) the Bank’s prime rate plus 2.85% and (y) 6.00%. Revolving loans advanced under Facility 2 that are cash collateralized will bear interest at a rate per annum equal to the greater of (x) the Bank’s prime rate and (y) 3.50%. Pursuant to the Fourth Amendment, revolving loans advanced under Facility 2 that are not secured by cash collateral will bear interest at a rate per annum equal to the greater of (x) the Bank’s prime rate plus 2.85% and (y) 6.00%. Revolving loans under Facility 3 bear interest at a rate per annum equal to the greater of (x) the Bank’s prime rate and (y) 3.50%.

The Bank is entitled to receive an unused facility fee on the average daily unused balance of Facility 2 at a rate per annum equal to 0.50%, which fee is payable quarterly in arrears.

In the event the Bank’s prime rate is greater than or equal to 6.50% while any loans are outstanding, the Borrowers may be required to enter into a hedging contract in form and content satisfactory to the Bank.

The Borrowers are required to give the Bank the first opportunity to provide any and all traditional banking services required by the Borrowers, including, but not limited to, treasury management, loans and other financing services, on terms mutually acceptable to the Borrowers and the Bank, in accordance with the terms set forth in the Fourth Amendment. In the event that loans provided under the Credit Agreement are repaid through replacement financing, the Borrowers must pay to the Bank an exit fee in an amount equal to 1.25% of the total amount repaid and the face amount of all letters of credit replaced in connection with the replacement financing; provided, however, that no exit fee will be required in the event the Bank or the Bank's affiliate arranges or provides the replacement financing or the payoff of the applicable loans occurs after March 5, 2021.

In connection with the effectiveness of the Fourth Amendment, the Borrowers paid to the Bank a one-time modification fee in the amount of \$50,000.

Pursuant to the Credit Agreement, in December 2018, the net proceeds of the sale of the Mangonia Park Property, which were held in a non-interest bearing cash collateral account at and by the Bank as additional collateral for the loans outstanding under the Credit Agreement, were applied to the outstanding principal balance of revolving loans outstanding under Facility 1 and, as a result of such repayment, the revolving loan availability under Facility 1 was permanently reduced to \$22.7 million.

The Credit Facility is secured by a first priority lien in favor of the Bank on substantially all of the personal property owned by the Company and mortgages on four parcels of real property owned by the Company in Colorado, Tennessee and Texas, at which three of the Company's schools are located, as well as a former school property owned by the Company located in Connecticut.

At the closing of the Credit Facility, the Company drew \$25 million under Facility 1, which was used to repay the Company's previous credit facility and to pay transaction costs associated with closing the Credit Facility.

Each issuance of a letter of credit under Facility 2 will require the payment of a letter of credit fee to the Bank equal to a rate per annum of 1.75% on the daily amount available to be drawn under the letter of credit, which fee shall be payable in quarterly installments in arrears. Letters of credit totaling \$6.2 million that were outstanding under a \$9.5 million letter of credit facility previously provided to the Company by the Bank, which letter of credit facility was set to mature on April 1, 2017, are treated as letters of credit under Facility 2.

The terms of the Credit Agreement require the Company to maintain, on deposit in one or more non-interest bearing accounts, a minimum of \$5 million in quarterly average aggregate balances, which, if not maintained, results in a fee of \$12,500 payable to the Bank for that quarter.

In addition to the foregoing, the Credit Agreement contains customary representations, warranties and affirmative and negative covenants. The Credit Agreement also contains events of default customary for facilities of this type. As of December 31, 2018, the Company is in compliance with all covenants, including financial covenants that (i) restrict capital expenditures tested on a fiscal year end basis; (ii) prohibit the incurrence of a net loss commencing on December 31, 2019; and (iii) require a minimum adjusted EBITDA tested quarterly on a rolling twelve month basis. The Fourth Amendment (i) modifies the minimum adjusted EBITDA required; (ii) eliminates the requirement for a minimum funded debt to adjusted EBITDA ratio; and (iii) requires the maintenance of a maximum funded debt to adjusted EBITDA ratio tested quarterly on a rolling twelve month basis.

