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

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**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 **September 30, 2018**

or

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

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

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Commission File Number **000-51371**

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**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

As of November 6, 2018, there were 24,641,792 shares of the registrant's common stock outstanding.

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LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES

INDEX TO FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

**PART I. FINANCIAL INFORMATION**

Item 1.	<a href="#">Financial Statements (Unaudited)</a>	1
	<a href="#">Condensed Consolidated Balance Sheets at September 30, 2018 and December 31, 2017</a>	1
	<a href="#">Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017</a>	3
	<a href="#">Condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended September 30, 2018 and 2017</a>	4
	<a href="#">Condensed Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2018 and 2017</a>	5
	<a href="#">Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017</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>	36
Item 4.	<a href="#">Controls and Procedures</a>	36
	<b>PART II. OTHER INFORMATION</b>	37
Item 1.	<a href="#">Legal Proceedings</a>	37
Item 5.	<a href="#">Other Information</a>	37
Item 6.	<a href="#">Exhibits</a>	39
	<a href="#">SIGNATURES</a>	40

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**PART I – FINANCIAL INFORMATION**

## Item 1. Financial Statements

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

	<u>September 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 10,183	\$ 14,563
Restricted cash	7,820	7,189
Accounts receivable, less allowance of \$15,721 and \$12,806 at September 30, 2018 and December 31, 2017, respectively	21,659	15,791
Inventories	2,311	1,657
Prepaid income taxes and income taxes receivable	206	207
Assets held for sale	-	2,959
Prepaid expenses and other current assets	2,213	2,352
Total current assets	<u>44,392</u>	<u>44,718</u>
<b>PROPERTY, EQUIPMENT AND FACILITIES - At cost, net of accumulated depreciation and amortization of \$169,026 and \$163,946 at September 30, 2018 and December 31, 2017, respectively</b>		
	<u>50,891</u>	<u>52,866</u>
<b>OTHER ASSETS:</b>		
Noncurrent restricted cash	-	32,802
Noncurrent receivables, less allowance of \$1,240 and \$978 at September 30, 2018 and December 31, 2017, respectively	11,372	8,928
Deferred income taxes, net	424	424
Goodwill	14,536	14,536
Other assets, net	966	939
Total other assets	<u>27,298</u>	<u>57,629</u>
<b>TOTAL</b>	<u>\$ 122,581</u>	<u>\$ 155,213</u>

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)**

	<u>September 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Unearned tuition	\$ 21,525	\$ 24,647
Accounts payable	19,483	10,508
Accrued expenses	13,783	11,771
Other short-term liabilities	557	558
Total current liabilities	<u>55,348</u>	<u>47,484</u>
<b>NONCURRENT LIABILITIES:</b>		
Long-term credit agreement and term loan	24,374	52,593
Pension plan liabilities	4,233	4,437
Accrued rent	3,612	4,338
Other long-term liabilities	164	548
Total liabilities	<u>87,731</u>	<u>109,400</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 September 30, 2018 and December 31, 2017	-	-
Common stock, no par value - authorized: 100,000,000 shares at September 30, 2018 and December 31, 2017; issued and outstanding: 30,552,333 shares at September 30, 2018 and 30,624,407 shares at December 31, 2017	141,377	141,377
Additional paid-in capital	29,464	29,334
Treasury stock at cost - 5,910,541 shares at September 30, 2018 and December 31, 2017	(82,860)	(82,860)
Accumulated deficit	(49,106)	(37,528)
Accumulated other comprehensive loss	(4,025)	(4,510)
Total stockholders' equity	<u>34,850</u>	<u>45,813</u>
<b>TOTAL</b>	<u>\$ 122,581</u>	<u>\$ 155,213</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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
REVENUE	\$ 70,078	\$ 67,308	\$ 193,087	\$ 194,452
COSTS AND EXPENSES:				
Educational services and facilities	33,488	34,070	94,169	99,183
Selling, general and administrative	36,087	35,499	108,091	109,378
Loss (gain) on sale of assets	427	(1,530)	537	(1,619)
Total costs & expenses	70,002	68,039	202,797	206,942
OPERATING INCOME (LOSS)	76	(731)	(9,710)	(12,490)
OTHER:				
Interest income	6	7	25	47
Interest expense	(632)	(716)	(1,743)	(6,597)
LOSS BEFORE INCOME TAXES	(550)	(1,440)	(11,428)	(19,040)
PROVISION FOR INCOME TAXES	50	50	150	150
NET LOSS	\$ (600)	\$ (1,490)	\$ (11,578)	\$ (19,190)
Basic				
Net loss per share	\$ (0.02)	\$ (0.06)	\$ (0.47)	\$ (0.80)
Diluted				
Net loss per share	\$ (0.02)	\$ (0.06)	\$ (0.47)	\$ (0.80)
Weighted average number of common shares outstanding:				
Basic	24,533	24,024	24,387	23,866
Diluted	24,533	24,024	24,387	23,866

See notes to unaudited condensed consolidated financial statements.

**LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(In thousands)**  
**(Unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Net loss	\$ (600)	\$ (1,490)	\$ (11,578)	\$ (19,190)
Other comprehensive income				
Employee pension plan adjustments	162	440	485	881
Comprehensive loss	<u>\$ (438)</u>	<u>\$ (1,050)</u>	<u>\$ (11,093)</u>	<u>\$ (18,309)</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, 2018	30,624,407	\$ 141,377	\$ 29,334	\$ (82,860)	\$ (37,528)	\$ (4,510)	\$ 45,813
Net loss	-	-	-	-	(11,578)	-	(11,578)
Employee pension plan adjustments	-	-	-	-	-	485	485
Stock-based compensation expense							
Restricted stock	135,568	-	502	-	-	-	502
Net share settlement for equity-based compensation	(207,642)	-	(372)	-	-	-	(372)
<b>BALANCE - September 30, 2018</b>	<b>30,552,333</b>	<b>\$ 141,377</b>	<b>\$ 29,464</b>	<b>\$ (82,860)</b>	<b>\$ (49,106)</b>	<b>\$ (4,025)</b>	<b>\$ 34,850</b>

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount					
BALANCE - January 1, 2017	30,685,017	\$ 141,377	\$ 28,554	\$ (82,860)	\$ (26,044)	\$ (6,101)	\$ 54,926
Net loss	-	-	-	-	(19,190)	-	(19,190)
Employee pension plan adjustments	-	-	-	-	-	881	881
Stock-based compensation expense							
Restricted stock	128,810	-	948	-	-	-	948
Net share settlement for equity-based compensation	(184,231)	-	(429)	-	-	-	(429)
<b>BALANCE - September 30, 2017</b>	<b>30,629,596</b>	<b>\$ 141,377</b>	<b>\$ 29,073</b>	<b>\$ (82,860)</b>	<b>\$ (45,234)</b>	<b>\$ (5,220)</b>	<b>\$ 37,136</b>

See notes to unaudited condensed consolidated financial statements.

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

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (11,578)	\$ (19,190)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,289	6,438
Amortization of deferred finance charges	275	503
Write-off of deferred finance charges	-	2,161
Loss (gain) on disposition of assets	537	(1,619)
Fixed asset donation	-	(18)
Provision for doubtful accounts	12,988	10,393
Stock-based compensation expense	502	948
Deferred rent	(697)	(981)
(Increase) decrease in assets:		
Accounts receivable	(21,300)	(14,017)
Inventories	(654)	(100)
Prepaid income taxes and income taxes receivable	-	67
Prepaid expenses and current assets	139	699
Other assets, net	(83)	(1,173)
Increase (decrease) in liabilities:		
Accounts payable	9,007	(3,283)
Accrued expenses	1,983	(762)
Unearned tuition	(3,122)	1,422
Other liabilities	(102)	1,905
Total adjustments	5,762	2,583
Net cash used in operating activities	<u>(5,816)</u>	<u>(16,607)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(4,217)	(3,765)
Proceeds from sale of property and equipment	2,348	15,452
Net cash (used in) provided by investing activities	<u>(1,869)</u>	<u>11,687</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on borrowings	(32,800)	(64,766)
Proceeds from borrowings	4,400	38,000
Payment of deferred finance fees	(94)	(1,134)
Net share settlement for equity-based compensation	(372)	(429)
Net cash used in financing activities	<u>(28,866)</u>	<u>(28,329)</u>
NET DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(36,551)	(33,249)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—Beginning of period	54,554	47,715
CASH, CASH EQUIVALENTS AND RESTRICTED CASH—End of period	<u>\$ 18,003</u>	<u>\$ 14,466</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)**

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid for:		
Interest	\$ 1,523	\$ 2,449
Income taxes	\$ 167	\$ 121
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Liabilities accrued for or noncash purchases of fixed assets	\$ 392	\$ 1,447

See notes to unaudited condensed consolidated financial statements.

**LINCOLN EDUCATIONAL SERVICES CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**  
**(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 23 schools in 14 states, offers programs in automotive technology, skilled trades (which among other programs include HVAC, welding and computerized numerical control and electronic systems technology), healthcare services (which among other programs include nursing, dental assistant, medical administrative assistant and pharmacy technician), hospitality services (which include culinary, therapeutic massage, cosmetology and aesthetics) and business and information technology (which includes information technology and criminal justice programs). The schools operate under Lincoln Technical Institute, Lincoln College of Technology, Lincoln College of New England, 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 offered by the U.S. Department of Education (the “DOE”) and financial aid programs of applicable state education agencies which allow students to apply for and access federal student loans as well as other forms of financial aid.

We operate in three reportable business segments: (a) the Transportation and Skilled Trades segment, (b) the Healthcare and Other Professions (“HOPS”) segment, and (c) the Transitional segment, which consists of schools that have been or are currently being taught out. In November 2015, the Company’s Board of Directors approved a plan for the Company to divest the 18 campuses then comprising the HOPS segment due to a strategic shift in the Company’s business strategy. The Company underwent an exhaustive process to divest the HOPS schools which proved successful in attracting various prospective purchasers but, ultimately, did not result in a transaction that our Board believed would enhance shareholder value. By the end of 2017, we had closed seven underperforming campuses leaving a total of eleven campuses remaining under the HOPS segment. By the end of 2018, we will close one additional campus in Southington, Connecticut. The Company believes that the closures of the aforementioned campuses have positioned the HOPS segment and the Company to be profitable going forward.

The combination of several factors, including, among other things, the inability of a prospective purchaser of the HOPS segment to close on the purchase, the improvements the Company has implemented in the HOPS segment operations and the closure of seven underperforming campuses, resulted in the Board reevaluating its divestiture plan and the Board’s determination that shareholder value would more likely be enhanced by continuing to operate our HOPS segment as revitalized. Consequently, the Board of Directors has abandoned the plan to divest the HOPS segment and the Company intends to retain and continue to operate the remaining campuses in the HOPS segment. The results of operations of the campuses included in the HOPS segment are reflected as continuing operations in the condensed consolidated financial statements.

In 2016, the Company completed the teach-out of its Hartford, Connecticut; Fem Park, Florida; and Henderson (Green Valley), Nevada campuses, which originally operated in the HOPS segment. In 2017, the Company completed the teach-out of its Northeast Philadelphia, Pennsylvania; Center City Philadelphia, Pennsylvania; West Palm Beach, Florida; Brockton, Massachusetts; and Lowell, Massachusetts schools, which also were previously in the HOPS segment and all of which were taught out and closed by December 2017 and are included in the Transitional segment as of December 31, 2017.

On August 14, 2017, New England Institute of Technology at Palm Beach, Inc. (“NEIT”), a wholly-owned subsidiary of the Company, consummated the sale of the real property located at 2400 and 2410 Metrocentre Boulevard East, West Palm Beach, Florida, including the improvements and other personal property located thereon (the “West Palm Beach Property”), to Tambone Companies, LLC, pursuant to a previously disclosed purchase and sale agreement entered into on March 14, 2017. Pursuant to the terms of the sale agreement, as subsequently amended, the purchase price for the West Palm Beach Property was \$15.8 million. As a result, the Company recorded a gain on the sale in the amount of \$1.5 million. As previously disclosed, the West Palm Beach Property served as collateral for a short term loan in the principal amount of \$8.0 million obtained by the Company from its lender, Sterling National Bank, on April 28, 2017, which loan matured upon the earlier of the sale of the West Palm Beach Property or October 1, 2017. Accordingly, on August 14, 2017, concurrently with the consummation of the sale of the West Palm Beach Property, the Company repaid the term loan in an aggregate amount of \$8.0 million, consisting of principal and accrued interest.

[Index](#)

On July 9, 2018, NEIT 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 53<sup>rd</sup> 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 Agreement.

On July 11, 2018, the Company and its wholly-owned subsidiaries (collectively with the Company, the “Borrowers”) entered into a third amendment (the “Third Amendment”) of the Credit Agreement dated as of March 31, 2017 (as previously amended, the “Credit Agreement”) between the Borrowers and Sterling National Bank, as lender (the “Bank”). Prior to the Third Amendment, if the Mangonia Park Property was sold, NEIT was required to apply the net proceeds of such sale to repay a corresponding amount of the outstanding principal balance of revolving loans provided under the Credit Agreement, which repayment of principal would permanently reduce the principal amount of revolving loans available under the Credit Agreement. As a result of the Third Amendment, when the Mangonia Park Property was sold, NEIT deposited the net proceeds of such sale into a non-interest bearing cash collateral account to be held at and by the Bank as additional collateral for the loans outstanding under the Credit Agreement. Pursuant to the Third Amendment, the Bank reserves the right to apply the funds held in such cash collateral account to the repayment of the outstanding principal balance of the loans outstanding under the Credit Agreement.

On August 20, 2018, the Company decided to cease operations, effective December 31, 2018, of the Lincoln College of New England (“LCNE”) campus at Southington, Connecticut. The decision to close the campus follows 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, 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 expects to record costs associated with the closure in 2018 in the range of \$3.5 million to \$4.5 million including \$2 million in connection with the termination of the LCNE campus lease, which will be paid in equal monthly installments through January 2020, and approximately \$700,000 of severance payments. LCNE results, which was previously reported in the HOPS segment, is now included in the Transitional segment as of September 30, 2018. The Company expects to complete the teach-out and close the LCNE campus by 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 September 30, 2018, the Company’s sources of cash primarily included cash and cash equivalents of \$18.0 million (of which \$7.8 million is restricted). The Company’s cash balance is affected by seasonality such that the cash balance is lower in the first half of the year and increases in the second half of the year. Refer to Note 5 for more information on the Company’s revolving loan facility. 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, 2017 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, 2017, reflect all adjustments, consisting of normal recurring adjustments necessary to present fairly the consolidated financial position, results of operations and cash flows for such periods. The results of operations for the nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the full fiscal year ending December 31, 2018.

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 reported period. On an ongoing basis, the Company evaluates the estimates and assumptions used in the preparation of its financial statements, including those related to revenue recognition, bad debts, impairments, fixed assets, 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 condensed consolidated financial statements and related disclosures.

The FASB has issued ASU 2017-09, “Compensation—Stock Compensation (Topic 718) — Scope of Modification Accounting.” ASU 2017-09 applies to entities that change the terms or conditions of a share-based payment award. The FASB adopted ASU 2017-09 to provide clarity and reduce diversity in practice as well as cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to the modification of the terms and conditions of a share-based payment award. The amendments provide guidance on determining which changes to the terms and conditions of share-based payment award require an entity to apply modification accounting under Topic 718. ASU 2017-09 is effective for all entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for public business entities for reporting periods for which financial statements have not yet been issued. The adoption of ASU 2017-09, which was adopted on January 1, 2018, had no impact on the Company’s condensed 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 is in the process of assessing the impact this standard will have on our consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU 2016-18: “Statement of Cash Flows (Topic 230): Restricted Cash.” This guidance was issued to address the disparity that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendments will require that the statement of cash flows explain the change during the period in total cash, cash equivalents and restricted cash. The amendments are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We adopted the new standard effective January 1, 2018. The amendments were applied using a retrospective transition method to each period presented. The Company includes in its cash and cash-equivalent balances in the condensed consolidated statements of cash flows those amounts that have been classified as restricted cash and restricted cash equivalents for each of the periods presented.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments” to address eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We adopted the new standard effective January 1, 2018. The adoption of ASU 2016-15 had no impact on the Company’s condensed consolidated financial statements.

In May 2014, the FASB issued a comprehensive new revenue recognition standard, ASU 2014-09, “*Revenue from Contracts with Customers*.” The amendments include ASU 2016-08, “Revenue from Contracts with Customers (Topic 606)—Principal versus Agent Considerations,” issued in March 2016, which clarifies the implementation guidance for principal versus agent considerations in ASU 2014-09, and ASU 2016-10, “Revenue from Contracts with Customers (Topic 606)—Identifying Performance Obligations and Licensing,” issued in April 2016, which amends the guidance in ASU No. 2014-09 related to identifying performance obligations. The new standard, which supersedes previously existing revenue recognition guidance, creates a five-step model for revenue recognition requiring companies to exercise judgment when considering contract terms and relevant facts and circumstances. The five-step model requires (1) identifying the contract, (2) identifying the separate performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations and (5) recognizing revenue at the time that each performance obligation is satisfied. The standard also requires expanded disclosures surrounding revenue recognition. The standard is effective for fiscal periods beginning after December 15, 2017 and allows for either full retrospective or modified retrospective adoption.

[Index](#)

We adopted the new standard effective January 1, 2018 using the modified retrospective approach. The Company's revenue streams primarily consist of tuition and related services provided to students over the course of the program as well as other transactional revenue such as tools. Based on the Company's assessment, the analysis of the contract portfolio under ASU 2016-10 results in the revenue for the majority of the Company's student contracts being recognized over time which is consistent with the Company's previous revenue recognition model. For all student contracts, there is continuous transfer of control to the student and the number of performance obligations under ASU 2016-10 is consistent with those identified under the existing standard. The impact of the adoption of the new standard on revenue recognition for student contracts is immaterial on its condensed consolidated financial statements. See additional information in Note 3.

In February 2016, the FASB issued guidance requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for substantially all leases, with the exception of short-term leases. Leases will be classified as either financing or operating, with classification affecting the pattern of expense recognition in the statements of income. The guidance is effective for annual periods, including interim periods within those periods, beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the impact that the update will have on the Company's condensed consolidated financial statements and we plan on adopting this on January 1, 2019.

**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 on a 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" ("ASC 740"). 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. See information regarding the impact of the Tax Cuts and Jobs Act in Note 7.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. During the three and nine months ended September 30, 2018 and 2017, 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 and nine months ended September 30, 2018 and 2017 was as follows:

	Three Months Ended September, 30		Nine Months Ended September, 30	
	2018	2017	2018	2017
Basic shares outstanding	24,532,648	24,023,540	24,386,689	23,866,485
Dilutive effect of stock options	-	-	-	-
Diluted shares outstanding	<u>24,532,648</u>	<u>24,023,540</u>	<u>24,386,689</u>	<u>23,866,485</u>

For the three months ended September 30, 2018 and 2017, options to acquire 26,083 and 552,189 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 nine months ended September 30, 2018 and 2017, options to acquire 57,680 and 572,428 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 and nine months ended September 30, 2018 and 2017, options to acquire 139,000 and 170,667 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*****Prior to adoption of ASU 2014-09***

Revenues are derived primarily from programs taught at our schools. Tuition revenues, textbook sales and one-time fees, such as nonrefundable application fees and course material fees, are recognized on a straight-line basis over the length of the applicable program as the student proceeds through the program, which is the period of time from a student's start date through his or her graduation date (including internships or externships, if any, occurring prior to graduation), and we complete the performance of teaching the student entitling us to the revenue. Other revenues, such as tool sales and contract training revenues, are recognized as goods are delivered or training completed. On an individual student basis, tuition earned in excess of cash received is recorded as accounts receivable, and cash received in excess of tuition earned is recorded as unearned tuition.

We evaluate whether collectability of revenue is reasonably assured prior to the student commencing a program by attending class and reassess collectability of tuition and fees when a student withdraws from a course. We calculate the amount to be returned under Title IV and its stated refund policy to determine eligible charges and, if there is a balance due from the student after this calculation, we expect payment from the student. We have a process to pursue uncollected accounts whereby, based upon the student's financial means and ability to pay, a payment plan is established with the student to ensure that collectability is reasonable. We continuously monitor our historical collections to identify potential trends that may impact our determination that collectability of receivables for withdrawn students is realizable. If a student withdraws from a program prior to a specified date, any paid but unearned tuition is refunded. Refunds are calculated and paid in accordance with federal, state and accrediting agency standards. Generally, the amount to be refunded to a student is calculated based upon the period of time the student has attended classes and the amount of tuition and fees paid by the student as of his or her withdrawal date. These refunds typically reduce deferred tuition revenue and cash on our condensed consolidated balance sheets as we generally do not recognize tuition revenue in our condensed consolidated statements of income (loss) until the related refund provisions have lapsed. Based on the application of our refund policies, we may be entitled to incremental revenue on the day the student withdraws from one of our schools. We record revenue for students who withdraw from one of our schools when payment is received because collectability on an individual student basis is not reasonably assured.

***After adoption of ASU 2014-09***

On January 1, 2018, we adopted the new standard on revenue recognition, ASU 2014-09, using the modified retrospective approach of ASU 2016-10. The adoption of the guidance in ASU 2014-09 as amended by ASU 2016-10 did not have a material impact on the measurement or recognition of revenue in any prior or current reporting periods and there was no adjustment to retained earnings. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to students in an amount that reflects the consideration to which the company expects to be entitled in exchange for such goods or services.

[Index](#)

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 is the only significant contract asset or liability impacted by our adoption of ASU 2016-10. Unearned tuition in the amount of \$21.5 million and \$24.6 million is recorded in the current liabilities section of the accompanying condensed consolidated balance sheets as of September 30, 2018 and December 31, 2017, respectively. The change in the contract liability balance during the period ended September 30, 2018 is the result of payments received in advance of satisfying performance obligations, offset by revenue recognized during that period. Revenue recognized for the three and nine month periods ended September 30, 2018 that were included in the contract liability balance at the beginning of the year was \$0.3 million and \$23.5 million, respectively.

The following table depicts the timing of revenue recognition:

	<u>Three months ended September 30, 2018</u>				<u>Nine months ended September 30, 2018</u>			
	<u>Transportation and Skilled Trades Segment</u>	<u>Healthcare and Other Professions Segment</u>	<u>Transitional Segment</u>	<u>Consolidated</u>	<u>Transportation and Skilled Trades Segment</u>	<u>Healthcare and Other Professions Segment</u>	<u>Transitional Segment</u>	<u>Consolidated</u>
<b>Timing of Revenue Recognition</b>								
Services transferred at a point in time	\$ 4,514	\$ 1,162	\$ 56	\$ 5,732	\$ 8,219	\$ 2,847	\$ 62	\$ 11,128
Services transferred over time	46,492	17,089	765	64,346	127,619	49,707	4,633	181,959
<b>Total revenues</b>	<b>\$ 51,006</b>	<b>\$ 18,251</b>	<b>\$ 821</b>	<b>\$ 70,078</b>	<b>\$ 135,838</b>	<b>\$ 52,554</b>	<b>\$ 4,695</b>	<b>\$ 193,087</b>

	<u>Three months ended September 30, 2017</u>				<u>Nine months ended September 30, 2017</u>			
	<u>Transportation and Skilled Trades Segment</u>	<u>Healthcare and Other Professions Segment</u>	<u>Transitional Segment</u>	<u>Consolidated</u>	<u>Transportation and Skilled Trades Segment</u>	<u>Healthcare and Other Professions Segment</u>	<u>Transitional Segment</u>	<u>Consolidated</u>
<b>Timing of Revenue Recognition</b>								
Services transferred at a point in time	\$ 3,799	\$ 902	\$ 78	\$ 4,779	\$ 7,173	\$ 2,199	\$ 10	\$ 9,382
Services transferred over time	44,996	14,988	2,545	62,529	127,111	44,271	13,688	185,070
<b>Total revenues</b>	<b>\$ 48,795</b>	<b>\$ 15,890</b>	<b>\$ 2,623</b>	<b>\$ 67,308</b>	<b>\$ 134,284</b>	<b>\$ 46,470</b>	<b>\$ 13,698</b>	<b>\$ 194,452</b>

#### 4. 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 and nine months ended September 30, 2018 and 2017.

The Company reviews goodwill for impairment when indicators of impairment exist. Annually, or more frequently if necessary, the Company evaluates goodwill with indefinite lives for impairment, with any resulting impairment reflected as an operating expense. As of September 30, 2018 and 2017, the Company concluded that there was no indicator of potential impairment and, accordingly, the Company did not test goodwill for impairment.

The carrying amount of goodwill at September 30, 2018 and 2017 is as follows:

	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 September 30, 2018	<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, 2017	\$ 117,176	\$ (102,640)	\$ 14,536
Adjustments	-	-	-
Balance as of September 30, 2017	<u>\$ 117,176</u>	<u>\$ (102,640)</u>	<u>\$ 14,536</u>

As of September 30, 2018 and 2017, the goodwill balance is related to the Transportation and Skilled Trades segment.

## 5. LONG-TERM DEBT

Long-term debt consists of the following:

	September 30, 2018	December 31, 2017
Credit agreement	\$ 25,000	\$ 53,400
Deferred Financing Fees	(626)	(807)
	24,374	52,593
Less current maturities	-	-
	<u>\$ 24,374</u>	<u>\$ 52,593</u>

On March 31, 2017, the Company entered into a secured revolving credit agreement (the "Credit Agreement") with Sterling National Bank (the "Bank") pursuant to which the Company obtained a credit facility in the aggregate principal amount of up to \$55 million (the "Credit Facility"). Subsequently, as a result of a November 29, 2017 amendment of the Credit Facility, aggregate availability of funds under the Credit Facility increased to \$65 million, consisting of (a) a \$25 million revolving loan facility ("Facility 1"), (b) a \$25 million revolving loan facility ("Facility 2"), which includes a sublimit amount for letters of credit of \$10 million, and (c) a \$15 million revolving credit loan ("Facility 3"). The Credit Agreement was again amended on February 23, 2018, to, among other things, effect certain modifications to the financial covenants and other provisions of the Credit Agreement and to allow the Company to pursue the sale of certain real property assets. The February 23, 2018 amendment increased the interest rate for borrowings under Facility 1 to a rate per annum equal to the greater of (x) the Bank's prime rate plus 2.85% and (y) 6.00%. Prior to the February 23, 2018 amendment of the Credit Agreement, revolving loans outstanding under Facility 1 bore interest at a rate per annum equal to the greater of (x) the Bank's prime rate plus 2.50% and (y) 6.00%. Revolving loans under Facility 2 and Facility 3 bear interest at a rate per annum equal to the greater of (x) the Bank's prime rate and (y) 3.50%. As discussed in Note 1, pursuant to the most recent amendment of the Credit Agreement, which occurred on July 11, 2018, the Bank permitted the net proceeds of the sale of the Mangonia Park Property to be deposited into a non-interest bearing cash collateral account to be held at and by the Bank as additional collateral for the loans outstanding under the Credit Facility, but reserved the right to apply the funds held in such cash collateral account to the repayment of the outstanding principal balance of the loans outstanding under the Credit Facility. Prior to this most recent amendment of the Credit Agreement, the Company was required to apply the net proceeds of such sale to repay a corresponding amount of the outstanding principal balance of revolving loans provided under the Credit Facility, which repayment of principal would have permanently reduced the principal amount of revolving loans available under the Credit Facility.

The term of the Credit Facility is 38 months, maturing on May 31, 2020, except that Facility 3 will mature one year earlier, on May 31, 2019.

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 as well as 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.



[Index](#)

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

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 draws from Facility 1 or other available cash of the Company.

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 provide that the Bank be paid an unused facility fee on the average daily unused balance of Facility 1 at a rate per annum equal to 0.50%, which fee is payable quarterly in arrears. In addition, the Company is required 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, including financial covenants that restrict capital expenditures, prohibit the incurrence of a net loss for any fiscal year commencing with the fiscal year ending December 31, 2019 and require a minimum adjusted EBITDA and a minimum tangible net worth, which is an annual covenant, as well as events of default customary for facilities of this type. As of September 30, 2018, the Company is in compliance with all covenants.

As of September 30, 2018, the Company had \$25.0 million outstanding under the Credit Facility; offset by \$0.6 million of deferred finance fees. As of December 31, 2017, the Company had \$53.4 million outstanding under the Credit Facility; offset by \$0.8 million of deferred finance fees. As of September 30, 2018 and December 31, 2017, letters of credit in the aggregate principal amount of \$5.5 million and \$7.2 million, respectively, were outstanding under the Credit Facility. During the nine months ended September 30, 2018, the Company repaid all outstanding amounts as of December 31, 2017 on Facility 2 of \$17.8 million and Facility 3 of \$15 million.

Scheduled maturities of long-term debt at September 30, 2018 are as follows:

<u>Year ending December 31,</u>	
2018	\$ -
2019	-
2020	25,000
	<u>\$ 25,000</u>

## 6. 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 of the Company based on service and performance. The number of shares granted to each such employee is based on the fair market value of a share of common stock on the date of grant.

On February 23, 2018, restricted shares of common stock of the Company were granted to certain employees of the Company, which shares vested immediately. There is no restriction on the right to vote or the right to receive dividends with respect to any of such restricted shares; however, the recipient can only sell or otherwise transfer the shares after the expiration of a specified period of time ranging from 120 to 240 days following the date of grant.

On May 13, 2016 and January 16, 2017, performance-based restricted shares were granted to certain employees of the Company, which vest on March 15, 2017 and March 15, 2018 based upon the attainment of a financial metric during each fiscal year ending December 31, 2016 and 2017. These shares were fully vested as of March 31, 2018 and are held without restriction.

[Index](#)

On June 2, 2014 and December 18, 2014, performance-based restricted shares were granted to certain employees of the Company, which vest over three years based upon the attainment of (i) a specified operating income margin during any one or more of the fiscal years in the period beginning January 1, 2015 and ending December 31, 2017 and (ii) the attainment of earnings before interest, taxes, depreciation and amortization targets during each of the fiscal years ended December 31, 2015 through 2017. There is no restriction on the right to vote or the right to receive dividends with respect to any of these 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 of the Company 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. In 2018, the non-employee directors have foregone the 2018 annual award of shares of restricted stock.

For the nine months ended September 30, 2018 and 2017, the Company completed a net share settlement for 207,642 and 184,231 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 2018 and/or 2017, 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 \$0.4 million for each of the nine months ended September 30, 2018 and 2017, 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:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value Per Share</u>
Nonvested restricted stock outstanding at December 31, 2017	607,994	\$ 1.90
Granted	135,568	1.60
Canceled	-	-
Vested	<u>(707,654)</u>	1.82
Nonvested restricted stock outstanding at September 30, 2018	<u>35,908</u>	2.23

The restricted stock expense for each of the three months ended September 30, 2018 and 2017 was less than \$0.1 million and \$0.3 million, respectively. The restricted stock expense for each of the nine months ended September 30, 2018 and 2017 was \$0.5 million and \$0.9 million, respectively. The unrecognized restricted stock expense as of September 30, 2018 and December 31, 2017 was \$0.1 million and \$0.3 million, respectively. As of September 30, 2018, outstanding restricted shares under the LTIP had aggregate intrinsic value of \$0.1 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, 2017	167,667	\$ 12.11	2.97 years	\$ -
Canceled	<u>(28,667)</u>	11.98		-
Outstanding at September 30, 2018	<u>139,000</u>	12.14	3.04 years	-
Vested as of September 30, 2018	<u>139,000</u>	12.14	3.04 years	-
Exercisable as of September 30, 2018	<u>139,000</u>	12.14	3.04 years	-

As of September 30, 2018, there was no unrecognized pre-tax compensation expense.

The following table presents a summary of stock options outstanding:

<b>At September 30, 2018</b>				
<b>Stock Options Outstanding and Exercisable</b>				
Range of Exercise Prices	Shares	Contractual Weighted Average Life (years)	Weighted Average Price	
\$ 4.00-\$13.99	91,000	3.67	\$ 7.79	
\$ 14.00-\$19.99	17,000	1.34	19.98	
\$ 20.00-\$25.00	<u>31,000</u>	2.10	20.62	
	<u>139,000</u>	3.04	12.14	

**7. INCOME TAXES**

The provision for income taxes for the three months ended September 30, 2018 and 2017 was less than \$0.1 million, or 9.1% of pretax loss, and less than \$0.1 million, or 3.5% of pretax loss, respectively. The provision for income taxes for the nine months ended September 30, 2018 and 2017 was \$0.2 million, or 1.3% of pretax loss, and \$0.2 million, or 0.8% 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 September 30, 2018.

As of September 30, 2018 and December 31, 2017, the Company had not completed its accounting for the tax effects of enactment of the Tax Act; however, the Company has made a reasonable estimate of the effects of the Tax Act's change in the federal rate and revalued its deferred tax assets based on the rates at which they are expected to reverse in the future, which is generally the new 21% federal corporate tax rate plus applicable state tax rate. Based on the Company's initial analysis of the impact, it consequently recorded a decrease related to deferred tax assets of \$17.7 million as of December 31, 2017. The expense is offset with a corresponding release of valuation allowance. As of September 30, 2018, the Company is continuing to gather additional information to complete its accounting for these items and expects to complete its accounting within the prescribed measurement period.

## 8. CONTINGENCIES

In the ordinary conduct of its business, the Company is subject to lawsuits, investigations and claims, including, but not limited to, claims involving students or graduates and routine employment matters. Although the Company cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against it, the Company does not believe that any currently pending legal 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.

On July 6, 2018, the Company received an administrative subpoena from the Attorney General of the State of New Jersey. Pursuant to the subpoena, New Jersey's Attorney General has requested from the Company documents and detailed information relating to the November 21, 2012, Civil Investigative Demand letter addressed to the Company from the Massachusetts Office of the Attorney General ("MOAG") that resulted in a Final Judgment by Consent between the Company and the MOAG dated July 13, 2015. The Company has responded to this request and intends to continue cooperating with the New Jersey Attorney General's Office.

## 9. 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-outs 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 are included in the Transitional segment as of December 31, 2017.

As discussed in Note 1 under *Business Activities*, on August 20, 2018, the Company decided to close the Lincoln College of New England campus at Southington, Connecticut. The Company expects to complete a teach-out and to close the campus by December 31, 2018. The results of this campus, which were originally reported in the HOPS segment, will now be included in the Transitional segment as of September 30, 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.

[Index](#)

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.

During the three and nine months ended September 30, 2018, September 30, 2017 and at December 31, 2017, the Company reclassified its Marietta, Georgia campus from the HOPS segment to the Transportation and Skilled Trades segment. This reclassification occurred to address how the Company evaluates performance and allocates resources and was approved by the Company’s Board of Directors.

On August 20, 2018, the Company decided to teach-out the LCNE campus at Southington, Connecticut. LCNE results, which was previously reported in the HOPS segment, is now included in the Transitional segment as of September 30, 2018 and 2017. The Company expects to complete the teach-out and exit the LCNE campus by December 31, 2018.

Summary financial information by reporting segment is as follows:

	For the Three Months Ended September 30,					
	Revenue			Operating Income (Loss)		
	2018	% of Total	2017	% of Total	2018	2017
Transportation and Skilled Trades	\$ 51,008	72.8%	\$ 48,795	72.5%	\$ 6,330	\$ 6,121
Healthcare and Other Professions	18,249	26.0%	15,890	23.6%	830	276
Transitional	821	1.2%	2,623	3.9%	(1,863)	(3,406)
Corporate	-	0.0%	-	0.0%	(5,221)	(3,722)
Total	\$ 70,078	100.0%	\$ 67,308	100.0%	\$ 76	\$ (731)

	For the Nine Months Ended September 30,					
	Revenue			Operating Income (Loss)		
	2018	% of Total	2017	% of Total	2018	2017
Transportation and Skilled Trades	\$ 135,838	70.4%	\$ 134,285	69.1%	\$ 8,747	\$ 8,806
Healthcare and Other Professions	52,554	27.2%	46,470	23.9%	2,747	914
Transitional	4,695	2.4%	13,697	7.0%	(2,899)	(5,703)
Corporate	-	0.0%	-	0.0%	(18,305)	(16,507)
Total	\$ 193,087	100.0%	\$ 194,452	100.0%	\$ (9,710)	\$ (12,490)

	Total Assets	
	September 30, 2018	December 31, 2017
Transportation and Skilled Trades	\$ 86,230	\$ 81,752
Healthcare and Other Professions	11,551	9,143
Transitional	-	3,965
Corporate	24,800	60,353
Total	\$ 122,581	\$ 155,213

**10. 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:

	September 30, 2018				
	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	\$ 10,183	\$ 10,183	\$ -	\$ -	\$ 10,183
Restricted cash	7,820	7,820	-	-	7,820
Prepaid expenses and other current assets	2,213	-	2,213	-	2,213
<b>Financial Liabilities:</b>					
Accrued expenses	\$ 13,783	\$ -	\$ 13,783	\$ -	\$ 13,783
Other short term liabilities	557	-	557	-	557
Credit facility	24,374	-	20,043	-	20,043
	December 31, 2017				
	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	\$ 14,563	\$ 14,563	\$ -	\$ -	\$ 14,563
Restricted cash	39,991	39,991	-	-	39,991
Prepaid expenses and other current assets	2,352	-	2,352	-	2,352
<b>Financial Liabilities:</b>					
Accrued expenses	\$ 11,771	\$ -	\$ 11,771	\$ -	\$ 11,771
Other short term liabilities	558	-	558	-	558
Credit facility	52,593	-	47,200	-	47,200

We estimate fair value of Facility 1 of the Credit Facility based on a present value analysis utilizing aggregated market yields obtained from independent pricing sources for similar financial instruments.

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 and Accrued expenses and Other short term liabilities approximate fair value due to the short-term nature of these items.

**11. 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 \$0.4 million for the nine months ended September 30, 2018. 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 regarding Lincoln Educational Services Corporation may contain forward-looking statements regarding our business, prospects and 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, 2017, 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, 2017, as filed with the SEC, which includes audited consolidated financial statements for our three fiscal years ended December 31, 2017.

### **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 23 schools in 14 states, offers programs in automotive technology, skilled trades (which, among other programs, include HVAC, welding and computerized numerical control and electronic systems technology), healthcare services (which, among other programs, include nursing, dental assistant, medical administrative assistant and pharmacy technician), hospitality services (which include culinary, therapeutic massage, cosmetology and aesthetics) and business and information technology (which includes information technology and criminal justice programs). The schools operate under Lincoln Technical Institute, Lincoln College of Technology, Lincoln College of New England, 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 of 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) the Transportation and Skilled Trades segment, (b) the Healthcare and Other Professions ("HOPS") segment, and (c) the Transitional segment, which consists of schools that have been or are currently being taught out. In November 2015, the Board of Directors of the Company approved a plan for the Company to divest the 18 campuses then comprising the HOPS segment due to a strategic shift in the Company's business strategy. The Company underwent an exhaustive process to divest HOPS schools which proved successful in attracting various purchasers but, ultimately, did not result in a transaction that our Board believed would enhance shareholder value. By the end of 2017, we had closed seven underperforming campuses leaving a total of 11 campuses remaining under the HOPS segment. The Company believes that the closures of the aforementioned campuses have positioned the HOPS segment and the Company to be more profitable going forward.