As of March 31, 2019, the Company had \$25.2 million outstanding under the Credit Facility; offset by \$0.6 million of deferred finance fees. As of December 31, 2018, the Company had \$49.3 million outstanding under the Credit Facility, offset by \$0.5 million of deferred finance fees, which were written-off. As of March 31, 2019 and December 31, 2018, letters of credit in the aggregate outstanding principal amount of \$4.5 million and \$1.8 million, respectively, were outstanding under the Credit Facility.

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

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Credit agreement and term loan	\$ 25,201	\$ 49,301
Deferred Financing Fees	(608)	(532)
	<u>24,593</u>	<u>48,769</u>
Less current maturities	(3,635)	(15,000)
	<u>\$ 20,958</u>	<u>\$ 33,769</u>

As of March 31, 2019, we had outstanding loan commitments to our students of \$64.7 million, as compared to \$63.1 million at December 31, 2018.

### Contractual Obligations

**Long-term Debt.** As of March 31, 2019, our current portion of long-term debt and our long-term debt consisted of borrowings under our Credit Facility.

**Lease Commitments.** We lease offices, educational facilities and equipment for varying periods through the year 2030 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 March 31, 2019 (in thousands):

	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Credit facility and term loan	\$ 25,200	\$ 3,635	\$ 5,675	\$ 4,540	\$ 11,350
Operating leases	70,133	17,364	23,503	12,857	16,409
Total contractual cash obligations	<u>\$ 95,333</u>	<u>\$ 20,999</u>	<u>\$ 29,178</u>	<u>\$ 17,397</u>	<u>\$ 27,759</u>

### Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of March 31, 2019, except for surety bonds. As of March 31, 2019, we posted surety bonds in the total amount of approximately \$12.7 million. Cash collateralized letters of credit of \$4.5 million are primarily comprised of letters of credit for the DOE and security deposits in connection with certain of our real estate leases.

### Seasonality and Outlook

#### Seasonality

Our revenue 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 larger class starts in the third quarter and higher 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, typically do not vary significantly over the course of the year with changes in our student population and revenue. During the first half of the year, we make significant investments in marketing, staff, programs and facilities to 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 revenue, 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.

## **Outlook**

Similar to many companies in the proprietary education sector, we have experienced significant deterioration in student enrollments over the last several years. This can be attributed to many factors including the economic environment and numerous regulatory changes such as changes to admissions advisor compensation policies, elimination of “ability-to-benefit,” changes to the 90/10 Rule and cohort default rates, gainful employment and modifications to Title IV amounts and eligibility. While the industry has not returned to growth, the trends are far more stable as declines have slowed.

As the economy continues to improve and the unemployment rate continues to decline our student enrollment is negatively impacted due to a portion of our potential student base entering the workforce earlier without obtaining any post-secondary training. Offsetting this short term decline in available students is the fact that an increasing number of individuals in the “baby boom” generation are retiring from the workforce. The retirement of baby boomers coupled with a growing economy has resulted in additional employers looking to us to help solve their workforce needs. With schools in 14 states, we are a very attractive employment solution for large regional and national employers.

To fund our business plans, including any anticipated future losses, purchase commitments, capital expenditures, principal and interest payments on borrowings and to satisfy the DOE financial responsibility standards, we have entered into the Credit Facility as described above. We are also continuing to take actions to improve cash flow by aligning our cost structure to our student population.

### ***Borrower Defense to Repayment Regulations Update***

The DOE published borrower defense to repayment regulations on November 1, 2016 (“2016 Final Regulations”) with an effective date of July 1, 2017, but subsequently delayed the effective date of a majority of the regulations until July 1, 2019, to ensure there would be adequate time to conduct negotiated rulemaking and, as necessary, develop revised regulations. However, a federal court ruled that the delay in the effective date of the regulations was unlawful and, on October 16, 2018, denied a request to extend a stay preventing the regulations from taking effect. The regulations are described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 under the caption “Regulatory Environment – Borrower Defense to Repayment Regulations.”