The combination of several factors, including the inability of a prospective buyer of the HOPS segment to close on the purchase, the improvements the Company has implemented in the HOPS segment operations and the closure of seven underperforming campuses, resulted in the Board reevaluating its divestiture plan and the Board's determination that shareholder value would more likely be enhanced by continuing to operate our HOPS segment as revitalized. Consequently, the Board of Directors has abandoned the plan to divest the HOPS segment and the Company now intends to retain and continues to operate the remaining campuses in the HOPS segment. The results of operations of the campuses included in the HOPS segment are reflected as continuing operations in the consolidated financial statements.

In 2016, the Company completed the teach-out of its Hartford, Connecticut; Fern Park, Florida; and Henderson (Green Valley), Nevada campuses, which originally operated in the HOPS segment. In 2017, the Company completed the teach-out of its Northeast Philadelphia, Pennsylvania; Center City Philadelphia, Pennsylvania; West Palm Beach, Florida; Brockton, Massachusetts; and Lowell, Massachusetts schools, which also were previously in our HOPS segment and all of which were taught out and closed by December 2017 and are included in the Transitional segment as of December 31, 2017.

## [Index](#)

On August 14, 2017, New England Institute of Technology at Palm Beach, Inc. (“NEIT”), a wholly-owned subsidiary of the Company, consummated the sale of the real property located at 2400 and 2410 Metrocentre Boulevard East, West Palm Beach, Florida, including the improvements and other personal property located thereon (the “West Palm Beach Property”), to Tambone Companies, LLC, pursuant to a previously disclosed purchase and sale agreement entered into on March 14, 2017. Pursuant to the terms of the sale agreement, as subsequently amended, the purchase price for the West Palm Beach Property was \$15.8 million. As a result, the Company recorded a gain on the sale in the amount of \$1.5 million. As previously disclosed, the West Palm Beach Property served as collateral for a short term loan in the principal amount of \$8.0 million obtained by the Company from its lender, Sterling National Bank, on April 28, 2017, which loan matured upon the earlier of the sale of the West Palm Beach Property or October 1, 2017. Accordingly, on August 14, 2017, concurrently with the consummation of the sale of the West Palm Beach Property, the Company repaid the term loan in an aggregate amount of \$8.0 million, consisting of principal and accrued interest.

On July 9, 2018, NEIT 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 53<sup>rd</sup> 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 Agreement.

On July 11, 2018, the Company and its wholly-owned subsidiaries (collectively with the Company, the “Borrowers”) entered into a third amendment (the “Third Amendment”) of the Credit Agreement dated as of March 31, 2017 (as previously amended, the “Credit Agreement”) between the Borrowers and Sterling National Bank, as lender (the “Bank”). Prior to the Third Amendment, if the Mangonia Park Property was sold, NEIT was required to apply the net proceeds of such sale to repay a corresponding amount of the outstanding principal balance of revolving loans provided under the Credit Agreement, which repayment of principal would permanently reduce the principal amount of revolving loans available under the Credit Agreement. As a result of the Third Amendment, when the Mangonia Park Property was sold, NEIT deposited the net proceeds of such sale into a non-interest bearing cash collateral account to be held at and by the Bank as additional collateral for the loans outstanding under the Credit Agreement. Pursuant to the Third Amendment, the Bank reserves the right to apply the funds held in such cash collateral account to the repayment of the outstanding principal balance of the loans outstanding under the Credit Agreement.

On August 20, 2018, the Company decided to cease operations, effective December 31, 2018, at the Lincoln College of New England (“LCNE”) campus at Southington, Connecticut. The decision to close the campus follows 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, 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 expects to record costs associated with the closure in 2018 in the range of \$3.5 million to \$4.5 million, including \$2 million in connection with the termination of the LCNE campus lease, which will be paid in equal monthly installments through January 2020, and approximately \$700,000 of severance payments. LCNE results, which was previously reported in the HOPS segment, is now included in the Transitional segment as of September 30, 2018. The Company expects to complete the teach-out and close the LCNE campus by December 31, 2018.

As of September 30, 2018, we had 11,732 students enrolled at 23 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 of the notes to the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. For Revenue Recognition refer to Note 3 to the condensed consolidated financial statements contained herein.

### **Effect of Inflation**

Inflation has not had a material effect on our operations.



**Results of Continuing Operations**

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Educational services and facilities	49.4%	52.4%	49.3%	51.2%
Selling, general and administrative	56.4%	57.4%	58.5%	58.1%
Loss (gain) on sale of assets	0.0%	-0.1%	0.1%	-0.1%
Total costs and expenses	105.8%	109.7%	107.9%	109.2%
Operating loss	-5.8%	-9.7%	-7.9%	-9.2%
Interest expense, net	-0.8%	-1.1%	-0.9%	-4.6%
Loss from operations before income taxes	-6.6%	-10.8%	-8.8%	-13.8%
Provision for income taxes	0.1%	0.1%	0.1%	0.1%
Net Loss	-6.7%	-10.9%	-8.9%	-13.9%

**Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017****Consolidated Results of Operations**

**Revenue.** Revenue increased by \$2.8 million, or 4.1%, to \$70.1 million for the three months ended September 30, 2018 from \$67.3 million in the prior year comparable period. Increased revenue was a result of four consecutive quarters of start growth, excluding the Transitional segment, which has helped drive a 3.6% and 12.6% increase in average student population for the Transportation and Skilled Trades segment and the HOPS segment, respectively. Excluding the Transitional segment, which had revenue of \$0.8 million for the three months ended September 30, 2018 compared to \$2.6 million in the prior year comparable period, revenue would have increased by \$4.6 million, or 7.1% quarter over quarter.

Total student starts increased by 4.7% for the three months ended September 30, 2018 as compared to the prior year comparable period. Excluding the Transitional segment student starts would have increased 7.5% quarter over quarter. We attribute this growth to continued investments in marketing, enhanced high school programs and improved admissions process driving more consistency from lead to 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 \$0.6 million, or 1.7%, to \$33.5 million for the three months ended September 30, 2018 from \$34.1 million in the prior year comparable period. The expense reductions were primarily due to the Transitional segment which accounted for \$1.8 million in cost savings, partially offset by \$1.0 million in additional books and tools expense and \$0.2 million in additional instructional expenses. Increases in books and tools expense were a result of the correlation between providing laptops for a growing number of program offerings and an increased student population. Educational services and facilities expense as a percentage of revenue decreased to 47.8% for the three months ended September 30, 2018 from 50.6% in the prior year comparable period.

**Selling, general and administrative expense.** Our selling, general and administrative expense increased by \$0.6 million, or 1.7%, to \$36.1 million for the three months ended September 30, 2018 from \$35.5 million in the prior year comparable period. The Transitional segment and corporate accounted for \$1.6 million and \$0.5 million in cost reductions, which were fully offset by increased selling, general and administrative expenses. The increase in expenses were due to higher bad debt expense of \$2.0 million and increased marketing expense of \$1.0 million. Bad debt expense has increased due to larger reserves, driven by a higher accounts receivable balance. The Company’s accounts receivable during the quarter was impacted by an increased number of student files selected for verification by the Department of Education. Consequently, this has resulted in additional documentation requests for students before the disbursement of scheduled funding. The change in the verification process has impacted the entire industry and has driven our average verification rate, which had been historically about 25%, to between 25% and 60%. Management expects this issue to normalize in the fourth quarter of 2018.

[Index](#)

Marketing investments during the three months ended September 30, 2018 were approximately \$1.0 million over the prior year, \$0.4 million of which was for creative development. While marketing investments have increased in the current quarter, the cost to obtain prospective students has remained essentially flat when compared to the prior year. Marketing dollars are providing a return on investment and are expected to yield start growth over the next several quarters.

Selling general and administrative expense, as a percentage of revenue decreased to 51.5% for the three months ended September 30, 2018 from 52.7% in the prior year comparable period.

**Loss (gain) on sale of asset.** Loss on sale of assets increased to \$0.4 million for the three months ended September 30, 2018, from a gain on sale of asset of \$1.5 million in the prior year comparable period. The \$2.0 million increase was primarily driven by a \$0.4 million loss on the sale of the Mangonia Park Property on August 23, 2018; and a \$1.5 million gain in the prior year comparable quarter resulting from the sale of the West Palm Beach Property on August 14, 2017.

**Net interest expense.** Net interest expense for the three months ended September 30, 2018 decreased by \$1.0 million, or 11.7%, to \$0.6 million from \$0.7 million in the prior year comparable period. The expense reduction was due to additional interest expense incurred in the prior year in relation to an \$8.0 million bridge term loan secured by our West Palm Beach Property. The bridge term loan was repaid in August 2017 upon the sale of the West Palm Beach Property.

**Income taxes.** Our provision for income taxes was \$0.1 million, or 9.1% of pretax loss, for the three months ended September 30, 2018, compared to a provision for income taxes of \$0.1 million, or 3.5% of pretax loss, in the prior year comparable period.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act, among other things, eliminates the corporate alternative minimum tax (the "AMT") and changes how existing AMT credits can be realized either to offset regular tax liability or to be refunded.

As of September 30, 2018 we have not completed our analysis of the tax effects of enactment of the Tax Act; however, we have made a reasonable estimate of the effects of the Tax Act's change in the federal rate and revalued our deferred tax assets based on the rates at which they are expected to reverse in the future, which is generally the new 21% federal corporate tax rate plus applicable state tax rate. Based on our initial analysis of the impact, we recorded a decrease related to deferred tax assets of \$17.7 million at December 31, 2017. The expense is offset with a corresponding release of valuation allowance.

No other federal or state income tax benefit was recognized for the current period loss due to the recognition of a full valuation allowance.

#### **Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017**

##### **Consolidated Results of Operations**

**Revenue.** Revenue decreased by \$1.4 million, or 0.7%, to \$193.1 million for the nine months ended September 30, 2018 from \$194.5 million in the prior year comparable period. This decrease was driven by the Transitional segment which accounted for \$9.0 million in reduced revenue year over year. Excluding the Transitional segment, which had revenue of \$4.7 million for the nine months ended September 30, 2018 compared to \$13.7 million in the prior year comparable period, revenue would have increased by \$7.6 million, or 4.2%. Increased revenue was a result of an increased student population due to four consecutive quarters of start growth in combination with an increase in average revenue per student for the Transportation and Skilled Trades segment and the HOPS segment.

Total student starts increased by 4.4% for the nine months ended September 30, 2018 as compared to the prior year comparable period. Excluding the Transitional segment, student starts would have increased 6.8% year over year. We attribute this growth to continued investments in marketing, enhanced high school programs and improved admissions process driving more consistency from lead to 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 \$5.0 million, or 5.1%, to \$94.2 million for the nine months ended September 30, 2018 from \$99.2 million in the prior year comparable period. The expense reductions were primarily due to the Transitional segment, which accounted for \$6.8 million in cost savings partially offset by \$1.6 million in additional books and tools expense and \$0.3 million in additional instructional expenses. The increase in books and tools expense was a result of the correlation between providing laptops for a growing number of program offerings and an increased student population.

Educational services and facilities expense as a percentage of revenue decreased to 48.8% for the nine months ended September 30, 2018 from 51.0% in the prior year comparable period.

**Selling, general and administrative expense.** Our selling, general and administrative expense decreased by \$1.3 million, or 1.2%, to \$108.1 million for the nine months ended September 30, 2018 from \$109.4 million in the prior year comparable period. The Transitional segment and corporate accounted for \$5.1 million and \$0.3 million, respectively, in cost reductions, which were partially offset by increased selling, general and administrative expenses. The increase in expenses were due to higher bad debt expense of \$2.5 million and increased marketing expense of \$2.2 million. Bad debt expense has increased due to larger reserves, driven by a higher accounts receivable balance. The Company's accounts receivable during the quarter was impacted by an increased number of student files selected for verification by the Department of Education. Consequently, this has resulted in additional documentation requests for students before the disbursement of scheduled funding. The change in the verification process has impacted the entire industry and has driven our average verification rate, which had been historically about 25%, to between 25% and 60%. Management expects this issue to normalize in the fourth quarter of 2018.

Marketing investments during the nine months ended September 30, 2018 were approximately \$2.2 million over the prior year, \$0.8 million of which was for creative development. While marketing investments have increased in the current quarter, the cost to obtain prospective students has remained essentially flat when compared to the prior year. Marketing dollars are providing a return on investment and are expected to yield start growth over the next several quarters.

Selling, general and administrative expense as a percentage of revenue decreased to 56.0% for the nine months ended September 30, 2018 from 56.3% in the prior year comparable period.

As of September 30, 2018, we had total outstanding loan commitments to our students of \$59.1 million, as compared to \$51.9 million at December 31, 2017. The increase was due to an increased number of students electing to take our institutional loans to finance their education costs that are not covered by a third party or financial aid. Our institutional loans constitute loans of last resort, available to assist our most financially challenged students. Further contributing to the increase in loan commitments is a notable increase in student population and seasonality of the business.

**Loss (gain) on sale of asset.** Loss on sale of assets increased to \$0.5 million for the nine months ended September 30, 2018, from a gain on sale of asset of \$1.6 million in the prior year comparable period. The \$2.1 million increase was primarily driven by a \$0.4 million loss on the sale of the Mangonia Park Property on August 23, 2018 and a \$1.5 million gain in the prior year comparable quarter resulting from the sale of the West Palm Beach Property on August 14, 2017.

**Net interest expense.** Net interest expense for the nine months ended September 30, 2018 decreased by \$4.8 million, or 73.8%, to \$1.7 million from \$6.6 million in the prior year comparable period. The decrease was the result of the termination of our previous term loan which yielded significantly higher rates and the related fees and expenses associated with its early termination, which occurred on March 31, 2017. Additional interest expense was also incurred in the prior year in relation to an \$8.0 million bridge term loan secured by our West Palm Beach Property, which was repaid in August 2017.

**Income taxes.** Our provision for income taxes was \$0.2 million, or 1.3% of pretax loss, for the nine months ended September 30, 2018, compared to a provision for income taxes of \$0.2 million, or 0.8% of pretax loss, in the prior year comparable period.

As noted above, on December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act, among other things, eliminates the corporate alternative minimum tax (the "AMT") and changes how existing AMT credits can be realized either to offset regular tax liability or to be refunded.

As of September 30, 2018, we have not completed our analysis of the tax effects of enactment of the Tax Act; however, we have made a reasonable estimate of the effects of the Tax Act's change in the federal rate and revalued our deferred tax assets based on the rates at which they are expected to reverse in the future, which is generally the new 21% federal corporate tax rate plus applicable state tax rate. Based on our initial analysis of the impact, we recorded a decrease related to deferred tax assets of \$17.7 million at December 31, 2017. The expense is offset with a corresponding release of valuation allowance.

No other federal or state income tax benefit was recognized for the current period loss due to the recognition of a full valuation allowance.

### **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.

On August 20, 2018, the Company decided to teach-out the LCNE campus at Southington, Connecticut. LCNE results, which was previously reported in the HOPS segment, is now included in the Transitional segment as of September 30, 2018. The Company expects to complete the teach-out and exit the LCNE campus by 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 classified 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.

For all prior periods presented, the Company reclassified its Marietta, Georgia campus from the HOPS segment to the Transportation and Skilled Trades segment. This reclassification occurred to address how the Company evaluates performance and allocates resources and was approved by the Company's Board of Directors.

[Index](#)

The following table present results for our three reportable segments for the three months ended September 30, 2018 and 2017:

	<b>Three Months Ended September 30,</b>		
	<b>2018</b>	<b>2017</b>	<b>% Change</b>
<b>Revenue:</b>			
Transportation and Skilled Trades	\$ 51,008	\$ 48,795	4.5%
Healthcare and Other Professions	18,249	15,890	14.8%
Transitional	821	2,623	-68.7%
Total	<u>\$ 70,078</u>	<u>\$ 67,308</u>	<u>4.1%</u>
<b>Operating Income (Loss):</b>			
Transportation and Skilled Trades	\$ 6,330	\$ 6,121	3.4%
Healthcare and Other Professions	830	276	-200.7%
Transitional	(1,863)	(3,406)	45.3%
Corporate	(5,221)	(3,722)	-40.3%
Total	<u>\$ 76</u>	<u>\$ (731)</u>	<u>110.4%</u>
<b>Starts:</b>			
Transportation and Skilled Trades	3,391	3,076	10.2%
Healthcare and Other Professions	1,232	1,224	0.7%
Transitional	30	145	0.0%
Total	<u>4,653</u>	<u>4,445</u>	<u>4.7%</u>
<b>Average Population:</b>			
Transportation and Skilled Trades	7,453	7,194	3.6%
Healthcare and Other Professions	3,317	2,945	12.6%
Transitional	127	424	-70.0%
Total	<u>10,897</u>	<u>10,563</u>	<u>3.2%</u>
<b>End of Period Population:</b>			
Transportation and Skilled Trades	7,922	7,626	3.9%
Healthcare and Other Professions	3,637	3,280	10.9%
Transitional	173	609	-71.6%
Total	<u>11,732</u>	<u>11,515</u>	<u>1.9%</u>

### Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017

#### Transportation and Skilled Trades

Student starts increased 10.2% for the three months ended September 30, 2018 when compared to the prior year comparable period.

Operating income increased to \$6.3 million for the three months ended September 30, 2018 from \$6.1 million in the prior year comparable period mainly due to the following factors:

- Revenue increased by \$2.2 million, or 4.5%, to \$51.0 million for the three months ended September 30, 2018, as compared to \$48.8 million in the prior year period. The increase in revenue was primarily attributable to four consecutive quarters of start growth, most notably, a 10.2% increase in student starts in the current quarter, which drove a 3.6% increase in average student population.
- Educational services and facilities expense increased by \$0.6 million, or 2.6%, to \$23.4 million for the three months ended September 30, 2018 from \$22.8 million in the prior year comparable period. The increase was driven by additional books and tools expense from the correlation between providing laptops for a growing number of program offerings and an increased student population
- Selling, general and administrative expenses increased by \$1.4 million, or 7.1%, to \$21.3 million for the three months ended September 30, 2018 from \$19.8 million in the prior year comparable period. The increase was primarily driven by additional bad debt expense and marketing expense as detailed in the consolidated results of operations.

#### Healthcare and Other Professions

Student starts increased slightly by 0.7% for the three months ended September 30, 2018 when compared to the prior year comparable period.

Operating income increased to \$0.8 million for the three months ended September 30, 2018 from \$0.2 million in the prior year comparable period. The \$0.6 million increase was mainly due to the following factors:

- Revenue increased by \$2.4 million, or 14.9%, to \$18.3 million for the three months ended September 30, 2018, as compared to \$15.9 million in the prior year comparable period. The increase in revenue was mainly attributable to a higher carry in population; four consecutive quarters of student start growth, which drove a 12.6% increase in average student population; and an increase in average revenue per student.
- Educational services and facilities expense increased by \$0.6 million, or 7.1% to \$8.9 million for the three months ended September 30, 2018 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 a 12.6% increase in average student population quarter over quarter.
- Selling, general and administrative expense increased by \$1.2 million, or 16.6%, to \$8.6 million for the three months ended September 30, 2018 from \$7.3 million in the prior year comparable period. The increase was primarily driven by additional bad debt expense and marketing expense as detailed in the consolidated results of operations.

#### Transitional

The following table lists the schools previously categorized in the Transitional segment as of December 31, 2017. As of September 30, 2018 the LCNE campus at Southington, Connecticut was included in the Transitional segment.

<b>Campus</b>	<b>Date Closed</b>	<b>Date Scheduled to Close</b>
Northeast Philadelphia, Pennsylvania	August 31, 2017	N/A
Center City Philadelphia, Pennsylvania	August 31, 2017	N/A
West Palm Beach, Florida	September 30, 2017	N/A
Brockton, Massachusetts	N/A	December 31, 2017
Lowell, Massachusetts	N/A	December 31, 2017
Fern Park, Florida	March 31, 2016	N/A
Hartford, Connecticut	December 31, 2016	N/A
Henderson (Green Valley), Nevada	December 31, 2016	N/A

Revenue for the campuses in the above table have been classified in the Transitional segment for comparability for the three months ended September 30, 2018 and 2017.

Revenue was \$0.8 million and \$2.6 million for the three months ended September 30, 2018 and 2017, respectively. The decrease in revenue was due to one campus classified in the Transitional segment in the current quarter versus five campuses classified in the segment in the prior year comparable quarter. The Transitional segment during the quarter includes the Lincoln College of New England campus at Southington, Connecticut.

[Index](#)

Operating loss was \$1.9 million and \$3.4 million for the three months ended September 30, 2018 and 2017, respectively.

**Corporate and Other**

This category includes unallocated expenses incurred on behalf of the entire Company. Corporate and other expenses were \$5.2 million for the three months ended September 30, 2018 as compared to \$3.7 million in the prior year comparable period. The \$1.5 million increase was primarily driven by a \$0.4 million loss from the sale of the Mangonia Park Property on August 23, 2018 and a \$1.5 million gain in the prior year comparable quarter resulting from the sale of the West Palm Beach Property on August 14, 2017. Excluding the sale of the Mangonia Park Property and the West Palm Beach Property in the current and prior year quarters, respectively, Corporate expenses would have decreased by \$0.5 million quarter over quarter.

The following table present results for our three reportable segments for the nine months ended September 30, 2018 and 2017:

	<b>Nine Months Ended September 30,</b>		
	<b>2018</b>	<b>2017</b>	<b>% Change</b>
<b><u>Revenue:</u></b>			
Transportation and Skilled Trades	\$ 135,838	\$ 134,285	1.2%
Healthcare and Other Professions	52,554	46,470	13.1%
Transitional	4,695	13,697	-65.7%
Total	<u>\$ 193,087</u>	<u>\$ 194,452</u>	<u>-0.7%</u>
<b><u>Operating Income (Loss):</u></b>			
Transportation and Skilled Trades	\$ 8,747	\$ 8,806	-0.7%
Healthcare and Other Professions	2,747	914	-200.5%
Transitional	(2,899)	(5,703)	49.2%
Corporate	(18,305)	(16,507)	-10.9%
Total	<u>\$ (9,710)</u>	<u>\$ (12,490)</u>	<u>22.3%</u>
<b><u>Starts:</u></b>			
Transportation and Skilled Trades	7,156	6,695	6.9%
Healthcare and Other Professions	3,048	2,856	6.7%
Transitional	140	355	-139.4%
Total	<u>10,344</u>	<u>9,906</u>	<u>4.4%</u>
<b><u>Average Population:</u></b>			
Transportation and Skilled Trades	6,891	6,903	-0.2%
Healthcare and Other Professions	3,245	2,965	9.4%
Transitional	269	877	-69.3%
Total	<u>10,405</u>	<u>10,745</u>	<u>-3.2%</u>
<b><u>End of Period Population:</u></b>			
Transportation and Skilled Trades	7,922	7,626	3.9%
Healthcare and Other Professions	3,637	3,280	10.9%
Transitional	173	609	-71.6%
Total	<u>11,732</u>	<u>11,515</u>	<u>1.9%</u>

## Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

### Transportation and Skilled Trades

Student starts increased 6.9% for the nine months ended September 30, 2018 when compared to the prior year comparable period.

Operating income remained relatively flat at \$8.8 million for the nine months ended September 30, 2018 and 2017.

- Revenue increased by \$1.6 million, or 1.2%, to \$135.8 million for the nine months ended September 30, 2018, as compared to \$134.3 million in the prior year comparable period. This increase was primarily driven by four consecutive quarters of start grow, most notably a 6.9% increase in student starts, during the nine months ended September 30, 2018 in addition to a 1.3% increase in average revenue per student primarily due to tuition increases.
- Educational services and facilities expense remained essentially flat at \$64.4 million for the nine months ended September 30, 2018 and 2017.
- Selling, general and administrative expense increased by \$1.6 million, or 2.6%, to \$62.7 million for the nine months ended September 30, 2018, as compared to \$61.2 million in the prior year comparable period. The increase was primarily driven by additional bad debt expense and marketing expense as detailed in the consolidated results of operations.

### Healthcare and Other Professions

Student starts increased by 6.7% for the nine months ended September 30, 2018, as compared to the prior year comparable period.

Operating income increased to \$2.7 million for the nine months ended September 30, 2018 from \$0.9 million in the prior year comparable period. The \$1.8 million increase was primarily driven by the following factors:

- Revenue increased by \$6.1 million, or 13.1%, to \$52.6 million for the nine months ended September 30, 2018, as compared to \$46.5 million in the prior year comparable period. The increase is primarily due to four consecutive quarters of start growth, which drove a 9.5% increase in average student population, in combination with a 3.2% increase in average revenue per student resulting from tuition increases.
- Educational services and facilities expense increased by \$1.8 million, or 7.3%, to \$25.9 million for the nine months ended September 30, 2018, from \$24.1 million in the prior year comparable period. The increase was primarily driven by increased instructional expenses and books and tools expense due to a 9.5% increase in average student population.
- Selling, general and administrative expenses increased \$2.5 million, or 11.6% to \$23.9 million for the nine months ended September 30, 2018 from \$21.5 million in the prior year comparable period. The increase was primarily driven by additional bad debt expense and marketing expense as detailed in the consolidated results of operations.

### Transitional

The following table lists the schools previously categorized in the Transitional segment as of December 31, 2017. As of September 30, 2018 the LCNE campus in Southington, Connecticut was included in the Transitional segment.

<b>Campus</b>	<b>Date Closed</b>	<b>Date Scheduled to Close</b>
Northeast Philadelphia, Pennsylvania	August 31, 2017	N/A
Center City Philadelphia, Pennsylvania	August 31, 2017	N/A
West Palm Beach, Florida	September 30, 2017	N/A
Brockton, Massachusetts	N/A	December 31, 2017
Lowell, Massachusetts	N/A	December 31, 2017
Fern Park, Florida	March 31, 2016	N/A
Hartford, Connecticut	December 31, 2016	N/A
Henderson (Green Valley), Nevada	December 31, 2016	N/A

Revenue for the campuses in the above table have been classified in the Transitional segment for comparability for the nine months ended September 30, 2018 and 2017.

Revenue was \$4.7 million and \$13.7 million for the nine months ended September 30, 2018 and 2017, respectively. The decrease in revenue was due to one campus classified in the Transitional segment compared to five campuses classified in the segment in the prior year comparable quarter. The Transitional segment during the nine months ended September 30, 2018 and 2017 includes the Lincoln College of New England campus at Southington, Connecticut.

Operating loss was \$2.9 million and \$5.7 million for the nine months ended September 30, 2018 and 2017, respectively.



**Corporate and Other**

This category includes unallocated expenses incurred on behalf of the entire Company. Corporate and other expenses were \$18.3 million for the nine months ended September 30, 2018 as compared to \$16.5 million in the prior year comparable period. The \$1.8 million increase was primarily driven by a \$0.4 million loss on the sale of the Mangonia Park Property on August 23, 2018 and a \$1.5 million gain in the prior year comparable quarter resulting from the sale of the West Palm Beach Property on August 14, 2017. Excluding the sale of the Mangonia Park Property and the West Palm Beach Property in the current and prior year quarter, respectively, Corporate expenses would have decreased by \$0.3 million quarter over quarter.

**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 nine months ended September 30, 2018 and 2017:

	<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Net cash used in operating activities	\$ (5,816)	\$ (16,607)
Net cash used in investing activities	(1,869)	11,687
Net cash used in financing activities	(28,866)	(28,329)

As of September 30, 2018, the Company had a net debt balance of \$7.0 million compared to a net cash balance of \$1.2 million as of December 31, 2017. The decrease in cash position can mainly be attributed to the repayment of \$32.8 million in borrowings under our line of credit facility, a net loss during the nine months ended September 30, 2018 and the seasonality of our business. Management believes that the Company has adequate resources in place to execute its 2018 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 2017. 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. For more information, see "Risks Related to Our Industry" found under the heading "Risk Factors" in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

### ***Operating Activities***

Net cash used in operating activities was \$5.8 million for the nine months ended September 30, 2018 compared to \$16.6 million in the prior year comparable period. The decrease in cash used in operating activities for the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017 is primarily due to a reduction in 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 was \$1.9 million for the nine months ended September 30, 2018 compared to net cash provided by investing activities of \$11.7 million in the prior year comparable period. The decrease of \$13.6 million was primarily the result of the sale of the West Palm Beach Property on August 14, 2017, resulting in cash inflows of \$15.5 million in the prior year. The sale of the Mangonia Park Property on August 23, 2018 generated a cash inflow of \$2.3 million in the current year.

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 2018. We expect to fund future capital expenditures with cash generated from operating activities, borrowings under our revolving credit facility, and cash from our real estate monetization.

### ***Financing Activities***

Net cash used in financing activities was \$28.9 million for the nine months ended September 30, 2018 as compared to \$28.3 million in the prior year comparable period. The increase of \$0.6 million was primarily due to increased net borrowings of \$28.4 million for the nine months ended September 30, 2018 as compared to net payments on borrowings of \$26.7 million in the prior year comparable period. Also contributing to the increase year over year were outflows in the prior year of \$1.1 million relating to the write-off of previously capitalized expenditures upon execution of our new revolving credit facility.

Net payments on borrowings consisted of: (a) total borrowing to date under our secured revolving credit facility of \$4.4 million; and (b) \$32.8 million in total repayments made by the Company.

### ***Credit Agreement***

On March 31, 2017, the Company entered into a secured revolving credit agreement (the "Credit Agreement") with Sterling National Bank (the "Bank") pursuant to which the Company obtained a credit facility in the aggregate principal amount of up to \$55 million (the "Credit Facility"). Subsequently, as a result of a November 29, 2017 amendment of the Credit Facility, aggregate availability of funds under the Credit Facility increased to \$65 million, consisting of (a) a \$25 million revolving loan ("Facility 1"), (b) a \$25 million revolving loan facility ("Facility 2"), which includes a sublimit amount for letters of credit of \$10 million, and (c) a \$15 million revolving credit loan ("Facility 3"). The Credit Agreement was again amended on February 23, 2018, to, among other things, effect certain modifications to the financial covenants and other provisions of the Credit Agreement and to allow the Company to pursue the sale of certain real property assets. The February 23, 2018 amendment increased the interest rate for borrowings under Facility 1 to a rate per annum equal to the greater of (x) the Bank's prime rate plus 2.85% and (y) 6.00%. Prior to the February 23, 2018 amendment of the Credit Agreement, revolving loans outstanding under Facility 1 bore interest at a rate per annum equal to the greater of (x) the Bank's prime rate plus 2.50% and (y) 6.00%. Revolving loans under Facility 2 and Facility 3 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 most recent amendment of the Credit Agreement, which occurred on July 11, 2018, the Bank permitted the net proceeds of the sale of the Mangonia Park Property to be deposited into a non-interest bearing cash collateral account to be held at and by the Bank as additional collateral for the loans outstanding under the Credit Facility, but reserved the right to apply the funds held in such cash collateral account to the repayment of the outstanding principal balance of the loans outstanding under the Credit Facility. Prior to this most recent amendment of the Credit Agreement, the Company was required to apply the net proceeds of such sale to repay a corresponding amount of the outstanding principal balance of revolving loans provided under the Credit Facility, which repayment of principal would have permanently reduced the principal amount of revolving loans available under the Credit Facility.

The term of the Credit Facility is 38 months, maturing on May 31, 2020, except that Facility 3 will mature one year earlier, on May 31, 2019.

[Index](#)

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.

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 draws from Facility 1 or other available cash of the Company.

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 provide that the Bank be paid an unused facility fee on the average daily unused balance of Facility 1 at a rate per annum equal to 0.50%, which fee is payable quarterly in arrears. In addition, the Company is required 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, including financial covenants that restrict capital expenditures, prohibit the incurrence of a net loss for the year commencing on December 31, 2019 and require a minimum adjusted EBITDA and a minimum tangible net worth, which is an annual covenant, as well as events of default customary for facilities of this type. As of September 30, 2018, the Company is in compliance with all covenants.

As of September 30, 2018, the Company had \$25.0 million outstanding under the Credit Facility, offset by \$0.6 million of deferred finance fees. As of December 31, 2017, the Company had \$53.4 million outstanding under the Credit Facility, offset by \$0.8 million of deferred finance fees. As of September 30, 2018 and December 31, 2017, letters of credit in the aggregate principal amount of \$5.5 million and \$7.2 million, respectively, were outstanding under the Credit Facility. During the nine months ended September 30, 2018, the Company repaid all outstanding amounts as of December 31, 2017 on Facility 2 of \$17.8 million and Facility 3 of \$15 million.

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

	September 30, 2018	December 31, 2017
Credit agreement	\$ 25,000	\$ 53,400
Deferred Financing Fees	(626)	(807)
	24,374	52,593
Less current maturities	-	-
	<u>\$ 24,374</u>	<u>\$ 52,593</u>

As of September 30, 2018, we had outstanding loan commitments to our students of \$59.1 million, as compared to \$51.9 million at December 31, 2017. Loan commitments, net of interest that would be due on the loans through maturity, were \$43.4 million at September 30, 2018, as compared to \$38.5 million at December 31, 2017.

#### **Contractual Obligations**

**Long-term Debt.** As of December 31, 2018, 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).

[Index](#)

The following table contains supplemental information regarding our total contractual obligations as of September 30, 2018 (in thousands):

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit facility	\$ 25,000	\$ -	\$ 25,000	\$ -	\$ -
Operating leases	71,231	19,127	25,935	12,686	13,483
Total contractual cash obligations	\$ 96,231	\$ 19,127	\$ 50,935	\$ 12,686	\$ 13,483

#### Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of September 30, 2018, except for surety bonds. As of September 30, 2018, we posted surety bonds in the total amount of approximately \$12.7 million. Cash collateralized letters of credit of \$5.5 million are primarily comprised of letters of credit for the DOE and security deposits in connection with certain of our real estate leases. These off-balance sheet arrangements do not adversely impact our liquidity or capital resources.

#### 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 a new 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.

## Regulatory Update

**Cohort Default Rates.** In September 2018, the DOE released the final cohort default rates for the 2015 federal fiscal year. These are the most recent final rates published by the DOE. The rates for our existing institutions for the 2015 federal fiscal year range from 8.7% to 13.2%. None of our institutions had a cohort default rate equal to or greater than 30% for the 2014 federal fiscal year.

**Borrower Defense to Repayment Regulations.** In January 2016, the DOE began negotiated rulemaking to develop proposed regulations regarding, among other things, a borrower's ability to allege acts or omissions by an institution as a defense to the repayment of certain Title IV loans and the consequences to the borrower, the DOE, and the institution. On November 1, 2016, the DOE published in the *Federal Register* the final version of these regulations with a general effective date of July 1, 2017.

Subsequently, the DOE delayed the effective date of a majority of the borrower defense to repayment regulations until July 1, 2019, to ensure that 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 DOE has not yet issued subsequent guidance regarding how the DOE will implement the regulations. There is ongoing litigation challenging the regulations, but we cannot provide any assurance as to whether the litigation could result in the future suspension or invalidation of some or all of those regulations.

The DOE published proposed regulations on July 31, 2018, that would modify the defense to repayment regulations, including regulations regarding, among other things, acts or omissions of an institution of higher education a borrower may assert as a defense to repayment of certain Title IV loans. The proposed regulations also include regulations regarding other topics such as permitting the use of arbitration clauses and class action waivers in enrollment agreements and triggering events that would result in recalculating a school's financial responsibility score and require the school to post a letter of credit or other surety. We are in the process of evaluating the proposed regulations. Any regulations published in final form by November 1, 2018 typically would have taken effect on July 1, 2019. However, the DOE announced that it would not publish the regulations in final form by November 1, 2018 and has not yet issued the final regulations. If the regulations are published prior to November 1, 2019, they typically would take effect on July 1, 2020, unless the DOE is willing and able to provide for an earlier implementation date. We cannot provide any assurance as to the timing, content, and ultimate effective date of any such final regulations.

**Financial Responsibility Standards.** All institutions participating in Title IV Programs must satisfy specific standards of financial responsibility. The DOE evaluates institutions for compliance with these standards each year, based on the institution's annual audited financial statements, as well as following a change in ownership resulting in a change of control of the institution. See the "Regulatory Environment – Financial Responsibility Standards" and "Risk Factors – If we or our eligible institutions do not meet the financial responsibility standards prescribed by the DOE, we may be required to post letters of credit or our eligibility to participate in Title IV Programs could be terminated or limited, which could significantly reduce our student population and revenues" sections of our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC.

In November 2016, the DOE published new Borrower Defense to Repayment regulations that included expanded standards of financial responsibility that could result in a requirement that we submit to the DOE a substantial letter of credit or other form of financial protection in an amount determined by the DOE, and be subject to other conditions and requirements, based on any one of an extensive list of triggering circumstances.

The expanded financial responsibility regulations could result in the DOE recalculating and reducing our composite score to account for DOE estimates of potential losses under one or more of the extensive list of triggering circumstances and also could result in the imposition of conditions and requirements including a requirement to provide financial protection in amounts that are difficult to predict, calculated by the DOE under potentially subjective standards and, in some cases, could be based solely on the existence of proceedings or circumstances that ultimately may lack merit or otherwise not result in liabilities or losses.

For example, one of the triggering circumstances in the regulations is if an institution's accrediting agency requires the institution to submit a teach-out plan that covers the closing of the institution or one of its locations. We are in the process of closing our campus in Southington, Connecticut and submitted a teach-out plan in response to a requirement by our accrediting agency. We have notified the DOE that we intend to close our Southington campus and that our accrediting agency required a teach-out plan. The DOE could attempt to recalculate our composite score, could seek to treat all Title IV funds received by the location in its most recently completed fiscal year at that campus as a loss in the recalculation, and could seek to impose a letter of credit based on the reduced composite score. However, it is uncertain whether the DOE would apply the regulation to the accrediting agency's request for a teach-out plan which occurred after the July 1, 2017 effective date of the regulations, but prior to the expiration of the stay of the regulation on October 16, 2018; whether the DOE's recalculation of the composite score would result in a letter of credit requirement; or whether the DOE would require a letter of credit given that the campus currently is expected to be closed on or around December 31, 2018.