On March 15, 2019, the DOE published an electronic announcement with guidance regarding how the DOE is implementing the 2016 Final Regulations, including, among other things, the provisions regarding the processes for enabling borrowers to obtain from the DOE a discharge of some or all of their federal student loans based on circumstances involving the institution and for the DOE to impose and collect liabilities against the institution following the loan discharges, the prohibition on certain contractual provisions regarding arbitration, dispute resolution, and participation in class actions, and the requirement to submit certain arbitral and judicial records to the DOE in connection with certain proceedings concerning borrower defense claims. The DOE also stated that it would provide guidance at a later date about providing repayment warnings to students in the future and disclosures to students regarding the occurrence of certain financial events, actions, or conditions.

The DOE also provided guidance regarding the requirement to notify the DOE within specified timeframes of the occurrence of any of a list of events, actions or conditions that occur on or after July 1, 2017. The DOE stated in the electronic announcement that it recognized that some institutions may have been uncertain about how to comply with these requirements in light of the delays and court orders regarding the effective date of the 2016 Final Regulations. The DOE guidance generally gives institutions a 60-day period commencing from the date of the electronic announcement to send notifications of events, actions, or conditions that, with certain exceptions, occurred between the July 1, 2017 effective date of the 2016 Final Regulations and the date of the electronic announcement. Institutions have an ongoing obligation under the 2016 Final Regulations to notify the DOE of subsequent events, actions or conditions that are triggering circumstances in the regulations.

The DOE published proposed regulations on July 31, 2018 that would modify the defense to repayment regulations, but has not issued final regulations. The proposed regulations are described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 under the caption “Regulatory Environment – Borrower Defense to Repayment Regulations.” We cannot provide any assurances as to the timing, content or ultimate effective date of any such regulations.

### ***Negotiated Rulemaking Update***

On October 15, 2018, the DOE published a notice in the Federal Register announcing its intent to establish a negotiated rulemaking committee and three subcommittees to develop proposed regulations related to several matters that are described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 under the caption “Regulatory Environment – Negotiated Rulemaking.” The DOE released draft proposed regulations for consideration and negotiation by the negotiated rulemaking committee and subcommittee that covered additional topics and made additional revisions and updates to the draft proposed regulations prior to subsequent meetings of the committee and subcommittees in early 2019. The committee and subcommittees completed their meetings in April 2019 and reached consensus on draft proposed regulations. The DOE is expected to publish the draft proposed regulations in the Federal Register for public comment and to consider revisions to the regulations in response to the comments before publishing the final versions of the regulations. The proposed changes to the regulations remain subject to further change during the rulemaking process. We cannot provide any assurances as to the timing, content or impact of any final regulations arising from the rulemaking process.

## **Gainful Employment Update**

On April 8, 2019, the DOE issued final gainful employment completer lists to institutions, which is the first step toward generating the data for calculating a new set of gainful employment rates. However, the DOE stated in an April 5, 2019 electronic announcement that the memorandum of understanding under which the Social Security Administration (the “SSA”) shared earnings data with the DOE to produce mean or median earnings data has expired and not been renewed. The earnings data is used to calculate the gainful employment rates. The DOE stated in the electronic announcement that it is unable to calculate gainful employment rates in 2019 because the memorandum of understanding with the SSA has expired. Consequently, we cannot predict if and when the DOE will be able to begin the process of calculating and issuing new draft or final gainful employment rates in the future.

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to certain market risks as part of our on-going business operations. Our obligations under our Credit Facility are secured by a lien on substantially all of our assets and any assets that we or our subsidiaries may acquire in the future. Outstanding borrowings under our Credit Facility bear interest at the rate of 8.35% as of March 31, 2019. As of March 31, 2019, we had \$25.2 million outstanding under our Credit Facility.