The regulations indicate that the letter of credit or other form of financial protection required for an institution under the regulations must equal 10 percent of the total amount of Title IV Program funds received by the institution during its most recently completed fiscal year plus any additional amount that the DOE determines is necessary to fully cover any estimated losses unless the institution demonstrates that the additional amount is unnecessary to protect, or is contrary to, the Federal interest. The regulations state that the DOE maintains the full amount of financial protection until the DOE determines that the institution has a composite score of 1.0 or greater based on a review of the institution's audited financial statements for the fiscal year in which all losses from the aforementioned events have been fully recognized or if the recalculated composite score is 1.0 or greater and the aforementioned events have ceased to exist. Consequently, it is difficult to predict the amount or duration of any letter of credit requirement that the DOE might impose under the regulation. The requirement to submit a letter of credit or to accept other conditions or restrictions could have a material adverse effect on our schools' business and results of operations.

**Gainful Employment.** In October 2014, the DOE issued final gainful employment regulations requiring each educational program offered by our institutions to achieve threshold rates in at least one of two debt measure categories related to an annual debt to annual earnings ratio and an annual debt to discretionary income ratio. The final regulations had a general effective date of July 1, 2015. In January 2017, the DOE issued the first set of gainful employment rates for each of our programs for the debt measure year ended June 30, 2015. See the "Regulatory Environment – Gainful Employment" section of our Annual Report on Form 10-K for year ended December 31, 2017, as filed with the SEC. The DOE has yet to begin the process of issuing gainful employment rates for the 2016 debt measure year, although it could begin that process at any time.

In August 2018, the DOE published proposed regulations that would eliminate the existing gainful employment regulations. The DOE indicated that its plans include, but are not limited to, publishing outcomes data at the program level on a DOE website such as the College Scorecard or some other website. The DOE permitted the submission of public comments to the proposed regulations until September 13, 2018. Any regulations published in final form by November 1, 2018 typically would have taken effect on July 1, 2019. However, the DOE announced that it would not publish the regulations in final form by November 1, 2018, and has not yet issued the final regulations. If the regulations are published prior to November 1, 2019, they typically would take effect on July 1, 2020, unless the DOE is willing and able to provide for an earlier implementation date. We cannot provide any assurance as to the timing, content, and ultimate effective date of any such final regulations.

In January 2018, the DOE issued a template for institutions to provide required disclosures and required institutions to update their disclosures by April 6, 2018. In June 2018, the DOE announced the further extension of the compliance date for certain other gainful employment disclosure requirements until July 1, 2019. The DOE stated that institutions are still required to comply with other gainful employment disclosure requirements in the interim.

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

We are exposed to certain market risks as part of our on-going business operations. On March 31, 2017, the Company repaid in full and terminated a previously existing term loan with the proceeds of a new revolving credit facility provided by Sterling National Bank in an aggregate principal amount of up to \$65 million, which revolving credit facility is referred to in this report as the "Credit Facility." Our obligations under the 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 the Credit Facility bear interest at the rate of 8.1% as of September 30, 2018. As of September 30, 2018, we had \$25.0 million outstanding under the Credit Facility.

Based on our outstanding debt balance as of September 30, 2018, 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**

Information regarding certain specific legal proceedings in which the Company is involved is contained in Part I, Item 3 and in Note 14 to the notes to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. Unless otherwise indicated in this report, all proceedings discussed in the earlier report which are not indicated therein as having been concluded, remain outstanding as of September 30, 2018.

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.

On July 6, 2018, the Company received an administrative subpoena from the Attorney General of the State of New Jersey. Pursuant to the subpoena, New Jersey's Attorney General has requested from the Company documents and detailed information relating to the November 21, 2012, Civil Investigative Demand letter addressed to the Company from the Massachusetts Office of the Attorney General ("MOAG") that resulted in a Final Judgment by Consent between the Company and the MOAG dated July 13, 2015. The Company has responded to this request and intends to continue cooperating with the New Jersey Attorney General's Office.

### **Item 5. OTHER INFORMATION**

#### ***Scott M. Shaw Employment Agreement***

On November 7, 2018, the Company entered into a new employment agreement with Scott M. Shaw, the Company's President and Chief Executive Officer, pursuant to which Mr. Shaw will continue to serve in such positions (the "Shaw Employment Agreement"). Mr. Shaw also serves as and will remain a member of the Board of Directors of the Company. The Shaw Employment Agreement, the full text of which is filed as Exhibit 10.3 to this Quarterly Report on Form 10-Q and is incorporated herein by reference, replaces Mr. Shaw's prior employment agreement with the Company, which would have expired by its terms on December 31, 2018. The term of the Shaw Employment Agreement commenced on November 7, 2018 and will expire on December 31, 2020, unless sooner terminated in accordance with its terms. During the term of the Shaw Employment Agreement, Mr. Shaw will continue to receive an annual base salary of \$500,000, an annual performance bonus based upon achievement of performance targets or other criteria as determined by the Company's Board of Directors or its Compensation Committee and a Company-owned vehicle, as well as insurance, maintenance, fuel and other costs associated with such vehicle.

Under the terms of the Shaw Employment Agreement, the Company may terminate Mr. Shaw's employment at any time with or without Cause and Mr. Shaw may resign from his employment at any time, with or without Good Reason (in each case as such terms are defined in the Shaw Employment Agreement). In the event that Mr. Shaw's employment should be terminated by the Company without Cause or by Mr. Shaw's resignation for Good Reason, in addition to his right to receive payment of all accrued and unpaid compensation and benefits due to him through the date of termination of employment, subject to Mr. Shaw's execution of a release in favor of the Company and its subsidiaries and affiliates, Mr. Shaw would be entitled to receive a lump sum payment on the 60<sup>th</sup> day following termination of employment equal to (a) two times the sum of (i) his annual base salary and (ii) the target amount of his annual performance bonus for him in the year in which the termination of employment occurs, (b) all outstanding reasonable travel and other business expenses incurred through the date of termination and (c) the estimated employer portion of premiums that would be necessary to continue Mr. Shaw's coverage under the Company's healthcare plan until the first anniversary of the date of termination (subject to proration should Mr. Shaw become insured under a subsequent healthcare plan). In addition, Mr. Shaw would be entitled to receive a prorated portion of his annual bonus for the year of termination, which prorated annual bonus would be paid in a lump sum on the date that bonuses for the year in which the termination occurs are paid generally to the Company's senior executives.

[Index](#)

The Shaw Employment Agreement further provides that, upon a Change in Control of the Company (as defined in the Shaw Employment Agreement), (a) the term of the Shaw Employment Agreement will be automatically extended for an additional two-year term commencing on the date of the Change in Control and ending on the second anniversary of the date of the Change in Control and (b) all outstanding restricted stock and stock options held by Mr. Shaw will vest in full and all stock options will become immediately exercisable on the date of the Change in Control. The Shaw Employment Agreement also provides that if any amounts due to Mr. Shaw pursuant to the Shaw Employment Agreement or any other plan or arrangement constitute a “parachute payment” for purposes of Section 280G of the Internal Revenue Code and the amount of the parachute payment (after taking into account all taxes, including excise taxes) is less than the amount Mr. Shaw would receive if he was paid three times his “base amount” (as defined under Section 280G of the Internal Code), less one dollar (after taking into account all taxes, including excise taxes), then the aggregate of the amounts constituting the parachute payment will be reduced (or returned by Mr. Shaw if already paid to him) to an amount that will equal three times Mr. Shaw’s base amount less one dollar.

The Shaw Employment Agreement contains a two-year post-employment noncompetition agreement and standard nonsolicitation and confidentiality provisions.

The foregoing description of the Shaw Employment Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the Shaw Employment Agreement filed as Exhibit 10.3 to this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

***Brian K. Meyers Employment Agreement***

On November 7, 2018, the Company entered into a new employment agreement with Brian K. Meyers, the Company’s Executive Vice President, Chief Financial Officer and Treasurer, pursuant to which Mr. Meyers will continue to serve in such positions (the “Meyers Employment Agreement”). The Meyers Employment Agreement, the full text of which is filed as Exhibit 10.4 to this Quarterly Report on Form 10-Q and is incorporated herein by reference, replaces Mr. Meyers’ prior employment agreement which would have expired by its terms on December 31, 2018.

The term of the Meyers Employment Agreement commenced on November 7, 2018 and will expire on December 31, 2020, unless sooner terminated in accordance with its terms. Mr. Meyers will continue to receive an annual base salary of \$340,000, an annual performance bonus based upon achievement of performance targets or other criteria as determined by the Company’s Board of Directors or its Compensation Committee and a Company-owned vehicle, as well as insurance, maintenance, fuel and other costs associated with such vehicle.

Under the terms of the Meyers Employment Agreement, the Company may terminate Mr. Meyers’ employment at any time with or without Cause and Mr. Meyers may resign from his employment at any time, with or without Good Reason (in each case as such terms are defined in the Meyers Employment Agreement). In the event that Mr. Meyers’ employment should be terminated by the Company without Cause or by Mr. Meyers resignation for Good Reason, in addition to his right to receive payment of all accrued and unpaid compensation and benefits due to him through the date of termination of employment, subject to Mr. Meyers’ execution of a release in favor of the Company and its subsidiaries and affiliates, Mr. Meyers would be entitled to receive a lump sum payment on the 60<sup>th</sup> day following termination of employment equal to (a) one and three-quarters times the sum of (i) his annual base salary and (ii) the target amount of the annual performance bonus for him in the year in which the termination of employment occurs, (b) all outstanding reasonable travel and other business expenses incurred through the date of termination and (c) the estimated employer portion of premiums that would be necessary to continue Mr. Meyers’ coverage under the Company’s healthcare plan until the first anniversary of the date of termination (subject to proration should Mr. Meyers become insured under a subsequent healthcare plan). In addition, Mr. Meyers would be entitled to receive a prorated portion of his annual bonus for the year of termination, which prorated annual bonus would be paid in a lump sum on the date that bonuses for the year in which the termination occurs are paid generally to the Company’s senior executives.

The Meyers Employment Agreement further provides that, upon a Change in Control of the Company (as defined in the Meyers Employment Agreement), (a) the term of the Meyers Employment Agreement will be automatically extended for an additional two-year term commencing on the date of the Change in Control and ending on the second anniversary of the date of the Change in Control and (b) all outstanding restricted stock and stock options held by Mr. Meyers will vest in full and all stock options will become immediately exercisable on the date of the Change in Control. The Meyers Employment Agreement also provides that if any amounts due to Mr. Meyers pursuant to the Meyers Employment Agreement or any other plan or arrangement constitute a “parachute payment” for purposes of Section 280G of the Internal Revenue Code and the amount of the parachute payment (after taking into account all taxes, including excise taxes) is less than the amount Mr. Meyers would receive if he was paid three times his “base amount” (as defined under Section 280G of the Internal Code), less one dollar (after taking into account all taxes, including excise taxes), then the aggregate of the amounts constituting the parachute payment will be reduced (or returned by Mr. Meyers if already paid to him) to an amount that will equal three times Mr. Meyers’ base amount less one dollar.



[Index](#)

The Meyers Employment Agreement contains a two-year post-employment noncompetition agreement and standard nonsolicitation and confidentiality provisions.

The foregoing description of the Meyers Employment Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the Meyers Employment Agreement filed as Exhibit 10.4 to this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

***Stephen M. Buchenot Change in Control Agreement***

On November 7, 2018, the Company entered into a change in control agreement with Stephen M. Buchenot (the “Buchenot Agreement”). The Buchenot Agreement, the full text of which is filed as Exhibit 10.5 to this Quarterly Report on Form 10-Q and is incorporated herein by reference.

The Buchenot Agreement, which remains in effect until December 31, 2020, provides that in the event Mr. Buchenot’s employment should be terminated by the Company without Cause or by Mr. Buchenot’s resignation for Good Reason (in each case as such terms are defined in the Buchenot Agreement) during the one-year period following a Change in Control of the Company (as defined in the Buchenot Agreement), Mr. Buchenot would be entitled to receive a payment equal to the sum of (i) one and one-half years his annual base salary in effect on the date of the termination of his employment, (ii) the target amount of the annual performance bonus for him in the year in which the termination of employment occurs and (iii) the estimated employer portion of premiums that would be necessary to continue Mr. Buchenot’s coverage under the Company’s healthcare plan until the first anniversary of the date of termination (subject to proration should Mr. Buchenot become insured under a subsequent healthcare plan). In addition, all outstanding restricted stock and stock options held by Mr. Buchenot will vest in full and all stock options will become immediately exercisable on the date of the Change in Control.

The Buchenot Agreement also provides that if any amounts due to Mr. Buchenot pursuant to the Buchenot Agreement or any other plan or arrangement constitute a “parachute payment” for purposes of Section 280G of the Internal Revenue Code and the amount of the parachute payment (after taking into account all taxes, including excise taxes) is less than the amount Mr. Buchenot would receive if he was paid three times his “base amount” (as defined under Section 280G of the Internal Code), less one dollar (after taking into account all taxes, including excise taxes), then the aggregate of the amounts constituting the parachute payment will be reduced (or returned by Mr. Buchenot if already paid to him) to an amount that will equal three times Mr. Buchenot’s base amount less one dollar.

The foregoing description of the Buchenot Agreement is not complete and is qualified in its entirety by reference to the full text of the Buchenot Agreement filed as Exhibit 10.5 to this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

**Item 6. EXHIBITS**

<u>Exhibit Number</u>	<u>Description</u>
10.1	Commercial Contract, dated as of July 9, 2018, between New England Institute of Technology at Palm Beach, Inc. and Elite Property Enterprise, LLC (incorporated by reference to the Company’s Form 8-K filed July 13, 2018).
10.2	Third Amendment to Credit Agreement, dated as of July 11, 2018, among the Company, Lincoln Technical Institute, Inc. and its subsidiaries, and Sterling National Bank (incorporated by reference to the Company’s Form 8-K filed July 13, 2018).
10.3 *#	Employment Agreement, dated November 7, 2018, between the Company and Scott M. Shaw.
10.4 *#	Employment Agreement, dated November 7, 2018, between the Company and Brian K. Meyers.
10.5 *#	Change in Control Agreement, dated November 7, 2018, between the Company and Stephen M. Buchenot.
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 September 30, 2018, 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.

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# Indicates management contract or compensatory plan or arrangement required to be identified pursuant to Item 6 of this Quarterly Report on Form 10-Q.

\* 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.

[Index](#)

**SIGNATURES**

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

LINCOLN EDUCATIONAL SERVICES CORPORATION

Date: November 8, 2018

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

Exhibit Index

<a href="#">10.1</a>	Commercial Contract, dated as of July 9, 2018, between New England Institute of Technology at Palm Beach, Inc. and Elite Property Enterprise, LLC (incorporated by reference to the Company's Form 8-K filed July 13, 2018).
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\* 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.

EMPLOYMENT AGREEMENT (this "Agreement"), dated as of November 7, 2018, between LINCOLN EDUCATIONAL SERVICES CORPORATION, a New Jersey corporation (the "Company"), and Scott M. Shaw (the "Executive").

WHEREAS, the Executive is currently employed by the Company;

WHEREAS, the Executive and the Company entered into an employment agreement, dated, November 8, 2017 which expires pursuant to its terms on December 31, 2018 (the "Prior Agreement"); and

WHEREAS, the parties desire to enter into a new agreement setting forth the terms and conditions of the Executive's employment with the Company effective as of November 7, 2018 that supersedes the Prior Agreement;

NOW, THEREFORE, in consideration of the covenants and agreements hereinafter set forth, the parties hereto agree as follows:

1. EFFECTIVENESS OF AGREEMENT

This Agreement shall become effective as of the date hereof.

2. EMPLOYMENT AND DUTIES

2.1 Position and Duties. The Company hereby continues to employ the Executive, and the Executive agrees to serve, as President and Chief Executive Officer of the Company, upon the terms and conditions contained in this Agreement. The Executive shall report to the Board of Directors of the Company (the "Board") and perform the duties and services for the Company commensurate with the Executive's position. Except as may otherwise be approved in advance by the Board or the Compensation Committee of the Board (the "Committee"), the Executive shall render his services exclusively to the Company during his employment under this Agreement and shall devote substantially all of his working time and efforts to the business and affairs of the Company.

2.2 Term of Employment. The Executive's employment under this Agreement shall terminate on December 31, 2020, unless terminated earlier pursuant to Section 5 or extended pursuant to Section 6.1 (the "Employment Period").

2.3 Location of Work. The Executive shall be based in the United States in West Orange, New Jersey. However, the Executive agrees to undertake whatever domestic and worldwide travel is required by the Company. The Executive shall not be required or permitted to relocate without the mutual, written consent of the Executive and the Company.

3. COMPENSATION

3.1 Base Salary. Subject to the provisions of Sections 5 and 6, the Executive shall be entitled to receive a base salary (the "Base Salary") at a rate of \$500,000 per annum, such rate to be effective as of January 1, 2019. Such rate may be adjusted upwards, but not downwards, from time to time by the Board or the Committee, in their sole discretion. The Base Salary shall be paid in equal installments on a biweekly basis or in accordance with the Company's current payroll practices, less all required deductions. The Base Salary shall be pro-rated for any period of service less than a full year.

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3.2 Annual Bonus. Subject to the provisions of Sections 5 and 6, the Executive shall be eligible to earn an annual bonus for 2018 and each full calendar year thereafter during the Employment Period (the "Annual Bonus"), the amount of which shall be based upon performance targets or such other criteria that are determined by the Board or the Committee pursuant to the provisions of the Company's Key Management Team Incentive Compensation Plan (the "Incentive Plan") in effect for the applicable calendar year. The Company shall pay the Annual Bonus to the Executive no later than March 15th following the end of the applicable fiscal year. The Annual Bonus shall be prorated for any year in which the Executive's employment is terminated due to death or Disability, as defined in Appendix A. If during the Employment Period the Executive's employment is terminated by the Company (or any successor thereto) for Cause, as defined in Exhibit A, or the Executive resigns from his employment other than for Good Reason, as defined in Exhibit A, prior to the payout of any Annual Bonus due for a completed calendar, the Executive shall not receive such Annual Bonus.

3.3 Reimbursement of Expenses. The Company shall reimburse the Executive for reasonable travel and other business expenses incurred by him in the fulfillment of his duties hereunder upon presentation by the Executive of an itemized account of such expenditures, in accordance with Company practices.

4. EMPLOYEE BENEFITS

4.1 General. The Executive shall, during the Employment Period, be included, to the extent eligible thereunder, in all employee benefit plans, programs and arrangements (including, without limitation, any plans, programs or arrangements providing for retirement benefits, profit sharing, disability benefits, health and life insurance or vacation and paid holidays) that shall be established by the Company for, or made available to, its senior executives. In addition, the Company shall furnish the Executive with coverage by the Company's customary director and officer indemnification arrangements, subject to applicable law.

4.2 Automobile. During the Employment Period, the Company shall provide the Executive with an automobile for business and personal use and pay for associated costs, including automobile insurance, parking and fuel, in accordance with the Company's practices as consistently applied to other key employees.

5. TERMINATION OF EMPLOYMENT

5.1 Effect of an Involuntary Termination. Subject to the provisions of Sections 6 and 9.5, if during the Employment Period there is an "Involuntary Termination" (as defined below) of the Executive's employment, the Company shall pay to the Executive:

- (i) an amount equal to two times the sum of (x) the Executive's annual Base Salary, at a rate in effect at the date of such termination plus (y) the target amount of the Annual Bonus of the Executive for the year in which the Involuntary Termination occurs;

(ii) all outstanding reasonable travel and other business expenses that he incurred as of the date of his termination;

(iii) an additional cash amount equal to the Company's estimate of the employer portion of the premiums that would be necessary to continue the Executive's health care coverage until the first anniversary of the date of such Involuntary Termination; provided, however, that if prior to payment of such cash amount the Executive becomes covered under another group health plan (which coverage, once obtained, must be promptly disclosed by the Executive to the Company), such cash amount shall be prorated to cover only the period from the date of the Executive's Involuntary Termination until the date on which such alternate coverage starts; and

(iv) a prorated Annual Bonus for the year in which the Involuntary Termination occurs, calculated by multiplying (A) the Annual Bonus to which the Executive would have been entitled under Section 3.2 if his employment had continued through the end of such year by (B) a proration fraction the numerator of which is the number of days in such calendar year up to and including the date of the Executive's Involuntary Termination and the denominator of which is 365.

The Executive shall also be entitled to receive any other accrued compensation and benefits otherwise payable to him as of the date of his termination, including, without limitation, any Annual Bonus due for a completed calendar year. All payments made under Sections 5.1(i), (ii) and (iii) above shall be made by the Company (or its successor) in a lump-sum amount on the 60th day following the Executive's termination of employment, and payment made under Section 5.1(iv) above shall be made by the Company (or its successor) in a lump-sum amount on the date that bonuses for the year in which the Executive's Involuntary Termination occurs are paid generally to the Company's senior executives (but no later than March 15th of the year following the year in which the Executive's Involuntary Termination occurs).

The Company shall not be required to make the payments and provide the benefits provided for under this Section 5.1 unless (1) the Executive executes and delivers to the Company, within sixty days following the Executive's termination of employment, a Waiver and Release (relating to the Executive's release of claims against the Company Group (as defined below) in the form provided by the Company, and the Waiver and Release has become effective and irrevocable in its entirety, and (2) the Executive remains in material compliance with the restrictive covenants set forth in Section 9 of this Agreement. The Executive's failure or refusal to sign the Waiver and Release (or the revocation of such Waiver and Release in accordance with applicable laws) or the Executive's failure to materially comply with the restrictive covenants in Section 9 shall result in the forfeiture of the payments and benefits payable under this Section 5.1.

For purposes of this Agreement, "Involuntary Termination" means the termination of the Executive's employment (i) by the Company (or any successor thereto) without Cause, as defined in Appendix A, or (ii) by the Executive for Good Reason, as defined in Appendix A.

5.2 Effect of a Termination for Cause or Resignation without Good Reason. Subject to the provisions of Sections 3.2 and 6, if during the Employment Period, the Executive's employment is terminated by the Company (or any successor thereto) for Cause or the Executive resigns from his employment other than for Good Reason, the Company shall pay to the Executive, any (i) accrued but unpaid Base Salary earned through the date of his termination, (ii) unreimbursed expenses, plus (iii) accrued but unpaid employee benefits set forth in Section 4.1 above as determined in accordance with the provisions of the applicable employee benefit plans or programs of the Company.

5.3 Effect of a Termination due to Death or Disability. Subject to the provisions of Sections 3.2 and 6, if during the Employment Period, the Executive's employment is terminated by the Company (or any successor thereto) due to death or Disability, as defined in Appendix A, the Company shall pay to the Executive, or if applicable his estate:

(i) accrued but unpaid Base Salary earned through the date of his termination and any Annual Bonus due but not yet paid for a completed calendar year;

(ii) a prorated Annual Bonus for the year in which the termination of employment occurs, calculated by multiplying (A) the Executive's target Annual Bonus for that year by (B) a proration fraction the numerator of which is the number of days in such calendar year up to and including the date of the Executive's termination of employment and the denominator of which is 365;

(iii) all outstanding reasonable travel and other business expenses that the Executive incurred as of the date of his termination;  
and

(iv) accrued but unpaid employee benefits set forth in Section 4.1 above as determined in accordance with the provisions of the applicable employee benefit plans or programs of the Company.

In addition, upon the Executive's termination of employment due to death or Disability, all outstanding stock options and restricted stock awarded to the Executive shall become fully vested, and stock options shall become immediately exercisable and will remain exercisable for one year from the date of termination (or, if earlier, until the stock option's normal expiration date); provided, however, that if the applicable stock option award specifically provides for a longer post-employment period to exercise such option, such longer period shall apply.

## 6. EFFECT OF A CHANGE IN CONTROL

6.1 New Term of Employment. Notwithstanding anything to the contrary in this Agreement, upon the occurrence of a Change in Control, as defined in Appendix A, during the Employment Period, the Company (or its successor) shall renew this Agreement for a period of two years commencing on the date of the Change in Control and ending on the second anniversary of the date of the Change in Control.

6.2 Acceleration of Equity Awards. Notwithstanding anything to the contrary in any of the Equity Award Documents, as defined in Appendix A, upon a Change in Control, all outstanding stock options and restricted stock granted by the Company or any of its affiliates to the Executive shall become fully vested, and stock options shall become immediately exercisable, on the date of the Change in Control.

7. REDUCTION OF PAYMENTS

If any amounts due to the Executive under this Agreement and any other agreement, plan or arrangement of or with the Company or any of its affiliates constitute a "parachute payment," as such term is defined in Section 280G(b)(2) of the Internal Revenue Code of 1986, as amended (the "Code"), and the amount of the parachute payment, reduced by all federal, state and local taxes applicable thereto, including the excise tax imposed pursuant to Section 4999 of the Code, is less than the amount the Executive would receive if he was paid three times his "base amount", as defined in Section 280G(b)(3) of the Code, less \$1.00, reduced by all federal, state and local taxes applicable thereto, then the aggregate of the amounts constituting the parachute payment will be reduced (or returned by the Executive if it has already been paid to him) to an amount that will equal three times the Executive's base amount less \$1.00. Any determination to be made with respect to this Section 7 shall be made by an accounting firm jointly selected by the Company and the Executive and paid for by the Company, and which may be the Company's independent auditors.

8. NO ADDITIONAL RIGHTS

The Executive shall have no right to receive any compensation or benefits upon his termination or resignation of employment, except (i) as expressly set forth in Sections 5 and 6 above, where applicable, or (ii) as determined in accordance with the provisions of the employee benefit plans or programs of the Company.

9. RESTRICTIVE COVENANTS

9.1 Noncompetition. During the term of the Executive's employment with the Company (or any successor thereto) and continuing for two years thereafter, the Executive shall not, without the prior written consent of the Company, directly or indirectly, own, manage, operate, join, control, or participate in the ownership, management, operation or control of, or be employed by or connected in any manner with, any Competing Business, whether for compensation or otherwise; provided, however, that the Executive shall be permitted to hold, directly or indirectly, less than 1% of any class of securities of any entity that is listed on a national securities exchange or on the NASDAQ National Market System. Notwithstanding the foregoing, this Section 9.1 shall cease to apply upon the termination of the Executive's employment with the Company (or any successor thereto) resulting from an Involuntary Termination. For purposes of this Agreement, "Competing Business" means any business within the United States that involves for-profit, post-secondary education.

9.2 Nonsolicitation. During the term of the Executive's employment with the Company (or any successor thereto) and continuing for one year thereafter, the Executive shall not, without the prior written consent of the Company, directly or indirectly, as a sole proprietor, member of a partnership, stockholder, investor, officer or director of a corporation, or as an employee, associate, consultant or agent of any person, partnership, corporation or other business organization or entity other than the Company or any of its subsidiaries or affiliates (the "Company Group") (i) solicit or endeavor to entice away from any member of the Company Group, any person or entity who is, or was on the date of this Agreement, employed by, or serving as a key consultant of, any member of the Company Group or (ii) solicit or endeavor to entice away from any member of the Company Group, any person or entity who is, or was on the date of this Agreement, a customer or client (or reasonably anticipated to become a customer or client) of any member of the Company Group.



9.3 Confidentiality. The Executive shall not at any time, except in performance of his obligations to the Company Group under the provisions of this Agreement and as an employee of the Company, directly or indirectly, disclose or use any secret or protected information that he may learn or has learned by reason of his association with any member of the Company Group. The term "protected information" includes trade secrets and confidential and proprietary business information of the Company Group, including, but not limited to, customers (including potential customers), sources of supply, processes, methods, plans, apparatus, specifications, materials, pricing information, intellectual property (including applications and rights in discoveries, inventions or patents), internal memoranda, marketing plans, contracts, finances, personnel, research and internal policies, but shall exclude any information which (i) is or becomes available to the public or is generally known in the industry or industries in which the Company Group operates other than as a result of disclosure by the Executive in violation of this Section 9.3 or (ii) the Executive is required to disclose under any applicable laws, regulations or directives of any government agency, tribunal or authority having jurisdiction in the matter or under subpoena or other process of law.

9.4 Exclusive Property. The Executive confirms that all protected information is and shall remain the exclusive property of the Company Group. All business records, papers and documents kept or made by the Executive relating to the business of the Company shall be and remain the property of the Company Group.

9.5 Compliance with Restrictive Covenants. Without intending to limit any other remedies available to the Company Group and except as required by law, in the event that the Executive breaches or threatens to breach any of the covenants set forth in this Section 9, (i) the Company Group shall be entitled to seek a temporary restraining order and/or a preliminary or permanent injunction restraining the Executive from engaging in activities prohibited by this Section 9 or such other relief as may be required to enforce any of such covenants and (ii) all obligations of the Company to make payments and provide benefits under this Agreement shall immediately cease.

## 10. ARBITRATION

10.1 General. Subject to Section 9.5 above, any dispute or controversy arising under or in connection with this Agreement that cannot be mutually resolved by the Executive and the Company shall be settled exclusively by arbitration in West Orange, New Jersey before three arbitrators of exemplary qualifications and stature. The Executive and the Company shall each select one arbitrator. The arbitrators selected by the Executive and the Company shall jointly select the third arbitrator. Judgment may be entered on the arbitrators' award in any court having jurisdiction. The Executive and the Company hereby agree that the arbitrators shall be empowered to enter an equitable decree mandating specific enforcement of the provisions of this Agreement.

10.2 Associated Costs. The cost of the arbitration shall be borne by the parties in the manner determined by the arbitrators. If, however, the dispute concerns contractual rights that arise in the event of or subsequent to a Change in Control, the costs of arbitration (and any reasonable attorney's fees incurred by the Executive) shall be borne by the Company, unless the arbitrators determine that the Executive commenced such arbitration on unfounded or unreasonable grounds.

11. SECTION 409A OF THE CODE.

11.1 General. This Agreement is intended to meet the requirements of Section 409A of the Code, and shall be interpreted and construed consistent with that intent.

11.2 Deferred Compensation. Notwithstanding any other provision of this Agreement, to the extent that the right to any payment (including the provision of benefits) hereunder provides for the "deferral of compensation" within the meaning of Section 409A(d)(1) of the Code, the payment shall be paid (or provided) in accordance with the following:

(i) If the Executive is a "Specified Employee" within the meaning of Section 409A(a)(2)(B)(i) of the Code on the date of the Executive's termination of employment, then no such payment shall be made or commence during the period beginning on the date of the Executive's termination of employment and ending on the date that is six months and one day following the Executive's termination of employment or, if earlier, on the date of the Executive's death.

(ii) Payments with respect to reimbursements of expenses shall be made in accordance with Company policy and in no event later than the last day of the calendar year following the calendar year in which the relevant expense is incurred. No reimbursement during any calendar year shall affect the amounts eligible for reimbursement in any other calendar year, except, in each case, to the extent that the right to reimbursement does not provide for a "deferral of compensation" within the meaning of Section 409A of the Code.

(iii) The Company shall not accelerate any payment or the provision of any benefits under this Agreement or make or provide any such payment or benefits if such payment or provision of such benefits would, as a result, be subject to tax under Section 409A of the Code. If, in the good faith judgment of the Company, any provision of this Agreement could cause the Executive to be subject to adverse or unintended tax consequences under Section 409A of the Code, such provision shall be modified by the Company in its sole discretion to maintain, to the maximum extent practicable, the original intent of the applicable provision without violating the requirements of Section 409A of the Code. It is understood that each installment is a separate payment, and that the timing of payment is within the control of the Company.

(iv) The provisions of this Section 11 shall apply notwithstanding any provisions of this Agreement related to the timing of payments following the Executive's termination of employment.

12. MISCELLANEOUS

12.1 Communications. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed to have been duly given or made as of the date delivered, or on the fifth business day after mailed if delivered personally or mailed by registered or certified mail (postage prepaid, return receipt requested), to the relevant party at the following address (or at such other address for a party as shall be specified by like notice, except that notices of change of address shall be effective upon receipt):

if to the Company:

200 Executive Drive, Suite 340  
West Orange, New Jersey 07052  
Attention: General Counsel

if to the Executive:

200 Executive Drive, Suite 340  
West Orange, New Jersey 07052

12.2 Waiver of Breach; Severability. (a) The waiver by the Executive or the Company of a breach of any provision of this Agreement by the other party hereto shall not operate or be construed as a waiver of any subsequent breach by either party.

(b) The parties hereto recognize that the laws and public policies of various jurisdictions may differ as to the validity and enforceability of covenants similar to those set forth herein. It is the intention of the parties that the provisions of this Agreement be enforced to the fullest extent permissible under the laws and policies of each jurisdiction in which enforcement may be sought, and that the unenforceability (or the modification to conform to such laws or policies) of any provisions hereof shall not render unenforceable, or impair, the remainder of the provisions hereof. Accordingly, if at the time of enforcement of any provision hereof, a court of competent jurisdiction holds that the restrictions stated herein are unreasonable under circumstances then existing, the parties hereto agree that the maximum period, scope, or geographic area reasonable under such circumstances shall be substituted for the stated period, scope or geographical area and that such court shall be allowed to revise the restrictions contained herein to cover the maximum period, scope and geographical area permitted by law.

12.3 Assignment; Successors. No right, benefit or interest hereunder shall be assigned, encumbered, charged, pledged, hypothecated or be subject to any setoff or recoupment by the Executive. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of the Company.

12.4 Entire Agreement. This Agreement and the Equity Award Documents represent the entire agreement of the parties and shall supersede any and all previous contracts, arrangements or understandings between the Company and the Executive relating to the subject matter hereof, including, without limitation, the Prior Agreement. This Agreement may be amended at any time by mutual written agreement of the parties hereto.

12.5 Withholding. The payment of any amount pursuant to this Agreement shall be subject to applicable withholding and payroll taxes, and such other deductions as may be required under the Company's employee benefit plans, if any.

12.6 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New Jersey.

12.7 Headings. The headings in this Agreement are for convenience only and shall not be used to interpret or construe any of its provisions.

12.8 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed and the Executive has hereunto set his hand as of the day and year first written above.

**LINCOLN EDUCATIONAL SERVICES CORPORATION**

By: /s/ Celia H. Currin

Name: Celia H. Currin

Title: Chairman of Compensation Committee

**EXECUTIVE**

/s/ Scott M. Shaw

Scott M. Shaw

## APPENDIX A

“Cause” shall mean, with respect to the Executive, the following:

- (a) prior to a Change in Control, (i) the Executive’s willful failure to perform the duties of his employment in any material respect, (ii) malfeasance or gross negligence in the performance of the Executive’s duties of employment, (iii) the Executive’s conviction of a felony under the laws of the United States or any state thereof (whether or not in connection with his employment), (iv) the Executive’s intentional or reckless disclosure of protected information respecting any member of the Company Group’s business to any individual or entity which is not in the performance of the duties of his employment, (v) the Executive’s commission of an act or acts of sexual harassment that would normally constitute grounds for termination, or (vi) any other act or omission by the Executive (other than an act or omission resulting from the exercise by the Executive of good faith business judgment), which is materially injurious to the financial condition or business reputation of any member of the Company Group; provided, however, that in the case of (i) and (ii) above, the Executive shall not be deemed to have been terminated for cause unless he has received written notice of the alleged basis therefor from the Company, and fails to remedy the matter within 30 days after he has received such notice, except that no such “cure opportunity” shall be required in the case of two separate episodes occurring within any 12-month period that give the Company the right to terminate for cause for such reason; or
- (b) on or after a Change in Control, (i) the Executive’s willful failure to perform the duties of his employment in any material respect, (ii) malfeasance or gross negligence in the performance of the Executive’s duties of employment, (iii) the Executive’s conviction of a felony under the laws of the United States or any state thereof (whether or not in connection with his employment), or (iv) the Executive’s intentional or reckless disclosure of protected information respecting any member of the Company Group’s business to any individual or entity which is not in the performance of the duties of his employment; provided, however, that in the case of (i) and (ii) above, the Executive shall not be deemed to have been terminated for cause unless he has received written notice of the alleged basis therefor from the Company, and fails to remedy the matter within 30 days after he has received such notice, except that no such “cure opportunity” shall be required in the case of two separate episodes occurring within any 12-month period that give the Company the right to terminate for cause for such reason.

“Change in Control” shall mean:

- (a) when a “person” (as defined in Section 3(a)(9) of the Exchange Act), including a “group” (as defined in Section 13(d) and 14(d) of the Exchange Act), either directly or indirectly becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act) of 25% or more of either (i) the then outstanding Common Stock, or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors; provided, however, that the following acquisitions shall not constitute a Change in Control: (1) any acquisition directly from the Company; (2) any acquisition by the Company; or (3) any acquisition by an employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company;

- (b) when, during any period of 24 consecutive months during the Employment Period, the individuals who, at the beginning of such period, constitute the Board (the “Company Incumbent Directors”) cease for any reason other than death to constitute at least a majority thereof; provided, however, that a director who was not a director at the beginning of such 24-month period shall be deemed to be a Company Incumbent Director if such director was elected by, or on the recommendation of or with the approval of at least two-thirds of the directors of the Company, who then qualified as Company Incumbent Directors;
- (c) when the stockholders of the Company approve a reorganization, merger or consolidation of the Company without the consent or approval of a majority of the Company Incumbent Directors;
- (d) consummation of a merger, amalgamation or consolidation of the Company with any other corporation, the issuance of voting securities of the Company in connection with a merger, amalgamation or consolidation of the Company or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of another corporation (each, a “Business Combination”), unless, in each case of a Business Combination, immediately following such Business Combination, all or substantially all of the individuals and entities who were the beneficial owners of the Common Stock outstanding immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the then outstanding shares of common stock and 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Common Stock; or
- (e) a complete liquidation or dissolution of the Company or the sale or other disposition of all or substantially all of the assets of the Company.

“Disability” shall mean the inability of the Executive to perform substantially his duties and responsibilities to the Company or any of its subsidiaries by reason of a physical or mental disability or infirmity (a) for a continuous period of six months or (b) at such earlier time as the Executive submits medical evidence of such disability to the reasonable satisfaction of the Committee that the Executive has a physical or mental disability or infirmity that shall likely prevent him from substantially performing his duties and responsibilities for six months or longer. The date of such Disability shall be on the last day of such six-month period or the day on which the Committee determines that the Executive has a physical or mental disability or infirmity as provided in clause (b) herein.

“Good Reason” shall mean, with respect to the Executive, the occurrence of any of the following (without his written consent): (a) a reduction in the Executive’s Base Salary or target Annual Bonus; (b) an adverse change in the Executive’s title, authority, duties, responsibilities or reporting lines as specified in Section 2.1 of this Agreement; (c) the relocation of the Executive’s principal place of employment to a location more than 10 miles from West Orange, New Jersey; (d) a failure by the Company to pay material compensation when due in connection with the Executive’s employment; or (e) a material breach of this Agreement by the Company; provided, however, that, if any such Good Reason is reasonably susceptible to cure, then the Executive shall not terminate his employment hereunder unless the Executive first provides the Company with written notice of his intention to terminate and of the grounds for such termination, and the Company has not, within 10 business days following receipt of such written notice, cured such Good Reason.

“Equity Award Documents” shall mean (a) any option agreements, restricted stock agreements or other equity award agreements under the Company’s 2005 Long-Term Incentive Plan and (b) any stock pledge agreement or promissory note relating to the Executive’s stock options, shares of Company common stock underlying such options or restricted stock.