Based on our outstanding debt balance as of March 31, 2019, a change of one percent in the interest rate would have caused a change in our interest expense of approximately \$0.2 million, or \$0.01 per basic share, on an annual basis. Changes in interest rates could have an impact on our operations, which are greatly dependent on our students’ ability to obtain financing and, as such, any increase in interest rates could greatly impact our ability to attract students and have an adverse impact on the results of our operations. The remainder of our interest rate risk is associated with miscellaneous capital equipment leases, which is not significant.

### **Item 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 the Securities and Exchange Commission’s 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.

## **PART II. OTHER INFORMATION**

### **Item 1. LEGAL PROCEEDINGS**

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

In connection with the foregoing, as previously reported, on July 6, 2018, the Company received an administrative subpoena from the Office of the Attorney General of the State of New Jersey (“NJ OAG”). Pursuant to the subpoena, the NJ OAG requested certain documents and detailed information relating to the November 21, 2012 Civil Investigative Demand letter addressed to the Company by the Massachusetts Office of the Attorney General (“MOAG”) that resulted in a previously reported Final Judgment by Consent between the Company and the MOAG dated July 13, 2015. The Company responded to this request and, by letter dated April 11, 2019, the NJ OAG issued a supplemental subpoena requesting additional information for the time period from April 11, 2014 to the present. The Company is preparing its response and continuing to cooperate with the NJ OAG.

Also, on February 12, 2019, the Company received a notification from the State of Colorado Department of Law (“CDOL”) advising that it was initiating a compliance examination of one of its subsidiaries, Lincoln Technical Institute, Inc. The examination seeks to review a fixed number of company transactions. The Company is preparing its response and cooperating with the CDOL.

## Item 6. EXHIBITS

Exhibit Number	Description
10.1	Fourth Amendment to Credit Agreement, dated as of March 6, 2019, among the Company, Lincoln Technical Institute, Inc. and its subsidiaries, and Sterling National Bank (incorporated by reference to Exhibit 10.6 to the Company’s Annual Report on Form 10-K filed March 13, 2019).
31.1 *	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 *	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32 *	Certification of 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.
101**	The following financial statements from Lincoln Educational Services Corporation’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, formatted in XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive (Loss) Income, (iv) Condensed Consolidated Statements of Changes in Stockholders’ Equity, (v) Condensed Consolidated Statements of Cash Flows and (vi) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text and in detail.

---

\* Filed herewith.

\*\* As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

**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: May 10, 2019

By: /s/ Brian Meyers  
Brian Meyers  
Executive Vice President, Chief Financial Officer and Treasurer

Exhibit Index

<a href="#">10.1</a>	Fourth Amendment to Credit Agreement, dated as of March 6, 2019, among the Company, Lincoln Technical Institute, Inc. and its subsidiaries, and Sterling National Bank (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K filed March 13, 2019).
<a href="#">31.1</a> *	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<a href="#">31.2</a> *	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<a href="#">32</a> *	Certification of 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.
101**	The following financial statements from Lincoln Educational Services Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, formatted in XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive (Loss) Income, (iv) Condensed Consolidated Statements of Changes in Stockholders' Equity, (v) Condensed Consolidated Statements of Cash Flows and (vi) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text and in detail.

---

\* Filed herewith.

\*\* As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

## CERTIFICATION

I, Scott Shaw, certify that:

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

Date: May 10, 2019

/s/ Scott Shaw

\_\_\_\_\_  
Scott Shaw  
Chief Executive Officer

---

## CERTIFICATION

I, Brian Meyers, certify that:

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

Date: May 10, 2019

/s/ Brian Meyers

\_\_\_\_\_  
Brian Meyers  
Chief Financial Officer

---

## CERTIFICATION

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

Each of the undersigned, Scott Shaw, Chief Executive Officer of Lincoln Educational Services Corporation (the "Company"), and Brian Meyers, Chief Financial Officer of the Company, has executed this certification in connection with the filing with the Securities and Exchange Commission of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2019 (the "Report").

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

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

Date: May 10, 2019

/s/ Scott Shaw

\_\_\_\_\_  
Scott Shaw  
Chief Executive Officer

/s/ Brian Meyers

\_\_\_\_\_  
Brian Meyers  
Chief Financial Officer

---