EMPLOYMENT AGREEMENT (this "Agreement"), dated as of November 7, 2018 between LINCOLN EDUCATIONAL SERVICES CORPORATION, a New Jersey corporation (the "Company"), and Brian K. Meyers (the "Executive").

WHEREAS, the Executive is currently employed by the Company;

WHEREAS, the Executive and the Company entered into an employment agreement, dated, November 8, 2017 which expires pursuant to its terms on December 31, 2018 (the "Prior Agreement"); and

WHEREAS, the parties desire to enter into a new agreement setting forth the terms and conditions of the Executive's employment with the Company effective as of November 7, 2018 that supersedes the Prior Agreement;

NOW, THEREFORE, in consideration of the covenants and agreements hereinafter set forth, the parties hereto agree as follows:

1. EFFECTIVENESS OF AGREEMENT.

This Agreement shall become effective as of the date hereof.

2. EMPLOYMENT AND DUTIES.

2.1 Position and Duties. The Company hereby continues to employ the Executive, and the Executive agrees to serve, as Executive Vice President, Chief Financial Officer and Treasurer of the Company, upon the terms and conditions contained in this Agreement. The Executive shall report to the Chief Executive Officer of the Company and perform the duties and services for the Company commensurate with the Executive's position. Except as may otherwise be approved in advance by the Company's Board of Directors (the "Board") or the Compensation Committee of the Board (the "Committee"), the Executive shall render his services exclusively to the Company during his employment under this Agreement and shall devote substantially all of his working time and efforts to the business and affairs of the Company.

2.2 Term of Employment. The Executive's employment under this Agreement shall terminate on December 31, 2020, unless terminated earlier pursuant to Section 5 or extended pursuant to Section 6.1 (the "Employment Period").

2.3 Location of Work. The Executive shall be based in the United States in West Orange, New Jersey. However, the Executive agrees to undertake whatever domestic and worldwide travel is required by the Company. The Executive shall not be required or permitted to relocate without the mutual, written consent of the Executive and the Company.

3. COMPENSATION.

3.1 Base Salary. Subject to the provisions of Sections 5 and 6, the Executive shall be entitled to receive a base salary (the "Base Salary") at a rate of \$340,000 per annum, such rate to be effective as of January 1, 2019. Such rate may be adjusted upwards, but not downwards, from time to time by the Board or the Committee, in their sole discretion. The Base Salary shall be paid in equal installments on a biweekly basis or in accordance with the Company's current payroll practices, less all required deductions. The Base Salary shall be pro-rated for any period of service less than a full year.

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3.2 Annual Bonus. Subject to the provisions of Sections 5 and 6, the Executive shall be eligible to earn an annual bonus for 2018 and each full calendar year thereafter during the Employment Period (the "Annual Bonus"), the amount of which shall be based upon performance targets or such other criteria that are determined by the Board or the Committee pursuant to the provisions of the Company's Key Management Team Incentive Compensation Plan (the "Incentive Plan") in effect for the applicable calendar year. The Company shall pay the Annual Bonus to the Executive no later than March 15<sup>th</sup> following the end of the applicable fiscal year. The Annual Bonus shall be prorated for any year in which the Executive's employment is terminated due to death or Disability, as defined in Appendix A. If during the Employment Period the Executive's employment is terminated by the Company (or any successor thereto) for Cause, as defined in Exhibit A, or the Executive resigns from his employment other than for Good Reason, as defined in Exhibit A, prior to the payout of any Annual Bonus due for a completed calendar, the Executive shall not receive such Annual Bonus.

3.3 Reimbursement of Expenses. The Company shall reimburse the Executive for reasonable travel and other business expenses incurred by him in the fulfillment of his duties hereunder upon presentation by the Executive of an itemized account of such expenditures, in accordance with Company practices.

4. EMPLOYEE BENEFITS.

4.1 General. The Executive shall, during the Employment Period, be included, to the extent eligible thereunder, in all employee benefit plans, programs and arrangements (including, without limitation, any plans, programs or arrangements providing for retirement benefits, profit sharing, disability benefits, health and life insurance or vacation and paid holidays) that shall be established by the Company for, or made available to, its senior executives. In addition, the Company shall furnish the Executive with coverage by the Company's customary director and officer indemnification arrangements, subject to applicable law.

4.2 Automobile. During the Employment Period, the Company shall provide the Executive with an automobile for business and personal use and pay for associated costs, including automobile insurance, parking and fuel, in accordance with the Company's practices as consistently applied to other key employees.

5. TERMINATION OF EMPLOYMENT.

5.1 Effect of an Involuntary Termination. Subject to the provisions of Sections 6 and 9.5, if during the Employment Period there is an "Involuntary Termination" (as defined below) of the Executive's employment, the Company shall pay to the Executive:

- (i) an amount equal to one and three-quarters times the sum of (x) the Executive's annual Base Salary, at a rate in effect at the date of such termination plus (y) the target amount of the Annual Bonus of the Executive for the year in which the Involuntary Termination occurs;

(ii) all outstanding reasonable travel and other business expenses that he incurred as of the date of his termination;

(iii) an additional cash amount equal to the Company's estimate of the employer portion of the premiums that would be necessary to continue the Executive's health care coverage until the first anniversary of the date of such Involuntary Termination; provided, however, that if prior to payment of such cash amount the Executive becomes covered under another group health plan (which coverage, once obtained, must be promptly disclosed by the Executive to the Company), such cash amount shall be prorated to cover only the period from the date of the Executive's Involuntary Termination until the date on which such alternate coverage starts; and

(iv) a prorated Annual Bonus for the year in which the Involuntary Termination occurs, calculated by multiplying (A) the Annual Bonus to which the Executive would have been entitled under Section 3.2 if his employment had continued through the end of such year by (B) a proration fraction the numerator of which is the number of days in such calendar year up to and including the date of the Executive's Involuntary Termination and the denominator of which is 365.

The Executive shall also be entitled to receive any other accrued compensation and benefits otherwise payable to him as of the date of his termination, including, without limitation, any Annual Bonus due for a completed calendar year. All payments made under Sections 5.1(i), (ii) and (iii) above shall be made by the Company (or its successor) in a lump-sum amount on the 60th day following the Executive's termination of employment, and payment made under Section 5.1(iv) above shall be made by the Company (or its successor) in a lump-sum amount on the date that bonuses for the year in which the Executive's Involuntary Termination occurs are paid generally to the Company's senior executives (but no later than March 15<sup>th</sup> of the year following the year in which the Executive's Involuntary Termination occurs).

The Company shall not be required to make the payments and provide the benefits provided for under this Section 5.1 unless (1) the Executive executes and delivers to the Company, within sixty days following the Executive's termination of employment, a Waiver and Release (relating to the Executive's release of claims against the Company Group (as defined below) in the form provided by the Company, and the Waiver and Release has become effective and irrevocable in its entirety, and (2) the Executive remains in material compliance with the restrictive covenants set forth in Section 9 of this Agreement. The Executive's failure or refusal to sign the Waiver and Release (or the revocation of such Waiver and Release in accordance with applicable laws) or the Executive's failure to materially comply with the restrictive covenants in Section 9 shall result in the forfeiture of the payments and benefits payable under this Section 5.1.

For purposes of this Agreement, "Involuntary Termination" means the termination of the Executive's employment (i) by the Company (or any successor thereto) without Cause, as defined in Appendix A, or (ii) by the Executive for Good Reason, as defined in Appendix A.

5.2 Effect of a Termination for Cause or Resignation without Good Reason. Subject to the provisions of Sections 3.2 and 6, if during the Employment Period, the Executive's employment is terminated by the Company (or any successor thereto) for Cause or the Executive resigns from his employment other than for Good Reason, the Company shall pay to the Executive, any (i) accrued but unpaid Base Salary earned through the date of his termination, (ii) unreimbursed expenses, plus (iii) accrued but unpaid employee benefits set forth in Section 4.1 above as determined in accordance with the provisions of the applicable employee benefit plans or programs of the Company.

5.3 Effect of a Termination due to Death or Disability. Subject to the provisions of Sections 3.2 and 6, if during the Employment Period, the Executive's employment is terminated by the Company (or any successor thereto) due to death or Disability, as defined in Appendix A, the Company shall pay to the Executive, or if applicable his estate:

(i) accrued but unpaid Base Salary earned through the date of his termination and any Annual Bonus due but not yet paid for a completed calendar year;

(ii) a prorated Annual Bonus for the year in which the termination of employment occurs, calculated by multiplying (A) the Executive's target Annual Bonus for that year by (B) a proration fraction the numerator of which is the number of days in such calendar year up to and including the date of the Executive's termination of employment and the denominator of which is 365;

(iii) all outstanding reasonable travel and other business expenses that the Executive incurred as of the date of his termination;  
and

(iv) accrued but unpaid employee benefits set forth in Section 4.1 above as determined in accordance with the provisions of the applicable employee benefit plans or programs of the Company.

In addition, upon the Executive's termination of employment due to death or Disability, all outstanding stock options and restricted stock awarded to the Executive shall become fully vested, and stock options shall become immediately exercisable and will remain exercisable for one year from the date of termination (or, if earlier, until the stock option's normal expiration date); provided, however, that if the applicable stock option award specifically provides for a longer post-employment period to exercise such option, such longer period shall apply.

## 6. EFFECT OF A CHANGE IN CONTROL.

6.1 New Term of Employment. Notwithstanding anything to the contrary in this Agreement, upon the occurrence of a Change in Control, as defined in Appendix A, during the Employment Period, the Company (or its successor) shall renew this Agreement for a period of two years commencing on the date of the Change in Control and ending on the second anniversary of the date of the Change in Control.

6.2 Acceleration of Equity Awards. Notwithstanding anything to the contrary in any of the Equity Award Documents, as defined in Appendix A, upon a Change in Control, all outstanding stock options and restricted stock granted by the Company or any of its affiliates to the Executive shall become fully vested, and stock options shall become immediately exercisable, on the date of the Change in Control.

7. REDUCTION OF PAYMENTS.

If any amounts due to the Executive under this Agreement and any other agreement, plan or arrangement of or with the Company or any of its affiliates constitute a "parachute payment," as such term is defined in Section 280G(b)(2) of the Internal Revenue Code of 1986, as amended (the "Code"), and the amount of the parachute payment, reduced by all federal, state and local taxes applicable thereto, including the excise tax imposed pursuant to Section 4999 of the Code, is less than the amount the Executive would receive if he was paid three times his "base amount", as defined in Section 280G(b)(3) of the Code, less \$1.00, reduced by all federal, state and local taxes applicable thereto, then the aggregate of the amounts constituting the parachute payment will be reduced (or returned by the Executive if it has already been paid to him) to an amount that will equal three times the Executive's base amount less \$1.00. Any determination to be made with respect to this Section 7 shall be made by an accounting firm jointly selected by the Company and the Executive and paid for by the Company, and which may be the Company's independent auditors.

8. NO ADDITIONAL RIGHTS.

The Executive shall have no right to receive any compensation or benefits upon his termination or resignation of employment, except (i) as expressly set forth in Sections 5 and 6 above, where applicable, or (ii) as determined in accordance with the provisions of the employee benefit plans or programs of the Company.

9. RESTRICTIVE COVENANTS.

9.1 Noncompetition. During the term of the Executive's employment with the Company (or any successor thereto) and continuing for two years thereafter, the Executive shall not, without the prior written consent of the Company, directly or indirectly, own, manage, operate, join, control, or participate in the ownership, management, operation or control of, or be employed by or connected in any manner with, any Competing Business, whether for compensation or otherwise; provided, however, that the Executive shall be permitted to hold, directly or indirectly, less than 1% of any class of securities of any entity that is listed on a national securities exchange or on the NASDAQ National Market System. Notwithstanding the foregoing, this Section 9.1 shall cease to apply upon the termination of the Executive's employment with the Company (or any successor thereto) resulting from an Involuntary Termination. For purposes of this Agreement, "Competing Business" means any business within the United States that involves for-profit, post-secondary education.

9.2 Nonsolicitation. During the term of the Executive's employment with the Company (or any successor thereto) and continuing for one year thereafter, the Executive shall not, without the prior written consent of the Company, directly or indirectly, as a sole proprietor, member of a partnership, stockholder, investor, officer or director of a corporation, or as an employee, associate, consultant or agent of any person, partnership, corporation or other business organization or entity other than the Company or any of its subsidiaries or affiliates (the "Company Group") (i) solicit or endeavor to entice away from any member of the Company Group, any person or entity who is, or was on the date of this Agreement, employed by, or serving as a key consultant of, any member of the Company Group or (ii) solicit or endeavor to entice away from any member of the Company Group, any person or entity who is, or was on the date of this Agreement, a customer or client (or reasonably anticipated to become a customer or client) of any member of the Company Group.

9.3 Confidentiality. The Executive shall not at any time, except in performance of his obligations to the Company Group under the provisions of this Agreement and as an employee of the Company, directly or indirectly, disclose or use any secret or protected information that he may learn or has learned by reason of his association with any member of the Company Group. The term "protected information" includes trade secrets and confidential and proprietary business information of the Company Group, including, but not limited to, customers (including potential customers), sources of supply, processes, methods, plans, apparatus, specifications, materials, pricing information, intellectual property (including applications and rights in discoveries, inventions or patents), internal memoranda, marketing plans, contracts, finances, personnel, research and internal policies, but shall exclude any information which (i) is or becomes available to the public or is generally known in the industry or industries in which the Company Group operates other than as a result of disclosure by the Executive in violation of this Section 9.3 or (ii) the Executive is required to disclose under any applicable laws, regulations or directives of any government agency, tribunal or authority having jurisdiction in the matter or under subpoena or other process of law.

9.4 Exclusive Property. The Executive confirms that all protected information is and shall remain the exclusive property of the Company Group. All business records, papers and documents kept or made by the Executive relating to the business of the Company shall be and remain the property of the Company Group.

9.5 Compliance with Restrictive Covenants. Without intending to limit any other remedies available to the Company Group and except as required by law, in the event that the Executive breaches or threatens to breach any of the covenants set forth in this Section 9, (i) the Company Group shall be entitled to seek a temporary restraining order and/or a preliminary or permanent injunction restraining the Executive from engaging in activities prohibited by this Section 9 or such other relief as may be required to enforce any of such covenants and (ii) all obligations of the Company to make payments and provide benefits under this Agreement shall immediately cease.

## 10. ARBITRATION

10.1 General. Subject to Section 9.5 above, any dispute or controversy arising under or in connection with this Agreement that cannot be mutually resolved by the Executive and the Company shall be settled exclusively by arbitration in West Orange, New Jersey before three arbitrators of exemplary qualifications and stature. The Executive and the Company shall each select one arbitrator. The arbitrators selected by the Executive and the Company shall jointly select the third arbitrator. Judgment may be entered on the arbitrators' award in any court having jurisdiction. The Executive and the Company hereby agree that the arbitrators shall be empowered to enter an equitable decree mandating specific enforcement of the provisions of this Agreement.

10.2 Associated Costs. The cost of the arbitration shall be borne by the parties in the manner determined by the arbitrators. If, however, the dispute concerns contractual rights that arise in the event of or subsequent to a Change in Control, the costs of arbitration (and any reasonable attorney's fees incurred by the Executive) shall be borne by the Company, unless the arbitrators determine that the Executive commenced such arbitration on unfounded or unreasonable grounds.

11. SECTION 409A OF THE CODE.

11.1 General. This Agreement is intended to be exempt from or meet the requirements of Section 409A of the Code, and shall be interpreted and construed consistent with that intent.

11.2 Deferred Compensation. Notwithstanding any other provision of this Agreement, to the extent that the right to any payment (including the provision of benefits) hereunder provides for the "deferral of compensation" within the meaning of Section 409A(d)(1) of the Code, the payment shall be paid (or provided) in accordance with the following:

(i) If the Executive is a "Specified Employee" within the meaning of Section 409A(a)(2)(B)(i) of the Code on the date of the Executive's termination of employment, then no such payment shall be made or commence during the period beginning on the date of the Executive's termination of employment and ending on the date that is six months and one day following the Executive's termination of employment or, if earlier, on the date of the Executive's death.

(ii) Payments with respect to reimbursements of expenses shall be made in accordance with Company policy and in no event later than the last day of the calendar year following the calendar year in which the relevant expense is incurred. No reimbursement during any calendar year shall affect the amounts eligible for reimbursement in any other calendar year, except, in each case, to the extent that the right to reimbursement does not provide for a "deferral of compensation" within the meaning of Section 409A of the Code.

(iii) The Company shall not accelerate any payment or the provision of any benefits under this Agreement or make or provide any such payment or benefits if such payment or provision of such benefits would, as a result, be subject to tax under Section 409A of the Code. If, in the good faith judgment of the Company, any provision of this Agreement could cause the Executive to be subject to adverse or unintended tax consequences under Section 409A of the Code, such provision shall be modified by the Company in its sole discretion to maintain, to the maximum extent practicable, the original intent of the applicable provision without violating the requirements of Section 409A of the Code. It is understood that each installment is a separate payment, and that the timing of payment is within the control of the Company.

(iv) The provisions of this Section 11 shall apply notwithstanding any provisions of this Agreement related to the timing of payments following the Executive's termination of employment.

12. MISCELLANEOUS.

12.1 Communications. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed to have been duly given or made as of the date delivered, or on the fifth business day after mailed if delivered personally or mailed by registered or certified mail (postage prepaid, return receipt requested), to the relevant party at the following address (or at such other address for a party as shall be specified by like notice, except that notices of change of address shall be effective upon receipt):

if to the Company:

200 Executive Drive, Suite 340  
West Orange, New Jersey 07052  
Attention: Chief Executive Officer and President

if to the Executive:

200 Executive Drive, Suite 340  
West Orange, New Jersey 07052

12.2 Waiver of Breach; Severability. (a) The waiver by the Executive or the Company of a breach of any provision of this Agreement by the other party hereto shall not operate or be construed as a waiver of any subsequent breach by either party.

(b) The parties hereto recognize that the laws and public policies of various jurisdictions may differ as to the validity and enforceability of covenants similar to those set forth herein. It is the intention of the parties that the provisions of this Agreement be enforced to the fullest extent permissible under the laws and policies of each jurisdiction in which enforcement may be sought, and that the unenforceability (or the modification to conform to such laws or policies) of any provisions hereof shall not render unenforceable, or impair, the remainder of the provisions hereof. Accordingly, if at the time of enforcement of any provision hereof, a court of competent jurisdiction holds that the restrictions stated herein are unreasonable under circumstances then existing, the parties hereto agree that the maximum period, scope, or geographic area reasonable under such circumstances shall be substituted for the stated period, scope or geographical area and that such court shall be allowed to revise the restrictions contained herein to cover the maximum period, scope and geographical area permitted by law.

12.3 Assignment; Successors. No right, benefit or interest hereunder shall be assigned, encumbered, charged, pledged, hypothecated or be subject to any setoff or recoupment by the Executive. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of the Company.

12.4 Entire Agreement. This Agreement and the Equity Award Documents represent the entire agreement of the parties and shall supersede any and all previous contracts, arrangements or understandings between the Company and the Executive relating to the subject matter hereof, including, without limitation, the Prior Agreement. This Agreement may be amended at any time by mutual written agreement of the parties hereto.



12.5 Withholding. The payment of any amount pursuant to this Agreement shall be subject to applicable withholding and payroll taxes, and such other deductions as may be required under the Company's employee benefit plans, if any.

12.6 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New Jersey.

12.7 Headings. The headings in this Agreement are for convenience only and shall not be used to interpret or construe any of its provisions.

12.8 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed and the Executive has hereunto set his hand as of the day and year first written above.

**LINCOLN EDUCATIONAL SERVICES CORPORATION**

By: /s/ Scott M. Shaw  
Name: Scott M. Shaw  
Title: Chief Executive Officer

**EXECUTIVE**

/s/ Brian K. Meyers  
Brian K. Meyers

## APPENDIX A

“Cause” shall mean, with respect to the Executive, the following:

- (a) prior to a Change in Control, (i) the Executive’s willful failure to perform the duties of his employment in any material respect, (ii) malfeasance or gross negligence in the performance of the Executive’s duties of employment, (iii) the Executive’s conviction of a felony under the laws of the United States or any state thereof (whether or not in connection with his employment), (iv) the Executive’s intentional or reckless disclosure of protected information respecting any member of the Company Group’s business to any individual or entity which is not in the performance of the duties of his employment, (v) the Executive’s commission of an act or acts of sexual harassment that would normally constitute grounds for termination, or (vi) any other act or omission by the Executive (other than an act or omission resulting from the exercise by the Executive of good faith business judgment), which is materially injurious to the financial condition or business reputation of any member of the Company Group; provided, however, that in the case of (i) and (ii) above, the Executive shall not be deemed to have been terminated for cause unless he has received written notice of the alleged basis therefor from the Company, and fails to remedy the matter within 30 days after he has received such notice, except that no such “cure opportunity” shall be required in the case of two separate episodes occurring within any 12-month period that give the Company the right to terminate for cause for such reason; or
- (b) on or after a Change in Control, (i) the Executive’s willful failure to perform the duties of his employment in any material respect, (ii) malfeasance or gross negligence in the performance of the Executive’s duties of employment, (iii) the Executive’s conviction of a felony under the laws of the United States or any state thereof (whether or not in connection with his employment), or (iv) the Executive’s intentional or reckless disclosure of protected information respecting any member of the Company Group’s business to any individual or entity which is not in the performance of the duties of his employment; provided, however, that in the case of (i) and (ii) above, the Executive shall not be deemed to have been terminated for cause unless he has received written notice of the alleged basis therefor from the Company, and fails to remedy the matter within 30 days after he has received such notice, except that no such “cure opportunity” shall be required in the case of two separate episodes occurring within any 12-month period that give the Company the right to terminate for cause for such reason.

“Change in Control” shall mean:

- (a) when a “person” (as defined in Section 3(a)(9) of the Exchange Act), including a “group” (as defined in Section 13(d) and 14(d) of the Exchange Act), either directly or indirectly becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act) of 25% or more of either (i) the then outstanding Common Stock, or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors; provided, however, that the following acquisitions shall not constitute a Change in Control: (1) any acquisition directly from the Company; (2) any acquisition by the Company; or (3) any acquisition by an employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company;

- (b) when, during any period of 24 consecutive months during the Employment Period, the individuals who, at the beginning of such period, constitute the Board (the “Company Incumbent Directors”) cease for any reason other than death to constitute at least a majority thereof; provided, however, that a director who was not a director at the beginning of such 24-month period shall be deemed to be a Company Incumbent Director if such director was elected by, or on the recommendation of or with the approval of at least two-thirds of the directors of the Company, who then qualified as Company Incumbent Directors;
- (c) when the stockholders of the Company approve a reorganization, merger or consolidation of the Company without the consent or approval of a majority of the Company Incumbent Directors;
- (d) consummation of a merger, amalgamation or consolidation of the Company with any other corporation, the issuance of voting securities of the Company in connection with a merger, amalgamation or consolidation of the Company or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of another corporation (each, a “Business Combination”), unless, in each case of a Business Combination, immediately following such Business Combination, all or substantially all of the individuals and entities who were the beneficial owners of the Common Stock outstanding immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the then outstanding shares of common stock and 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Common Stock; or
- (e) a complete liquidation or dissolution of the Company or the sale or other disposition of all or substantially all of the assets of the Company;

“Disability” shall mean the inability of the Executive to perform substantially his duties and responsibilities to the Company or any of its subsidiaries by reason of a physical or mental disability or infirmity (a) for a continuous period of six months or (b) at such earlier time as the Executive submits medical evidence of such disability to the reasonable satisfaction of the Committee that the Executive has a physical or mental disability or infirmity that shall likely prevent him from substantially performing his duties and responsibilities for six months or longer. The date of such Disability shall be on the last day of such six-month period or the day on which the Committee determines that the Executive has a physical or mental disability or infirmity as provided in clause (b) herein.

“Good Reason” shall mean, with respect to the Executive, the occurrence of any of the following (without his written consent): (a) a reduction in the Executive’s Base Salary or target Annual Bonus; (b) an adverse change in the Executive’s title, authority, duties, responsibilities or reporting lines as specified in Section 2.1 of this Agreement; (c) the relocation of the Executive’s principal place of employment to a location more than 10 miles from West Orange, New Jersey; (d) a failure by the Company to pay material compensation when due in connection with the Executive’s employment; or (e) a material breach of this Agreement by the Company; provided, however, that, if any such Good Reason is reasonably susceptible to cure, then the Executive shall not terminate his employment hereunder unless the Executive first provides the Company with written notice of his intention to terminate and of the grounds for such termination, and the Company has not, within 10 business days following receipt of such written notice, cured such Good Reason.

“Equity Award Documents” shall mean (a) any option agreements, restricted stock agreements or other equity award agreements under the Company’s 2005 Long-Term Incentive Plan and (b) any stock pledge agreement or promissory note relating to the Executive’s stock options, shares of Company common stock underlying such options or restricted stock.

CHANGE IN CONTROL AGREEMENT (this "Agreement"), dated as of November 7, 2018, between LINCOLN EDUCATIONAL SERVICES CORPORATION, a New Jersey corporation (the "Company"), and STEPHEN M. BUCHENOT (the "Employee").

WHEREAS, the Employee is currently employed by the Company;

WHEREAS, the parties desire to enter into an agreement setting forth the payments and benefits the Employee will receive upon a Change in Control of the Company;

NOW, THEREFORE, in consideration of the covenants and agreements hereinafter set forth, the parties hereto agree as follows:

1. EFFECTIVENESS AND TERM OF AGREEMENT

This Agreement is effective as of the date hereof and shall remain effective until December 31, 2020.

2. CHANGE IN CONTROL

2.1 In the event a Change in Control occurs before December 31, 2020 and the Employee's employment is terminated within twelve (12) months after a Change in Control on either by the Company without Cause, or by the Employee for Good Reason, the Company shall pay the Employee:

(i) an amount equal to one and one half year's base salary, in effect on the date of Employee's termination (the "Severance Payment");

(ii) the target amount of the Annual Bonus of the Executive pursuant to the provisions of the Company's Key Management Team Incentive Compensation Plan for the year in which the Involuntary Termination occurs; and

(iii) an additional cash amount equal to the Company's estimate of the employer portion of the premiums that would be necessary to continue the Employee's health care coverage until the first anniversary of the date of such termination; provided, however, that if prior to payment of such cash amount the Employee becomes covered under another group health plan (which coverage, once obtained, must be promptly disclosed by the Employee to the Company), such cash amount shall be prorated to cover only the period from the date of the Employee's termination until the date on which such alternate coverage starts.

2.2 Notwithstanding anything to the contrary in any of the Equity Award Documents, as defined in Appendix A, upon a Change in Control, all outstanding stock options and restricted stock granted by the Company or any of its affiliates to the Executive shall become fully vested, and stock options shall become immediately exercisable, on the date of the Change in Control.

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3. REDUCTION OF PAYMENTS

If any amounts due to the Employee under this Agreement and any other agreement, plan or arrangement of or with the Company or any of its affiliates constitute a "parachute payment," as such term is defined in Section 280G(b)(2) of the Internal Revenue Code of 1986, as amended (the "Code"), and the amount of the parachute payment, reduced by all federal, state and local taxes applicable thereto, including the excise tax imposed pursuant to Section 4999 of the Code, is less than the amount the Employee would receive if he was paid three times his "base amount", as defined in Section 280G(b)(3) of the Code, less \$1.00, reduced by all federal, state and local taxes applicable thereto, then the aggregate of the amounts constituting the parachute payment will be reduced (or returned by the Employee if it has already been paid to her) to an amount that will equal three times the Employee's base amount less \$1.00. Any determination to be made with respect to this Section 3 shall be made by an accounting firm jointly selected by the Company and the Employee and paid for by the Company, and which may be the Company's independent auditors.

4. NO ADDITIONAL RIGHTS

The Employee shall have no right to receive any additional compensation or benefits upon a Change in Control, except (i) as expressly set forth in Section 2 above, where applicable, or (ii) as determined in accordance with the provisions of the employee benefit plans or programs of the Company.

The Company and Employee acknowledge that Employee's employment is and will continue to be "at will". If Employee's employment terminates for any reason, including (without limitation) any termination of employment not set forth in Section 2, Employee will not be entitled to any payments, benefits, damages, awards or compensation other than the payment of accrued but unpaid wages, as required by law, and any unreimbursed expenses.

5. ARBITRATION

5.1 General. Any dispute or controversy arising under or in connection with this Agreement that cannot be mutually resolved by the Employee and the Company shall be settled exclusively by arbitration in West Orange, New Jersey before three arbitrators of exemplary qualifications and stature. The Employee and the Company shall each select one arbitrator. The arbitrators selected by the Employee and the Company shall jointly select the third arbitrator. Judgment may be entered on the arbitrators' award in any court having jurisdiction. The Employee and the Company hereby agree that the arbitrators shall be empowered to enter an equitable decree mandating specific enforcement of the provisions of this Agreement.

5.2 Associated Costs. The cost of the arbitration shall be borne by the parties in the manner determined by the arbitrators. If, however, the dispute concerns contractual rights that arise in the event of or subsequent to a Change in Control, the costs of arbitration (and any reasonable attorney's fees incurred by the Employee) shall be borne by the Company, unless the arbitrators determine that the Employee commenced such arbitration on unfounded or unreasonable grounds.

6. SECTION 409A OF THE CODE.

6.1 General. This Agreement is intended to be exempt from or meet the requirements of Section 409A of the Code, and shall be interpreted and construed consistent with that intent.

6.2 Deferred Compensation. Notwithstanding any other provision of this Agreement, to the extent that the right to any payment (including the provision of benefits) hereunder provides for the “deferral of compensation” within the meaning of Section 409A(d)(1) of the Code, the payment shall be paid (or provided) in accordance with the following:

(i) If the Employee is a “Specified Employee” within the meaning of Section 409A(a)(2)(B)(i) of the Code on the date of the Employee’s termination of employment, then no such payment shall be made or commence during the period beginning on the date of the Employee’s termination of employment and ending on the date that is six months and one day following the Employee’s termination of employment or, if earlier, on the date of the Employee’s death.

(ii) Payments with respect to reimbursements of expenses shall be made in accordance with Company policy and in no event later than the last day of the calendar year following the calendar year in which the relevant expense is incurred. No reimbursement during any calendar year shall affect the amounts eligible for reimbursement in any other calendar year, except, in each case, to the extent that the right to reimbursement does not provide for a “deferral of compensation” within the meaning of Section 409A of the Code.

(iii) The Company shall not accelerate any payment or the provision of any benefits under this Agreement or make or provide any such payment or benefits if such payment or provision of such benefits would, as a result, be subject to tax under Section 409A of the Code. If, in the good faith judgment of the Company, any provision of this Agreement could cause the Employee to be subject to adverse or unintended tax consequences under Section 409A of the Code, such provision shall be modified by the Company in its sole discretion to maintain, to the maximum extent practicable, the original intent of the applicable provision without violating the requirements of Section 409A of the Code. It is understood that each installment is a separate payment, and that the timing of payment is within the control of the Company.

(iv) The provisions of this Section 6 shall apply notwithstanding any provisions of this Agreement related to the timing of payments following the Employee’s termination of employment.



7. MISCELLANEOUS

7.1 Communications. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed to have been duly given or made as of the date delivered, or on the fifth business day after mailed if delivered personally or mailed by registered or certified mail (postage prepaid, return receipt requested), to the relevant party at the following address (or at such other address for a party as shall be specified by like notice, except that notices of change of address shall be effective upon receipt):

if to the Company:

200 Executive Drive, Suite 340  
West Orange, New Jersey 07052  
Attention: General Counsel

if to the Employee:

200 Executive Drive, Suite 340  
West Orange, New Jersey 07052

7.2 Waiver of Breach; Severability. (a) The waiver by the Employee or the Company of a breach of any provision of this Agreement by the other party hereto shall not operate or be construed as a waiver of any subsequent breach by either party.

(b) The parties hereto recognize that the laws and public policies of various jurisdictions may differ as to the validity and enforceability of covenants similar to those set forth herein. It is the intention of the parties that the provisions of this Agreement be enforced to the fullest extent permissible under the laws and policies of each jurisdiction in which enforcement may be sought, and that the unenforceability (or the modification to conform to such laws or policies) of any provisions hereof shall not render unenforceable, or impair, the remainder of the provisions hereof. Accordingly, if at the time of enforcement of any provision hereof, a court of competent jurisdiction holds that the restrictions stated herein are unreasonable under circumstances then existing, the parties hereto agree that the maximum period, scope, or geographic area reasonable under such circumstances shall be substituted for the stated period, scope or geographical area and that such court shall be allowed to revise the restrictions contained herein to cover the maximum period, scope and geographical area permitted by law.

7.3 Assignment; Successors. No right, benefit or interest hereunder shall be assigned, encumbered, charged, pledged, hypothecated or be subject to any setoff or recoupment by the Employee. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of the Company.

7.4 Entire Agreement. This Agreement and the Equity Award Documents represent the entire agreement of the parties and shall supersede any and all previous contracts, arrangements or understandings between the Company and the Employee relating to the subject matter hereof. This Agreement may be amended at any time by mutual written agreement of the parties hereto.

7.5 Withholding. The payment of any amount pursuant to this Agreement shall be subject to applicable withholding and payroll taxes.

7.6 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New Jersey.

7.7 Headings. The headings in this Agreement are for convenience only and shall not be used to interpret or construe any of its provisions.

7.8 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

7.9 Confidentiality.

(i) The Employee shall not at any time, except in performance of her obligations to the Company Group under the provisions of this Agreement and as an employee of the Company, directly or indirectly, disclose or use any secret or protected information that she may learn or has learned by reason of her association with any member of the Company Group. The term "protected information" includes trade secrets and any and all confidential and/or proprietary business information of the Company Group, including, but not limited to, customers (including potential customers), sources of supply, processes, methods, plans, apparatus, specifications, materials, pricing information, intellectual property (including applications and rights in discoveries, inventions or patents), internal memoranda, marketing plans, contracts, finances, personnel, research, internal policies, as well as potential transactions with third parties which the Employee is privy to, but shall exclude any information which (i) is or becomes available to the public or is generally known in the industry or industries in which the Company Group operates other than as a result of disclosure by the Employee in violation of this Section 7.9 or (ii) the Employee is required to disclose under any applicable laws, regulations or directives of any government agency, tribunal or authority having jurisdiction in the matter or under subpoena or other process of law.

(ii) The Employee shall not directly or indirectly disseminate the terms of this Agreement to any person or entity not a party to this Agreement, except (a) by written agreement of the parties, (b) pursuant to a valid court order or subpoena, (c) as required by law, or (d) as otherwise provided in this section. Employee may disclose the terms of this Agreement to her attorneys, financial advisors and/or immediate family, provided she first advises them that the terms must not be further disclosed.

The Employee's breach of this Confidentiality covenant shall result in the forfeiture of the payments and benefits payable under Section 2.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed and the Employee has hereunto set her hand as of the day and year first written above.

**LINCOLN EDUCATIONAL SERVICES CORPORATION**

By: /s/ Scott M. Shaw  
Name: Scott M. Shaw  
Title: Chief Executive Officer

**EMPLOYEE**

/s/ Stephen M. Buchenot  
Stephen M. Buchenot

## APPENDIX A

“Cause” shall mean, with respect to the Employee, (i) the Employee’s willful failure to perform the duties of his employment in any material respect, (ii) malfeasance or gross negligence in the performance of the Employee’s duties of employment, (iii) the Employee’s conviction of a felony under the laws of the United States or any state thereof (whether or not in connection with his employment), or (iv) the Employee’s intentional or reckless disclosure of protected information respecting any member of the Company Group’s business to any individual or entity which is not in the performance of the duties of his employment; provided, however, that in the case of (i) and (ii) above, the Employee shall not be deemed to have been terminated for cause unless he has received written notice of the alleged basis therefor from the Company, and fails to remedy the matter within 30 days after he has received such notice, except that no such “cure opportunity” shall be required in the case of two separate episodes occurring within any 12-month period that give the Company the right to terminate for cause for such reason.

“Change in Control” shall mean:

- (a) when a “person” (as defined in Section 3(a)(9) of the Exchange Act), including a “group” (as defined in Section 13(d) and 14(d) of the Exchange Act), either directly or indirectly becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act) of 25% or more of either (i) the then outstanding Common Stock, or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors; provided, however, that the following acquisitions shall not constitute a Change in Control: (1) any acquisition directly from the Company; (2) any acquisition by the Company; or (3) any acquisition by an employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company;
- (b) when the stockholders of the Company approve a reorganization, merger or consolidation of the Company without the consent or approval of a majority of the Company Incumbent Directors;
- (c) consummation of a merger, amalgamation or consolidation of the Company with any other corporation, the issuance of voting securities of the Company in connection with a merger, amalgamation or consolidation of the Company or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of another corporation (each, a “Business Combination”), unless, in each case of a Business Combination, immediately following such Business Combination, all or substantially all of the individuals and entities who were the beneficial owners of the Common Stock outstanding immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the then outstanding shares of common stock and 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Common Stock; or

- (d) a complete liquidation or dissolution of the Company or the sale or other disposition of all or substantially all of the assets of the Company;

“Good Reason” shall mean, with respect to the Employee, the occurrence of any of the following (without his written consent): (a) a reduction in the Employee’s base salary or target annual bonus as in effect on the date of the Change in Control or, if greater the date of termination; (b) an adverse change in the Employee’s title, authority, duties, responsibilities or reporting lines as in effect on the date of the Change in Control; (c) the relocation of the Executive’s principal place of employment to a location more than 10 miles from West Orange, New Jersey (d) a failure by the Company to pay material compensation when due in connection with the Employee’s employment; or (e) a material breach of this Agreement by the Company; provided, however, that, if any such Good Reason is reasonably susceptible to cure, then the Employee shall not terminate his employment hereunder unless the Employee first provides the Company with written notice of his intention to terminate and of the grounds for such termination, and the Company has not, within 10 business days following receipt of such written notice, cured such Good Reason.

“Equity Award Documents” shall mean (a) any option agreements, restricted stock agreements or other equity award agreements under the Company’s 2005 Long-Term Incentive Plan and (b) any stock pledge agreement or promissory note relating to the Executive’s stock options, shares of Company common stock underlying such options or restricted stock.

## 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: November 8, 2018

/s/ Scott Shaw  
Scott Shaw  
Chief Executive Officer

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## 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: November 8, 2018

/s/ Brian Meyers

Brian Meyers  
Chief Financial Officer

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**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 September 30, 2018 (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: November 8, 2018

/s/ Scott Shaw  
Scott Shaw  
Chief Executive Officer

/s/ Brian Meyers  
Brian Meyers  
Chief Financial Officer

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